

Helmut Schmidt

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German-British Forum

Ladies and Gentlemen!

It is a pleasure for me to welcome you to the 13th annual conference of the German-British Forum in my hometown Hamburg. I am particularly delighted that my friend Valéry Giscard d'Estaing is among the guest speakers of this conference. Without Giscard we would neither have the Euro today nor would we have the draft of the Lisboa Treaty.

The historically extraordinary and unique process of European integration is in the main the fruit of quite a number of French initiatives over more than five decades: The British public opinion and as well German public opinion ought from time to time remember this fact.

In order to be a bit more specific I would like to add a few remarks on the evolution of European monetary policy. The strategic goal to create one common European market between France, Italy, Germany and the three Benelux countries was first stipulated in the late 1950's by the Treaty of Rome. At the end of the 1960's it became obvious that a common market with five currencies would be a very crippled market. Therefore Pierre Werner and Leo Tindemans were commissioned as monetary sherpas. But their reports shortly thereafter were overtaken by the collapse of the Bretton Woods System of fixed but adjustable parities – and by the OPEC's first oil price explosion which created a global recession in the early 1970's.

In the early 1970's, George Shultz, then U.S. secretary of the treasury, and Arthur Burns, then at the helm of the Fed, believed that floating exchange rates would be in America's best interests. And they did prevail. Consequentially we Europeans in the

late 1970's created the European Monetary System which in essence was kind of a European system of Bretton Woods mechanisms. At the center of it was the ECU (European currency unit) which was both a common yardstick and a purely virtual accounting instrument, used for budgeting purposes of the European institutions. Our idea was to – later on – develop the ECU into a common European currency. The UK remained utterly skeptical and therefore abstained.

In 1991 – the European Economic Community still consisted of 12 member states – under the guidance by Jacques Delors, the heads of state adopted our idea of one common currency. Chancellor Helmut Kohl prudently went along with François Mitterrand against stubborn resistance of the German Bundesbank. The UK once again did abstain. Today, the Euro is shared by 15 of the European Union's member states, which together make up the Euro area. In January 2009, we can celebrate the 10th anniversary of our common European currency.

So far, so good. But since a couple of years the demise of the dollar-anchored worldwide system of fixed currency exchange rates and currency speculations are no longer posing the greatest problems. Instead the most severe problems have arisen from the globalization of formerly predominantly national financial markets. This financial globalization started rather slowly during the 1970's. At that time nobody talked about hedge funds, of financial derivatives and of debts and risks outside of one's official balance sheet. Today, however, a great number of funds and banks are transnationally and globally selling certificates and financial derivatives of a hundred thousand different kinds to other people which even central banks and even economic Nobel Prize awardees cannot understand. The developments of this year's financial crisis has shown that the CEOs of banks, the chairmen of their supervisory boards and the supervisory and regulating authorities did not understand the individual risks and the order of magnitude of the aggregated risks. I have lost part of my confidence in bankers already in the late 1990's. Since then their infectious greed – to use a phrase of Alan Greenspan – has destroyed an additional part of my confidence.

In the meantime central banks have provided liquidity in order to prevent collapses of financial markets. Central banks and treasuries also do rescue a failing great hedge fund and an even greater investment bank in order to prevent negative domino effects. Thereby we altogether run the risk that habitually speculating managers (and the markets as a whole!) do rely on their being saved from disaster.

But more threatening is our risk that all the present rescue operations in the U.S., in France or Britain, in Switzerland or the East and Far East will not suffice and then the banking crisis develops into a global slump of the real economy. But in any case, even if the several emerging operations do succeed, we do need a global reconstruction of surveillance of private financial institutes of all kinds and as well of all internationally traded securities, derivatives and so on.

Over a short number of years the global economy also needs a correction of the enormous and still growing imbalances between oil exporters and oil importing countries and as well between the West and the Far East. In the West the U.S. economy is distinguished by a private savings ratio around zero, by an enormous indebtedness of private households, by an enormous deficit in its current account and by an annual capital import in the order of netwise 5 or 6 or 7 per cent of its GNP. The U.S. has turned itself into the greatest net debtor to the outside world. In the East China, Japan and others in East Asia do produce heavy surpluses in their current account and thereby are accumulating huge amounts of currency reserves. The global economy needs a devaluation of the Dollar and revaluations in East Asia. Otherwise this global imbalance will within a few years produce another financial crisis. In any case do we ought to prepare ourselves for a triangle of currencies: Dollar, Euro and Yuan.

Ladies and Gentlemen, I apologize for preempting your oncoming deliberations with a few personal remarks. I am just a humble old has-been. But I have expressed the feelings of many ordinary people in this country. To us it is obvious that the class of

bankers, investment bankers and financial managers is responsible for our present mess. But as well the regulatory and supervisory agencies, in other words the governments and the political classes in several Western countries have failed to understand and to intervene early enough.

Both the political and the financial class will have to cooperate in order to succeed not only in the present rescue operations but as well succeed in preventing further turmoils. The political class will have an additional task: Namely to make their own public opinion and electorates understand that all their efforts and all their guarantees are not undertaken in order to rescue the bankers but to rescue the economy and the society as a whole.

Thank you.