

The Observer 30.11.08

# Germany's 30-year-old EMS secret is revealed

by David Marsh

AN EXTRAORDINARY insight into the creation of European monetary union is given in the minutes of an historic meeting exactly 30 years ago between Helmut Schmidt, the West German Chancellor, and the Bundesbank, revealed for the first time today by *The Observer*.

Schmidt arrived at the Bundesbank's Frankfurt headquarters in a military helicopter, on 30 November 1978, to seal a clandestine agreement on setting up the European Monetary System (EMS), which paved the way for monetary union in 1999.

Stenographed notes of the sometimes emotional four-hour meeting that ensued, kept under lock and key until today, show that Schmidt gave Bundesbank president Otmar Emminger confidential assurances that the German central bank would never have to endanger its inflation-fighting credentials by propping up weaker EMS currencies.

That aspect of the Bundesbank's behaviour infuriated the UK government during the currency crises of 1992 and prefigured the UK's decision to stay out of the single currency.

Schmidt made an hour-long opening speech on the strategic imperatives for the EMS – underlining West Germany's political and economic vulnerability on account of the Second World War, Nazi

crimes against the Jews and Germany's post-war division.

But the minutes show that he bowed to pressure from Emminger to free the Bundesbank from helping out weaker currencies in crisis. That ensured the dominance of the Bundesbank within the EMS – and that hawkish Germanic principles ran through EMU when it was established in 1999.

Schmidt, who acknowledged that the decision would cause uproar if it became public, fell out with the Bundesbank when it forced up interest rates from 1979/80 onwards to combat a steep rise in oil prices. When he handed over to Chancellor Helmut Kohl in 1982, he blamed the bank for his downfall.

The reverberations of events on 30 November 1978 are still felt today. The European Central Bank does not release information on the interest rate preferences of its governing council members, for fear they are subjected to criticism in their home countries. It is expected to cut rates this week, but details of its decision will not be available until October 2038. In an age of globalisation and fast-moving markets, that is an exceedingly long time to wait.

■ David Marsh is chairman of London and Oxford Capital Markets. His book on the European single currency – *The Euro: The Politics of the New Global Currency* – will be published by Yale University Press in the New Year.