

Preface

In July 1972, when Chancellor Willy Brandt had appointed Helmut Schmidt as a dual minister of the Economy and Finance succeeding Karl Schiller, Schmidt could rely on his experience as a trained economist, as the former director of Hamburg's transportation policy, and as a long-term member of the German Federal Parliament in the area of national economic policy and briefly also at the European level. But he had not yet acquired in-depth knowledge of international financial and currency policy. His predecessor Karl Schiller had been a star at international currency conferences. These conferences of the Club of Ten had become necessary in 1967/1968 due to the crises in the British and French currencies and later because of President Nixon's decision of 15 August 1971 to end convertibility between the US dollar and gold.¹

The Smithsonian Agreement, adopted on 18 December 1971 in Washington, was to a large extent designed by Schiller. It led, on balance, to an increase in the value of the Deutsche Mark in relation to the US Dollar but at the same time to a reduction in the trade restrictions imposed by Nixon. The same applied to the "currency snake" adopted on 21 March 1972 by the Council of the European Community, which allowed exchange of currencies between member states and candidate countries only within a margin of 2.25 %. In June 1972, when currency speculation increased, many banks and businesses in Europe and overseas moved from countries with weaker currencies to the German Mark, looking for a safe harbour. The weakness of the British Pound had once again stimulated this process. This intensified the controversy between the German Federal Bank (*Bundesbank*) and Schiller, the then Minister of Economics. The Federal Bank wanted to insist that the purchase of certain securities by external buyers had to be approved, while Schiller did not rule out a unilateral floating of his nation's own currency. The majority of the cabinet—including Schmidt and the Chancellor—approved the decision of the Federal Bank. They did not want to demonstrate once more to French President Pompidou, whose visit to Bonn was imminent, that the Federal Republic had meanwhile become the "économie dominante" in Western Europe in the currency field—as French newspapers were claiming.

¹ This prefatory essay was written in German by Hartmut Soell, translated by Hans Günter Brauch and carefully language-edited and corrected by Mr. Michael Headon (Colwyn Bay, Wales, UK).

Schmidt perceived his role as Minister of the Economy and Finance differently from Schiller. He saw himself primarily as a political practitioner, and not as the proponent of a theoretical concept of a market economy. In September 1972, in a presentation to the well-respected *Verein für Sozialpolitik*, he showed himself to be convinced that the market economy could cope now and in the foreseeable future with its social obligations much better than all other systems. However, to the question of whether the Federal Republic of Germany was organized as well as it might be, he gave the answer “no”.

During the 1970s, he had not been able to ignore the dispute in the economic sciences between Keynesians and Monetarists concerning the link between inflation and unemployment, given that the Federal Republic of Germany had an inflation rate of 5 %. Despite the high level of integration of its industry within the global economy and the inflation brought about by the importation of currency crises, the inflation rate in most cases was significantly below that of its most important partner countries.

In most countries of the *European Community* (EC), the unemployment rate had also risen rapidly, but in the Federal Republic, after the short home-grown recession of 1966/1967 had been overcome, there had been full employment since the late 1960s. Despite the dispute over dogmas in the economic sciences, from the time that he took over in 1972 as a super-minister, Schmidt pursued a pragmatic course aimed at limiting the growth rates of public budgets at national level and within the federal German states, making possible a modest growth rate and securing full employment. He never forgot that the success of this policy depended on the maintenance of a balance of trade.

From his perspective, this goal was not permanently achievable without closer cooperation between the most important Western industrial countries on currency issues and in the coordination of their economic policy.

A few days after he took over, he went to Washington, DC to discuss a more proactive defence of the exchange rate of the US dollar with the then Secretary of the Treasury George Shultz. Then he went to Paris to persuade his counterpart there to drop the French initiative to introduce a split exchange rate at EC level like the one already existing in France: fixed exchange rates for trade in economic goods and floating exchange rates for financial transactions and the currency market. This split was unacceptable to Bonn because of the much stronger integration of the German economy into the world economy. Without ignoring the differences between the Federal Republic and France in their economic structure and in their thinking, in the following weeks Schmidt, together with senior officials from his dual Ministry of the Economy and Finance, from the Chancellor's Office and from the Federal Bank, designed a programme that contained at its core important goals for an intensification in international cooperation, which he pursued in the years following. He focused initially on seven demands as a basis for further operative policy decisions:

1. To contain inflation, not just national measures but also those at a European level would be needed, as well as further development of the European Union.

2. Cooperation between the central banks would be necessary to dry up the market in Eurodollars.
3. This would require a European intervention mechanism, which would guarantee the balance of payments of the member countries preferably not with gold but with Special Drawing Rights and Reserve Positions held by the *International Monetary Fund* (IMF).
4. A special fund for currency cooperation managed by the directors of the European central banks should be established as a building block for a future European Central Bank system.
5. Exchange rates should be firm but flexible enough to allow necessary changes.
6. The Special Drawing Rights held by the IMF should become the new reserve currency and thus partly replace the US dollar in this function.
7. The position of the IMF in the world currency system should be strengthened.

With this innovative programme of September 1972, he was aware that if progress could be achieved at the European level the Federal Republic would have to shoulder a large part of the fiscal burden.

Where were the partners to be found for this far-reaching approach?

Schmidt tried first to promote his ideas to the French Minister of Economics and Finance, Valéry Giscard d'Estaing, and later to persuade the British Chancellor of the Exchequer, Anthony Barber. Giscard was personally open to a stability pact at the European level—combined with national efforts. The French President Pompidou was willing to accept a higher inflation rate—for fear of a repetition of the events of May 1968 in Paris. From Giscard's perspective, this was a mistake, since it would prevent a modernization of the French economy that was falling further behind the Federal German economy.

The British, whose admission to the European Union in January 1973 was now certain, were reserved. Their economy had experienced periodic periods of weakness since 1967/1968. Just before this, in June 1972, the British Pound had left the snake and been floated.

Thus isolated, during the conference of the economic and finance ministers in mid-September 1972 in Rome, Schmidt used his veto against the proposal that the future fund for currency cooperation should contain automatic support for financial aid with no limit on the amount and with no requirement for domestic economic reforms.

In October 1972, the EC summit in Paris agreed to establish an economic and currency union by the end of 1980. Given the large differences in the economic structures of the member states, this was a very ambitious schedule. To avoid the regional fund planned to balance structural and regional differences being misused to solve normal budgetary problems, Schmidt proposed that the financial resources for this fund should not be made available before the transition to the second phase of the currency union.

His suggestion was not taken up, nor did he succeed with his proposal to jointly counter inflation by reducing custom rates and by limiting the monetary room for manoeuvre to the nominal growth rate of the Gross National Product. Besides

France, Italy—whose inflation rate was twice as high as that of the Federal Republic—feared that social stability in the country would be endangered by cuts in public expenditure.

However, Schmidt was not discouraged by this setback. At a national level and by agreement with the Federal Bank he could limit the growth of the money supply, although it was not easy—given the ‘politics of internal reform’ that was being pursued—to keep states and municipalities from implementing a budgetary policy with pro-cyclical effects. In the following years their budgetary growth exceeded that of the Federal government.

Despite the complex political system of the Federal Republic—stiff competition between the political parties on the one hand, Federal division of power on the other hand—where the complex overlapping of politics could lead into a trap or at least to an occasional blockage, he was increasingly concerned by the situation in Europe from the start of 1973 onwards.

The chances of maintaining at least the preconditions for the first stage of the intended economic and monetary union—especially staying together in the ‘snake’—were further reduced in January 1973. The decision of the Italian government to split the lira into a trade lira and a finance lira that provoked a flight of capital to Switzerland, the unpegging of the franc, and the increasing American balance of payments deficit triggered a new flood of dollars, with European central banks caching their dollar credits at the Federal Bank.

The Federal government and the Federal Bank at first seemed to be awaiting events; behind the scenes intensive negotiations were taking place between Schmidt, Giscard, Barber and the deputy US Secretary of the Treasury, Paul Volcker; Schmidt wanted to avoid a German solo run under almost all circumstances. For that he was heavily criticized by the opposition but also in the press. ‘Der Spiegel’ called him a “hapless speculator”. Shortly afterwards, when the US had devalued the dollar by 10 %, as they had previously intimated they might, the same periodical hailed him as the “Iron Chancellor” who had succeeded in forcing even Nixon to his knees. The same Nixon thanked Chancellor Brandt for the constructive role Schmidt had played in balancing the different starting positions of Washington and Paris.

Two weeks later foreign currency again flooded the coffers of the Federal Republic. Once again this was triggered by the weakness of the lira. Suddenly the Italian government pleaded for a European flotation of currencies, something it had previously rejected. This was based on the precondition that the Federal Bank would grant unlimited and unconditional credits. Italy was thus in harmony with British wishes.

For the first time Schmidt dropped a strong hint that there might be a unilateral German flotation. After he had mobilized Kissinger and Shultz and mediated in the heated dispute within the Group of Ten between the US and France, it was decided during the night after the French elections in mid-March 1973 that the currencies of the “trunk” EC—consisting of the Federal Republic of Germany, the Benelux countries and Denmark—would float against the dollar. Thus the system of Bretton Woods, established in 1944 and so laboriously repaired in December 1971, came

to an end. Schmidt did not see this as a step ahead, but only as a partial defence of the level of European monetary integration that had been achieved in spring 1972.

The relationship between Europe and the USA was furthered by the *Library Group* of the four finance ministers—Barber, Giscard, Schmidt, Shultz—joined a little later by the Japanese Finance Minister Aichi and after his death by his successor Fukuda. The name of the group came from the site of its first meeting, the library of the White House, an offer Nixon had made for reasons of courtesy to his Secretary of the Treasury. This informal group was only a limited replacement for Bretton Woods. Its members met repeatedly—including outside of the formal meetings of the Committee of Twenty of the IMF—in between times telephoning each other or sending envoys whenever there was high tension in the currency exchange markets. The group was an expression of the diffusion of the power that had moved in this area somewhat away from its central pole, the United States, and was in the future to organize itself in a more multipolar fashion. Despite these talks and informal agreements, that reduced differences in perception and the build-up of positions of prestige, the imperatives of the respective national policies remained—as well as their repercussions for others.

In May 1973, after taking the first steps towards policies of stability in February 1973, Bonn had decided on substantial interventions (investment tax, stability levy on middle and higher incomes, setting aside of increased tax revenues, etc). The goal was to shake off the ‘inflation’ mentality—the rate of price increases had considerably exceeded the record of 7 %—and it was foreseeable that soon speculation in advance of revaluation would occur; at the end of June 1973, there was a new flood of foreign currency into the Federal Republic. The Federal Bank supported the currencies in the ‘snake’ vigorously. Finally the Deutsche Mark was revalued against the other currencies of the ‘snake’ by 5.5 %, though the other partners were only half in agreement.

Schmidt was to some extent at a loss: far-reaching ideas for concerted action were blocked by the other partners. Bonn’s unilateral action, which nevertheless upheld the ‘snake’ as a basis for such action, gave rise to misgivings. For the first time, Schmidt began to speak in the inner circles of “certain employment risks” connected with the policy of stability.

Less than four months later the oil price shocks triggered by the Arab members of OPEC meant that the national policies of the EC countries and of the community itself and its relationship with the US were faced with significantly greater ordeals.

Schmidt had already tried a year earlier to reduce the massive dependence of the Federal Republic on oil. He had scarcely been in office when in September 1972, together with his advisers and with the vice president of the EC Commission responsible for energy questions, Wilhelm Haferkamp, he had developed an initial energy policy that would not only guarantee the national energy supply but which also foresaw closer cooperation within the EC.

He was still not free of this topic when he handed over to the Minister for the Economy Friedrichs of the coalition partner *Free Democratic Party* (FDP) after the parliamentary elections in November 1972. In a talk on German Shipbuilding

Day in Hamburg at the end of March 1973, he warned that within a few years the energy supply question would affect not only industry, “but every single one of us quite fundamentally in our daily lives”. The OPEC countries would try to use their position as suppliers not only as an economic lever but also politically. By ‘political’ he then still understood that the oil countries, given the rising demand, would limit the supply so that a large amount of oil would remain untapped and its value would not decline. The several devaluations of the American dollar after 1971—the price of oil was still invoiced in US dollars—was to justify this policy of OPEC. Schmidt also thought about the effects of this higher income on the currency system. Petrodollars would become more important than Eurodollars and together they would increase the turbulence.

In October 1973, added to his existing problems came an essentially new and shocking challenge: the vehement use of oil as a political weapon against the US and against EC countries such as the Netherlands who had assisted the US in its support for Israel when it was attacked by Egypt and Syria.

He suggested three ways of dealing with these challenges (besides the several national preventive measures launched by the Bonn government in September 1973 as part of the comprehensive energy policy programme, such as the duty of the oil companies to stock oil and the duty of the state to maintain oil reserves for 90 days): 1. To establish a counter-cartel of oil-consuming countries. 2. To create bilateral supply agreements between individual countries and large oil-producing countries. 3. To rely in the medium and long term on cooperation between the industrial states and the oil-producing countries.

Official French policy had initially favoured the second alternative. Its supply agreements with Saudi Arabia included provisions that permitted large price increases. Italy tended towards a similar behaviour. The British waited and placed their hopes in the longer term on North Sea oil. The US was inclined towards the first idea. At the same time they were preoccupied with reaching a stable ceasefire in the Near East in order to roll back the increasing Soviet influence in that region.

Schmidt, like Giscard d’Estaing, preferred the third possibility but he did not rule out earlier measures based on the first. In order to develop a common Western position, he had proposed to US Secretary of State Kissinger in early November 1973 the establishment of a panel of experts consisting of representatives of the oil-consuming and the oil-supplying countries and of the multilateral oil companies. It would design appropriate solutions not only for supplies, prices and volume but also for the ‘recycling’ of Petrodollars, for example through investment in industrial states and aid for developing countries, which had become major victims of the tripling and quadrupling of oil prices. For Kissinger such a panel was too non-committal, and so he transformed the proposal into a conference of Western industrial states who were among the largest oil consumers. He did not want to give up the idea of a confrontational counter-cartel. But he accepted the suggestion of enlarging the agenda of the energy conference in February 1974 in Washington to include questions of energy saving and the development of new energy sources, as well as possibilities for cooperation with the oil countries.

Prior to this conference, Schmidt and Giscard had agreed on a middle way on these issues. As Giscard's position was too cooperative from President Pompidou's perspective, Foreign Minister Michel Jobert was sent to Washington, where he isolated himself from the representatives of the other EC countries. Schmidt opposed attempts to save own interests by entering into bilateral agreements with individual oil-exporting countries. Without mentioning his neighbouring country he argued that with this alternative the currency reserves would be consumed more rapidly. After his return to Paris, Jobert labelled the behaviour of Schmidt and of other EC partners as 'treason'. After the death of Pompidou in early Spring 1974 and the election of Giscard d'Estaing as French President in late May 1974, the framework for a closer cooperation between Paris and Bonn had significantly changed.

A few days earlier, Schmidt had been elected as Chancellor after Brandt had resigned because of an espionage affair for which other ministers of his cabinet had been responsible. His Chancellor's Declaration of 17 May 1974 stressed the central concepts of 'continuity' in foreign, European and domestic policy and 'concentration' in the policy of internal reform. The new problems triggered by the oil price shocks were only mentioned briefly. They were closely linked to his central political goal of overcoming the global recession, that by now had also reached the Federal Republic, before the 1976 election, to create room for reform in his own country as well as in Europe.

Instead of 'world recession' he often used the term 'world economic crisis'. The crisis of the years since 1929/30 and its catastrophic political consequences had overshadowed his youth. At the same time this concept explained the structural causes of the crisis. He observed this in the weakness of the US dollar in the aftermath of the financing of the Vietnam War and the associated global inflation and afterwards in the effects of the oil price crisis. He referred to these two causes in his speeches again and again. Their consequences, the decline in the capability of the US after the Watergate Affair to lead the West not just politically but also economically and in the area of currency policy, were among his major concerns, though he only referred to them in private. And so he constantly tried to reduce the pace of the political continental drift that threatened to separate the United States from Europe, all the more so as more flashpoints began to occur in southern Europe.

The end of the dictatorships in Greece and Portugal was a sign of hope. But the subsequent governments relied on assistance which was directed primarily to Bonn. Added to this was the occupation of northern Cyprus by Turkey, which further shook the already delicate south-eastern flank of NATO. More dangerous in the short term were the signs of decay within the EC. He believed that he could compensate for the withdrawal of France from the 'snake' in January 1974 through close cooperation with Giscard d'Estaing. More difficult was the announcement by the new Labour Government in early April 1974 that it wished to renegotiate the terms of membership. Given the divisions within the Labour Party on the EC question, in the background the threat of leaving the community if the conditions were not met was no empty one.

Schmidt had always supported British EC membership both on principle and also for reasons of security and trade policy. It was very much through his efforts, supported in publicity terms by a skilful appearance at the Labour Party Conference in November 1974, that the EC summit in Dublin in March 1975 was able to come to a conclusion which was accepted by the British electorate in a referendum with a two-thirds majority in May 1975.

Even more serious were developments in Italy, where the government had raised tariff barriers again in late April 1974. The EC Council of Ministers reluctantly approved this approach for a short period of time. Even the European Fund for Economic Cooperation that had just been created was made use of by Italy to tide itself over its balance of payments problems. Because of huge budget deficits, equivalent to about 8 % of the gross national product, these subventions were insufficient. In the summer of 1974, Italy faced financial collapse.

In late August 1974, Schmidt reacted personally to an urgent request by the Rumor government. He flew to Italy to negotiate with Rumor the level of the currency deficit of the Federal Bank which amounted to five billion Deutsche Mark (US \$ 2 billion).

The loan was covered by the pledge of a portion of the gold holdings of the Bank of Italy. Was now, as 'Newsweek' wrote, Germany "Italy's Godfather" instead of the US? The quote played on the name of the movie "The Godfather" about the American Mafia, running in Germany under the title "Der Pate". It was certainly a grotesque exaggeration. But the quick reaction of Schmidt was a signal in several directions: Bonn was ready to help, bilaterally if necessary, but not without a guarantee. This was to ensure that other partners would limit their demands. What was clear to the French leadership was the revaluation of the pledged gold—an ongoing point of contention between Paris and Washington—at 80 % of the price on the London gold market.

Ultimately, it was necessary to persuade Italy to accept new initiatives to coordinate national economic policies and to achieve a limited institutional reform of the EU that would enable rapid joint action. For these Schmidt had argued in consultation with Giscard d'Estaing in September 1974 at an informal meeting of the Nine in Paris; the ideas included an improved decision-making process among the Council of Ministers, enhanced strengthening of the position of the foreign ministers in particular and their political representatives, direct elections to the European Parliament, a passport union, and cooperation between Ministers of the Interior to curb cross-border crime, together with an overall shift in decision-making from the Commission to the Council of Ministers.

This question was discussed at the EC summit conferences in the following two years. There was progress in direct elections to the Parliament, although the British maintained their reservations, as well as in the passport union. In agricultural policy, everything remained largely the same, because here Schmidt had to give special consideration to the French partner which was under heavy pressure from the Gaullists.

Schmidt's mediation between the French and American positions on the issues of the international monetary system and collaboration with the oil- and

commodities-exporting countries had only limited success. A preliminary conference took place in Paris in April 1975—initially cancelled because of a dispute over the extent to which the oil countries should be included in the reform of the IMF and the monetary system, but resumed in the autumn of 1975.

Meanwhile, the global recession had become more entrenched in Europe, not least in the Federal Republic, than Schmidt had expected. A package of measures, together with a reduction in income tax from 1 January 1975, pumped around 35 billion DM of public money into the economy, but this could only absorb to a limited extent the missing export demand. In the first two-quarters of 1975, the demand slumped to 40 %.

In April 1975, German exports to the United States—at other times an expanding market for German industry—only amounted to 55 % of the April 1974 figures.

In the winter of 1975 the number of unemployed in the Federal Republic exceeded the one million mark for the first time since 1955. For the second German democracy whose political legitimacy still very much depended on increasing economic and social prosperity, this was a severe blow.

Just before he became Chancellor, he had recommended in a review of the SPD carried out for the SPD leadership concentrating in public debate on those problems that the party could solve. Only thus could the party prevent the “fear gap” among its own supporters—loss of faith in the ability of politicians—from becoming even wider. Despite criticism from within his own party ranks and from the parliamentary opposition, in public he largely adhered to these tactics.

In discussions in internal party committees and in meetings with US President Ford and with French President Giscard, with whom he developed a special relationship of trust, he expressed himself in general more forcefully—in particular, when it was a question of gaining the support of Ford, who held conservative views on fiscal and economic matters, for a summit of the major industrialized states of the West that Schmidt proposed in the spring of 1974 and to which Giscard agreed in autumn 1974.

When Ford was in Bonn immediately before the meeting of the *Conference on Security and Cooperation in Europe* (CSCE) in Helsinki in late July 1975, Schmidt tried to persuade him and Kissinger that the West faced the biggest political crisis since the Second World War. Nothing less than the functioning of democratic states in the West was at stake. Up till then, heads of government would meet immediately during foreign and security policy crises. When economic crises occurred, they would only send their experts to propose solutions. Half the problem consisted of psychology. If the OPEC countries increased their prices again in the autumn—the Shah demanded an increase of 30 %—the general pessimism would be reinforced. The major industrial countries of the world should be able to say that the problems had been identified and would be tackled together. This was more important than what they could do. To Kissinger’s argument that the *International Energy Agency* (IEA), established the year before, should not be allowed to fail, otherwise the trees of OPEC would grow to the sky, Schmidt answered that the IEA would be unable to absorb a confrontation with OPEC. Its

only result would be three million unemployed in Germany. This, he added, “we would not be able to endure”.

Was it for him simply a matter of gentle persuasion in public? Certainly. But his ideas, as he summarized them at the end of July 1975 in a private memorandum for the participants of the Economic Summit, went further, and included not only the reform of the IMF and revenue stabilization for developing countries who exported raw materials, but also a concerted effort by the central banks of industrialized countries to cut interest rates.

His view of the world and of the role of the Federal Republic in this world had significantly changed since 1972: “We are living in a universal system of mutual dependence of nations and of total interdependence of political decisions”. This was an assessment he offered at a foreign policy conference held by his party in January 1975. For the leading trading state, the Federal Republic, there was indeed increased dependency on oil and raw material imports and an increasing risk of the import of inflation and deflation, but there were also opportunities to interact with other industrialized countries, and through cooperation with the nascent powers (due to their control of oil supplies) to bring these additional asymmetries (besides those in security policy) into a certain balance and to increase interdependencies in order to create a basis for stable change.

How might this change look for the Federal Republic in a “world” which had “through communications technology become in the meantime a village”? In June 1975 he had sketched an answer in the following way: given high labour costs and stable population figures, structural changes are inevitable. They force companies to concentrate on more advanced processes and products.

“Simplistic and typecast”, one might say: on the horizon of the year 2000 appears an era in which economies like the German economy would export mainly patents, process technologies, and blueprints. This restructuring would initially require broad basic research and applied research, laid out as intelligently as possible, which should be financed not only by the public but also by the company itself.



Chancellor Helmut Schmidt speaking in the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

Schmidt stated that there is no advantage to be gained by trying to steer the development of business sectors through tax policy. Not only is the predictive skill of government bodies (including scientific agencies) limited, as can be seen in the way the evaluations by the Expert Advisory Council (Sachverständigenrat) differed significantly from reality. They produced their evaluations using global data. If they had focused on individual sectors—with investments lasting 7, 10 or 15 years—then errors in forecasting of 100–200 % would have been conceivable.

For this reason, he found the model calculations of the Club of Rome and the forecasts derived from them oversimplified. He understood these mainly as regulatory ideas, whose goal was to become more independent of scarcer and more expensive raw materials through innovations in research, development and production.

These learning processes of Schmidt's occurred during the accelerated phase of the transition from the "national economy" to the "global economy", a central concept that he advocated emphatically. This hypothesis was, however, always supported by the expectation that the global economy would not just develop spontaneously or even chaotically behind the backs of political actors, but that it could be guided by them at least partially towards stable development.

Such hopes also accompanied the first economic summit, which took place in mid-November 1975 in Rambouillet castle south-west of Paris. The castle could be extensively protected, and the event resembled more an intensive seminar for top managers than the usual summit conferences of the EC or NATO. Each of the six participating heads of state or heads of government introduced a specific agenda item—from the general economic situation to currency problems, from

relationships with the oil- and commodities-exporting countries to trade with the East.

It is less easy to see the value of this undertaking from its final declaration, which included a number of reasonable common objectives—to accelerate the Tokyo Round of global tariff reductions, to stabilize the revenues of the resource-exporting developing countries, to conserve energy, and to develop alternative energy sources, as well as to reform the monetary system—but with no binding force.

The study of the minutes is more productive. It shows how opinions and positions changed in the course of discussions. The question was whether this learning process would continue. Ford had overcome his initial scepticism and in late June 1976 issued invitations to “Rambouillet II”, which took place in a secluded golf hotel in Puerto Rico. In the meantime, Canada had joined as the seventh participant.

At the following two meetings of the G-7 in London in 1977 and in Bonn 1978, Schmidt and the Japanese prime minister Fukuda had agreed to revive export demands through tax cuts and investment programmes of the order of about 1 % of their gross domestic product. The idea that the Federal Republic and Japan were ‘locomotives’ of the global economy received new impetus in the comments, although Schmidt personally believed that it had failed.

According to the agreements reached at the Bonn World Economic Summit in July 1978, the net debt of the public sector in the Federal Republic had to be once again set higher than originally planned. Given the high private saving rates and the relatively low interest rates, this was hardly at the expense of business investment. These were significantly more affected by the instability in the currency markets which turned the investment plans of companies with high export shares into wastepaper overnight. Schmidt had approved the recommendations to increase demand not least because he wanted to help President Carter in the fight against inflation as well as with the reduction of oil imports. In the last analysis, resistance by Congress was particularly stubborn. After the Bonn summit American comments indicated that Carter had not remained unaffected by Schmidt’s considerations: in his eyes the current difficulties in the global economy were complex and could not simply be solved with a Keynesian approach through increased public spending and an increase in the money supply. Obsolete production facilities in industrialized countries and the emergence of new industries in emerging markets required differentiated solutions, as did energy and environmental problems.



President Jimmy Carter and Chancellor Helmut Schmidt, 13 July 1977 in Washington, D.C. Source Photo by Jack E. Kightlinger, White House photo (Public domain), via Wikimedia Commons; at: http://commons.wikimedia.org/wiki/File%3ACarter_und_Schmidt.JPG

The cautiousness in the objectives as they had been formulated at the Bonn Summit in contrast to the one in London (1977) was due according to the *New York Times* to Schmidt's 'conservative' influence. 'Conservative' in the American understanding was the opposite of 'liberal' in Roosevelt's New Deal which Carter followed, and meant progressively less direct state influence on economic affairs.

Thus Schmidt's policy was certainly not sufficiently contextualized. After all, he was one of the most vocal defenders of the welfare state, of a European and German character. What made him act cautiously at the Bonn summit was the recognition that unilaterally understood Keynesianism, implemented as increased government debt without a qualitative transformation of social security systems and without any stimulus towards structural innovations in the economy, would do more harm than good in the long run.

In early 1979 the second oil crisis emerged, triggered by the fall of the Shah's regime in Iran and exacerbated by the Arab oil states' criticism of the resolution of the conflict between Israel and Egypt achieved through the mediation of President Carter, but which had left the question of the autonomy of Palestine unresolved. The political and economic approaches seen since 1975 to the overall strategy of the Western industrialized countries were more at risk than in the three previous years.

The immobility of US domestic politics meant that the Carter administration could not achieve its aim of economic leadership. However, the Europeans felt more and more the negative consequences of the weight of American consumer

habits. Not for nothing did Carter's Energy Secretary James Schlesinger say self-critically, "American drivers believe that the Declaration of Independence gives them the right to consume 60 % of the gasoline in the world".

At the economic summit in Tokyo in late June 1979, quantitative targets for oil imports were adopted for the first time under the pressure of a further price increase by those oil-exporting countries who were members of OPEC. While the four EC countries that were present in Tokyo committed the entire community to a quota for oil imports, which were to be kept at 1978 levels until 1985, Japan, Canada and the United States would only accept 1979 as the starting year.

Behind this was their intention to replenish their oil stocks in the second half of 1979 as well as to lay on additional supplies. From this it could easily be seen that the targeted savings would either not be met or only be met to a small extent. In the sense that Schmidt saw the main function of the G-7 meetings as preventing catastrophic structural changes in the world economy, the Tokyo agreements were nonetheless "helpful". In addition, each participant was free to do more in their own country, as Schmidt announced in a subsequent interview with German journalists; shortly afterwards he presented concrete proposals in parliament and in cabinet.

In the weeks after the meeting in Tokyo President Carter also made another attempt to introduce an energy-saving programme with more ambitious objectives than the commitments made by him in Tokyo. Most of his proposals failed in the Senate because of the attitude of the vast majority of American voters described above.

In contrast to the first oil crisis of 1973, which increasingly made the weaker EU countries objects of international currency speculation, during the second oil crisis of 1979 there were no such sudden fluctuations in exchange rates within the EC.

The most important stabilizing factor during 1978 proved to be the *European Monetary System* (EMS) which came into force on 1 April 1979. It had first been conceived and promoted by Schmidt and Giscard d'Estaing as an agreement between the central banks of the participating countries.

Although further stages of monetary integration that had been planned did not take place and in the 1980s, one or another currency temporarily left the intervention mechanism of the EMS, this association had refuted the sceptics who thought that an "inflation community" would be formed within the EC from which the D-Mark would be unable to escape. Rather, the EMS contributed significantly not only to a downward trend in inflation, but also to a decline in the differences in the level of interest rates between member countries. These were important prerequisites for a much greater convergence of economic policies than before that made possible further steps towards an Economic and Monetary Union in the 1990s.

After the Bonn Summit of July 1978, the *Wall Street Journal*, not usually given to hyperbole, wrote that the Federal Republic was "no longer a bashful giant, but a world power, economically, and increasingly also in the political sense". Schmidt dismissed such exaggeration; he always remained aware of on how fragile a political and economic base his own country rested.

In the end, as a temporarily central actor in the 'économie dominante' in Europe, he paid a high price for his participation in international economic and monetary policy. He was not always able to fully use opportunities for national action, for example in the fight against inflation and in limiting public debt, because of the need to take neighbours into account. Hence the number of veto players in his own country increased. They were present in his own party and in his liberal coalition partner, as well as in the Bundesrat and in the Federal Bank, in business associations and in trade unions. Along with the economic decline of the early 1980s, partly caused by the second oil crisis, and the increasing cost of social welfare, they contributed to the loss of political support that resulted on 1 October 1982 in a change of coalition by the majority of the liberal members of the Bundestag, who ousted Schmidt as Chancellor.



Chancellor Helmut Schmidt speaking in the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

What began in 1972 with Helmut Schmidt's work in the national and international economic and monetary policy field has often been referred to as mere crisis management. That it indeed was when the situation demanded quick decisions. But these were usually so carefully designed that they did not lead to new dead ends along the lines of "Beggar my neighbour" as in the 1930s, but to new forums and forms of international cooperation between the major industrialized countries that allowed that the interests of the oil- and other commodity-producing countries to be considered.

It should not be forgotten that he was not at the top of a supranational institution such as the United Nations or the European Community, but as a national political player always had to keep the interests of his own country in mind.



Chancellor Helmut Schmidt and Vice Chancellor Dietrich Genscher in 1982 in the German Bundestag. *Source* Deutscher Bundestag, Bildarchiv, Press Service Steponaitis. Permission is granted by the Archives of the German Parliament (Bundestag) for publications for educational purposes

How much he has remained, even after his chancellorship, a pioneer of a sensible orderly world economy for the past three decades, is shown by numerous books and public contributions dealing with the process of globalization of commodity and financial markets, as well as the deregulation of recent years, all analysed by a keenly critical commentator.

In the declining appetite of many politicians for international cooperation in economic and monetary policy since the 1990s, and in the excessive deregulation of the banking and financial system during the 1990s, he justifiably saw a central cause of the persistent economic and financial crisis since 2007 and 2008.

In the accession of new players like China, India and Brazil to the G-8 states he sees a chance to put into a sensibly designed framework the chaotic processes of the financial markets to which policymakers can only react, usually to the detriment of taxpayers, and at the same time to strengthen cooperation between international organizations such as the IMF and the central banks.

For all these reasons Helmut Schmidt has become since the 1970s a *pioneer of international economic and financial cooperation* both as a leading party politician, as an experienced active policymaker, as a dual Minister of the Economy and Finance (1972–1974) and as Chancellor of the Federal Republic of Germany (1974–1982); and since his retirement from active political life in 1982 as an independent and influential analytical and forward-looking political thinker, analyst and commentator whose assessments are considered by policymakers and discussed by the readers of his books and columns in *Die Zeit*, which he has published for the past three decades.

Helmut Schmidt

Pioneer of International Economic and Financial
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