The London School of Economics and Political Science

Economic Power and Political Leadership: The Federal Republic, the West and the Re-shaping of the International Economic System, 1972-1976

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Declaration

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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Abstract

This thesis explores the role the Federal Republic of Germany played in the transformation of the Western international economic system between 1972 and 1976. It has two main aims: first, it examines Bonn's activities in the shaping of the Western response to the collapse of the Bretton Woods monetary system, the first oil crisis 1973/74 and the 1975 world recession; and second, it studies the effect of these actions on West Germany's political position in the Western alliance. As will be shown, Bonn was able to have a significant impact via four means: an ability to manage its economic and political goals; clever use of its economic strength; the adoption of a mediating role among its Western allies, above all the United States and France; and the strong political leadership of Helmut Schmidt (as finance minister, then chancellor). As a final consequence, the Federal Republic through a combination of its actions, the waning of American, French and British economic and political power, the transformation of the institutional setting and the advancement of economic issues to the fore of political debates achieved the permanent enhancement of its political status within the Western alliance.

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Introduction

In the early 1970s, the Western alliance was in the midst of a transition.[1] The two pillars of the alliance, the military security dimension on the one hand and the economic dimension on the other, were fundamentally changing. With the introduction of détente, the tensions between East and West eased and security related issues became less acute. In the improved relations, West Germany's *Ostpolitik* was essential. At the same time, however, the economic pillar came under tremendous strain when the West was struck with three economic crises between 1972 and 1976. Troubles in the international monetary system had been progressively mounting through the 1960s as a result of the gold problem, the growth of the Euromarkets and increasingly large balance of payments disequilibria. Western leaders attempted to mend these problems first through the creation of the Standard Drawing Rights (SDRs) and the first amendment of the Articles of Agreement of the International Monetary Fund (IMF) in 1968. A second try came a few years later with the completion of the Smithsonian Agreement in December 1971 and the start of an overhaul of the international monetary system through the Committee of Twenty (C-20) in September 1972. Their efforts though did not suffice.

Instead, only fifteen months after the signing of the Smithsonian Agreement, the Bretton Woods international monetary system collapsed in March 1973. Before the C-20 could reach an agreement on reform of the international monetary order, a second crisis struck the West in autumn 1973. Angered by the pricing policies of the multinational oil companies and even more so by Western actions during the October War, Arab oil producers embargoed oil supplies to the United States and the Netherlands and the Organization of Petroleum Exporting Countries (OPEC) quadrupled the price of oil within a three month period, unleashing the oil crisis. By 1975, the economic fallout of the oil crisis coupled with the inflationary policies of several Western states in the early 1970s and the continued uncertainty

[1] The Western alliance in this thesis is understood to mean the United States, Western Europe – both those states in the European Community (EC) and those outside the EC but aligned with the West – Japan, Canada and Australia.

surrounding the monetary system as well as oil and raw material prices combined to create the worst global recession since the Great Depression with macroeconomic conditions never before experienced. Economic conditions deteriorated to such a degree that many Western leaders began to fear social and political unrest. Yet, in the midst of this economic chaos, the West slowly came together. In the final months of 1975, Western leaders took steps to reverse the downward spiral of the world economy, established new international economic fora, adopted new approaches to influencing oil prices and to relations with the oil producers and completed international monetary reform. By spring 1976, through their efforts not only had the industrialized states overcome the economic crises, but also the international economic system of the West had been re-shaped.

As the economic crises began to unfold, West Germany was in a unique position to play a crucial role in altering the international economic system. Bonn possessed the greatest economic strength in Europe. It rested on large balance of payments and trade surpluses, low inflation and unemployment rates, steady growth and the Federal Republic's leading trading nation status alongside America. Although the United States remained the Western economic hegemon, in the early 1970s the American economy was in decline, as balance of payments and trade deficits, rising inflation and slowing growth began to undermine its economic power. Increasingly America's economic and political authority was under question as a result of President Richard Nixon's economic policies. Moreover, given the scale and nature of the crises coupled with the interdependence of the Western economies by the 1970s, Bonn perhaps more so than any other Western state had motivation to act: highly dependent on the international economy for its abovementioned export-driven economic strength and the Western alliance for its political and security shield, the Federal Republic had much to lose from the economic turmoil and potential political upheaval. Yet West Germany also had much to gain from a changed economic dimension, not least greater political power within the Western alliance. For such a power shift to occur, however, Bonn had to be politically, and not just economically, savvy. Looking at this period of transformation, this thesis aims to answer two questions: first, what role did the Federal Republic of Germany play in shaping a Western response to these three crises and hence the re-shaping of the international economic system of the West; and second, to what extent did West Germany's actions affect its political position in the Western alliance?

Many works have been written on these economic crises, but few have done so from a historical political economic point of view as well as with the use of government documents and none have aimed to answer the two abovementioned questions. Providing insight into the West German perspective on and actions during these three crises are memoirs by Otmar Emminger and Helmut Schmidt.[2] Emminger's main focus is monetary events, both of a domestic and international nature, but he also comments on the oil crisis and the 1975 recession, albeit with greater focus on the effects these crises had on the West German economy. Overall though, Emminger's viewpoint is primarily economic with his limited commentary on political events tending to focus on inter-governmental disputes rather than the international political dimension. In comparison, Schmidt's work offers fewer specifics about the unfolding of events and very little economic analysis; however, it does give insight into the role political relationships and international politics played in the outcome of the Western response to these crises. Also helping to reveal West Germany's influence during these crises are Henry Kissinger's memoirs.[3] In each, Kissinger gives an American view of the economic events and reveals his feelings toward Western officials and the actions undertaken with them. Yet, most memoirs when compared with documents and accounts of other officials present at the time tend to distort the details of the proceedings either through national bias or inaccurate recounting. Emminger, Schmidt and especially Kissinger are no exception to this.

In key works by political scientists, the economic crises of the early 1970s are generally analyzed separately from one another with an emphasis on

[2] Otmar Emminger, *D-Mark, Dollar, Währungskrisen: Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart: Deutsche Verlags-Anstalt, 1986); Helmut Schmidt, *Men and Powers: a Political Retrospective*, trans. Ruth Heim (London: Jonathan Cape, 1987).
[3] Henry Kissinger, *Years of Upheaval* (London: Phoenix Press, 2000); Henry Kissinger, *Years of Renewal* (New York: Simon & Schuster, 1999).

the systemic change caused by them or in an effort to prove a theory of international relations. Falling into the former category are the publications by Kenneth W. Dam, John Williamson, Robert Solomon and Tom de Vries.[4] Each of these writings deals exclusively with the collapse of Bretton Woods and the attempts at international monetary reform first in the C-20 and then the Interim Committee, by and large passing over the two other crises taking place simultaneously. In addition, these writings concentrate predominately on the role of the United States, the C-20 Bureau or the IMF with West Germany being grouped together with its EC partners. Moreover, of all the authors, only de Vries closely looks at the politics behind many of the decisions made during the reform efforts, highlighting the Group of Five's (G-5) influence on monetary negotiations. That said, de Vries like Dam, Williamson and Solomon is above all interested in systemic change, seeking to understand the reasons for the collapse of Bretton Woods, the failure of the C-20 and the prospects of success for the "non-system" of monetary relations created in 1976.

Included in the latter group are works by Johannes von Karczewski as well as Robert Putnam and Nicholas Bayne.[5] Both look at the establishment of the world economic summits in the 1970s, with the former highlighting Schmidt's role in them. Their overall goals, however, are theoretical, not historical: von Karczewski aims to understand the significance of the world economic summits in international politics and to determine if they can be viewed as a new form of collective leadership; Putnam and Bayne are interested in the management of a politically and economically interdependent world. Other key works by political scientists tend to look at the economic crises of the

[4] Kenneth W. Dam, *The Rules of the Game: Reform and Evolution in the International Monetary System* (Chicago: The University of Chicago Press, 1982); John Williamson, *The Failure of World Monetary Reform, 1971-1974* (New York: New York University Press, 1977); Robert Solomon, *The International Monetary System, 1954-1976* (New York: Harper & Row, 1977); Tom de Vries, "Jamaica, or the non-Reform of the International Monetary System," *Foreign Affairs* 54, no. 3, (1976): 577-605.

[5] Johannes von Karczewski, *"Weltwirtschaft ist unser Schicksal:" Helmut Schmidt und die Schaffung der Weltwirtschaft* (Bonn: Dietz, 2008); Robert D. Putnam and Nicholas Bayne, *Hanging Together: The Seven-Power Summits* (London: Heinemann, 1984). Also interested in theories of interdependence is Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Boston: Little, Brown, 1977).

1970s in order to prove theories of economic hegemony.[6] In such works, the Federal Republic's position throughout these economic events is included in the discussion, but it is not closely analyzed. While these theoretical studies can provide relevant detail on the events under consideration, neither they nor the works on systemic change, adequately address the questions of this thesis.

Still, political scientists are clearly aware of West Germany's increasing economic strength and the opportunities available for a larger political role within the Western alliance during the 1970s. An example of this is Wilfrid Kohl and Giorgio Basevi's edited work, *West Germany: a European and Global Power.*[7] Looking at individual aspects of West German economy, such as trade performance and stability policy, or its political relationships with its Western allies in each article, the book aims to better understand the dynamic between West German economic and political power. Yet, while many of the articles discuss the Federal Republic's outstanding economic performance and highlight signs of increasing political strength through the 1970s, the focus is on the latter half of that decade and the main aim overall is to theorize how the Federal Republic could continue to maintain or even grow its economic and political power.

Many of these flaws recur in contemporary histories of the events of the era. Harold James's monumental book *International Monetary Cooperation since Bretton Woods* is an example of this.[8] In it, James covers the collapse of the Bretton Woods monetary system, international monetary reform efforts in the C-20 and Interim Committee, the oil crisis, the 1975 recession and the Rambouillet Summit, considering both the economic and political factors contributing to each. In his analysis of monetary events though, James takes a similar approach to Dam, Williamson, Solomon and de Vries: although James does discuss West German involvement in them, his focus is primarily on

[6] Examples are David Calleo, *The Imperious Economy* (Cambridge, MA: Harvard University Press, 1982); Andrew Walter, *World Power and World Money: the Role of Hegemony and International Monetary Order* (London: Harvester Wheatsheaf, 1991).
[7] Wilfrid L. Kohl and Giorgio Basevi eds., *West Germany: a European and Global Power* (Lexington, MA: D.C. Heath and Company, 1980).
[8] Harold James, *International Monetary Cooperation since Bretton Woods*, (Washington, D.C.: International Monetary Fund, 1996).

America's role. In addition, James's depiction of the C-20 discussions makes it seem as though the EC were a united block against the United States. Moreover, while James discusses the creation of the G-5, he fails to show the crucial role the G-5 discussions had in influencing the results of the monetary reform talks.

With regard to the oil crisis, James's analysis of the struggle between international institutions and the markets in recycling oil surpluses and financing oil deficits is substantial. But he offers relatively few words on other key factors in the West's attempt to overcome the oil crisis like consumer-producer relations. On the 1975 recession and the Rambouillet Summit, James only gives a short summary. He slightly makes up for this in the German translation of this book.[9] In a special introduction to it, James provides greater detail and analysis on the creation, purposes and outcomes of the first world economic summit. Yet because it is a translation, the overall objective of this book remains very much the same as that of *International Monetary Cooperation since Bretton Woods*: namely, to look at the change in the character of monetary relations since the Second World War. Thus in both books, like many works of political science, James is primarily interested in systemic change, albeit from a historical viewpoint.

In broader historical works on the Federal Republic, the three economic crises are often mentioned, but are frequently analyzed with the intention of understanding their impact on domestic developments – political, societal or cultural – within West Germany. Moreover, because of the breadth of the period covered, the questions of this thesis are only addressed in a cursory manner, if at all.[10] Economic histories of the Federal Republic and those on West German foreign policy covering the period 1972-1976 do little more to answer the questions posed in this thesis. A major shortcoming of most works belonging to the former category is their overwhelming focus on economic

[9] Harold James, *Rambouillet, 15. November 1975: Die Globalisierung der Wirtschaft*, trans. Hermann Graml (München: DTV, 1997).

[10] Examples are Manfred Görtemaker, *Geschichte der Bundesrepublik Deutschland: von Gründung bis zur Gegenwart* (München: Beck, 1999); Dietrich Thränhardt, *Geschichte der Bundesrepublik Deutschland* (Frankfurt am Main: Suhrkamp, 1996); Andreas Rödder, *Die Bundesrepublik Deutschland 1969-1990* (München: R. Oldenbourg Verlag, 2004).

trends and technical analysis.[11] Thus, rarely do their analyses include an examination of the international politics behind the economic and monetary policies so heavily influencing inflation, unemployment and growth developments. In the latter category, a large portion of the literature is devoted to security issues. In those works which address the economic crises, they are generally covered in two ways: either monetary events are emphasized or the analyses of these crises are brief and conducted as part of one long continuum of economic upheaval throughout the 1970s or beyond.[12] The problem with the first approach is evident: a full picture of West German foreign policy on economic issues cannot be given without including the other crucial economic crises outside the monetary realm. The second approach poses a problem to understanding the intricacies of West German participation in the economic events of the early 1970s and makes the outcomes of the later 1970s, such as the European Monetary System (EMS) and the division between the United States and West Germany (which more often than not receive the greatest attention), appear self-evident.

More recent historical works based on historical documents and focusing on West German foreign policy during the 1970s tend to center on military-security issues and *Ostpolitik*. Over the last several years, numerous publications have appeared on these issues.[13] In literature on West German foreign policy where economic issues are considered, the focus is frequently on

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[11]Examples are Werner Abelshauser, *Wirtschaftsgeschichte der Bundesrepublik Deutschland, 1945-1980* (Frankfurt am Main: Suhrkamp Verlag, 1983); Herbert Giersch, Karl-Heinz Paque, and Holger Schmieding, *The Fading Miracle: Four Decades of Market Economy in Germany* (Cambridge: Cambridge University Press, 1992); Jeremy Leaman, *The Political Economy of West Germany, 1945-1985* (Basingstoke: Macmillan, 1987).

[12] Hanrieder is an example of the former approach and Haftendorn and Hacke are examples of the latter approach. Wolfram Hanrieder, *Germany, America, Europe: Forty Years of German Foreign Policy* (New Haven: Yale University Press, 1989); Helga Haftendorn, *Coming of Age: West German Foreign Policy since 1945* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 2006); Christian Hacke, *Die Außenpolitik der Bundesrepublik Deutschland: von Konrad Adenauer bis Gerhard Schröder* (München: Ullstein Verlag, 2003).

[13] Examples are Carole Fink and Bernd Schaefer, eds., *Ostpolitik, 1969-1974: European and Global Responses* (Cambridge: Cambridge University Press, 2009); Gottfried Niedhart, "Revisionistische Elemente und die Initiierung friedlichen Wandels in der neuen *Ostpolitik* 1967-1974," *Geschichte und Gesellschaft* 28, no. 2 (2002): 233-66; Wilfried Loth, *Overcoming the Cold War: A History of Détente, 1950-1991* (New York: Palgrave, 2001); as well as several articles in Matthias Schulz and Thomas A. Schwarz, eds., *The Strained Alliance: U.S.-European Relations from Nixon to Carter*, (Washington DC: Publications of the German Historical Institute and Cambridge University Press, 2010) (hereafter *The Strained Alliance*).

the Federal Republic's involvement in European integration process and monetary issues.[14] Looking specifically at West Germany's role in the collapse of the Bretton Woods monetary system are William Glenn Gray and Hubert Zimmermann.[15] In his article, Gray rightly takes issue with much of the published literature for its overwhelming focus on the United States in this economic crisis.[16] Pointing to West German domestic conflicts as well as Brandt's shift in policies and diplomacy, Gray contends that alongside the weakness of the US dollar, the Federal Republic's decisions to float the D-Mark in 1969, 1971 and 1973 had an important impact on the manner in which Bretton Woods broke down. Yet, Gray does not consider the political implications of the Federal Republic's actions for the Western alliance and specific conclusions reached by Gray about Bonn's role in the final fifteen months of the Bretton Woods system are shown in this thesis to be inaccurate. Zimmermann improves upon Gray slightly, addressing the political impact in his article, but Zimmermann's analysis is less focused on West Germany's part in the collapse of Bretton Woods and more on the emergence of a European monetary cooperation. Moreover, it is almost entirely based on the 1965-1971 timeframe, only briefly highlighting events thereafter.

Hartmut Soell's recent political biography of Helmut Schmidt breaks the usual patterns.[17] Using Schmidt's personal papers as well as other West German governmental documents, Soell writes the story of Schmidt's years in

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[14] Examples are Andreas Wilkens, ed., *Wir sind auf dem richtigen Weg: Willy Brandt und die europäische Einigung* (Bonn: Dietz, 2010); William G. Gray, "Towards a 'Community of Stability'? The Deutsche Mark between European and Atlantic Priorities, 1968-1973," in *The Strained Alliance*, 145-168; Hans Tietmeyer, *Herausforderung Euro: Wie es zum Euro kam und was er für Deutschlands Zukunft bedeutet* (München: Hanser, 2005).
[15] William Glenn Gray, "Floating the System: Germany, the United States and the Breakdown of Bretton Woods, 1969-1973," *Diplomatic History* 31 no. 2, (2007): 295-323; Hubert Zimmermann, "Unraveling the Ties That Really Bind: The Dissolution of the Transatlantic Monetary Order and European Monetary Cooperation, 1965-1973," in *The Strained Alliance*, 125-144.
[16] Examples are Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: The Free Press, 1997); Allen J. Matusow, *Nixon's Economy: Booms, Busts, Dollars and Votes* (Lawrence, Kansas: University Press of Kansas, 1998); Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992); Daniel Sargent, "From Internationalism to Globalism: The United States and the Transformation of International Politics in the 1970s," (PhD dissertation, Harvard University, 2009).
[17] Hartmut Soell, *Helmut Schmidt 1969 bis heute: Macht und Verantwortung* (München: Deutsche Verlags-Anstalt, 2008).

federal office, beginning with his position as minister of defense through his chancellorship. Soell addresses the three economic crises in his work, but does so selectively, highlighting those aspects of the crises in which Schmidt's role was more pronounced and discussing the crises at their peaks, but skipping over Schmidt's efforts in between. Moreover, because it is a political biography, Soell hardly discusses factors beyond Schmidt himself which contributed to the Federal Republic's influence on the Western response to these crises and only inconsistently analyzes the effect Schmidt's actions had in the international context. As a result, the conclusions Soell reaches about the economic events are limited by the nature of the work.

Like those on West Germany, the histories of the Western alliance generally cover the economic crises of the early 1970s, but the emphasis in most lies much more on the political debates around the Year of Europe and after the outbreak of the oil crisis. While the political debates are important to understanding the difficulties the West encountered in reaching a common response, it alone hardly suffices as a full explanation for the reactions of various Western states to these crises.[18] Because of European integration efforts throughout the 1970s, a second pattern in publications on the Western alliance is to look at developments during this period as struggles between the United States and the European Community.[19] There is merit to this method when taking a longer term view, but when investigating the economic events of this time period, it has severe shortcomings. First, it tends to result in an overemphasis on the aspects in which a clear line can be drawn between the United States and the EC, such as on the Year of Europe and the initial response to the outbreak of the oil crisis. Second and more importantly, attempts at closer European integration by no means equated to a unified European position in response to any of these crises. Indeed, by 1974 at the latest, negotiations

[18] Examples are William C. Cromwell, *The United States and the European Pillar: the Strained Alliance* (London: Macmillan, 1992); Derek W. Urwin, *Western Europe since 1945: a Political History*, 4th ed. (London: Longman, 1989); Alfred Grosser, *The Western Alliance: European-American Relations since 1945* trans. Michael Shaw (London: Macmillan Press Ltd, 1980).
[19] Prime examples are Geir Lundestad, *Empire by Integration* (Oxford: Oxford University Press, 1998); Klaus Larres, "The United States and European Integration, 1945-1990," in *A Companion to Europe since 1945*, ed., Klaus Larres, (Chichester, West Sussex: Wiley-Blackwell, 2009), 151-181.

surrounding these crises were conducted bilaterally or among the G-5 countries. Thus, by employing such an approach to this critical stage of economic restructuring, the story of the development of the Western alliance becomes skewed. A final trend in literature on the Western alliance is a strong focus on Henry Kissinger. While this is understandable given America's superpower status and the key role that Kissinger played in American diplomacy during the period under study, surprisingly few of these works look at Kissinger's impact on these three economic crises. The one receiving the most attention is the oil crisis and there the focus tends to be on Kissinger's shuttle diplomacy, his dismay with the position adopted by several of America's European partners and his actions at the Washington Energy Conference.[20]

Authors of more recent historical works on the Western alliance alter the established patterns only slightly.[21] Challenging them the most is Fiona Venn.[22] Focusing overwhelmingly on the West's actions after the first price hike and the onset of the oil embargo, Venn gives an overview of how national economic self-interest and allegiance to political initiatives associated with the transatlantic relationship and the European integration undermined Western cooperation in an interdependent economy which required such cooperation. Her analysis, however, focuses less on the Federal Republic and more on America, Britain and France. Bucking the trends less, but still contributing to the debate is Daniel Möckli.[23] In his book, Möckli thoroughly examines the West's reaction to the oil crisis from the outbreak of the crisis in October 1973

[20] Examples are Jussi Hanhimäki, *The Flawed Architect: Henry Kissinger and American Foreign Policy* (Oxford: Oxford University Press, 2004); Jeremi Suri, *Henry Kissinger and the American Century* (Cambridge, MA: Belknap Press of Harvard University Press, 2007); Robert Dallek, *Nixon and Kissinger: Partners in Power* (London: Allen Lane, 2007).
[21] Examples are Claudia Hiepel, "Kissinger's Year of Europe – A Challenge for the EC and the Franco-German Relationship," in *Beyond the Customs Union: The European Community's Quest for Deepening, Widening and Completion, 1969-1975*, ed., Jan van der Harst, (Brussels: Bruylant, 2007), 277-296; Alistair Horne, *Kissinger: 1973, the Crucial Year* (New York, Simon & Schuster, 2009); Niklas Rossbach, *Heath. Nixon and the Rebirth of the Special Relationship: Britain, the US and the EC, 1969-1974* (New York: Palgrave Macmillan, 2009); Mario Del Pero, *The Eccentric Realist: Henry Kissinger and the Shaping of American Foreign Policy* (Ithaca, NY: Cornell University Press, 2010); and several articles in *The Strained Alliance*.
[22] Fiona Venn, "International Co-operation versus National Self-Interest: the United States and Europe during the 1973-1974 Oil Crisis," in *The United States and the European Alliance since 1945*, eds. Kathleen Burk and Melvyn Stokes (Oxford: Berg, 1999), 71-100.
[23] Daniel Möckli, *European Foreign Policy during the Cold War: Heath, Brandt, Pompidou and the Dream of Political Unity* (London: I.B. Taurus & Co Ltd, 2009).

through March 1974. Yet, the chief aim of his study is to show how Europe's attempts at a common foreign policy in response to the oil crisis either advanced or hindered its goals of European Political Cooperation (EPC). With this intention, Möckli focuses on the political aspects of the negotiations and underplays such key economic factors as bilateral deals and views the actions of the Washington Energy Conference less as a step towards a Western response and more as the beginning of the end of EPC. Moreover, because of his aim, Möckli stops his analysis of the response to the oil crisis when EPC begins to fade rather than following it through to the Martinique Agreement.

By taking a different perspective and approach to research and organization, this thesis aims to contribute significantly to the existing literature of both West German history as well as that of the Western alliance. It aims also to bridge the gap between economic and political histories of the period, by writing history from an international political economic viewpoint; thus, economic as well as political factors are analyzed alongside one another. This thesis focuses on the Federal Republic's interaction with the United States, France and Great Britain as the West attempted to craft a response to each crisis and reshape the international economic system of the West. European Community initiatives are only discussed when necessary, for as this thesis will illustrate much of the work done to overcome these crises was undertaken outside the EC framework. Broader conclusions about the political position of the Federal Republic in the Western alliance are then drawn from close analysis of the Federal Republic's actions during these crises. Future developments such as EMS and the fissures between West Germany and the United States in the late 1970s are briefly considered. The main focus, however, remains on the economic events of the early 1970s, as only through understanding them, can it become clear how the latter events came to be.

Second, unlike many works on West German foreign policy or the Western alliance, this thesis uses archival resources, interviews and other primary documents to support its claims. Research conducted at the following archives and documents from them support the claims made in the thesis: das Historische Archiv der Deutschen Bundesbank, Bundesarchiv der

Bundesrepublik Deutschland in Koblenz, Germany, the Helmut Schmidt Archive in Bonn, Germany, the Politisches Archiv des Auswärtigen Amts, the National Archives of the United Kingdom, the United States National Archives and Record of Administration, the Gerald R. Ford Presidential Library and the International Monetary Fund. Using international, multi-archival resources allowed for a fuller picture of the sentiments of the Federal Republic, the United States, the United Kingdom and France towards each crisis as well as each of the other players' perspectives on West German actions. Although French archival resources are not featured, the French position in many of these debates could be garnered by comparing various archival findings as well as by using secondary literature. This approach also allowed access to the minutes and discussions of various meetings of the G-5, C-20 and other international organizations inaccessible through the German archival system.

In addition to archival sources, interviews with the former Bundesbank presidents Karl Otto Pöhl and Hans Tietmeyer also contributed to the findings of the thesis. Both held key positions in the federal government during the early 1970s and were able to provide insight into the Federal Republic's thinking during the economic crises. Lastly, primary documents published in the *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland*, volumes covering 1972 through 1976, as well as those appearing in *Foreign Relations of the United States*, volumes covering 1972 through 1976, also added to the positions taken in this thesis.

Finally, the organization of this thesis also separates it from the secondary literature available. Rather than look at each economic crisis individually, the three economic crises are arranged here chronologically. This structure serves to better illustrate how one crisis affected the other and hence the possibilities for action open to Western leaders in regard to each crisis. The first chapter looks at the fifteen months between the creation of the Smithsonian Agreement in December 1971 and the collapse of the Bretton Woods monetary system in March 1973. It begins by examining the first six months of 1972, concentrating initially on the Federal Republic's participation in the EC's move to the European Currency Snake in April 1972. It then investigates the events of summer 1972, starting with West Germany's response to the floating of the British pound in July 1972 and ending with the calming of currency markets through the American intervention actions of late July 1972. This section also highlights the controversy surrounding Schiller's resignation from his post as dual economics and finance minister and Helmut Schmidt's assumption of this role as well as explaining why the Federal Republic decided against floating. Next the chapter focuses on the currency crisis in February 1973. It shows that Bonn was not against floating at this juncture and only reluctantly accepted the Volcker plan. The last section in the chapter covers the currency crisis of March 1973 and the final collapse of Bretton Woods. It offers new insight into West Germany's role in the international process that led to the creation of a European group float, a move which allowed the Federal Republic to emerge from this crisis in a position of economic and political strength.

The second chapter deals with efforts to reform the international monetary system through the C-20 between spring 1972 and January 1974. The chapter starts by giving a brief history of the events leading to the decision for monetary reform and the creation of the C-20 as the forum for the negotiations. Next, it looks at the European and American processes to define their respective positions for the talks. This section shows how the Federal Republic's aims were not entirely in line with those of several of its EC partners. The chapter then covers the period between when the reform talks began in September 1972 and when the first outline of reform was put forward in September 1973. This part investigates the troubles encountered during the reform process, in particular the disagreements between the United States and the EC and the discord among the European states, highlighting West Germany's role in these debates. Finally, this chapter focuses on the collapse of the C-20 efforts between September 1973 and June 1974. It shows how the oil crisis combined with the creation of the G-5 and growing weariness with the C-20, particularly on the part of the Federal Republic, undermined the work of the C-20.

The third chapter examines the oil crisis and the process undertaken to find a common Western response to it between October 1973 and December 1974. It first looks at the causes of the oil crisis and investigates the dual path taken by the Federal Republic within the EC to achieve a common European political and economic response to the oil crisis. In this section, the divide within the West German government on how best to handle this crisis as well as the increasingly strained relationship between Europe and the United States are addressed. Next, the chapter focuses on the period between January 1974 and April 1974. It shows how the West took the first steps toward a common response to the crisis at the Washington Energy Conference, highlighting how a shift in West German policy and strong leadership from Bonn contributed greatly to the outcome of this conference. Lastly, the chapter looks at how the West built on the progress made at the Washington Energy Conference through the remainder of 1974, culminating in the Martinique Agreement in December 1974.

In the fourth chapter, the intertwining relationship between the economic crises begins to be examined, as this chapter looks at the ongoing process to shape a response to the first two crises during the first half of 1975. It concentrates first on the West's implementation of the Martinique Agreement, the failed preparatory meeting for the consumer-producer conference in April 1974 and the fallout from it, highlighting the Federal Republic's actions in each. Second, this chapter investigates Bonn's role in the renewed efforts to reform the monetary system through the IMF Interim Committee, looking specifically at the debates around IMF quotas, gold and the exchange rate regime.

The fifth chapter begins by introducing the third crisis, the 1975 recession, considering its causes and the problems of using conventional methods and theories to combat it. It then focuses on three essential components of the Federal Republic's approach to the recession, namely the harmonization of economic policies among EC member states, the creation and development of the Rambouillet Summit and finally economic cooperation with the United States. Next, this chapter considers the efforts within the Western alliance to reach an accord on the outstanding issues of monetary reform, in particular questions of gold and the exchange rate regime, looking specifically at West German contributions to this process. Finally, it examines how through a combination of American, West German and French appeals, the West avoided another oil price hike and cartelization of raw materials and revived the consumer-producer dialogue by establishing the Conference for International Economic Cooperation (CIEC).

The sixth and final chapter looks at the three economic summits which represent and in many ways bring a close to the three economic crises. It first focuses on the negotiations at the Rambouillet Summit, showing that the G-5 heads of state and government gathering not only served to revive confidence, but also helped the West to reach a consensus on monetary and trade issues as well as a strategy on energy, raw materials and relations with the oil producers and non-oil LDCs. This chapter then turns to the CIEC and Bonn's efforts to ensure complete consumer solidarity at it. Finally, this chapter considers the outcome of the IMF Interim Committee meeting in Jamaica 1976. Overall this chapter demonstrates how through these conferences, the West, with significant contributions from the Federal Republic, took the steps necessary not only to overcome the three economic crises, but also to re-shape the international economic system.

Chapter 1

The Breakdown of Bretton Woods

January 1972-March 1973

"Hell, we're out of the Woods, but we're in the damn slum. . . . It's a swamp, now."[1]

Richard Nixon
3 March 1973

-Introduction-

There was hope among Western leaders that with the adoption of the Smithsonian Agreement in December 1971 the monetary difficulties that had plagued the West during the previous years were finally beginning to be resolved. Indeed, U.S. President Richard Nixon called the agreement "the most significant monetary agreement in the history of the world."[2] Although the dollar still remained inconvertible and thus one of the two main pillars of the Bretton Woods monetary system defective, Western leaders clearly expected that the realignment of parities under the Smithsonian Agreement would quieten the markets thereby allowing Western governments the time to undertake more thorough reform of the international monetary system. Through the first half of 1972, some progress on these aims was made, as the European Community (EC) re-launched its plan for European economic and monetary union (EMU) by establishing the European currency snake. But speculative flows undermined these efforts in June 1972, forcing the pound out of the snake and into a float and threatening to do the same to the D-mark. Calm only returned to the markets once the United States began to intervene in July 1972. The quiet persisted through the remainder of the summer and autumn 1972, allowing EC member states to advance on their integration efforts and the West to begin international monetary reform through the Committee of Twenty (C-20). Yet by January 1973, a new round of speculation began. Through hasty arrangements, Western leaders managed to curb speculation and maintain the fixed parities system in February 1973. By early March 1973 though, massive speculative flows started again. At this point, European governments undertook

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[1] *Foreign Relations of the United States* 1969-1976 XXXI: Foreign Economic Policy, 1973-1976 (hereafter *FRUS* XXXI), 59. http://history.state.gov.gate2.library.lse.ac.uk/ (accessed January 2011).

[2] Harold James, *International Monetary Cooperation since Bretton Woods* (Washington, D.C.: International Monetary Fund, 1996), 238.

a group float against the dollar. With this act, the other central component to the Bretton Woods monetary system – the fixed exchange rate regime – crumbled and with it Bretton Woods collapsed, ushering in a floating regime.

Given the United States' unique position atop the Bretton Woods system, American behavior was most certainly central to the unfolding of events. Yet, because of the systemic nature of monetary relations, American actions alone could not have brought about the downfall of Bretton Woods. Rather, in the collapse of the monetary system, the conduct of Europe as a whole was important. And still, as the largest target of massive speculative waves, the strongest European economy and the linchpin in European efforts toward monetary and economic integration, the Federal Republic's response to the deteriorating economic circumstances heavily influenced the outcome of the crisis. Focusing on the final fifteen months of Bretton Woods, as the international monetary system went from "the Woods" through "the swamp" and into a float, and concentrating above all on the role of West Germany, this chapter explores the connections between the collapse of Bretton Woods and changes in political relationships in the Western alliance. It looks specifically to answer the questions: What drove West German authorities to adopt the policies they did? What impact did these policies and the actions of West German leaders have on the collapse of the Bretton Woods monetary system? And, to what extent did the Federal Republic's position in the Western alliance change as a result of its actions during this crisis?

-January 1972-July 1972: Early Signs of Trouble-

Despite Nixon's declaration, it did not appear as though the United States was overly committed to the Smithsonian realignment's success. Only in February 1972 did his administration send Congress the required legislation for a change in the price of gold.[3] The process of setting up the Federal Reserve Bank of New York to intervene in the exchange rate markets to maintain the newly established parities was equally difficult. In addition, Washington

[3] Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1972*, vol. 1, (München: R. Oldenbourg Verlag, 2003) (hereafter *AAPD 1972/1*), 127-8.

refused calls by its European allies to reintroduce the convertibility of dollars to gold.[4] Rather than shifting its policies to help ensure the Smithsonian Agreement's success, America continued its policy of "benign neglect" – that is Washington would more or less ignore the problems of the dollar and its balance of payments position and instead focus on domestic economic problems.[5] Through early 1972, the Nixon administration maintained its expansionary course and refused to intervene on behalf of the dollar.[6]

Although American support for the new parities was for the most part absent, speculation remained at bay through the first half of the year. For the Federal Republic and European integration efforts, this calm was opportune. Since becoming chancellor in 1969, Willy Brandt had attempted to pursue closer European integration as a counterbalance to Bonn's new approach to the Soviet Union and the Eastern Bloc – a *Westpolitik* to the *Ostpolitik.*[7] Yet, almost from the beginning the economic aspects of this plan encountered problems, as Paris adopted opposing views to Bonn's.[8] Finally, on 22 March 1971, the European Council of Ministers adopted a step-by-step plan for EMU;[9] but soon thereafter, troubles within the world monetary system derailed these efforts. First, facing destabilizing capital inflows, West Germany floated the D-mark in May 1971 with Holland taking the same action a few days later. Thereafter, smaller currency crises followed until on 15 August 1971, unbeknownst to its European allies, the Nixon administration announced its New Economic Program. In it, the United States closed the gold window, placed a 10 percent surcharge on imports, put a 90-day freeze on wages and

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[4] Bundesarchiv Koblenz (hereafter BAK), B136/7351, *Verteidigung der Dollarparität durch die Amerikaner? (Vorschläge von Dr. Hankel).*
[5] Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992), 61; Otmar Emminger, *D-Mark, Dollar, Währungskrisen: Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart: DVA, 1986) (hereafter, Emminger, *Währungskrisen*), 214; David Marsh, *The Euro: The Politics of the New Global Currency* (New Haven: Yale University Press, 2009) 60-1.
[6] *AAPD 1972/1*, 127; Volcker, 104.
[7] Loukas Tsoukalis, *The Politics and Economics of European Monetary Integration* (London: George Allen & Unwin, Ltd., 1977), 85; See also several articles in Andreas Wilkens, ed., *Wir sind auf dem richtigen Weg: Willy Brandt und die europäische Einigung* (Bonn: Dietz, 2010).
[8] For information on these opposing views, see ibid (Tsoukalis). and Matthias Kaelberer, *Money and Power in Europe: The Political Economy of European Monetary Cooperation* (Albany, NY: State University of New York Press, 2001).
[9] Kaelberer, 104-105.

prices and introduced tax cuts to boost employment.[10] By early 1972, with the Smithsonian realignment in place, the European Commission revived the stalled initiative, calling for EC member states to narrow the margins of fluctuation between their currencies to 2 percent.[11]

Bonn realized that although the D-mark float of May 1971 had helped its economic position, it had undermined EMU and damaged its political relationships with other European countries, in particular France. Thus, almost immediately Bonn did its part to maintain the Smithsonian alignment and reignite the EMU process. Within a few days of the conclusion of the Smithsonian Agreement, West Germany began work to change the *Bardepotgesetz*, a law established in 1961 to help control speculative capital flows from abroad.[12] This eventually led to the introduction on 1 March 1972 of the *Bardepot* requirement: under it, banks had to make a 40 percent cash deposit on any funds borrowed from abroad.[13] Second, the Bundesbank pursued an externally-oriented interest rate policy, reducing the West German discount rate in December 1971 and February 1972 to 3 percent. In this way, West Germany hoped to eliminate large discrepancies in interest rates between its own and America's, thereby removing one incentive for speculative flows.[14]

Despite the tensions of the previous year, West Germany in 1972 found a very willing partner in France to restart EMU. Prompting Paris's desire in this direction was its dismay over American actions since the Smithsonian Agreement.[15] At the West German-French consultations on 10 February 1972, the French President, Georges Pompidou, maintained that it had become clear that Europe had its own economic and monetary personality and the time had

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[10] The Public Papers of the Presidents of the United States, Richard Nixon, Vol. 1971, *Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace" – August 15, 1971*, 889. (http://quod.lib.umich.edu/cgi/t/text/text-idx?c=ppotpus;cc=ppotpus;view=toc;idno=4731800.1971.001 accessed January 2011).
[11] *AAPD 1972/1*, 129.
[12] Ibid., 129.
[13] Otmar Emminger, *The D-mark in the Conflict between Internal and External Equilibrium, 1948-1975* Princeton Essays in International Finance no. 122 (1977) (hereafter Emminger, *Conflict*), 34; James, 240.
[14] Ibid., 34; Ibid., 240.
[15] *Foreign Relations of the United States* 1969-1976 III: Foreign Economic Policy: International Monetary Policy, 1969-1972 (hereafter *FRUS* III), 604-607. http://history.state.gov.gate2.library.lse.ac.uk/ (accessed January 2011).

come to restart EMU.[16] Brandt did not disagree with Pompidou, indeed re-launching EMU was one of Bonn's main aims for the consultations, but the chancellor wanted to be sure that it was undertaken in the proper manner.[17] As had been Bonn's position for years, Brandt pushed for the parallel tracks of closer economic and exchange rate policy coordination.[18] The chancellor suggested to proceed in stages from the basis of the March 1971 EMU decision. Pompidou agreed, stressing that the narrowing of fluctuation bands was a necessary first step, not least because of the problems which the wider Smithsonian fluctuation bands caused for the EC's Common Agricultural Policy (CAP). Brandt did not dispute this point; indeed the CAP had also been a factor in West Germany's desire for EMU. Bonn and Paris concluded that officially the first stage should begin at a summit of the heads of state later in 1972, but in the meantime, preparations for it should begin through the council of finance ministers and steps towards reducing the exchange rate bands should be undertaken.[19]

Over the coming weeks, as agreed, French and West German representatives worked to reignite EMU. At a meeting of the EC finance and economics ministers as well as central bank governors on 6-7 March 1972, the EC member states agreed to a resolution expressing their "political will" to begin work towards the first stage of EMU with a narrowing of the fluctuation bands between the EC currencies to +/- 1.25 percent taking place no later than 1 July 1972.[20] This resolution was passed by the Council of Ministers on 21 March 1972. Shortly thereafter on 10 April 1972, the governors of EC central banks met in Basel, Switzerland and established the European Currency Snake under the Basel Agreement. Given the narrower band inside the larger one set up under the Smithsonian Agreement, the system came to be known as the snake in the tunnel.[21] The Basel Agreement came into force on 24 April 1972 with West Germany, France, Belgium, the Netherlands, Luxembourg and Italy

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[16] *AAPD 1972/1*, 128-130.
[17] Ibid., 149-150.
[18] Ibid., 131-132, 136-137.
[19] Ibid.,, 134-138, 148-149.
[20] Ibid., 146.
[21] The 'bands' were the margins of fluctuation which a currency could move either against the dollar or in the case of the snake the European currencies against one another.

as members. A week later, on 1 May 1972, the future EC member states of Ireland, Denmark and the United Kingdom also joined the snake.[22] Thus, in only four months since the Smithsonian Agreement, the EC with West Germany very much in vanguard took a major step towards EMU. But it was not long until the calm in the markets ceased and the snake arrangement encountered problems.

Trouble began in June 1972. The deterioration of the British trade balance, rising inflation, dock strikes and comments by the British Chancellor of the Exchequer, Anthony Barber, suggesting that the United Kingdom would not defend the pound's rate led to speculation against sterling.[23] Between 16 and 22 June 1972, approximately $2.6 billion flowed out of Great Britain with nearly two-thirds going into the D-mark.[24] Finally on 23 June 1972, the British government withdrew from the snake and began a free float of the pound.[25] But the damage had already been done: under the enormous speculative pressure, the Federal Republic along with several other European countries was forced to close the exchange markets for the following few days.[26]

Bonn understood that closing the exchange market would not end the rush of foreign currencies into the Federal Republic, but Brandt's government was divided as to what would. The par value of the D-mark appeared accurate to West German officials. This latest speculation was not caused by a dollar crisis, but rather by the pound and uneasiness in the markets. Given the circumstances, a revaluation seemed inappropriate.[27] Karl Schiller, the dual Finance and Economics Minister, strongly advocated a European group float. Schiller took a neo-liberal approach to economics, preferring to let the markets rather than government regulation work out the problems of the economy. As such, he generally opposed capital controls because they ran counter to market

[22] Ireland, Denmark and the United Kingdom were due to join the EC on 1 January 1973.
[23] *FRUS* III, 628; Volcker, 104; Emminger, *Conflict*, 33.
[24] *FRUS* III, 628; Emminger, *Währungskrisen*, 217.
[25] David Marsh, *The Bundesbank: The Bank that Rules Europe* (London: Heinemann, 1992), 190.
[26] Emminger, *Währungskrisen*, 217.
[27] Ibid., 219.

economic principles.[28] Thus, in the face of past disruptive speculative flows, Schiller had turned to floating; indeed he had been the main driving force behind the float of the D-mark in May 1971.

The other option for the Federal Republic was to defend the parity, erecting further capital controls to stifle the flows. All members of Brandt's cabinet but Schiller, preferred this option. Helmut Schmidt's (then the minister of defense) preference was partly shaped by his close friendship with the President of the Bundesbank, Karl Klasen, who was a strong advocate of the use of capital controls. Already in late May 1972, Klasen sent Schmidt a note outlining how destabilizing inflows could be countered with the use of further capital controls.[29] As troubles mounted a month later, on 26 June 1972 and without the knowledge of Schiller, Klasen wrote to Brandt, advocating such action.[30] Klasen's letter set up a battle in Brandt's cabinet which would be extremely decisive for the debate over Bonn's handling of this crisis.

When the West German cabinet came together on 28 and 29 June 1972 to discuss the appropriate course of action in response to the crisis, the meeting was both tense and long. In the end, Brandt was swayed by three main political considerations. First, a European group float seemed highly unlikely and an independent float of the D-mark would have destroyed the burgeoning EMU efforts as well as greatly soured relations between West Germany and France.[31] Capital controls, however, would do neither. Second, Klasen promised that the capital controls he proposed would keep the markets calm until the November 1972 Bundestag elections. Thus, this method would improve the Social Democratic Party's (SPD) and Brandt's re-election prospects. Finally, Klasen threatened to resign should his proposal not be adopted.[32] Wanting to keep Klasen on and with a promise for economic stability without damaging

[28] Arnulf Baring and Manfred Görtemaker, *Machtwechsel: Die Ära Brandt-Scheel* (Berlin: Ullstein, 1998), 795-810; Marsh, *Bundesbank*, 190.
[29] Hartmut Soell, *Helmut Schmidt 1969 bis heute: Macht und Verantwortung* (München: DVA, 2008), 161.
[30] Ibid., 161-2.
[31] This indeed was confirmed by Paris in late July 1972, see Emminger, *Währungskrisen*, 220.
[32] Soell, 162.

Germany's international relationships or his re-election chances, Brandt's cabinet voted unanimously, save Schiller, to adopt capital controls.[33]

Angry about this decision as well as the budget for the following year, Schiller resigned on 2 July 1972. Brandt accepted his resignation without question. Although Schiller had been one of his most trusted advisors, tensions between Schiller and other cabinet members, in particular Schmidt, as well as between Schiller and the SPD's coalition partner, the Free Democratic Party (FDP), had been growing for some time. Moreover, Schiller was particularly unpopular among the growing left-wing element of the SPD. After a series of defections from the SPD over his *Ostpolitik*, Brandt was more dependent on this faction's support in his upcoming re-election campaign. [34] It was an abrupt end to a partnership which was so important to the course West Germany had trod in the past years in the face of the currency crises and economic reform in the Federal Republic. But with it came a definite shift in West German policy.

Schiller's replacement was one of his strongest opponents – Schmidt. Schmidt was a stark contrast to his predecessor. Unlike Schiller, Schmidt was not a neo-liberal: he had not been in favor of the two previous D-mark floats and had complained that West Germany was carrying out "super, super liberal policies."[35] Rather, Schmidt believed that the Federal Republic's economic and monetary policy needed to be viewed less from the economic perspective and more from a political perspective.[36] For Schmidt, the West had become both economically and politically interdependent and West German economic and political strength and stability could only be assured by cooperating with its allies, both French and American. In 1972, this meant working with its European allies towards closer integration and its American partner on monetary issues.[37] On the former though, Schmidt also understood that Paris preferred an "inward-looking" European Community, while Bonn sought an "outward-looking" one, as the Federal Republic did not want "the European

[33] *FRUS* III, 635.
[34] Baring and Görtemaker, 795-810.
[35] Soell, 161.
[36] Historisches Archiv der Deutschen Bundesbank (hereafter Bbk), B330/6703/1, *Protokoll der 382. Sitzung des Zentralbankrats, 15. Februar 1973.*
[37] *FRUS* III, 638.

Community to become a currency bloc against the dollar."[38] And on the latter issue, cooperation meant not giving into American demands. In order to achieve this balanced approach, Schmidt aimed to work closely with his Western counterparts, something he later noted to the American National Security Advisor, Henry Kissinger, his predecessor was unable to do.[39]

The adoption of further capital controls and the change in minister, however, initially only slightly stifled speculative flows. Instead, through the first half of July 1972, destabilizing flows continued as the United States refused to intervene to support the dollar or make any changes in its economic policies. Speculation peaked again a few days before a special session of EC economics and finance ministers on 17-18 July 1972. The meeting had little to do with the currency crisis; instead its purpose was to create a set of general principles for the EC to use at the first meeting of the C-20.[40] Yet, in the days preceding it, rumors started to circulate in the press that the meeting was to discuss a possible European group float.[41] As a result, on 13-14 July 1972, the Bundesbank was forced to take up another $1.2 billion.[42] Once it became clear that no such group float was going to occur, speculation began to recede.[43] Yet, quiet only returned to the exchange markets in late July 1972 when the United States intervened in the markets to support the dollar against the D-mark. After a long debate in the cabinet, Nixon gave his permission on 18 July 1972 for the Federal Reserve to intervene in the markets.[44] The first intervention occurred on the afternoon of 19 July 1972 with the Federal Reserve buying around $2 million and more followed on 20 and 21 July 1972 in the amount of approximately $10 million per day.[45] Although in relative terms the interventions were not large, their psychological effect on the markets sufficed

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[38] Ibid., 637-8.
[39] Ibid., 637-8.
[40] BAK, B136/7351, *Ergebnisvermerk über das Sondertreffen der EWG-Finanzminister am 17./18.7.1972 in London*; BAK, B136/7351, *TO-Punkt 1: Reform des Währungssystems: zum Treffen der EWG-Wirtschafts- und Finanzminister am 17./18.7.1972.*
[41] *FRUS* III, 636; BAK B136/7351, *Vermerk: Betr.: Amerikanische Interventionen am Devisenmarkt (Unterredungen mit Prof. Burns, Finanzminister Shultz, Mr. Volcker)* (hereafter B136/7351, *Interventionen*).
[42] BAK, B136/7351, *Betr.: Problematik amerikanischer Dollarinterventionen*; B136/7351, *Interventionen.*
[43] Ibid.
[44] Ibid.
[45] Ibid.

to convince speculators that the United States was prepared to defend the dollar parity.[46]

The main driving force behind this intervention was Arthur Burns, the Chairman of the Federal Reserve, a long-time supporter of fixed exchange rates.[47] Through 1972 Burns had become increasingly dismayed by the White House's refusal to support the dollar parity and the Smithsonian Agreement.[48] His opinion, however, found few allies in Washington. Although the antagonistic John Connally had resigned as secretary of the treasury in May 1972, his replacement, George Shultz, the former dean of the University of Chicago business school, advocated floating exchange rates as he was a follower of Milton Friedman's monetarist views.[49] The Undersecretary of the Treasury, Paul Volcker, was also generally negative about intervening in the markets.[50] With the summer currency crisis threatening to undermine the Smithsonian realignment, Burns pushed more strongly for intervention to support the dollar.[51] His cause was helped by upcoming efforts to begin an overhaul of the international monetary system through the C-20. The United States was particularly anxious to reform the monetary system, as the Nixon administration felt that the present system restricted America's monetary freedom and was weighted in favor of countries holding balance of payments surpluses.[52] Thus, Burns argued, the United States would lose a great deal of credibility at the reform talks, should Washington be perceived as not acting in good faith regarding the Smithsonian Agreement. Moreover, reform efforts would be greatly complicated should parities again be realigned.[53]

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[46] Ibid.

[47] Ibid.; Hans-Peter Schwarz et al., eds, *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1972*, vol. 2, (München: R. Oldenbourg Verlag, 2003) (hereafter *AAPD 1972/2*), 941; James, 240.

[48] *FRUS* III, 639-41.

[49] Ibid, 636; Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: The Free Press, 1997), 213; Volcker, 118.

[50] *FRUS* III, 640.

[51] Ibid., 640-3.

[52] See Chapter 2 for more information on international monetary reform efforts through the C-20.

[53] *AAPD 1972/2*, 941. Press reports also pointed to Burns as key to American intervention in the markets and the upcoming talks on international monetary reform as a motivating factor for the Nixon administration. See *AAPD 1972/2*, 939. For American concerns about loss of credibility in reform negotiations see *FRUS* III, 632-3; *FRUS* III, 639-41.

Despite this act of intervention, European leaders were still worried about America's commitment to the Smithsonian realignment and were growing increasingly concerned about American economic leadership. Schmidt, since Schiller's resignation occupying a new double role as finance *and* economics minister, as well as Bundesbank Vice-President Otmar Emminger, both happened to be in Washington at the time of the intervention and held meetings with Shultz, Volcker and Burns about it. In their meetings with their West German counterparts, the American officials maintained that the move should be taken as a "demonstrative act" of America's willingness to contribute to maintenance of orderly markets, which at that time were perceived by American officials as being "disorderly."[54] Independent of Shultz and Volcker, Burns also noted that it was to show that America was actively participating in "supporting the Smithsonian Agreement."[55] Shultz, Volcker and Burns all stressed, however, that the interventions did not represent a change in American policy and that intervention would continue to occur on a case-by-case basis.[56] Burns went further in his meeting with Emminger, expressly stating that in the instance of great pressure again on the dollar, the main burden for supporting the dollar parity would continue to fall to European central banks.[57] Overall American officials maintained that the recent intervention and any future acts should be seen as practical steps to uphold the system until a more thorough reform of the international monetary system could be completed.[58]

In his explanation and response to the American intervention, Schmidt differed from his predecessor in both substance and style. Over the previous years, Schiller would defer to American leadership, taking actions – be it floating or devaluing – which served to maintain the dollar parity without the United States having to act.[59] Schmidt, however, came to Washington in July 1972 with a new message: namely, "dass die Epoche, in der [der Bundesrepublik] allein die Verteidigung des Dollar zugemutet wurde, ihr Ende

[54] *AAPD 1972/2*, 939; B136/7351, *Interventionen.*
[55] B136/7351, *Interventionen.*
[56] *AAPD 1972/2*, 939-40.
[57] B136/7351, *Interventionen.*
[58] *AAPD 1972/2*, 940.
[59] William Glenn Gray, "Floating the System: Germany, the United States and the Breakdown of Bretton Woods, 1969-1973," *Diplomatic History* 31 no. 2, (2007): 313-17.

findet und man von [Bonn] nicht erwarten kann, der Verteidigung des Dollars eigene wesentliche Interessen unter Belastung unseres gesamten politischen Systems zu opfern."[60] Schmidt made it clear that neither a floating of the D-mark nor a European group float were open for debate.[61] Schmidt also let it be known that the Bundesbank had reached its limit for the accumulation of dollars and that the imported inflation associated with every dollar crisis had become politically unacceptable.[62] Indeed over the previous months, the West German inflation rate had risen above 5 percent, particularly high for a country used to 2-3 percent inflation and with price stability as one of its primary goals.[63]

In a further meeting with Kissinger, Schmidt firmly reiterated these sentiments. While he maintained that his "main objective [was] to have US-German cooperation survive," he also informed Kissinger, that the dollar problem and high inflation remained and that he needed to do something to counter these problems.[64] Schmidt highlighted, "The German price level is rising far too fast. . . . This will be the number one campaign issue. If I am to survive politically, I will have to do something about this."[65] Schmidt warned Kissinger that West Germany may have to cut off the purchase of dollars immediately by means of controls on capital and trade.[66] Attempting to avoid appearing too aggressive, Schmidt also noted that no measures had yet been taken in Bonn to stop the buying of dollars. Moreover, he hoped that through continued intervention in the markets along the lines taken by the United States over the previous days would sustain the Smithsonian Agreement. Schmidt stressed, "The Agreement must be defended until the [German] elections."[67]

Yet, despite Bonn's pleas, American intervention in the currency markets only lasted a few days. Growing increasingly frustrated with Washington, Schmidt called the American ambassador in for talks on 1 August

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[60] *AAPD 1972/2*, 942.
[61] Ibid., 940.
[62] Ibid., 940.
[63] *FRUS* III, 635; C. Randall Henning, *Currencies and Politics in the United States, Germany and Japan* (Washington, DC: Institute for International Economics, 1994), 91.
[64] *FRUS* III, 635.
[65] Ibid., 635.
[66] Ibid., 635.
[67] Ibid., 635.

1972. During the discussion, Schmidt expressed exasperation over the American actions in the international monetary field in recent months. Schmidt repeated many of the points he had made a week previously in Washington, refusing to float the D-mark and threatening controls should a dollar crisis break out.[68] Luckily for all Western countries, in particular the Federal Republic and the United States which both held elections in autumn 1972 and in which the incumbent administrations would emerge victorious, Schmidt's threats went untested, as the exchange markets remained calm throughout the remainder of 1972. Still, in Schmidt's dealings with the Americans, there were signs of an overall shift in West German international economic policy: Bonn was becoming more assertive in expressing its interests and those interests were much more evenly split between politics – both international and domestic – and economics. These trends only became more pronounced as the next wave of speculation hit the Western economies in February 1973.

-The February Crisis: A Last Attempt at Saving Bretton Woods-

After the July 1972 currency crisis, speculation remained at bay for another six months. Just as they had earlier in the year, the calm in the markets coupled with American economic and monetary policy decisions resulted in a greater push among EC member states towards European integration. This drive was again led by the Federal Republic and France. Yet while the two states had common cause, they did not have the same perspectives on how to achieve it. Rather, Bonn and Paris differed in their approaches to controlling dollar inflows as well as technical and institutional issues surrounding the first stage of EMU.[69] Over the coming months, the two states worked to bridge the gaps between their positions on these points and to lead other EC member states to agreement on the components of EMU.[70] Their cooperation, in turn, allowed for the later success of the European Summit in October 1972 at which the first

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[68] Ibid., 649-50.

[69] BAK, B136/7351, *Bericht über das Gespräch zwischen Minister Schmidt und Minister Giscard d'Estaing anlässlich des Antrittsbesuchs von Minister Schmidt in Paris am 27. Juli 1972* (hereafter B136/7351 *Antrittsbesuch*); B136/7351, *Vermerk - Betr.: Gespaltener Devisenmarkt*; BAK, B136/7351, *Vermerk - Betr.: Schreiben des französischen Staatspräsidenten vom 8. August 1972 an den Bundeskanzler.*

[70] *AAPD 1972/2*, 1109-13, 1151, 1210-11.

stage of EMU was launched.[71] Also during this time, West Germany collaborated with its European allies to reach common general principles on international monetary reform. C-20 negotiations proceeded steadily through autumn 1972, after kicking off at the IMF annual meeting in Washington in September 1972.[72] Thus, in January 1973, both EMU and the C-20 talks seemed on course, if not moving particularly swiftly. But work on both reform efforts was soon overshadowed by yet another currency crisis.

Trouble started in mid-January 1973 in Italy. Investors fled the Italian lira under growing concerns about the Italian inflation rate and internal domestic problems.[73] On 21 January 1973, in a bid to stop the outflows, Rome split the currency market into a market with fixed rates for commercial transactions and a market with floating rates for capital transactions.[74] The currency streaming out of Italy went predominately into Switzerland, as the Swiss central bank authorities had recently raised interest rates. Within days speculation grew around the Swiss franc and increasingly the dollar as well. Destabilizing capital flows reached into the hundreds of millions of dollars in Switzerland until eventually Swiss authorities decided to float the Swiss franc on 23 January 1973.[75] This move eased capital flows into Switzerland, but speculation continued, particularly against the dollar. Investor confidence in the dollar dropped after the Nixon administration ended its loan and wage controls, reports emerged of deteriorating American balance of payments and trade positions as well as increasing inflation and finally the Watergate scandal intensified.[76]

At nearly the same time that American data on its poor balance of payments appeared, West German figures for 1972 were released showing a sizeable balance of payments surplus. The contrast between the two countries

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[71] *AAPD 1972/2*, 1280-2; Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1972*, vol. 3, (München: R. Oldenbourg Verlag, 2003) (hereafter *AAPD 1972/3*), 1576-80.
[72] See Chapter 2 for details.
[73] Volcker, 106; Emminger, *Währungskrise*, 228.
[74] Emminger, *Währungskrise*, 228.
[75] Ibid., 228.
[76] Ibid., 229; James, 241; *FRUS* XXXI, 5.

resulted in the markets dumping dollars for D-marks. Problems grew in the last week of January 1973 and into the beginning of February 1973. Although the Bundesbank would have preferred to close the exchange market on 2 February 1973, the Brandt government was opposed on political grounds.[77] Instead, the federal government tried to stop the speculative inflows on 2 February 1973 by extending capital controls, including raising the *Bardepot* to 100 percent.[78] These new measures, however, did little to stem the speculative tide; rather, the inflows increased, with the Bundesbank being forced to take up a billion and a half dollars in one day on 6 February 1973.[79]

That evening Brandt called an emergency meeting to discuss the currency crisis. Representing the Bundesbank at that meeting was Emminger who was acting president of the Bundesbank for much of early 1973 because Klasen was hospitalized. At the meeting, Emminger pushed strongly for floating the D-mark. His argumentation was based predominately on inflation: the Bundesbank's main charge was to maintain domestic price stability, but in the last year, the Bundesbank had been forced to subjugate this priority to maintaining the external exchange rate.[80] In the process, however, the Bundesbank was forced to take in billions of dollars which in turn had led to domestic inflation. By early 1973, the inflation rate in West Germany had reached nearly 6 percent.[81]

Although the West German government was particularly focused on European integration efforts which would make a float difficult, Emminger had reason to believe that his pleas might have resonance: alongside EMU efforts, there had also been a drive in recent months to counter inflation. In the EC, the Federal Republic had been the main force behind the passage of a common

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[77] Bbk, B330/6702/2, *Protokolle 381. Sitzung des Zentralbankrats der Deutschen Bundesbank, 7. Februar 1973* (hereafter B330-6702/2, *381. Sitzung*).
[78] BAK, B136/7357, *Vermerk - Betr.: Möglichkeiten und Grenzen der Abwehr unerwünschter Geld- und Kapitalzuflüsse aus dem Ausland* (hereafter B136/7357, *Abwehr*); Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1973*, vol. 1, (München: R. Oldenbourg Verlag, 2004) (hereafter cited as *AAPD 1973/1*), 206. A *Bardepot* of 100 percent meant in theory that all money coming into West Germany through corporations had to be deposited in full at the Bundesbank.
[79] *FRUS* XXXI, 5.
[80] Emminger, *Conflict*, 32-8; Henning, 91-2.
[81] Emminger, *Conflict*, 32-8.

price stability resolution in autumn 1972.[82] Moreover, in his government address on 18 January 1973, Brandt had stated, "die dringendste Aufgabe, die wir mit den europäischen Partnerstaaten meistern müssen, ist es, wieder mehr Preisstabilität zu gewinnen."[83] Yet, Emminger's reasoning proved inaccurate. Despite his contributions to European efforts on inflation in recent months, Schmidt was firmly against floating.[84] In the end, the effects that floating would have on European integration and in particular Bonn's political relations with France were the overriding factors. The Brandt government thus determined that the Bundesbank must continue to defend the D-mark-dollar parity and should abandon any thoughts of floating.[85]

Still, the destabilizing capital flows did not cease. On 8 February 1973, the Bundesbank had to take up another $1.7 billion.[86] With the crisis worsening, Brandt called another meeting. Under the growing pressure, tempers flared, as Emminger and Schmidt again advocated opposing positions.[87] Despite also having Hans Friderichs (who had become minister of economics after Schmidt's dual role as economics and finance minister was split after the 1972 federal elections with Schmidt retaining control of only the finance ministry) support his position, Emminger once again lost the argument. Brandt in line with Schmidt decided against floating and kept the currency markets open. At market closing time on 9 February 1973, the Bundesbank had taken in $5.9 billion since 1 February 1973.[88]

Yet, while Brandt decided against floating during the 8 February meeting, his government did realize that West German capital controls alone were not enough to regain control over the destabilizing capital flows. By the next day, the Federal Republic was actively enlisting the help of its allies in the United States, France and Great Britain to overcome the latest currency crisis.

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[82] B136/7351, *Antrittsbesuch*; *AAPD 1972/3*, 1282-83.
[83] B136/7357, *Abwehr.*
[84] Emminger, *Währungskrise*, 231.
[85] B330/6702/2, *381. Sitzung*; BAK, B136/7357, *Betr.: Sitzung des EG-Währungsausschusses am 6./7. Februar 1973* (hereafter B136/7357, *EG-Währungsausschusses Februar*) .
[86] *AAPD 1973/1*, 206.
[87] Emminger, *Währungskrise*, 231-2.
[88] Emminger, *Conflict*, 36; *AAPD 1973/1*, 206.

Brandt began by sending a letter to Nixon, entreating the president to take action to support the dollar parity.[89] Brandt asked Nixon to send an authorized official to consult with Schmidt about how the two countries could work together on the very serious matter at hand. The chancellor also noted that he would be sending Schmidt to Paris that evening to discuss the crisis with the French Finance Minister, Valéry Giscard d'Estaing.[90]

The United States, however, had already recognized that the latest currency crisis could not be ignored. Since the outbreak of the crisis, Nixon's economic advisers had been following the developments closely and they had come to the conclusion that the combination of the American trade and balance of payments deficits warranted action.[91] On 6 February 1973 Shultz and Burns met with Nixon to explain the developments in the currency markets and to gain his approval for their plan of action. Their strategy involved devaluing the dollar by at least 6.5 percent and a revaluation of the yen against the dollar by at least 15 percent. European countries, for their part, were to keep their rates steady. Getting agreement from all parties involved, however, would be particularly difficult to achieve without the markets catching wind of the American action. So, Shultz and Burns proposed that an American representative be sent on a special, secret mission first to Japan and then to Europe to secure agreement from the various countries.[92]

Nixon was initially reluctant to revalue, as he believed it would only lead to another revaluation in the future. But with a little persuasion from Shultz, who surprisingly was advocating intervention, Nixon soon realized that American inaction would be "just too much of a 'To hell with the rest of the world' as a policy" and would be perceived by the United States' allies as "economic belligerency."[93] Understanding that inaction would not only sour political relations but would also undermine Washington's other goals in trade

[89] *AAPD 1973/1*, 219.
[90] Ibid., 220.
[91] *FRUS* XXXI, 4-5.
[92] Ibid., 5.
[93] Ibid., 12.

and international monetary reform negotiations, the president consented to the plan.[94]

As the American representative, Nixon sent Volcker on a windowless military plane first to Japan on 7 February 1973 before moving on to Europe to two days later. Upon arrival in Japan on 8 February 1973, Volcker went immediately into secret meetings with the Japanese Finance Minister, Kichi Aichi. For several hours Volcker tried to persuade Aichi to accept a slightly altered plan for a 10 percent dollar devaluation and a 10 percent revaluation of the Japanese yen.[95] Aichi, however, was hesitant to agree for several reasons: first, given that the Japanese government was only informed the previous day of Volcker's arrival, Aichi did not have permission to agree any formal action with the Volcker.[96] Furthermore, he was concerned about the implications for Japanese trade.[97] Finally, the Japanese minister of finance faced internal domestic political and budgetary hurdles.[98] While the two officials agreed that a floating of the yen could overcome some of the difficulties raised, it could not solve all.[99] Rather, Aichi, concerned about a competitive loss for Japanese exports vis-à-vis West German exports, pushed for a float of the D-mark as well as the yen.[100] Volcker, however, knew that the Federal Republic would not accept floating because of the political consequences in regard to European integration and explained as much. In an attempt to gain Japanese concessions, Volcker tried reasoning and eventually threats, but Aichi did not give in. Instead, Volcker left Japan uncertain if Tokyo would eventually agree to the plan once Aichi had spoken to the Japanese prime minister.[101] Volcker was to continue his mission in West Germany, arriving in Bonn on the evening of 9 February 1973 for talks with Schmidt. Yet, his plane was delayed and by the

[94] Ibid. 11-20.
[95] Ibid., 27.
[96] Japan was only informed the day before in a letter from Nixon to the Prime Minister of Japan, Kakuei Tanaka. See *FRUS* XXXI, 22, 28.
[97] *FRUS* XXXI, 26.
[98] Ibid., 28-29.
[99] Ibid., 29-30.
[100] Ibid., 30-31.
[101] Ibid., 25-38.

time Volcker landed in the Federal Republic, Schmidt had already left for Paris.[102]

On the morning of 9 February 1973, Brandt had not only been in touch with Nixon, but also his counterparts in Paris and London.[103] Pompidou and the British Prime Minister, Ted Heath, agreed with Brandt on the need for talks among Schmidt, Giscard and Barber, the same evening.[104] Although Giscard was hosting, Schmidt quickly took the lead at the gathering, informing his counterparts that there were "three alternatives for the Germans: a two-tier system, a common European float, and a float by Germany alone."[105] Schmidt ruled out the first one on administrative grounds.[106] Schmidt informed his counterparts that he and Brandt were in favor of the European solution, but he warned, "If no other solutions [were] available, the DM would have to float when markets reopened on Monday, unwelcome though that would be."[107] Thus, within less than twenty-four hours it seemed Bonn had completely changed its position, for only the previous night the West German federal government with Schmidt leading the pack had staunchly refused the Bundesbank any option to float. Now both of their options for action involved floating. Quite clearly, despite Schmidt's affinity for fixed exchange rates and desire to achieve EMU, neither he nor his colleagues could justify continuing taking in billions of dollars.

Even more astounding than the seeming West German reversal on floating was the French reaction to the Federal Republic's suggested plans. Initially, Giscard reacted coolly to the idea of a common European float. After some discussion, however, Giscard left the room to consult with Pompidou. Upon re-entering the room, he announced that France would be prepared to join

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[102] Volcker, 109-10.
[103] British National Archives (hereafter TNA), PREM 15/1458, *Telephone Conversation between the Prime Minister and Herr Brandt at 11.40 a.m. G.M.T on 9 February 1973.*
[104] Ibid.
[105] TNA, PREM 15/1458, *Note for the Record – Meeting between the Chancellor of the Exchequer and the Prime Minister on Monday, 12 February 1973 at 12.15 pm* (hereafter PREM 15/1458, *12 February, 12.15 pm*).
[106] TNA, T354/78, *Note on the Negotiations of February Crisis*; B136/7357, *EG-Währungsausschusses Februar.*
[107] PREM 15/1458, *12 February, 12.15 pm.*

a European float.[108] After months of vigorously opposing any form of floating and pushing for capital controls, Paris too now seemed to have drastically changed its position – indeed, within less than ten minutes![109] Thus, the only major remaining roadblock to a common European float was the United Kingdom. Floating since June 1972, London had repeatedly stated that it would rejoin the European snake when conditions allowed. Barber, however, did not feel that the time had come in the midst of the February 1973 currency crisis; rather, he expressed concern at the meeting about the British balance of payments position and sterling balances. Schmidt tried to tempt Barber with promises of "unlimited West German support," but the latter would not commit. Instead, it seemed to Barber that Schmidt and Giscard had "concerted in advance to put pressure on [London]."[110] This was indeed quite plausible, given France's quick change of position on floating. Moreover, since summer 1972, France had strongly desired that sterling return to the EC currency snake, pushing strongly for it in EC negotiations.[111] For West Germany, a European group float would be by far the best option, allowing it to maintain its European political relations unscathed and affording it greater economic freedom to achieve its domestic stability policy.[112] No decision was made on a European group float that evening; instead, the three ministers agreed to discuss the matter two days later on 11 February 1973 in the morning.[113] Meanwhile, however, many telephone calls and meetings transpired which altered the course of this plan.

Schmidt met with Volcker on the morning of 10 February 1973. Volcker presented the American scheme in which the United States would devalue the dollar by 10 percent, the Japanese would float the yen until it revalued by approximately 8 to 10 percent, the European countries would hold their

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[108] Ibid.
[109] Ibid.
[110] Ibid.; TNA, PREM 15/1458, *Note for the Record – Telephone call between M. Giscard d'Estaing and the Chancellor on 11 February at 9.00 am* (hereafter PREM 15/1458, *11 February, 9.00 am*).
[111] BAK, B136/7357, *Ergebnisvermerk über das 44. Treffen der EG-Finanzminister am 15./16. Januar 1973*; PREM 15/1458, *12 February, 12.15 pm.*
[112] TNA, PREM 15/1458, *International Monetary Situation – Note of a meeting held at Chequers at 10.30 p.m. on Saturday 10 February 1973* (hereafter PREM 15/1458, *Situation*).
[113] PREM 15/1458, *12 February, 12.15 pm.*

currencies steady and then America would begin selling minimal amounts of gold in the market.[114] Considering Bonn's great desire to defend the Smithsonian Agreement, as expressed both in the cabinet meetings on 6 and 8 February 1973 and in Brandt's letter to Nixon, Volcker's plan should have come as a great relief to the Brandt administration. While the D-mark would automatically be slightly revalued against the dollar because of the one-sided dollar devaluation, the change would be minimal. In essence, the Volcker plan defended the fixed parities as the West German cabinet, and in particular Schmidt, had advocated. Yet, Bonn's reaction to Volcker's plan was hesitancy, rather than relief. Calling Volcker's proposal "interesting," Schmidt only confirmed that he would speak with Brandt about it and then give a response.[115] By the morning of 10 February 1973, it seemed that West Germany, and Schmidt in particular, much preferred to move to a European group float than take up Volcker's offer.

After his talks with Volcker and despite Volcker having asked him not to do so, Schmidt informed his counterparts in Paris and London about the nature of the American plan. Speaking to Barber, Schmidt maintained that Brandt "preferred the European solution, both politically and economically, to the Volcker package."[116] Schmidt then arranged with Barber for Emminger to discuss with Sir Leslie O'Brien, the Governor of the Bank of England, technicalities of a possible group float that evening at a meeting of the central bank governors in Basel.[117] Schmidt also informed Barber that Brandt would be available for talks with Heath this evening after O'Brien had reported to the prime minister.[118] He assured Barber that he would provide the United States with no answer until the three ministers had spoken as previously arranged the following morning. Schmidt concluded noting once more, "although they

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[114] Ibid.
[115] *FRUS* XXXI, 41; TNA, PREM 15/1458, *Note for the Record – To the Prime Minister from Lord Bridges following is the Record of Chancellor's Talk with Schmidt at about 1.00 pm on 10th February* (hereafter PREM 15/1458, *10th February, 1.00 pm*).
[116] PREM 15/1458, *10th February, 1.00 pm.*
[117] Ibid.
[118] Ibid.

preferred the European solution, if this turned out not to be feasible they might have to fall back on the Volcker package."[119]

Through the remainder of the day, Schmidt took steps to achieve a European group float. After speaking with Barber, he talked with Giscard, expressing similar sentiments.[120] He then met with the British ambassador in Bonn, relaying the same message.[121] Later in the day, Schmidt instructed Emminger to discuss options for credit help from the Federal Republic for the United Kingdom with O'Brien.[122] Finally, as Schmidt had arranged with Barber, Brandt called Heath that evening. In a last attempt to win over London to a European group float, Brandt expressed doubt that France would accept the Volcker package and warned that should no common solution be found, West Germany would have to float the D-mark alone and that would endanger EMU.[123]

Yet despite Schmidt's extensive efforts and Brandt's threats, a European group float failed to come about at this juncture. Although Emminger was a proponent of floating, – in contrast to Schmidt – he was reluctant to force through a European group float at any cost.[124] Instead of offering unlimited funds to the British as Schmidt had done, Emminger, only discussed the credit options open to the United Kingdom through the EC, as he believed he did not have the required permission from the Central Bank Council of the Bundesbank to extend a unilateral West German offer.[125] Without the necessary credit assurances, London was unwilling to join a European group float and resolved in a late night meeting on 10 February 1973 to push for the Volcker plan the following morning among its European allies.[126]

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[119] Ibid.
[120] Ibid.
[121] TNA, PREM 15/1458, *FCO Telno 201 of 10 Februar.*
[122] Emminger, *Währungskrise*, 236.
[123] TNA, PREM 15/1458, *Record of Telephone Conversation between the Prime Minister and Chancellor Brandt at 9.30 pm on Saturday 10 February 1973.*
[124] PREM 15/1458, *11 February, 9.00 am.*
[125] Emminger, *Währungskrise*, 237; PREM 15/1458, *Situation.*
[126] Ibid.

On the morning of 11 February 1973, Barber outlined to Giscard the two options available to Europe and advocated adoption of the American scheme. Barber also expressed his concerns about a European group float, informing Giscard that Great Britain would be unable to participate in any such action at this time.[127] France was already beginning to rethink the option of a European group float only a few hours after having expressed its readiness to join one on the evening of 9 February 1973. The following day in a meeting with the West German ambassador Pompidou maintained that he was unsure if the timing was right to undertake "this experiment."[128] Without the British pound, the French franc would have been the weakest currency in a European group float lead by the strong D-mark. Such an economically and politically unpalatable prospect was enough to persuade France to accept the Volcker plan. Giscard informed Schmidt of this even before Giscard had the opportunity to meet personally with Volcker.[129] With this, Bonn realized that the European group float option was clearly dead and agreed to the Volcker plan.[130] Schmidt concluded, "this would be a good solution for the world monetary system though less good from a European point of view."[131]

That evening in Paris Giscard, Schmidt, Barber, Volcker and the Italian finance minister, Giovanni Malagodi, met to finalize the details. The five men reached an agreement whereby the United States would devalue the dollar by 10 percent, the Japanese would float their currency, the parities of the currencies participating in the EC currency snake would remain steady, the British pound would continue to float freely, Italy would begin a free float, West Germany would maintain its capital controls and the United States would refrain from selling gold on the market.[132] All that remained was convincing the Japanese to float the yen. This happened the following day when the Japanese

[127] PREM 15/1458, *11 February, 9.00 am.*
[128] *AAPD 1973/1*, 224.
[129] TNA, PREM 15/1458, *Note for the Record – Telephone call between the Chancellor and Herr Schmidt, 11 February at 10.30 am* (hereafter PREM 15/1458, *11 February 10.30am*). Giscard only met with Volcker about the American plan on 11 February 1973 in the late morning, after having spoken to both Barber and Schmidt. His talks with Volcker, however, did not alter the French position. See *FRUS* XXXI, 43-45.
[130] PREM 15/1458, *11 February 10.30am.*
[131] Ibid.
[132] BAK, B136/7357, *Tischvorlage zur Sitzung des Bundeskabinetts am 13.2.1973*; *FRUS* XXXI, 47; PREM 15/1458, *12 February, 12.15 pm.*

ambassador to the United States informed the Nixon administration that Japan would float the yen until it reached parity with the dollar at 264:1. This would be equivalent to a 16 to 17 percent revaluation against the dollar.[133] According to British sources, key in convincing Japan to accept the Volcker plan was Schmidt who called on the Japanese ambassador in Bonn and informed him that if Japan refused to go along with the Volcker plan, there would be economic war between the United States and Japan.[134] This was somewhat odd given that Schmidt had only grudgingly accepted the Volcker plan himself. That said, had the Volcker plan fallen through, in all likelihood, West Germany would have had to have floated independently, a fate, which despite its threats, the Brandt government wished to avoid.

When the exchange markets re-opened on 14 February 1973, calm returned. Yet, this outcome was far from "Schmidt's triumph," as Gray has argued.[135] Rather, it is quite evident that despite having refused the Bundesbank's requests for an independent float of the D-mark, it was the preference of the Brandt government, and above all Schmidt, to undertake a European group float rather than continue to maintain a fixed parity with the dollar. In this way Bonn could achieve its political goals associated with EMU. Yet, because of internal West German disagreement, the dire economic position of the British, French worries about West German economic power and the willingness of the United States to revalue the dollar, Bonn failed to generate the support needed for its European plan. That said, the Federal Republic did not fail in the wake of the February currency crisis; instead, West Germany played a key role in ensuring a multilateral solution to it, saving the Federal Republic from an independent float of the D-mark which would have surely ruined its political goals. Moreover, Bonn's efforts towards a European group float no doubt contributed to Paris's acceptance of such an arrangement only a few weeks later. Indeed, shortly, Bonn would achieve its political and economic goals and Schmidt his real triumph.

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[133] *FRUS* XXXI, 46.
[134] PREM 15/1458, *12 February, 12.15 pm.*
[135] Gray, 320.

-The March Crisis: The Final Collapse-

The February 1973 realignment held less than two weeks. As rumors began to swirl about a possible European group float, speculators began attacking the D-mark.[136] On 1 March 1973, the Bundesbank was forced to take in $2.7 billion – 16 percent of the currency in circulation and the amount the Bundesbank normally would have taken in throughout an entire year.[137] As Emminger later recounted, this "was the death knell for the Bretton Woods parity system."[138] At the close of the day, Emminger contacted Brandt and an emergency meeting was organized. Only Brandt, Emminger and Friderichs were present at the small gathering, as Schmidt was in the hospital and the acting Finance Minister, Karl Otto Pöhl, on a skiing holiday in Switzerland. Unlike during the February 1973 currency crisis though, Emminger did not advocate a national float; instead, along with Friderichs, he pushed for a European group float and encouraged closing the currency markets until such a float could be arranged. As is evident from Bonn's position during the international negotiations during the February currency crisis, Brandt (and Schmidt) already veered towards such a solution. Brandt concurred with Emminger's assessment and solution.[139] Once West Germany closed its market on 2 March 1973, nearly all other Western countries followed suit. The currency markets throughout the West did not re-open until 19 March 1973.[140]

Yet, as Bonn knew all too well from recent experience, it would be difficult to convince its European partners to undertake a European group float. A major stumbling block to progress a few weeks earlier had been Great Britain. With Heath and Barber already in Bonn for scheduled talks, West Germany used the opportunity to measure the willingness of the United Kingdom to move into a group float and to press for cooperation in an afternoon meeting on 2 March 1973. Despite mention again of the Federal Republic extending extensive credit to Great Britain, the British remained cool to the idea of a European group float, doubting whether the other EC partners,

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[136] BAK, B136/7357, *Betr.: Währungskrise Entwicklung – Ergebnis der Konferenzen – Bewertung* (hereafter B136/7357, *Entwicklung*).
[137] Ibid.; James, 242; Emminger, *Währungskrise*, 240.
[138] Emminger, *Währungskrise*, 240.
[139] Ibid., 240-1; B136/7357, *Entwicklung*.
[140] Ibid., 241-2; Ibid.

in particular Italy, would agree to the United Kingdom receiving such a large sum. Moreover, London questioned whether the necessary EC machinery could be established to ensure the functioning of such concerted action at such short notice.[141]

Alongside its talks with London, Bonn also got in touch with the European Commission, pushing its ideas for a European group float and requesting a special meeting of the EC economics and finance ministers be called to discuss the latest currency crisis.[142] The Commission responded to the West German pleas by setting a meeting for 4 March 1973. At it, the Commission presented a plan for a European group float supported by three technical elements: draconian capital controls; an extension of the existing credit facilities; and, the establishment of fixed, but adjustable rates with greater elasticity in the bands.[143] The Commission's proposal, however, offered no easy solution; each technical element had dissenters.[144] The Commission's plan was not the only stumbling block to agreement. The United Kingdom and Italy were also demanding special conditions for their return to the EC snake.[145] Great Britain's petitions included such extravagances as "support without limits of amount, without conditions and without obligation to repay or to guarantee."[146] In addition, London insisted upon the full pooling of reserves, in essence, spreading the British problem of sterling balances to the rest of Europe without any conditions on the British government. Italy supported the United Kingdom's call for the creation of an unlimited credit facility by pooling all reserves and also pushed for a three stage approach which would begin with a "concerted" float, followed by a "joint float" with rates subject to revision and finally a "full community float" with fixed rates.[147] The remaining seven EC members were unwilling to go along with either Great Britain's or Italy's

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[141] *AAPD 1973/1*, 343-5.
[142] BAK, B136/7357, *Europäisches Modell zur gemeinsamen Abwehr spekulativer Devisenflüsse*; TNA, T354/78, *Flash FCO Telno. 1096 of 2 March.*
[143] BAK, B136/7357, *Sitzung des Währungsausschusses vom 3.3 von 14.30-20.15 Uhr.*
[144] Ibid.
[145] Great Britain along with Ireland began floating in June 1972. Italy left the EC snake and began floating on 13 February 1973.
[146] BAK, B136/7357, *Fernschreiben: Betr.: Tagung des Rates der Finanzminister am 4.3.1973*; BAK, B136/7357, *Entwicklung*; TNA, T354/78, *FCO Telno 1139 of 4 March 1973* (hereafter T354/78, *1139*).
[147] Ibid.

demands.[148] With no agreement in sight, still unconvinced about floating and inclined towards fixed parities, France suggested that the EC member states meet with the United States and other members of the Group of Ten (G-10) in an effort to see to what extent Washington was prepared to defend the rates set only two weeks earlier.[149] This, all EC ministers agreed, was the best approach to the currency crisis at this point.[150] In the following days, France organized a conference of the enlarged G-10 to take place on 9 March 1973 in Paris.[151]

For Bonn, the results of the 4 March EC economics and finance ministers meeting were very disconcerting. It now appeared to the Brandt government that the odds for achieving a group float were less than 50 percent.[152] Thus, in the five days before the G-10 meeting, the Federal Republic began exploring multiple avenues in an effort to bring about a multilateral response. West Germany warned its EC partners in private meetings and public statements that if no agreement on a group float could be attained, then the D-mark would float independently.[153] Bonn also started to develop plans for a group float without Great Britain, Italy or France; hence with only the Benelux countries.[154] Finally, the Federal Republic pursued talks with the United States. Of all the paths pursued, it was the last one which proved paramount in the creation of a European group float.

West Germany's correspondence with America about the crisis actually began before the 4 March meeting of the EC finance and economics ministers, when Brandt wrote to Nixon on 2 March 1973 informing the president,

> The talks for which Prime Minister Heath was in Bonn yesterday and today, centered on the alarming new currency crisis . . . . We agreed that we must make every conceivable effort to find a way out which strengthens European integration. After his return to London, the Prime Minister will thoroughly

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[148] Ibid.
[149] BAK, B136/7357, *Fernschreiben: Betr.: Tagung des Rates der Finanzminister am 4.3.1973.*
[150] Ibid.; B136/7357, *Entwicklung*; T354/78, *1139.*
[151] The members of the G-10 were the United States, the Federal Republic, France, the United Kingdom, Japan, Italy, Canada, the Netherlands, Belgium and Sweden. Enlarged, it included, Luxembourg, Ireland and Denmark.
[152] *FRUS* XXXI, 99.
[153] Ibid., 55-6.
[154] Schmidt informed Shultz of this in a telephone conversation on 5 March 1973. See *FRUS* XXXI, 106, 110-2.

> examine what contribution his Government can make to a common solution. I am convinced that a joint action represents at the same time an element of stabilization in the world political situation. This is to the benefit of all members of the Western world. A weakening of the Community by separate action would be harmful to all. Much will depend now on the results of the forthcoming meeting of the Ministerial Council of the European Community. The Federal Government is prepared to do everything in its power in order to achieve a positive result.[155]

The economics advisors to Nixon had been following the developments in the currency markets quite closely and it seemed to them that the devaluation of the dollar twice in two years had led to a confidence crisis.[156] It was not a foregone conclusion that the United States would turn to floating; rather, as Volcker informed Nixon in a meeting on 2 March 1973 which also included Shultz, Burns, and other member of the economic team, there were two possible courses for action: move to floating or intervene on a massive scale.[157]

Throughout their 2 March 1973 meeting, Nixon and his economic advisors explored both the short-term and long-term advantages and disadvantages of the two choices while also contemplating how to respond to Brandt's message. In the short-term, floating appeared particularly risky, as no one could be sure how the markets would react: if the float was smooth and stable, it would stop the speculative flows; but if the markets perceived this action as a weakness on the part of governments, they could attack currencies individually and undermine the entire international monetary order.[158] Over the long-term, however, floating seemed to be much more in America's interests: since August 1971 the United States had been taking steps to make the international monetary system more flexible and as recently as September 1972 at the first meeting of the C-20, Shultz had presented an American plan for reform of the international monetary system based around this principle. Letting the Europeans float would allow for the flexibility in the system that the United States was after.[159]

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[155] *FRUS* XXXI, 49-50.
[156] Ibid., 51.
[157] Ibid., 51.
[157] Ibid., 51.
[158] Ibid., 51, 56.
[159] Ibid., 51, 56, 60, 65.

Intervention seemed to offer the best immediate solution: American officials were relatively confident that a massive intervention in the range of billions of dollars would suffice to calm the markets.[160] Yet, there were many short and long range disadvantages to intervention. First, the Nixon administration could not be sure that even with a massive intervention another crisis would not occur within a few months or a year.[161] In addition, there were problems with financing: the United States did not hold enough D-marks to intervene on a massive scale to support the dollar; thus, Washington would have to borrow D-marks from West Germany. There was no way for America to tell whether the Federal Republic would be willing to engage in such a scheme or the terms which Bonn would attach to it.[162] Moreover, if the United States chose to intervene, it would go against its efforts to create a more flexible international monetary system. Indeed, it would affirm the fixed parity system. This, in turn, would create for America the same problems it had been trying to solve over the last years, above all subordinating its domestic economic goals to international monetary considerations.[163]

Proponents of floating, including Shultz, all pushed the president to take a "wait-and-see" approach. It seemed to them that in his letter, Brandt was implying that Europe was planning a group float. If this was the case, then the United States should let them do it, for with it they would achieve the flexible system America desired. Moreover, it would serve as a shock to Europe to work towards a new international monetary system.[164] Arguing strongly for fixed rates was Burns. He maintained that floating would be perceived as a lack of leadership on the part of Washington. While Burns did not argue with the perception that Brandt's letter implied that Europe was moving towards a group float, he believed Europe's actions were motivated by the belief that the United States would not be willing to defend the fixed parities. Thus, it seemed to Burns that Nixon should write with an offer of intervention and show American leadership. Were this to be done, Burns argued, Europe would be more likely to

[160] Ibid., 64-66.
[161] Ibid., 58-59.
[162] Ibid., 53, 67.
[163] Ibid., 51, 56, 60, 65.
[164] Ibid., 51-52, 61-63, 65-70.

move more quickly on reform of the international monetary system and give the United States what they wanted.[165]

Nixon could see the pros and cons of both positions, but it was this question of American leadership and it was the political much more than the economic repercussions of floating that worried him. It seemed to Nixon that the United States was "in a watershed period with regard to [their] relations with Europe" and he had to view the situation in terms of foreign policy.[166] Nixon feared that the "leave-it-alone deal" might actually drive Europe together and, as the French hoped, lead to a European monetary system at the expense of America.[167] Unsure of the political ramifications, Nixon requested that Shultz and Burns meet with Kissinger immediately and get his input on which strategy to choose and how to respond to Brandt's message.[168] Kissinger's involvement, however, turned out not only to be crucial in America's forthcoming action in the economic and monetary fields.

Upon reading Brandt's letter, Kissinger became highly suspicious and accused Europe of wanting to take a common position which would be "unpalatable" to Washington.[169] From a political viewpoint, Kissinger maintained, the United States looked weak if currency crises continued, but bothering him most was that Europe had not included the United States in consultations on matters so vital to its interests. Ignoring the fact that the Nixon administration had failed to consult its European allies before the Nixon shocks of 15 August 1971, Kissinger argued, regardless of whether America intervened or not, "we must in any event make clear to Brandt that this procedure is unacceptable to us."[170] In addition, it seemed to Kissinger that Brandt was treating the Americans like "idiots," and was telling the United States that whatever was good for European integration was good for America.[171] Kissinger concluded, "You know, I'm no longer so sure that European

[165] Ibid., 51-52, 61-63, 65-70.
[166] Ibid., 68-69
[167] Ibid., 63.
[168] Ibid., 70-71.
[169] Ibid., 72.
[170] Ibid., 72.
[171] Ibid., 74.

integration is all that much in our interest."[172] Since coming to office in 1969, many in the Nixon administration, in particular Connally, had doubted that European integration was in America's interests, but Kissinger had not necessarily been one of them.[173] The handling of this issue by Brandt and other European leaders was clearly changing Kissinger's mind.

Nixon was already convinced that US-EC relations were at a defining moment and Kissinger's impressions that actions taken by Europe could further European integration to America's detriment prompted the president to seek a solution which would divide Europe.[174] With Burns not taking part in the meeting, Shultz was able to push the floating perspective. After much back and forth about how to write the letter and whether or not to suggest intervention, Shultz convinced them to leave out any mention of intervention, remarking that it could possibly damage Washington's attempts to handle monetary, trade and military negotiations collectively.[175] Having pushed for these matters to be dealt with together for several years, Nixon was unwilling to risk this aspect of his foreign policy. In the end, Nixon, Kissinger and Shultz decided on sending a response to Brandt as well as a similar letter to Heath which made clear that the United States should be consulted on these matters vital to its interests; that America was open to many alternatives in the face of this crisis; and that European integration should not come at the cost of Atlantic cooperation. In addition, they decided to contact the Japanese and make them aware of the developments in an attempt to win them over.[176] The letters went out to Bonn, London and Tokyo on 3 March 1973.[177] Japan expressed a keen willingness to work with the United States in its response a day later.[178] Heath replied assuring Nixon that it was not the intention of the EC to impair Atlantic relations with their efforts towards a common float.[179] Brandt though did not

[172] Ibid., 79.
[173] For more information on American attitudes toward European monetary integration see Dimitri, Grygowski, *Les Etats-Unis et l'unification monétaire de l'Europe* (Brussels: P.I.E.-P. Lang, 2009), 132-217.
[174] *FRUS* XXXI, 83.
[175] Ibid., 78, 80.
[176] Ibid., 87-90.
[177] Ibid., 92-94.
[178] Ibid., 94-6.
[179] Ibid., 96-8.

answer Nixon until 8 March 1973.[180] Instead, the next words between West Germany and America came on 5 March 1973 between Schmidt and Shultz, beginning a series of bilateral back-channel discussions.

Schmidt was very pessimistic about the possibility of achieving a European group float after the discussions on 4 March 1973 of the EC economics and finance ministers. To Brandt's chagrin, Schmidt voiced publically his concerns that West Germany may have to pursue a national float of the D-mark. But behind the scenes, despite being in and out of the hospital, Schmidt was working to create a more multilateral approach, if not necessarily a full European group float. On 5 March 1973 he spoke first with Shultz about the possibilities for American action. Shultz did not mention intervention, but did suggest that Bonn and Washington may be able to work out some terms should West Germany pursue an individual float or should a group float occur the United States was willing to think about ways of making it more manageable for Bonn.[181] Schmidt then used his personal contacts, calling Kissinger to try to get greater American action. Schmidt told Kissinger, "I remember a conversation back in October last year when we said I should call upon you when monetary problems tend to become political problems. . . . Henry, I've been with this now, it is the danger."[182] Schmidt then requested that Washington intervene on behalf of the dollar; if the European float did not occur it would be most necessary, but even if the European countries did manage a float, it would serve to help calm the markets.[183] While Kissinger could not say for certain what American policy would be, he did promise Schmidt that he would speak with Nixon and Shultz about the matter and get back to him in due course.

Meeting with Shultz and Nixon soon thereafter, Kissinger conveyed Schmidt's warnings of the political seriousness of the West German domestic position in the face of this crisis. Yet, after some discussion Washington decided that a massive intervention was no longer a possibility and it would to

[180] Ibid., 117-8.
[181] Ibid., 100-1, 106.
[182] Ibid., 102.
[183] Ibid., 102-3.

wait to see what action Europe proposed at the upcoming G-10 meeting before giving any firm commitments to intervene to support any form of a float.[184] As promised, Kissinger telephoned Schmidt on 7 March 1973 with news of his discussions. Given, however, the American stance, Kissinger was quite vague. He would only say that Washington was "not wedded to one plan" and were prepared to help "put some limits on a float."[185] But when Schmidt directly asked Kissinger whether Washington would be opposed to a European group float as this was the preference of Brandt, Kissinger acknowledged that the United States would accept a European group float, so long as there were not too many conditions attached to it, in particular trade conditions.[186] Schmidt assured Kissinger that trade conditions had not been considered.[187] In concluding his conversation with Kissinger, it now seemed to the Federal Republic that America would not intervene heavily in order to prop up the fixed rated system and indeed would prefer a group float. With this message taken, Bonn renewed its efforts in Europe to achieve the European group float.

Although Schmidt did not share this with Kissinger, it was precisely the conditions attached to any float, particularly those called for by the British but also Italy and France, which were preventing the EC from entering into a group float. Even letters from Brandt to both Heath and Pompidou on 8 March in which the chancellor implored his counterparts to reconsider their respective positions or risk the EC remaining only a customs union failed to have any sway.[188] Thus, when the meeting of the enlarged G-10 opened on 9 March 1973, it was still very much unclear how the EC or indeed the West would respond to the latest currency crisis.

By meeting's end very little had been resolved. While the EC had proposed three issues for debate – intervention in the international monetary market, controlling international liquidity and controls on capital movements – the United States would only discuss the matter of intervention, for Washington

[184] Ibid., 106-12.
[185] Ibid., 113-4.
[186] Ibid., 114.
[187] Ibid., 114.
[188] *AAPD 1973/1*, 356;

had not prepared for the other two.[189] Shultz maintained that the United States wished to do its part to defend parities and would be willing to cooperate with the other G-10 countries on "practical means" to establish "orderly markets."[190] But, Shultz contended, the set of parities must first be known; thus, the EC must first decide whether it was going to undertake a group float or not. France responded to the American position, by noting that a decision on the European group float was not necessary to the proceedings and would depend heavily on the outcome of the present G-10 meeting. After several hours, the meeting was adjourned with no concrete decisions made on intervention, as the United States refused to act without knowing what type of float European countries would undertake. The G-10 member states, however, did agree to continue to discuss the matter in the coming days first at a meeting of the deputies of the enlarged G-10 on 12 March 1973 and then another meeting of ministers of the enlarged G-10 on 16 March 1973.[191]

While the American attitude at the enlarged G-10 meeting frustrated several European countries, it was actually quite beneficial to the West German push for a common float. It was now evident to all EC member states, in particular France, that the United States would not intervene on a massive scale as Paris had hoped. Moreover, because Washington refused to act until a decision was made by the EC on what type of float it would undertake, it put pressure on European countries to make a decision. When the EC economics and finance ministers met on 11-12 March 1973, these factors weighed heavily in the debate.[192] The major roadblock to the formation of a European group float was Britain. Over the previous week, the Federal Republic had campaigned hard for the United Kingdom to alter its demands, but despite Bonn's pleas London continued to refuse.[193] West Germany though could not accept Britain's extraordinary conditions because of the risk that the problems

[189] TNA, T354/37, *Group of Ten – X/DEP/216 – Summary of Views expressed by Ministers and Governors of the Group of Ten (enlarged to include all Members of the E.E.C.) meeting at the office of the I.M.F. Paris on 9th March, 1973.*
[190] Ibid.
[191] Ibid.
[192] TNA, T354/78, *FCO Tel no 1320 of 11 March* (hereafter T354/78, *1320*).
[193] Ibid.

associated with the sterling balances would shift to the EC at large.[194] Schmidt made a last attempt at the EC ministers' meeting to sway Barber by offering to quadruple the credit facility already in place, but the latter would not budge.[195] With London out, Bonn turned its attention to Rome, but the Italians followed Britain's lead and maintained that the proper conditions did not exist for a common float.[196]

This left only France. Paris though was still leery of being the weak currency in the group float. Yet, the Pompidou government had few options, as a massive intervention by the United States was clearly no longer an option. Moreover, not joining would clearly endanger efforts toward EMU. Given West Germany's continued dedication to this European goal over the previous year and its efforts to put together a group float which would preserve the progress made towards EMU over the previous year, France would be liable for obstructing European integration rather than the Federal Republic. Finally after several hours of negotiations, Bonn managed to convince Paris to join the float by agreeing to a revaluation of the D-mark by 3 percent. When the EC economics and finance ministers finally emerged in the early morning hours of 12 March 1973, they had agreed on a partial group float including the Federal Republic, France, Luxembourg, Belgium, the Netherlands and Denmark. The United Kingdom, Ireland and Italy would continue to float individually, but pledged to join the group float as soon as conditions permitted. In essence those countries in the European snake began to float against the dollar, but remained pegged to one another. The bands of the EC snake would remain +/- 2.25 percent and central banks of the snake countries were obliged to intervene in Community currencies to defend the group float.[197] Within days of its announcement, Norway and Austria also informally joined the European group float.[198]

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[194] BAK, B136/7357, *Fernschreiben: Betr.: 233. Tagung des EG-Rates am 11.-12.3.1973*; T354/78, *1320.*
[195] Ibid.
[196] Ibid.
[197] Ibid.; BAK, B136/7357, *Betr.: Kabinettsitzung am 14.3.1973.*
[198] BAK, B136/7357, *Tischvorlage zur Sitzung des Bundeskabinetts am 14. März 1973*; B136/7357, *Entwicklung.*

Despite the conditions around the group float, Bonn was rather pleased with the outcome. First, it would have a much more limited effect on the West German export economy than an individual float and a 3 percent revaluation of the D-mark would help lower West German inflation.[199] In addition, the group float solved some of the trade problems around the common agriculture market and the participation of non-EC countries in the group float would lead to a greater stabilization of trade and monetary relations.[200] It also allowed the European integration process to move forward and it preserved relations between Paris and Bonn.[201] The exclusion of the United Kingdom, Ireland and Italy from the group float actually made it economically easier for the Federal Republic: the Bundesbank would not have to intervene heavily in support of the weak pound and lira; and West Germany would be spared large contributions to a credit facility and the problems associated with sterling balances.[202] Moreover, this transition to floating finally freed the Bundesbank from having to support the dollar and thus sacrificing its domestic goal of stability policy to maintaining the external exchange rate. This move would allow the Bundesbank and Bonn the opportunity to reduce inflation in the Federal Republic and also lead to a drop in international liquidity.[203] Finally, West Germany perceived the group float as a considerable concession to the United States which would probably help them at the upcoming G-10 meetings as they attempted to persuade America to intervene to control speculative flows; though this remained to be seen.[204]

At the meeting of deputies of the enlarged G-10 on 12 March 1973, little progress was made. Despite the United States now knowing what type of parity regime the EC would undertake when the markets re-opened, America would only agree to take action to ensure "orderly markets," but would not commit to any specific steps.[205] With this outcome, Bonn became more concerned about the European group float. No one knew how the markets would react to the

[199] Ibid.
[200] Ibid.
[201] Ibid.
[202] Ibid.
[203] Emminger, *Währungskrise*, 252-3.
[204] BAK, B136/7357, *Entwicklung.*
[205] BAK, B126/33544, *Sitzung der Stellvertreter der erweiterten Zehnergruppe am 12.3.1973.*

float and West Germany feared that the weakest member in the snake, the French franc, might come under pressure.[206] The Federal Republic believed it was paramount that America be willing to intervene in the markets to ensure stability ensued.[207]

In the course of this crisis, however, American attitudes had shifted and intervention, a serious consideration in the White House only two weeks earlier, had quickly lost ground due to Shultz's desire to float and Kissinger's political interpretation of Brandt's letter and growing suspicions of European integration efforts. Feeling that European unity was not in America's interests, either from an economic or political view, Kissinger gave Shultz, at the latter's request, his political interpretation of how to handle the upcoming G-10 meeting, stating he had "only one view right now which is to do as much as we can to prevent a united European position without showing our hand." He advised doing as little as possible to make the European group float work which meant only intervening to benefit individual countries or not intervening at all.[208]

Shultz generally followed this advice during his talks with Brandt and Schmidt on 15 March 1973. Yet Shultz was not as convinced as Kissinger was about the intentions of Europe to use the group float as a means to further integration at the expense of Atlantic cooperation. Rather, Shultz pointed out to Kissinger in his response that Schmidt was a committed Atlanticist and Schmidt had even suggested that the Atlantic finance ministers meet periodically to discuss commercial, financial and energy matters relevant to them all. Shultz also noted that while Brandt was more ambivalent about European and Atlantic priorities, he had also thought to propose a forum for Atlantic cooperation.[209] Shultz's message, however, did not change Kissinger's mind; instead, Kissinger responded, "We should create conditions in which the common float is as hard as possible to work."[210]

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206 *FRUS* XXXI, 121.
207 BAK, B136/7357, *Betr.: Besuch von Minister Shultz bei Ihnen.*
208 Ibid., 123.
209 Ibid., 124.
210 Ibid., 126.

At the meeting of the G-10 ministers on 16 March 1973, Shultz issued a statement which would allow the United States to do just as Kissinger prescribed. He assured the other G-10 members that America would do its part to maintain "an orderly exchange system with flexibility" and would intervene "from time to time, at the appropriate time." But Shultz did not indicate when or how such intervention would occur.[211] Despite offering no specifics, America's stated commitment to maintain "orderly markets" surprisingly sufficed for its European allies. Indeed, the 16 March 1973 meeting of the ministers of the enlarged G-10 was viewed by all as a general success.[212]

With the agreements reached at the G-10 and at the meeting of the EC economics and finance ministers on 11-12 March 1973, the Bretton Woods system of international monetary relations had collapsed. On 19 March 1973, the exchange markets across Europe re-opened. With it a new era of floating rates had begun, though it would take Western leaders another three years to realize it. For now, they turned their attention to reform efforts in the C-20 with the aim of shaping a new international monetary system. With the move to floating and the monetary system in limbo, the completion of the reform work seemed ever more urgent. Hopes were high that the C-20 reform efforts would yield positive results by summer 1974 at the latest. This deadline, however, proved impossible to meet as the second economic crisis, the oil crisis, hit the West.

-Conclusions-

Within fifteen months of the signature of what was called the most important monetary agreement in history, the Bretton Woods monetary system had collapsed under pressure from speculative flows. Having the strongest and largest economy in Europe with trade and balance of payments surpluses, West Germany was seen as an economic safe haven, as the United States, Great Britain and other Western countries struggled to settle their trade and payments deficits. Thus, the D-mark was often in the middle of the speculative storms. Yet, unlike in previous years, Bonn did not respond to the speculative pressure

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[211] TNA, T354/37, *Note for the Record – Meeting of Enlarged G.10 on 16 March.*
[212] Ibid.

by floating the D-mark or revaluing its currency. Instead, for over a year West Germany did its part to uphold the parities established under the Smithsonian Agreement, erecting complex capital controls, taking in billions of currency reserves and promoting external exchange rate stability over its internal price stability policy goals. Only when speculation threatened to completely undermine West German domestic stability policy in early 1973, did Bonn move towards the floating option.

Behind this shift in West German policy were three main factors. The first was political developments – both international and domestic. Having damaged efforts toward EMU and severely strained its relations with France by floating the D-mark in May 1971, the Brandt government made EMU and its relations with France a top priority after the Smithsonian Agreement. Over the following year, the Federal Republic revised its system of capital controls, so as to limit the possible currency inflows which had forced it to float in the past. In addition, Bonn worked closely with Paris to establish first the EC snake in April 1972 and then the first phase of EMU at the Paris summit. During the February 1973 currency crisis, the Brandt government went against the advice and wishes of the Bundesbank, refusing to float the D-mark. Instead, Bonn undertook a multilateral approach, strongly collaborating with their counterparts in Paris. The Federal Republic would have preferred a group float. But when France refused, West Germany agreed to the American Volcker Plan in order to maintain EMU efforts and the positive relationship between Bonn and Paris. Even in the midst of the March crisis Bonn was still adamant about taking a European approach, agreeing to a 3 percent revaluation of the D-mark in order to make it possible for France to join the group float, thereby allowing the centerpiece of EMU to remain intact. Domestic politics too factored heavily in Bonn's decision-making process. Having lost constituents as a result of its *Ostpolitik*, the SPD's re-election prospects in 1972 were not strong. The Brandt government feared that another dollar crisis or the collapse of EMU efforts would weaken their chances further. Thus, Bonn resolved to take the course of action most compatible with re-election victory. With Klasen's promise that capital controls would prevent a dollar crisis until after the election, Brandt's cabinet voted to adopt capital controls in June 1972.

Also critical to the change in West German policy was the political leadership. Throughout the final year of the Bretton Woods regime, Brandt showed firm leadership, as he battled both the Bundesbank, Schiller and of course the markets to keep Bonn committed to the European political track. During both the February and March crises, Brandt took steps to coordinate with his Western counterparts and initiated multilateral responses, rather than simply jumping to the national floating solution as he had in the past. Finally, Brandt accurately judged when the West German economy could no longer uphold the fixed system established under the Smithsonian Agreement and pursued a European group float. Alongside Brandt, Schmidt was crucial to the strong leadership exhibited by the Federal Republic during this period. Schmidt's politically-focused perspective complemented Brandt's aforementioned international and domestic priorities. Schmidt's style, both his firm delivery of West German interests as well as his ability to build good working relationships with his counterparts in the West, contributed greatly to Bonn creating a common stability policy in the EC, reaching agreements for EMU and establishing a group float.

The final factor central to Bonn's actions was its economic strength. On the one hand, the strength of the West German economy made the D-mark a magnet for speculative flows. This made its policy central in any currency crisis. Yet, on the other hand, economic strength allowed the Brandt government the flexibility to pursue its political priorities. Had the economy not been as strong and those who managed it not as adept, it would have been difficult for the Federal Republic to refrain from floating sooner.

These factors combined to shape West German policy in such a way that it had a tremendous impact on the manner in which Bretton Woods collapsed. Had West Germany been less concerned with its political European goals and positive relations with France and elected to float the D-mark in June 1972, the Federal Republic would have most likely avoided bearing the brunt of the currency crises of early 1973. Instead, the Federal Republic's use of capital controls considerably helped prolong the fixed exchange rate regime. The life of Bretton Woods was also extended by the Brandt government's refusal to float independently in the wake of the February currency crisis, Bonn's acceptance of the Volcker plan as well as Schmidt's pressure on the Japanese to accept the American scheme.

As the system began to unravel in early March 1973, the Federal Republic's actions played an even greater role. West Germany's decision to close its exchange markets induced other Western countries to follow suit. Bonn then took the lead in organizing a European group float, appealing to the EC Commission for such action and pushing for meetings to discuss the currency crisis. After the unsuccessful meeting of EC economics and finance ministers on 4 March 1973, the Brandt government continued to lobby heavily among its European allies for a common float. Although among the bigger EC members Bonn failed to convince the United Kingdom and Italy to join, the Federal Republic did eventually win over France and the smaller EC states. Bonn's success in this regard came not simply because of an agreement to a 3 percent revaluation of the D-mark; rather, it was also a result of a long campaign started by West Germany during the February currency crisis. Had the Federal Republic not warmed French officials to the idea of a European group float at that time, it is doubtful that Paris would have been so forthcoming a few weeks later.

West Germany, however, not only affected Europe's response to the March 1973 currency crisis, but America's as well. As the crisis broke out, the Nixon administration was still divided between the options of massive intervention and floating. It was Brandt's letter to Nixon which greatly altered Washington's path. Brandt's words enraged Kissinger, as it appeared to him as though West Germany with its European group float idea was taking action based on its suitability to European integration goals, while excluding the United States from discussions on an issue so vital to America's interests. In response, Kissinger grew more leery of European integration efforts and the entire debate in the Nixon administration became much more politicized; indeed American policy in the monetary realm became attached to broader political efforts to control European integration's effects on the Western alliance, for example via its Year of Europe and New Atlantic Charter initiatives. This shift in perspective combined with Shultz's predisposition to floating exchange rates contributed greatly to the United States' refusal to intervene on a massive scale or agree to concrete terms to do so on a smaller scale in support of the European group float. Schmidt's personal appeals to Shultz and Kissinger came too late to change the course of events. If anything, Schmidt's suggestions to American officials that a European group float was Brandt's preferred option only reinforced America's decision to float. That being said, the subsequent back-channel discussions between Schmidt and Kissinger, allowed Bonn to gain an insight into Washington's position on intervention which in turn permitted the former to reassess and attach greater effort to its goal of a European group float.

Brandt's and Schmidt's actions throughout the crisis had little immediate impact on West Germany's position in the Western alliance. Still, the changes that came about during this period as a result of the Federal Republic's policies proved to be essential to the transformation of West Germany's role in later years. Because of its structure, the European group float afforded Bonn many trade and monetary benefits which would enhance its economic strength and hence weight in dealing with the numerous economic crises that were to occur in the coming years. Moreover, it also gave West Germany a larger role in how EMU developed and consequently a greater leadership role within Europe. Significantly, Schmidt's move to the finance ministry proved important: his approach to economic problems and tactics had already altered Washington's and Paris's attitudes on policy issues and their perceptions of Bonn's commitment to international cooperation. As will be shown in the following chapter, as the West grappled with reform of the international monetary system, Schmidt continued to build on the relationships he formed during the collapse of Bretton Woods, much to West Germany's benefit.

Chapter 2

International Monetary Reform in the C-20

July 1972-June 1974

Monetary policy is foreign policy.
Helmut Schmidt[1]

-Introduction-

Problems within the international monetary system had begun long before the currency crises of February and March 1973 and the resulting collapse of the Bretton Woods monetary system. Already in 1971, serious consideration started to be given within the West to reforming the monetary system, with the establishment of the Committee of Twenty (C-20) in September 1972. But from the beginning the C-20 negotiations were difficult and progress slow, as the United States, the European Community (EC) and the less developed countries (LDCs) disagreed on the main issues of reform, including balance of payments adjustment process, asset settlement, reserve currencies, control of disequilibrating capital flows and the special issues of the LDCs. Even after the collapse of Bretton Woods, when agreement would seem to have become more urgent consensus did not come much easier. Instead, all sides remained reluctant to abandon their respective positions and by summer 1973 reform talks were in near deadlock. Yet despite this, through September 1973, Western leaders retained hope that the C-20 could agree upon the basic principles of reform within a year, especially after the creation of a new forum, the Group of Five (G-5) in 1973. This hope, however, was dashed with the onset of the oil crisis in autumn 1973, which led to the international balance of payments structure being challenged and hence national positions becoming more disparate and exchange rate movements more extreme. In the changed monetary landscape of early 1974, the C-20 members abandoned their efforts towards long-term reform of the international monetary system.

As was shown in the previous chapter, in the final months of the Bretton Woods monetary system, the Federal Republic successfully managed its policy

[1] Helmut Schmidt, *Men and Powers: A Political Retrospective*, trans. Ruth Hein (London: Jonathan Cape, 1990), 158.

priorities, balancing the maintenance of its economic strength with its broader goals within Europe, in particular European Economic and Monetary Union (EMU), achieving both in the process. In this outcome, West German Chancellor Willy Brandt and West German Finance Minister, Helmut Schmidt, played a key role. The Brandt government's combination of solid policy management and strategic leadership had a significant influence on the manner in which Bretton Woods collapsed. As a result, West Germany's economic and political position in Europe and by default also within the wider Western alliance was advanced. Yet, did Bonn's policy priorities remain the same and execution of them as swift during the long-term monetary reform efforts undertaken in the C-20? In the less personal environment of the C-20 where negotiations were conducted by ministers and technical monetary instruments the subject of debate, would Brandt and Schmidt continue to be as effective and the Federal Republic's influence on the outcome of the reform efforts as great? Finally, would Bonn's actions have a similar impact on its political position in the West as they did during the collapse of Bretton Woods?

-The Origins of the C-20 Reform Efforts and Position Building-

Already in the mid-1960s, the problems of the Bretton Woods international monetary system, including those with gold, the adjustment process and the growth of the Euromarkets, were apparent. The First Amendment to the Articles of Agreement (the Articles) which governed the Bretton Woods system in 1969 did little to quell the difficulties. Instead, currency crises and demands on dollar-gold conversion increased. Finally, as part of the "Nixon shocks" of 15 August 1971, the American President, Richard Nixon, without consulting with or informing America's Western allies in advance, closed the gold window and called for urgent reform of the international monetary system, among other measures. [2] After the economic turmoil brought on by the numerous currency crises of the previous years and the unilateral American acts, Europe agreed that fundamental reform of the international monetary system was needed. Over the following year, within the

[2] The Public Papers of the Presidents of the United States, Richard Nixon, Vol. 1971, *Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace" – August 15, 1971*, 889. (http://quod.lib.umich.edu/cgi/t/text/text-idx?c=ppotpus;cc=ppotpus;view=toc;idno=4731800.1971.001 accessed January 2011)

Group of Ten (G-10) forum, the West debated how such reform should occur.[3] The process was particularly long because the United States –due to political difficulties between the Nixon administration and the managing director of the IMF – was opposed to using the existing bodies within the International Monetary Fund (IMF), but desired inclusion of the LDCs in the reform discussions. In April 1972, the G-10 finally reached a decision to establish a new forum within the IMF to handle the reform negotiations – the C-20.[4]

As its name suggests, the C-20 was made up of representatives from the twenty IMF member constituencies which already existed for the purpose of appointing the Executive Board of the IMF. Three officials – a finance minister, a central bank governor and a senior civil servant – represented each constituency. In addition, because ministers would be unable to meet regularly and carry out the detailed work of the negotiations, a C-20 deputies group was established to undertake these responsibilities. Finally, a C-20 Bureau carried out the secretariat function of the reform talks and was led by the chairman of the C-20 deputies.[5] The C-20 was officially created through a postal ballot of the IMF Board of Governors in July 1972 with the first meeting taking place at the IMF Annual Meeting in September 1972 under the official name of "the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues."[6] The ambitious goal of the C-20 was "to consolidate all that earlier work and to build, as at Bretton Woods, a complete design for an international monetary system that would last for 25 years."[7]

In anticipation of the first C-20 gathering, through the summer of 1972 Western states worked to shape their respective positions. In Bonn, the preparations were handled predominately by the Finance Ministry because of

[3] Please see Chapter 1, footnote 151 for G-10 membership.
[4] *Foreign Relations of the United States* 1969-1976 III: Foreign Economic Policy: International Monetary Policy, 1969-1972 (hereafter *FRUS* III), 619-20. http://history.state.gov.gate2.library.lse.ac.uk/ (accessed January 2011).
[5] Ibid., 619-620; Bundesarchiv Koblenz (hereafter BAK), B136/7351, *Betr.: Stand der Überlegungen zur Reform des internationalen Währungssystems.*
[6] John Williamson, *The Failure of World Monetary Reform, 1971-1974* (New York: New York University Press, 1977), 61.
[7] Harold James, *International Monetary Cooperation since Bretton Woods* (Washington, D.C.: International Monetary Fund, 1996), 246.

the technical nature of the talks as well as because the meetings were at ministerial level. Throughout the negotiations, Schmidt, Karl Otto Pöhl, State Secretary in the Finance Ministry, and Otmar Emminger, Vice President of the Bundesbank, represented the Federal Republic at C-20 ministers' meeting; Pöhl and Emminger were also the West German representatives at C-20 deputies' gatherings.[8] As chancellor, Brandt naturally had a say in the overall direction of the West German position, but monetary reform talks seemed not to be among his primary concerns. Instead, as was highlighted in the previous chapter, throughout 1972 Brandt was focused on European integration efforts, the currency crises, the federal elections and *Ostpolitik*.[9] Even after the move to floating in March 1973, Brandt's attention remained on European integration, but now also included other issues such as EC-American tensions over Kissinger's "Year of Europe" initiative.[10] Initially, Brandt's lack of involvement had few repercussions, as Bonn had similar policy goals to those undertaken during the collapse of Bretton Woods: namely, furthering European integration while also maintaining West German economic strength.

At a special meeting of EC economics and finance ministers on 17-18 July 1972, the Federal Republic along with its EC partners agreed that they would present a common position throughout the C-20 negotiations. The EC members believed that this would be productive on two fronts. First, a common EC position would be a logistical advantage – getting agreement among 20 different constituencies would be nigh impossible if a few did not reach

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[8] BAK, B136/7351, *TO-Punkt 1: Reform des Währungssystems: Zum Treffen der EWG Wirtschafts- und Finanzminister am 17./18/7/1972* (hereafter B136/7351, *EWG*); BAK, B126/33476, *Kurzbericht über die Sitzung der Stellvertreter des Zwanziger-Ausschusses vom 27. bis zum 29.11.1972* (hereafter B126/33476, *November Stellvertreter*).

[9] Arnulf Baring and Manfred Görtemaker, *Machtwechsel: Die Ära Brandt-Scheel* (Berlin: Ullstein, 1998), 473-597; Willy Brandt, *Erinnerungen mit den Notizen zum Fall G.* (Munich: Ullstein, 2003), 295-314; Also see Chapter 1.

[10] Daniel Möckli, "Asserting Europe's Distinct Identity: the EC Nine and Kissinger's Year of Europe," in *The Strained Alliance: U.S.-European Relations from Nixon to Carter*, eds. Matthias Schulz and Thomas A. Schwarz (Washington DC: Publications of the German Historical Institute and Cambridge University Press, 2010), 195-220; Fabian Hilfrich, "West Germany's Long Year of Europe: Bonn between Europe and the United States," in *The Strained Alliance: U.S.-European Relations from Nixon to Carter*, eds. Matthias Schulz and Thomas A. Schwarz (Washington DC: Publications of the German Historical Institute and Cambridge University Press, 2010), 237-256.

agreement beforehand.[11] Second, since the EC was working towards EMU and closer European political cooperation as well, it naturally followed that Europe should speak with one voice at international negotiations.[12] At the same meeting, the EC ministers attempted to agree to objectives for reform with the aim of coordinating their respective positions before the IMF annual meeting in September 1972.[13] To this end, the EC ministers focused on four aspects of reform: exchange rate policy and the adjustment process; controlling international liquidity; dollar-gold convertibility; and short-term capital movements.[14]

West Germany's approach to the four topics of discussion was greatly influenced by recent economic events as well as *Stablitätspolitik*, a chief aim of West German monetary as well as economic policies. Being the main target of short-term capital flows, the Federal Republic was well aware of the difficulties in maintaining fixed parities and the benefits of floating. Yet Bonn also understood the trade benefits of a fixed exchange rate regime and was loath to lose them. Thus, West Germany argued for a more flexible fixed parity system in which the bands of fluctuation would be wide and the adjustments to rates more timely.[15] The Brandt government was also of the opinion that floating exchange rates under the permission and supervision of the IMF should be allowed until a final agreement on reform of the international monetary system was completed.[16]

For Bonn, the final three issues intertwined with one another under the broader heading of control of international liquidity. With its inflation rate steadily rising and its *Stabilitätspolitik* ever more difficult to maintain, the Federal Republic was particularly keen to ensure a mechanism for controlling

[11] Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1972*, vol. 2, (München: R. Oldenbourg Verlag, 2003) (hereafter *AAPD 1972/2*), 940-1.
[12] BAK, B136/7352, *TO-Punkt 2: Meinungsaustausch über die Arbeiten des Zwanziger-Ausschusses* (hereafter B136/7352, *Meinungsaustausch*).
[13] IMF, S1817, European Communities Commission 1972, *Meeting of EEC Finance Ministers 17/18 July 1972 – Note by the Chancellor of the Exchequer.*
[14] B136/7351, *EWG.*
[15] Ibid.; B136/7351, *Erklärung Staatssektretär Dr. Emde.*
[16] Ibid.

global liquidity in the reformed system.[17] West Germany saw two main sources of liquidity creation. First and foremost was the United States and its exploitation of the special privileges afforded the primary reserve currency country. Over the previous few years America had not settled its imbalances in primary assets; but rather through the creation of liabilities. In this way, Washington had financed its domestic programs as well as the Vietnam War. This form of financing led not only to an explosion in international liquidity through the early 1970s, but also contributed to chronic balance of payments deficits for the United States, the combination of which triggered currency crises. The closing of the gold window signalled that the United States intended henceforth only to settle in its own liabilities. [18]

A second major source of liquidity creation was the Euromarkets. Since the 1960s, the capital markets in Europe had grown massively, as central banks began placing their currency reserves through them and private entities used them for investment and financing purposes. Like America's exploitation of its privileged position, the Euromarkets played a key role in the currency crises. Not only did they inject liquidity into the system but due their enormous size, a given currency could be speculatively forced into having its par value altered or heavy intervention measures to support designated rates, regardless of whether the underlying economic data indicated that its relative value was correct. The floats of the D-mark in 1969 and 1971 were brought on primarily by such speculation. [19]

In order to regain control over international liquidity, the Federal Republic advocated a series of measures. First, to overcome the asymmetry that existed between the United States and the rest of the countries under the Bretton Woods System, Bonn proposed not simply the return of convertibility, but a symmetrical settlement: all countries – regardless of their previous status –

[17] British National Archives (hereafter TNA), T354/139, *German Paper on International Monetary Reform* (hereafter T354/139, *German*); B136/7352, *Meinungsaustausch.*
[18] Williamson, 78.
[19] BAK, B126/33476, *A Note on Measures to affect Euro-Currency Markets*; BAK, B126/33476, *Observations on the Problem of Disequilibrating Capital Flows*; B136/7352, *Meinungsaustausch.*

should be required to settle their imbalances promptly in primary assets.[20] This meant that America would be forced to convert all dollar balances into primary assets, thus putting the dollar on an equal footing with all other currencies and forcing the United States to address its balance of payments deficit. In addition, the Federal Republic called for SDRs to replace dollars and gold as the primary reserve asset and for the introduction of "working balances" with regard to currency reserves.[21] "Working balances" implied that central banks would only hold reserve currencies in an amount necessary to maintain an orderly system. Countries would then be required to place any excess reserves in other international reserve instruments, in particular SDRs.[22] Furthermore, the Brandt government pushed for the creation of a system of controls through the OECD or IMF which would limit capital movements and the actions of the Euromarkets in general. Finally, Bonn was keen to deal with the enormous dollar overhang in existence as part of its efforts to control liquidity in the future and thus suggested that a system for consolidating it be developed. [23]

West Germany found only partial support among the two other major economies in the EC: France and Great Britain. Shaped by its strict preference of fixed exchange rates and relatively rarely subject to massive speculative flows, Paris agreed with Bonn on a fixed, but adjustable exchange rate regime. The Pompidou government however did not believe there were any circumstances under which floating exchange rates should be legalized.[24] The French also shared the Germans' desire to introduce symmetrical settlement in primary assets between all countries.[25] This was not necessarily because of any overwhelming worry about the inflationary effects of an overabundance of systemic liquidity as it was for Bonn; rather, France saw the issue in terms of power politics: in the future the United States should have the same rights and

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[20] B136/7351, *EWG*; T354/139, *German*; B136/7352, *Meinungsaustausch.*
[21] B136/7351, *EWG.*
[22] Ibid.; B136/7351, *Erklärung Staatssektretär Dr. Emde*; T354/139, *German.*
[23] Ibid.; B136/7352, *Meinungsaustausch.*
[24] Williamson, 88; BAK, B136/7352, *Europäisch-amerikanische Beziehungen Reform des Weltwährungssystems* (hereafter B136/7352, *Beziehungen*).
[25] Historisches Archiv der Deutschen Bundesbank (hereafter Bbk), N2/K75, *Note on the Symmetry in the Reserve Asset Settlement System.*

duties as all other countries.[26] In addition, because more than half of French reserves were in gold, they wanted it to retain a strong place alongside SDRs in the future monetary order and hoped to increase the official price of it.[27] Having been at the center of the speculative storms in recent years and forced to leave the EC snake and float independently in recent weeks, the United Kingdom agreed with the West German approach to the exchange rate regime. Although less concerned about the inflationary effects of liquidity, London shared Bonn's positions on the removal of the current asymmetry between the dollar and other currencies as well as SDRs, gold and consolidation.[28]

By the end of the meeting EC ministers had managed to agree to eight broad points which reflected their common perspectives on the goals of monetary reform. At the heart of their emerging common position was the agreement on the issue of convertibility or, as it was later referred to, "asset settlement": although Europe was still undecided over which reserve instruments should become the primary reserve asset, all agreed that convertibility of dollar reserves was essential and that all countries should be required to settle in primary assets. In addition, the EC concurred that the future system should be based on fixed, but adjustable exchange rates. Given European differences on the concept, floating went unmentioned. Finally Europe also agreed the following: there should be greater regulation of international liquidity; attempts should be made to diminish disruptive short-term capital movements; all participants should maintain balance of payments equilibrium and abide by the same rules and duties; the interests of the LDCs should play a larger role; and reform of the international monetary system should in no way be incompatible with the further development of EMU.[29] Yet, strong differences on key aspects of reform still remained among the European states, above all floating, the role of gold and SDRs, the means to control short-term capital movements and how to specifically address the special issues of LDCs. Although these issues continued to be discussed over the following

[26] BAK, B136/7351, *Ergebnisvermerk über das Sondertreffen der EWG-Finanzminister am 17./18. Juli 1972 in London* (hereafter B136/7351, *Ergebnisvermerk*).
[27] Ibid.; Bbk, N2/K89, *Betreff-Zusammenfassung erster französischer Überlegungen zum Problem des Numeraire*, B136/7352, *Meinungsaustausch*.
[28] B136/7351, *Ergebnisvermerk*.
[29] Ibid.

months, EC finance ministers failed to agree common positions by the first C-20 gathering in September 1972 as they had initially hoped.[30] Consequently, Europe went into the first C-20 meeting with general goals, but no clear plan as to how these objectives were to be attained technically.

The United States took a different approach to the C-20 talks. Viewing them as the first real opportunity to devise a plan for an overhaul of the monetary system, Washington worked throughout the summer of 1972 to create a comprehensive reform strategy.[31] America's position on key aspects of reform contrasted noticeably with Europe's. While Washington agreed with its European allies that the balance of payments differentials between the major Western states were disrupting the international monetary system, America did not view itself as primarily responsible for this. The United States believed that the problem lay above all with the surplus countries, in particular the Federal Republic and Japan. It seemed to Washington that the lack of substantial incentives for surplus countries to decrease or eliminate their surpluses had driven America into deficit. Over the years, the United States had acted as the systemic balance or residual country, allowing other countries to live with undervalued currencies, thereby maintaining their competitiveness and increasing their balance of payments surpluses. Surplus countries were able to hold and even increase their stockpile of reserves without any recourse under the Bretton Woods rules, while deficit countries felt great pressure to reduce their deficits. Thus, from the Nixon administration's perspective, the main problem was the asymmetry in the adjustment process that existed between deficit and surplus countries. In order to correct this problem the balance of payments adjustment process would have to be reformed to impose greater obligations on the countries in surplus to correct their positions.[32] Based on this view, the United States developed its proposal for reform.

[30] B136/7351, *Zur Klasurtagung vom 1./2.9.1972*.
[31] Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York: Times Books, 1992), 117-8.
[32] Bbk, N2/K75, *Vermerk: Betreff-Objektive Indikatoren* (hereafter N2/K75, *Indikatoren*); BAK, B126/33478, *I. Anpassungsprozess*; BAK, B126/33476, *Stellvertreter November*.

Objective reserve indicators formed the core of America's proposal. The Nixon administration understood that the other members of the newly established C-20 were going to require that the reformed system be based on a fixed exchange rate regime and include convertibility. Yet if such a system were to be created and not place America in the same position as it had been under the Bretton Woods system, Washington concluded that demand for could not outweigh the supply of reserves. To this end, the United States devised the 'reserve indicator system.' In it, countries would be forced to adjust when reserves passed their respective reserve 'norm' – an internationally agreed initial reserve base level. If a country refused to adjust, it would be susceptible to sanctions or 'pressures' from the IMF.[33]

Although the American proposal focused primarily on the adjustment process, it also dealt with points related to convertibility and the exchange rate regime. Washington accepted a return of dollar convertibility into primary reserve assets under two conditions: first, an improvement in the US liquidity position; and second, the introduction of a reserve indicator. In addition, the United States advocated the introduction of a 'convertibility point' or later referred to as 'primary asset holding limits.' If a country's reserves exceeded this point, the country would be prohibited from converting additional foreign exchange accruals into primary reserve assets. Contrary to the view of most EC states and in particular West Germany, America did not wish to ban holdings of foreign exchange.[34] As to the fixed exchange rate regime, the United States proposed the introduction of multicurrency intervention (MCI) under which national currencies would be pegged to a basket of currencies rather than the dollar. This idea was meant to deal with what the United States saw as a further asymmetry in the Bretton Woods system: namely, that because of its status as the principal intervention currency, America had only half the flexibility for market exchange rate variation as all other countries and thus, greater limitations on its economic and monetary policy options.[35]

[33] Ibid.
[34] Ibid.
[35] Ibid.; Bbk, N2/K75, *Betreff – Reform des Weltwährungssystem, "A Note on Possible Intervention Arrangements".*

-Slow Reform: C-20 Negotiations September 1972-September 1973-

The first meeting of the C-20 ministers took place on 25-29 September 1972. Most of speakers' remarks, including all European representatives, focused on an August IMF report.[36] Although presenting options for possible solutions to monetary problems, it gave no concrete suggestions for action. In six "chapters" it set forth areas for discussion: the necessity of reform; the exchange rate mechanism; convertibility and the financing of balance of payments positions; the role of various reserve instruments; the problem of disruptive capital movements; and finally monetary reform and the LDCs.[37] Most C-20 members commented on the individual areas outlined; the United States, however, did not follow this pattern, as the American Secretary of the Treasury, George Shultz, revealed via the American proposal. Immediate responses to it were limited; instead, the C-20 ministers concentrated on more procedural matters. Using the IMF report as a starting point, the C-20 ministers agreed to four themes for discussion: the adjustment process and the exchange rate mechanism; reserve assets and convertibility; capital controls; and the special issues of the LDCs. Over the coming six months, the C-20 deputies were to meet and negotiate each issue. The chairman of the C-20 deputies was then to give a progress report to the C-20 ministers at their second meeting in March 1973.[38] It was hoped that a considerable amount of headway would be made on each item.

The convergence of ideas on the first theme – the adjustment process and the exchange rate mechanism – was limited. At the November 1972 deputies gathering, the American Undersecretary of the Treasury, Paul Volcker, took the opportunity to explain in more detail the American proposal, but many of the deputies were skeptical, in particular West Germany's. Bonn argued against the usefulness of technical indicators, citing the risk of speculation if warning points were made public as well as the economic inaccuracy of using only reserves to determine when a country should adjust. Instead, it was

[36] B136/7351, *Zur Klasurtagung vom 1./2.9.1972.*
[37] BAK, B136/7351, *Vermerk: Betr.: Inhaltsangabe des Berichts der Direktoren des IWF zur Reform des internationalen Währungssystems*; BAK, B136/7351, *Report from Dr. Lore Fuenfgelt.*
[38] B136/7352, *Meinungsaustausch*; B136/7352, *Beziehungen.*

maintained that the IMF should play a bigger role in determining when a country might need to adjust. Ultimately, however, the Federal Republic believed, that the individual country had to decide when and how it adjusted. Luckily for Bonn, its European partners as well as nearly all LDCs shared this view.[39]

Changing the American position would prove difficult: Washington believed in its plan and was not keen to have the IMF more involved in the international monetary system than necessary. The United States' argued that the objective reserve indicator system would be efficient and equitable, as national governments tended to avoid or delay politically uncomfortable adjustment decisions and international organizations, such as the IMF, were reluctant to deal with the politically sensitive issue of adjustment.[40] After two meetings, the C-20 deputies had only managed to slightly bridge the gap between the two positions. There was agreement that objective indicators could play a role in the adjustment process, in particular through opening a consultation process in the IMF. Yet, disagreement abounded as to which technical indicators should be used, whether the indicators should automatically trigger measures for adjustment, to what degree the IMF, rather that an individual country, should determine the necessary steps for adjusting, and what pressures should be applied if a country failed to adjust. Moreover, although the C-20 deputies concurred that the IMF consultation procedure should be improved upon, they failed to specify how this was to occur.[41]

The C-20 deputies had less trouble reaching an agreement on the exchange rate mechanism, as all held the position that the reformed system should be based on fixed, but adjustable exchange rates.[42] Moreover, all C-20

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[39] BAK, B136/7352, *Vermerk: Stand der vorbereitenden Überlegungen für die Sitzung der Stellvertreter des Zwanzigerausschusses am 27./29.11.1972* (B136/7352, *Stand*); BAK, B126/55902, *Betr.: Ergebnis des 44. Treffen der EG-Finanzminister am 15./16. Januar 1973 in Luxemburg* (hereafter B126/55902, *EG*)

[40] N2/K75, *Indikatoren*; Kenneth W. Dam, *The Rules of the Game: Reform and Evolution in the International Monetary System* (Chicago: The University of Chicago Press, 1982), 224.

[41] BAK, B136/7352, *Betr.: Sitzung der Stellvertreter des Zwanziger-Ausschusses am 23./25.1.1973* (hereafter B136/7352, *Stellvertreter Januar*); B136/7352, *Meinungsaustausch*; B136/7352, *Beziehungen.*

[42] B136/7352, *Stellvertreter Januar.*

deputies also believed that a country should first attempt to employ economic policy instruments when adjustment was required and only resort to an adjustment in the exchange rate when absolutely necessary.[43] There were, however, varying views about the legalization of floating exchange rates, but here the split was not between the United States and the EC, but rather within Europe.[44] After having been forced to float several times over the previous years, the Federal Republic advocated legalizing floating rates, so long as they were limited in nature and IMF approved.[45] Bonn's European partners generally supported this position with France being the exception. Vehemently opposed to floating exchange rates, Paris rejected their legalization.[46] Despite numerous discussions in both the C-20 and EC forums throughout this period, the French refused to alter their stance; this was only one of several issues on which the EC, despite its aim of presenting a joint position, failed to do so.

The C-20 deputies struggled even more to reach agreements on the second theme – convertibility and reserve assets.[47] As pointed out earlier, these issues were of great importance to the Federal Republic because of their relationship to systemic liquidity and Bonn's position in the talks reflected this concern. As it had done at the special meeting of EC finance ministers in July 1972, West Germany argued for mandatory asset settlement and the introduction of "working balances" for all newly accrued currency reserves with any amount exceeding the balance going into primary reserves, above all SDRs.[48] In addition, Bonn also supported the Italian idea of a substitution account for the existing dollar overhang. The idea of asset settlement was one of the items which the EC countries had quickly agreed upon at the special

[43] Ibid.
[44] Despite the presence of floating over the past several years, technically floating was still considered illegal under the Articles. Thus, certain states wished to legalize floating with the permission of the IMF.
[45] B136/7352, *Stand.*
[46] B136/7352, *Beziehungen*; BAK, B136/7352, *Betreff Dritte Sitzung desStellvertreterausschusses der Zwanzig für die Reform des internationalen Währungssystems am 23. bis 25.1.1973* (hereafter B136/7352, *Dritte*).
[47] Ibid.; Bbk, N2/K89, *EBD/73/106—Subject—Approaches to Consolidation, Convertibility and Asset Settlement.*
[48] Ibid.

meeting of EC finance ministers in July 1972 and thus Bonn received firm support for this notion from its European allies.[49]

While America accepted that convertibility should be part of the reformed system, Washington made the adoption of an adjustment process based on technical indicators a prerequisite to it. The United States would not be able to agree to settle in reserve assets so long as surplus countries could go on accumulating dollars and hence claims on American assets. Moreover, Washington argued that it should remain a right, not a duty, for creditor countries to present dollars to the United States for conversion at a time and magnitude of their choosing. This would allow for greater elasticity in the system, as countries would be able to determine the composition of their reserves according to their economic needs.[50] With regard to the consolidation of the dollar overhang, however, the United States agreed with the European position that the suggestion for a substitution account should be investigated.[51] Many of the LDCs and the remaining industrialized countries, such as Canada, tended to take a largely American perspective. While they firmly desired a return of convertibility and would have preferred that the United States also settle in primary reserves rather than liabilities, it was more important to these countries to have the "freedom" to determine the composition of their reserves[52] – in particular the oil producing states, preferred holding dollars as they could gain a good return by placing them through the Euromarkets.[53]

During talks on reserve assets, Bonn had to be more careful in arguing its position. The EC had agreed going into the C-20 discussions to present a united position, but during the first meetings of the C-20 ministers and deputies, the European countries had struggled to do so. Consequently, the EC finance ministers had resolved at their meeting in January 1973 to improve upon this.[54] Unfortunately, however, the EC was still divided about the role that gold should play in any future system. West Germany, as indeed most countries in the EC,

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[49] Ibid.
[50] B136/7352, *Stellvertreter Januar.*
[51] B136/7352, *Dritte.*
[52] Ibid.
[53] Dam, 238-9.
[54] B126/55902, *EG.*

had a mild preference for a diminishing role of gold over time. In this context Bonn did not wish to see an increase in the official price of gold, as this would increase global liquidity and hence disrupt efforts towards *Stabilitätspolitik*. Nor was the Brandt government prepared to see gold bought or sold on the market.[55] France, however, firmly stuck with its advocacy for a strong role for gold in the reformed system. Paris believed that if gold could not exist equally alongside the SDR, then the official price of gold should be increased and governments should be free to buy and sell gold on the market.[56]

Thus, given the EC finance ministers' agreement to appear united, in their comments, West German officials focused on SDRs rather than gold. The Federal Republic argued that SDRs should become the principal reserve asset. Surprisingly, not just Bonn's EC partners, but all of the C-20 deputies agreed with this position.[57] Disagreement, however, quickly followed over how to increase the attractiveness so that governments would choose to hold SDRs instead of currencies and the size of future SDR allocations.[58] Moreover, despite West Germany and the EC members' limited comments, it did not make the issue of gold any easier to resolve. Instead, France argued forcefully for increasing the price of gold and the sale of it on the open market. While Paris gained support from some speakers for the market sale of gold, the French ran up against a staunch refusal from the United States and a limited number of LDCs on its demands for gold.[59]

The C-20 deputies were to debate the topics of disequilibrating capital movements and the special issues of the LDCs at their March 1973 meeting, but the collapse of the Bretton Woods monetary system only days before altered these plans. As a consequence C-20 deputies spent the majority of the gathering discussing the recent developments with only capital movements being touched upon. This latter issue was important to Bonn, as Germany had been the main target for destabilizing capital flows, forcing the Federal Republic to float on

[55] B136/7352, *Meinungsaustausch*; B136/7352, *Beziehungen*.
[56] Ibid.
[57] B136/7352, *Stellvertreter Januar*; B136/7352, *Dritte*.
[58] Ibid.
[59] Ibid.

numerous occasions. Bonn had suggested the use of coordinated capital controls at the July 1972 special meeting of EC finance ministers, but due to the new circumstances, the Federal Republic changed its position, maintaining that it was futile to attempt to erect capital controls to try to prevent speculative movements. West German officials now argued for coordination of interest rate policies, greater flexibility in the exchange rate system, restricted investment of reserves on the Euromarkets and the imposition of reserve requirements. [60] While several countries including the United States agreed with the Federal Republic's position on capital controls, some industrialized countries including France and Belgium as well as LDCs did not. Given the recent currency crisis, nearly all C-20 members concurred that a more flexible system was needed, but several countries, including the majority of the LDCs, were still leery of restricting reserve investment on the Euromarkets and Washington's position on convertibility remained unchanged.[61] Thus, much like the first two themes, little headway was made on dealing with disequilibrating capital movements.

In the run up to the second meeting of the C-20 ministers on 26-27 March 1973 it hence became clear that the C-20 negotiations were not proceeding particularly well. On nearly all the themes discussed, the United States took the opposing view to the majority of European countries. Yet, contrary to key works on the C-20 discussions, difficulties were not just the result of a transatlantic divide.[62] After all the Europeans themselves proved incapable of reaching a common perspective on key aspects of reform. In some instances the EC had managed to conceal these divisions at the C-20 deputies meetings; but in others they had shone through. Just prior to the March C-20 ministers meeting, European finance ministers met in a final attempt to establish harmony – to no avail.[63] Recognizing that their positions on reserve currencies, capital movements and issues of the LDCs were still disparate, the EC finance ministers resolved that in the joint EC statement to be read at the forthcoming C-20 meeting, they would focus primarily on the issue which they

[60] B136/7352, *Betr.: Sitzungen der Minister und der Stellvertreter des Zwanziger-Ausschusses vom 22. bis zum 27.3.1973.*
[61] Ibid.
[62] See James and Williamson.
[63] B126/55902, *EG.*

agreed upon – adjustment. In addition, they would also call for further priority consideration to be given to asset settlement and convertibility.[64]

Washington, similarly dismayed by the C-20's progress, believed that the blame for it lay with the EC.[65] As was shown in the previous chapter, much of the Nixon administration's actions during the March currency crisis and subsequent collapse of the Bretton Woods system were influenced by the potential repercussions on C-20 reform talks. Heading into the C-20 ministers meeting, America hoped that its adopted course would both provide it greater leverage in the C-20 to push through its vision of reform as well as increase the speed with which the talks were concluded.[66]

As planned, the chairman of the deputies opened the second meeting of the C-20 ministers on 26-27 March 1973 by providing a report on the deputies' progress. As each constituency responded to the report and offered its views on reform talks thus far, however, C-20 members mostly recapitulated the same positions they had taken over the previous six months. As talks moved onto the fourth theme – the special issues of the LDCs – further division appeared. The main point of discusssion concerned the creation of a link between additional SDR allocations and increased aid to the LDCs. "The link," as it would come to be known, was strongly opposed by the Federal Republic because its potential inflationary effects.[67] Bonn was joined by Washington in its opposition, with the American officials arguing that Congress would never agree to a reform package which included it. The rest of the EC, in particular the United Kingdom and Italy, however, were in favor of it as were the LDCs.[68]

It is important to note that C-20 ministers did manage to reach at least some agreement, helping to move the reform talks ever so slightly forward.

[64] BAK, B136/7352, *Ergebnisvermerk über das Sondertreffen der EG-Finanzminister am 23. März 1973* (hereafter B136/7352, *Sondertreffen März*); BAK, B136/7352, *Statement by Mr. Willy de Clercq* (hereafter, B136/7352, *de Clercq*).
[65] *FRUS* III, 51-52, 61-63, 65-70.
[66] Ibid. See Chapter 1.
[67] Bbk, N2/K89, *Vermerk: Betreff- Koppelung von SZR-Zuteilung und Entwicklungshilfe; hier-Haltung der Bundesregeierung.*
[68] BAK, B136/7352, *Bericht über die zweite Sitzung des 20er-Ausschusses am 26./27. März 1973* (hereafter B136/7352, *Bericht März*).

Much like their deputy counterparts, the C-20 ministers spent a significant amount of time discussing recent monetary events, and it became clear that the collapse of the Bretton Woods system had an effect on the perspectives of the C-20 members on two main issues. First, every C-20 constituency concurred that the main reason for the recent currency crises and collapse of Bretton Woods was the American balance of payments deficit and thus an improvement in it was a prerequisite for effective reform.[69] Second, with a large number of countries now floating their currencies, it was only logical that the issue of the exchange rate mechanism would become more controversial. Somewhat surprisingly, all agreed: all C-20 ministers affirmed that the reformed system should be based on "fixed, but adjustable par values;" and, France accepted, that floating on a "temporary" basis should be permitted.[70] This French change of position was probably to do with the fact that Paris was now part of the European group float against the dollar. Whatever the case may be, all C-20 members now recognized the necessity and practicality of floating in certain situations and thus resolved that it should be allowed under the Articles. Despite this agreement though, C-20 members were still divided as to whether or not there should be a timeframe imposed on floating – as the French desired, and if a country should need the IMF's permission to float (which both the United States and the United Kingdom opposed).[71] On the back of these meager convergences, the chairman of the deputies was instructed to prepare an outline of reform for the September 1973 ministers meeting, including solutions agreed on by the deputies and identifying the key questions the ministers needed to decide upon.[72]

Over the coming months though, as the capitalist world adjusted to floating exchange rates, Bonn's policy priorities and hence its perspectives on international monetary reform began to change. With efforts toward European economic and monetary union (EMU) moving ahead after the creation of the European group float in March 1973 and the Federal Republic no longer having

[69] Ibid; B136/7352, *Erklärung von Bundesminister Helmut Schmidt März 1973* (hereafter B136/7352, *Schmidt März*).
[70] Ibid.
[71] Ibid.
[72] B136/7352, *Bericht*; BAK, B126/48881, *C/XX/DEP/Doc/73/43.*

to subjugate its domestic economic policy goals, in particular *Stabilitätspolitik,* to external exchange rate stability, West Germany's focus turned to fighting inflation.[73] By April 1973, the West German inflation rate had climbed to 7 percent, a figure considered to be very high by West German officials.[74] Within weeks of the start of the group float, the Bundesbank took steps to lower inflation, increasing interest rates to between 7 and 9 percent.[75] Additionally the Brandt government introduced the most extensive stability program in the post-war period in May 1973. In it, wide-ranging restrictive measures, such as raising taxes and the creation of a stability bond, were instituted in an attempt to regain price stability.[76] In addition, West Germany pushed for and succeeded in getting common measures on inflation fighting in the EC in June 1973.[77] When Bonn's restrictive course began to affect its partners in the EC, in particular the United Kingdom, Brandt was personally asked by the British Prime Minister, Ted Heath, to lower West German interest rates. Yet Bonn refused to waver from its inflation-fighting path.[78]

The emphasis on regaining price stability had an impact on the C-20 talks. Since the start of discussions on international monetary reform, the Federal Republic had been above all worried about controlling international liquidity because of its inflationary repercussions, but it had also made efforts to reach a common European position for the sake of European integration efforts.[79] By spring 1973, West Germany began to place a greater emphasis on

[73] Emminger, *The D-Mark in the Conflict between Internal and External Equilibrium, 1948-1975*, Princeton Essays in International Finance no. 122 (1977) (hereafter Emminger, *Conflict*), 38-40, 53.
[74] Otmar Emminger, *D-Mark, Dollar, Währungskrisen: Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart: Deutsche Verlags-Anstalt, 1986) (hereafter Emminger, *Währungskrise*), 256; Bbk, N2/K89, *Rede von Bundeswirtschaftsminister Friderichs auf der Ratstagung der Europäischen Gemeinschaft am 22. März 1973.*
[75] BAK, B126/65667, *Betr.: Die aktuelle Konjunkturlage in 1973.*
[76] Emminger, *Währungskrise*, 256-7.
[77] Bbk, N2/K75, *Entschließung des Rates über weitere Massnahmen zur Inflationsbekämpfung – June 1973.*
[78] Bbk, N2/K167, *Entwurf einer Antwort auf das Schreiben von Premierminister Heath vom 31. Juli 1973.*; Bbk, N2/K167, *Message from the Prime Minister to, Herr Willy Brandt, 31.7.73*; BAK, B136/7334, *Vermerk: Betr.: Britische Kritik an der deutschen Geld-, Kredit-, und Zinspolitik.*
[79] For West Germany's first thoughts on this see TNA, T354/139, *Control of International Liquidity: German Paper for the EEC Monetary Committee.*

the former.[80] During the May and July 1973 C-20 deputies meetings, Bonn refused to budge on any point which could potentially result in the expansion of international liquidity, such as "the link."[81] More importantly, the Federal Republic's anti-inflation drive also affected its perspectives on floating: the Brandt government was reluctant to cease floating until global liquidity could be brought under control, for West Germany wished to avoid importing inflation as it had during the currency crises over the previous year.[82]

Yet, for Bonn better control of international liquidity was only part of the prerequisite for a return to a fixed exchange rate regime. Having experienced the full wrath of the February and March 1973 currency crises, the Brandt government was unwilling to take part in a reformed system based on fixed, but adjustable exchange rates so long as the dollar did not strengthen and America's balance of payments improve.[83] Indeed, at their March 1973 meeting, the C-20 ministers had agreed that the latter was a prerequisite for reform. Yet, between April and June 1973, the dollar depreciated substantially, as confidence in the American currency rapidly declined and the U.S. balance of payments position was not a priority of the Nixon administration, given the outbreak of Watergate and the recent surge of tensions between America and the EC over the new Atlantic Declaration.[84] By June 1973 Schmidt maintained in an intergovernmental meeting, "Ich sehe nicht – das sage ich ganz im Klartext – wie im Laufe dieses Jahres der Dollar wieder allseitig als stabil eingeschätzt werden wird. Infolgedessen sehe ich auch für den Augenblick kaum irgendeine Chance für eine Reform des Weltwährungssystems im Sinne der bisherigen Reformdiskussion, es sei denn, man ist der Auffassung – die ich mir nicht zu eigen machen –, das allseitige Floaten der wichtigsten Währungen der Welt sei schon das neue Weltwährungssystems."[85] While Schmidt refrained from immediately voicing this perspective at the C-20 meetings, it was clear that he was beginning to doubt the usefulness of the C-20 negotiations.

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[80] TNA, T354/139, *Inflation and the International Monetary System – Per Jacobsson Lecture by Otmar Emminger.*
[81] See footnote 86.
[82] Bbk, N2/K89, *C/XX/DEP/Doc/73/42.*
[83] Ibid.
[84] BAK, B136/7352, *Stenographisches Protokoll 14. Sitzung des Finanzausschusses.*
[85] Ibid.

This feeling was only reinforced by the work of the C-20 deputies during their May and July 1973 meetings. As pointed out above, West Germany was committed to its positions on controlling international liquidity; however, the United States and France were equally attached to their perspectives. America was particularly inflexible about its approach on the adjustment process, seeing it as a prerequisite for the return to convertibility. France was also adamant in its views on gold and asset settlement. Consequently, despite the establishment of working groups on the adjustment process and technical indicators, capital movements and "the link," the C-20 deputies had little success in bridging the significant gaps between members on any of the key issues of reform. Instead, deadlock occurred.[86]

In an attempt to find some common ground at least among themselves and devise a method for reaching at least some agreement with the United States, the EC monetary committee met shortly before the C-20 ministers meeting on 19-20 July 1973. Pessimism overshadowed much of the conversation; and the European partners reached few compromises on the outstanding contrasting positions.[87] In these circumstances, the Brandt government began to take the initiative by making a strong plea for focusing on the two issues where there was at least already a "semi-agreement": adjustment and asset settlement. This left the other matters for a later time. Crucially, Bonn was prepared to compromise and move closer to the American position on the adjustment process, even taking up the French suggestion of a negative interest on surplus countries with excess reserves in order to facilitate consensus and progress. The Federal Republic based its argument on the effect that C-20 progress or the lack thereof would have on the exchange rate markets which in

[86] BAK, B136/7352, *Bericht über die Sitzung der Stellvertreter des Zwanziger-Ausschusses am 21./25.5.1973*; BAK, B136/7352, *Bericht über die Sitzung der Stellvertreter des Zwanziger-Ausschusses am 11./13.7.1973*; BAK, B126/34478, *Mr. Morse'e Report on the May 22nd Meeting of Group A.*; BAK, B126/33479, *C/XX/Doc/73/6, Summary of Issues*; BAK, B126/33478, *Mr. Kafka's Report on the May 23rd Meeting of Group C*; BAK, B126/33478, *Mr. Kafka's Report on the May 22nd Meeting of Group B.*

[87] BAK, B126/33479, *Betreff Reform des internationalen Währungssystems, Sitzung des Währungsausschusses der EWG am 19./20. 7. 1973*; BAK, B126/33479, *Bericht über die Stizung des EWG-Währungsausschusses am 19./20. Juli 1973* (hereafter B126/33479, *EWG Juli*).

recent weeks had been particularly erratic and were making the European currency snake harder to maintain.[88] France, however, was more apprehensive about both limiting the focus of the talks and accepting even small portions of the American plan for adjustment. Paris warned that compromise with the Americans was equivalent to allowing a "Trojan horse" into the discussions. [89] Most EC members though agreed with the West German perspective and followed Bonn's lead, as focusing solely on adjustment and asset settlement was the best way to avoid a split amongst the Europeans and to advance overall C-20 negotiations. [90]

When the C-20 ministers met at the end of July 1973 the entire reform project seemed to be in limbo, unless one side was willing to compromise. As agreed at the EC monetary committee, Europe broke the stalemate first. Despite his feelings of frustration towards the entire C-20 process, Schmidt suggested a compromise on the adjustment process in which Washington's desire for graduated pressures on countries unwilling to adjust would be accepted so long as it followed a previous IMF decision to do so, rather than through an automatic trigger based on a technical indicator.[91] In addition, Schmidt made a concession on the issue of asset settlement, suggesting a multi-currency intervention system.[92] In this way, the United States would still be required to settle like all other major trading states, while the smaller LDCs would retain the right to compose their reserve assets as they saw fit. France also presented a possible compromise, proposing a system of graduated pressures in which those surplus countries with excess reserves would have to pay into a special account with a negative interest rate. Eventually even the United States showed a willingness to compromise, noting on technical indicators that they were not meant to be automatic triggers for pressure to be applied, but rather

[88] Ibid.
[89] Ibid.
[90] Ibid.

[91] BAK, B136/7352, *Erklärung des Bundesministers der Finanzen Helmut Schmidt, 30. Juli 1973* (hereafter B136/7352, *Schmidt Juli*); BAK, B136/7352, *Betr.: Sitzung des Zwanziger-Ausschusses am 30./31.7.1973* (hereafter B136/7352, *Sitzung Juli*).
[92] Ibid.

presumptive. Moreover, America was also open to West Germany's suggestion for MCI. After all, such a system was part of its overall reform proposal.[93]

Although no firm agreements were reached at the July 1973 C-20 ministers meeting, the number of compromise proposals and the cooperative attitude exhibited by the ministers seemed to give the C-20 reform process a much needed push forward. Schultz remarked that the meeting had been "the most useful one the Committee had had so far."[94] By the end of the meeting there was hope that at the forthcoming C-20 deputies meeting in September 1973, compromises could be attained based on the proposals presented. In a little over a month, however, this notion was dashed when despite "intense discussions" the C-20 deputies failed to reach a consensus on the major issues of reform during the September 1973 gathering.[95]

When the C-20 ministers met at the IMF annual conference in Nairobi, Kenya, in late 1973, they were disappointed with what the chairman of the deputies presented to them in the "Outline of Reform". Despite attempts to paper over the strongly contrasting positions, the Outline clearly revealed that perspectives on each theme of reform were still very divergent.[96] Frustration was evident and "an atmosphere of disappointment appeared to prevail": it had been two years since the call for reform of the international monetary system in 1971 and one year since negotiations had begun in the C-20 and efforts toward the reform of the international monetary system had hardly progressed.[97] Despite their disappointment, the participants did not give up on their aim of completing the reform project. Instead, the C-20 ministers resolved to reach an agreement on the principles of a new monetary system by 1 July 1974. To this end they agreed that through the autumn 1973 the C-20 deputies should meet in working groups on each issue, rather than in a larger deputies' gathering. In this

[93] B136/7352, *Sitzung Juli.*
[94] BAK, B126/33479, *C/XX/Meeting 73/2-7/30/73, Record of Discussion Session 1, July 30-31 1973.*
[95] BAK, B136/7352, *Betreff: Bericht über die Sitzung der Stellvertreter des Zwanziger-Ausschusses am 5. bis 7.9.1973.*
[96] BAK, B136/7352, *First Outline of Reform*; BAK, B136/7352, *Vermerk für die Kabinettsitzung am 12. September 1973.*
[97] BAK, B126/43422, *C/XX/Meeting 73/3, Meeting No. 4* (hereafter B126/43422, *No. 4*).

way it was hoped that they could achieve greater compromise and thus reform efforts would move forward. Within a few weeks, however, this hope vanished.

As the first year of reform efforts drew to a close, Bonn's influence on the talks had been minimal compared to its impact on the collapse of Bretton Woods. Neither of its policy goals was achieved: the EC struggled to achieve a common approach to the key aspects of reform and at was thus forced to focus on those topics in C-20 talks on which the most agreement could be found, namely the adjustment process and asset settlement. While this gave the appearance of a transatlantic divide (which was subsequently reinforced in literature on the C-20), European finance ministers were aware that the EC was not blameless in the slow progress of the C-20 negotiations.[98] Second, Bonn's concern for price stability was neither fully shared by its EC partners in the reform efforts, nor, as reflected by their economic and policy decisions, in their response to the macroeconomic conditions prevailing in 1973. In addition, West German leadership affected the C-20 negotiations little. As highlighted previously, Brandt's influence was limited by structural factors, but also by other political debates and initiatives. Schmidt was able to contribute to the semi-compromises reached at the July 1973 C-20 ministers meetings, but in general Schmidt's persuasive powers were lost in the large and bureaucratic gatherings where representatives were generally restricted to giving an opening statement and a few comments during open discussion.[99] In addition, as has been shown earlier in this chapter, most of the debate was being had among the C-20 deputies and there contrasting perspectives on technical issues were causing delay.

Indeed by September 1973, Schmidt had grown quite frustrated with what he described as "the panoply of the C-20:" it just did not seem possible to him that agreement among all 20 constituencies was possible, even proposing in Nairobi that the size of the C-20 meetings be reduced.[100] Less than a week

[98] See Williamson and James; B126/55902, *EG*; B136/7352, *Sondertreffen März*; B136/7352, *de Clercq;* B126/33479, *EWG Juli.*
[99] B136/7352, *Bericht März*; B136/7352, *Schmidt März*; B136/7352, *Schmidt Juli*; B136/7352, *Sitzung Juli.*
[100] B126/43422, *No. 4.*

after the conclusion of the September 1973 C-20 ministers gathering, Schmidt described the Nairobi meeting as a "Jagdausflug, um die Trophäe eines neuen Weltwährungssystems zu erringen ... [der] kein fertiges, praxisreifes Modell für die Reform des Weltwährungssystems beschert [hätte]".[101] As his aggravation grew, Schmidt turned to a newly emerging forum in which his style of leadership was sure to be influential and hence Bonn's impact greater: the G-5.

-The G-5, oil and unfinished reform: C-20 Negotiations, September 1973-June 1974-

The G-5 was made up of the Western countries with the five largest economies: namely, the United States, West Germany, France, the United Kingdom and Japan. It had grown out of "the Library Group," so-called because its first meeting took place in the ground floor library of the White House on 25 March 1973. Shultz had called the initial meeting, but the original impetus for it came, at least in part, from Schmidt who during talks with Shultz in early March 1973 had suggested that regular meetings of the Western finance ministers should be held.[102] Shultz had thus seized on Schmidt's idea, inviting the finance ministers of the Federal Republic, France and Great Britain (Schmidt, Valéry Giscard d'Estaing and Anthony Barber respectively),as well as their undersecretaries or deputy ministers to take part. Given its timing – directly after the collapse of Bretton Woods and the day before the March C-20 ministers meeting, the group had exchanged views on recent monetary developments, whilst not making any concrete plans for future action.[103]

The first official gathering of the G-5 took place during the September 1973 IMF annual conference prior to the C-20 gathering in Nairobi, Kenya and included Japan.[104] But whereas the Library Group's March meeting had little

[101] BAK, B136/6306, *Helmut Schmidt, Rede vor dem Institut für das Studium der internationalen Politik in Mailand.*
[102] *Foreign Relations of the United States* 1969-1976 XXXI: Foreign Economic Policy, 1973-1976 (hereafter *FRUS* XXXI), 123-4. http://history.state.gov.gate2.library.lse.ac.uk/ (accessed January 2011).
[103] James, 266-7; Schmidt, 158-9.
[104] TNA, T354/139, *Record of a Conversation at Chequers after Dinner on Saturday 6 October 1973.*

discernable impact on the outcome of the C-20 ministers meeting following it, the G-5's gathering in Nairobi did. Indeed, it was there that the decision was made for the deadline of 1 July 1974 for agreement on the Principles of Reform.[105] As was the case with all successive G-5 decisions on matters of international monetary reform, the G-5 members had to present their idea to the other C-20 members at the September 1973 meeting. This, however, did not prove difficult – on the matter of the deadline, nor in any point to come. Rather, given that the five most powerful constituencies had already concurred, it was generally quite easy to convince the other C-20 members to agree to their proposals. Significantly the initial "Library Group" gathering and the first two G-5 meetings in September and November 1973 were secret; thus, at least for a while, the other constituencies, including other EC states, had little idea that the G-5 had colluded beforehand. This afforded the G-5 states even greater power in their efforts to sway the actions of non-G-5 countries.

By the conclusion of the Nairobi meeting, Schmidt had grown quite fond of the emerging G-5 forum. In contrast to the C-20, the meetings were small and informal.[106] In addition, Schmidt grew to personally like and respect his counterparts in the G-5. As highlighted in the previous chapter, it was one of Schmidt's goals to have better working relationships with both Giscard and Shultz than his predecessor, Karl Schiller, had had.[107] At the Nairobi meeting, it seems that Schmidt achieved this goal. He later wrote of the G-5 gathering and the subsequent evenings spent socializing throughout the IMF annual conference, "in the end we had all learned that we could rely on our colleagues' word, transcending all differences of opinion. This knowledge also led to personal friendships: Giscard and myself, Giscard and Shultz, Shultz and myself . . . and Anthony Barber."[108] It was during this time that Schmidt recalled Shultz becoming "my closest friend in the United States."[109]

[105] Ibid.
[106] B126/43422, *No. 4*.
[107] *FRUS* III, 637-8.
[108] Schmidt, 159.
[109] Ibid., 159.

Schmidt was not alone in his feelings toward the G-5 forum; rather, all members seemed keen to continue with the gatherings. The next G-5 session was scheduled for November 1973, around the time of the C-20 deputies meeting, and was to be hosted by Giscard. Indeed, the G-5 meetings began to run parallel to C-20 meetings, increasingly affecting the shape of direction of the C-20 with each gathering. Yet, the creation of the G-5 was not the only factor to catalyse the progress of the C-20 towards international monetary reform; rather, before either the G-5 or C-20 meetings could carry on with their separate reform efforts, an even greater factor appeared: the oil crisis.

The oil crisis broke out on 16 October 1973 partly as a repercussion of the October War and partly due to tensions between Western-controlled multinational oil companies and the Organization for Oil Exporting Countries (OPEC).[110] On this day, OPEC increased the price of a barrel of Persian Gulf crude (Arabian Light) by 70 percent from $3.01 to $5.12.[111] Then only days later Arab states began an embargo of oil supplies to the United States and the Netherlands.[112] Because of the West's great dependence on oil, the increase of the price of crude affected individual balance of payments positions as well as the overall global payments structure: overnight, the balance of payments positions of nearly all oil-importing states declined sharply, while the balance of payments positions of the oil producing states went up. This made the C-20's work on adjustment even more difficult. The increased disparity in the world's balance of payments structure coupled with the continued threats from the oil producing states about a further increase in oil prices and a prolonged embargo created great uncertainty in the world economy. In such conditions, a return to fixed exchange rates was impossible, thus ending what was meant to be the centerpiece of the reformed system. [113]

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[110] Hans-Peter Schwarz et al., eds, *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1974*, vol. 1, (München: R. Oldenbourg Verlag, 2005) (hereafter *AAPD 1974/1*), 139; Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), 87-91.
[111] *AAPD 1974/1*, 139.
[112] Ibid. 139; Ian Seymour, *OPEC: Instrument of Change* (London: Macmillan Press Ltd., 1980), 116-7.
[113] Bbk, N2/K286, *Financial Implication of the Oil Producers' Surpluses and the Resulting OECD Area's Current Deficits*; BAK, B102/167576, *Auswirkungen der Erdölkrise auf die Weltwirtschaft.*

Consequently, when the G-5 met in Chateau d'Artigny, Montbazon, France on 24-26 November 1973 to discuss their options for monetary reform, their talks where much altered. First, in many respects it was surprising that this meeting took place at all: during the October War, nearly all the European states had refused to follow America's lead in supporting Israel. Since then and in dealing with the oil crisis, the United States and the EC had generally adopted two contrasting positions. Their opposing views caused tensions on both sides of the Atlantic, tensions which were already quite acute due to the battle over the Atlantic Declaration.[114] When Shultz arrived, he informed his counterparts that "there was counsel in Washington that the US should not attend this meeting."[115] Yet, not only did Shultz, Volcker, and the Chairman of the Federal Reserve, Arthur Burns attend, but they were also quite constructive in their comments. This was a testament to the G-5's staying power and its clear importance in the minds of its participants.

Second, the G-5 talks did not focus on the four themes of reform. For Schmidt, the combination of the changed economic landscape and his disdain for the C-20 was enough for him to support a motion to suspend the July 1974 deadline for the completion of the reform principles. While the other G-5 members were not as frustrated as Schmidt with said forum, they easily concurred with his position on the reform deadline.[116] Yet, Schmidt, like his G-5 counterparts, recognized that there were, as Giscard pointed out, certain aspects which "could not simply be blamed on the Arabs."[117] SDR valuation, gold and the role and structure of the Fund were "unaffected by oil" and had to be addressed. But agreement on these issues would not be easy. G-5 ministers could not agree on a method for SDR valuation, as talks kept returning to the matter of 'the link' which Bonn, backed by Washington, refused to accept.[118] Schmidt refrained again from interfering on the matter of gold, but as usual, the United States and France argued over the same issues and were again unable to

[114] See Chapter 3.
[115] TNA, T354/52, *Group of Five Meeting, Chateau d'Artigny, Montblazon, 24-26 November 1973* (hereafter T354/52, *G-5 November*).
[116] Ibid.
[117] Ibid.
[118] Ibid.

reach a compromise.[119] As talks moved to the issue of the IMF's structure and role, Schmidt was the most outspoken of the group, expressing freely his disdain for the large meetings and giving a "recurrent diatribe against large meetings, especially Fund/Bank Annual meetings and all Brussels meetings." [120] The other G-5 ministers were less critical of the structure of the C-20 and the IMF, but all agreed to some fundamental alterations of the IMF, including the creation of a new committee of 20 governors to replace the C-20 which would hold bi-annual meetings. In addition, the G-5 agreed to investigate the possibility of limiting IMF Annual Meetings in size and frequency. [121] Finally, given the realities imposed on the West as a result of the oil crisis, Giscard could no longer insist upon a return to a fixed, but adjustable exchange rate regime in the short term. Instead, the French foreign minister resigned himself to the fact that the exchange rate mechanism would "be what it is going to be"; for the rest, that meant a floating one.[122]

Coming out of the G-5 meeting, Schmidt and his counterparts were pleased with the overall outcome. They resolved that over the coming months the G-5 deputies should work to on those items on which no agreement could be found as well as the structure of the IMF. The G-5 ministers also agreed to gather again in January 1974 before the C-20 ministers meeting.[123] Yet not all were happy with the G-5's work. When shortly after the November meeting, the secret G-5 meetings became public knowledge, this caused anger among those EC states not included. In some instances, such as Italy, it was a case of wounded pride: Rome wanted to be invited.[124] In general, however, the G-5 gatherings were seen as contradictory action.[125] Since the start of the C-20 talks, the EC was supposed to be presenting a common position, both for logistical purposes but also as a symbol of closer European economic and monetary union. As highlighted previously though, despite numerous meetings

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[119] Ibid.
[120] Ibid.
[121] Ibid.
[122] Ibid.
[123] Ibid.
[124] TNA, T354/52, *G-5 Meeting Backwash.*
[125] Ibid.; TNA, T354/52, *FCO Telno 5848 of 28 November 1973* (hereafter, T354/52, *Telno 5848*).

in various EC forums, Europe had struggled to do so.[126] Now the three largest economies in the EC were negotiating separately with the United States.

The G-5 meetings were thus not only clearly detrimental to the symbolic gesture the EC was attempting to make, but indirectly further weakened an increasingly fragile effort towards EMU. Indeed by late November, EMU was in a grave position: the heart of the effort – the currency snake – had come under great strain in recent months with Bonn having had to revalue the DM in June 1973 and then intervene on behalf of the franc to the amount of DM 5 billion in September.[127] Aside from the problems of the snake, the EC also had difficulties meeting the requirements for moving to the second stage of EMU. According to the October 1972 Paris Summit resolution, the second stage of EMU was to begin on 1 January 1974, but the EC members could agree on neither the basic institutional aspects necessary for it nor the prerequisites for it, in particular the EC regional policy.[128] While the G-5 talks did not affect EMU efforts directly, it was not encouraging to the talks that as economic conditions worsened, there was a shift from the EC back to the West. Consequently, some EC states not part of the G-5 called into question the utility of further work on EMU should the G-5 continue[129]

Perhaps if Brandt had been more involved in the C-20 talks, the Federal Republic would have heeded more closely the concerns of those states not part of the G-5. But by November 1973, Brandt was focused on dealing with the oil crisis as well as party infighting and his health was beginning to fail.[130] Indeed, by autumn 1973, the Atlanticist Schmidt was firmly leading the West German approach to monetary reform. Despite the protests of European states outside the G-5, Schmidt was unwilling to give up on the forum or to widen it. Indeed

[126] In January, March and July 1973, the EC consulted about the lack of unity among them at the C-20 talks. See footnote 99.
[127] BAK, B136/7358, *Aufwertung der D-Mark um 5,5 Prozent*; TNA, T354/139, *German Monetary Measures*.
[128] BAK, B126/65701, *Betr.: Sitzung des EWG-Währungsausschusses am 10. Oktober 1973*; TNA, B126/65701, *Betr.: Beitritt Grossbritanniens, Italiens und Irlands zum europäischen Wechselkurssystem (Schlange)*; BAK, B136/6306, *Aufzeichnung zu einer zweiten Stufe der Europäischen Wirtschafts- und Währungsunion*; BAK, B136/34377, *Aufzeichung – Betr.: Vorbereitung eines Treffens der Regierungschefs; hier: EG-Regionalpolitik*.
[129] T354/52, *Telno 5848*.
[130] Baring and Görtemaker, 608-11. See also Chapter 3.

the opposite occurred. In the wake of the oil crisis, Schmidt wrote to Kissinger, proposing the use of a similar arrangement to the G-5 for a summit on oil.[131] While at the time the American secretary of state refrained from taking up the West German finance minister's suggestion, Schmidt's proposal in and of itself illustrates his belief in the G-5 forum as well as his shifting concern from monetary reform to the economic repercussions of the oil crisis. Over the next couple of months Schmidt's focus moved almost entirely to the latter issue after OPEC announced on 23 December 1975 a 130 percent increase on the price of Arab Light crude from \$5.01 to \$11.65.[132] As to reform, the Finance Ministry conlcuded, "Wir brauchen dieses langsame Vorankommen nicht zu bedauern. Wir können mit dem gegenwärtigen Regime gut leben. . . . Andere Länder wie Frankreich (Rückkehr zu festen Wechselkursen) und die Entwicklungsländer (Link: Wiederaufnahme der SZR-Zuteilungen) müssten ein größeres Interesse am Abschluss der Reform haben als wir. Wir sollten daher an den Beratungen konstruktiv mitarbeiten, ohne aber auf Beschleunigung zu drängen."[133]

With the second price hike, the world balance of payments structure became even more distorted and the exchange rate markets even more erratic. This ruined the prospects for lasting reform of the international monetary system.[134] In addition, it created new problems for the G-5 and C-20 members to deliberate, above all how to finance the oil importers' deficits, in particular those of the non-oil LDCs, and recycle the massive surpluses of the oil importers. Consequently, when both groups met, each spent a great deal of time discussing how to respond to the new economic difficulties and far less time on issues of international monetary reform. At the G-5 gathering on the eve of the C-20 ministers meeting on 15 January 1974, the discussions on oil were both animated and heated with Schmidt at the center of many of them. As to matters of international monetary reform, the ministers did not further discuss their previous decisions and agreed common C-20 positions from the November 1973 meeting on the suspension of the July 1974 deadline for reform and a narrowed focus on issues of immediate nature, including SDR valuation and the

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131 T354/52, *G-5 November.*
132 Seymour, 124. See also Chapter 3.
133 BAK, B126/48881, *Überblick über die Gesprächsthemen, .II. Reform des Währungssystems.*
134 TNA, T354/ 152, *C/XX/Doc/74/3, Subject: External Policies in the Current Situation.*

structure of the IMF. Rather, the ministers only touched briefly on the issue of gold and the exchange rate regime. The talks on gold played out between France and the United States much as they had during the past year and with the usual result.[135]

Although the C-20 had been established for the sole purpose of reforming the international monetary system, at the C-20 ministers meeting on 16-18 January 1974, the economic repercussions of the oil price hikes were given precedence over monetary reform efforts.[136] Thus, it was clear just by the order of the ministers' priorities that the reform efforts were doomed. Much as he had been during the G-5 meeting, Schmidt was very outspoken on issues regarding oil.[137] When talks moved to monetary reform, however, he towed the agreed line. Schmidt advocated that in light of the oil crisis, the 1 July 1974 deadline was no longer feasible and that the C-20 should focus on issues of an immediate nature, including the SDR valuation and the structure of the IMF. Also, given the erratic movements in the floating exchange rate system and Bonn's general acceptance of the necessity of floating exchange rates in the interim period, Schmidt called for guidelines for floating. The Federal Republic's position was echoed in the comments of other G-5 and EC ministers, the latter of which had also agreed to these steps in the weeks and days before in the EC monetary committee meetings.[138]

Only on the matter of SDR valuation was there still some disagreement among the industrialized countries. In a bid to get West Germany to sell some of its large dollar holdings and thus reduce the dollar exchange rate which had skyrocketed after the oil price hikes, the United States threatened to block the basket-of-currencies solution agreed by all other C-20 members unless the Federal Republic and other countries in similar positions intervened.[139] Despite

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[135] TNA, T354/52, *Group of Five – Meeting of EEC Finance Ministers in Rome on Wednesday 16 January*.
[136] TNA, T354/152, *C/XX/Meeting 74/1 – Meeting No. 5, January 17-18, 1974*; TNA, T354/152, *FCO Telno 54 of 18/1/74*; BNA, T354/152, *FCO Telno 57 of 13/1/74.*
[137] Ibid.
[138] TNA, T354/152, *C/XX/Meeting 74/1 – 1/17/1974, p.m. Second Session*; TNA, T354/152, *Meeting of Committee of Twenty in Rome, 17-18 January 1974: Text of Communique.*
[139] Ibid.

the American attempts at intimidation, however, Schmidt refused to intervene on behalf of the dollar, noting that many countries had bought their dollars for far more only a few months previous.[140] Washington's hesitation on the SDR valuation in turn seems to have been little more than a ploy to gain West German compliance on dollar intervention, for the United States did not protest at a communiqué which presented the issue of SDR valuation as settled.[141]

The LDCs voiced little opposition to the Western perspectives on long-term monetary reform. Rather, with relative ease, the C-20 ministers agreed to abandon the complete overhaul of the international monetary system originally envisioned and accept that reform would be more "evolutionary." In addition, the C-20 resolved that in the coming months the C-20 deputies would work on the issues of SDR valuation, the structure of the IMF and guidelines for floating which the C-20 ministers would decide upon at their final meeting in June 1974.[142] If this outcome was not enough to signal the end of the long-term reform effort of the international monetary system, then the actions of the French only days after the conclusion of the C-20 ministers meeting were. Relatively quiet at the C-20 gathering, Giscard announced on 19 January 1974 that the French franc was leaving the European currency snake. Given France's outlook on fixed exchange rates, Paris's move to floating was a shock. Giscard had given no indication that it was coming – neither to the C-20 nor to his West German counterpart who only days earlier had offered France a DM 5 billion loan to keep it inside the snake. With the most ardent supporter of the fixed, but adjustable exchange rate regime moving to floating, it was even further proof that the reform efforts were truly dead.[143]

Still in the coming months the C-20 concluded its work. Since the deputies had put so much work into it and had actually reached some agreement, as had been agreed at the September 1973 C-20 gathering in Nairobi, the Bureau presented the Outline of Reform at the June 1974 ministers

[140] Ibid.
[141] Ibid.
[142] Ibid.
[143] Bbk, N2/K38, *Betreff-Aussprache im EWG-Währungsausschuss über die Freigabe des Wechselkurses für den Französischen Franken am 21.1.1974.*

meeting. The Bureau decided to produce it as a sort of guide to long term international monetary reform for whenever such efforts were revived. At the same meeting, the C-20 ministers agreed that the SDR should be based on a basket of currencies and to guidelines for floating prepared by the C-20 deputies. As to the structure of the IMF, the ministers decided that in the future a permanent council should be established within the IMF, sitting between the Executive Board and the Board of Governors. Yet, until such council could be established under an amendment to the IMF Article of Agreement, the C-20 resolved to create an Interim Council based on the structure of the C-20. In the coming months, the IMF Executive Board was to continue to debate aspects of long term monetary reform and give recommendations for amendments to the Articles of Agreement to the Interim Council to consider.[144] But before West Germany and its Western allies could again focus on international monetary reform, they first needed to deal with the oil crisis and its economic repercussions.

-Conclusions-

Much like it had done during the collapse of Bretton Woods, Bonn tried to balance its European integration goals with the maintenance of West German economic strength. Yet, by March 1973, it was becoming clear that they were falling short on both accounts, as the EC failed to agree or even necessarily present a united front at the C-20 gatherings and West German views on controlling international liquidity were not shared by its European or American partners. After the move to the European group float, the Federal Republic's focus shifted towards achieving its domestic economic goals, above all *Stabilitätspolitik*. In turn, within the C-20 talks, Bonn became even more determined on the need for strict control of international liquidity and reluctant to return to a fixed exchange rate regime. The Brandt government's economic approach did not ease the process of compromise necessary for reform. That said, in an effort to bring about progress, Bonn did persuade the other EC members to concentrate on the matters on which they agreed and to be open to

[144] Bbk, N2/K90, *CXX Meeting, 13 June 1974, Communique*; Bbk, N2 K199, *Guidelines for Floating (SM/74/75)*; Bbk, N2/K90, *Betreff-Abschluss der Arbeiten des Zwanziger Ausschusses am 12.-13.6. 1974.*

compromise with the United States. Finally, as the C-20 efforts encountered difficulties in autumn 1973, the Federal Republic – in addition to its economic priorities – began to see greater value in Atlantic cooperation, rather than in the European approach which Bonn had pursued earlier. Despite the ongoing EC meetings to align reform perspectives and the damage it would do to European integration efforts, West Germany not only fully participated in but started to push for more extensive use of the G-5.

Compared to their impact during the collapse of Bretton Woods, the influence of West German policies on the outcome of C-20 talks was more limited. Even if Bonn had been less concerned with economic factors and more so with achieving a common European response, the C-20 negotiations would have still broken down due to the oil crisis and the starkly contrasting positions on key aspects of reform not only between the United States and Europe, but also within the EC. Yet, the Federal Republic's policies did influence the minimal reform decisions that were made throughout the process. Had Bonn's perspective not become more Atlanticist and interested in pursuing negotiations within the G-5, it is likely that the consensus achieved within the C-20 on the guidelines for floating, SDR valuation and the structure of the Fund would not have occurred.

Alongside its policies, West German leadership was also important in shaping the outcome of the C-20 talks. Because of the structure of monetary reform negotiations, Brandt's interest in larger political issues and debates and later his focus on the oil crisis and party infighting, Brandt's influence on the C-20 talks was limited. Instead, Schmidt was the primary driving force behind Bonn's policies and the presentation of them at the C-20. Skeptical of the ability of such a large body with disparate positions to reach an agreement, strongly disliking bureaucracy and formal conferences, Schmidt's impact on the broad C-20 discussions was initially constrained. Rather than remain stifled, Schmidt thus turned to the G-5, his brainchild and a forum which suited his preference for personal politics and Atlanticist outlook. He then pushed for its use through the latter half of the 1973, as it became increasingly obvious that the C-20 talks were headed for deadlock. Even faced with the disapproval of other EC member states, Schmidt did not abandon the G-5; instead, he advocated it all the more. During the G-5 talks, Schmidt led the call for the scope of reform to be lessened in the face of the oil crisis and the deadline of July 1974 to be abandoned. Moreover, he initiated the reform of the IMF, in particular the reduction of meetings. Both of these initiatives were accepted by the other G-5 members and became key elements of the C-20 work after the outbreak of the oil crisis. Finally, Schmidt stood up to American pressure to sell dollars or face Washington resistance over the issue of SDR valuation. Calling America's bluff, Schmidt managed to achieve a dual victory: first, he maintained West German economic strength by avoiding the sale of dollars at far cheaper prices than what they had originally been purchased for; and second, he did so without sacrificing progress on the reform aspect, for agreement on the SDR valuation was approved in the C-20 communiqué.

As a result of its policies and the efforts of Schmidt during the C-20 negotiations, West Germany's position within the Western alliance was not immediately altered. Rather, similar to the effect which its actions had during the collapse of Bretton Woods on its role within the West, the importance of the steps taken by the Federal Republic during the C-20 talks would only become clearer in the future, as economic problems continued to mount. Because the Federal Republic had concentrated on regaining price stability in the run-up to the oil crisis, its inflation rate was 7 percent while those of nearly all other Western states were in the double-digits. As will be shown in the following chapters, this low inflation rate was an important factor in Bonn's ability to use its economic might to shape the Western response to both the oil crisis and the 1975 recession. Alongside securing its economic strength and hence political influence, due greatly in part to Schmidt, during the C-20 talks a new forum for cooperation on international economic matters among the West began to emerge through the G-5. Within it, West Germany was well positioned to make a strong impact on Western efforts to respond to the on-going monetary difficulties as well as the oil crisis and 1975 recession. Finally, the growing influence of Schmidt within the Brandt government and his decidedly more Atlanticist approach to economic issues would come to be decisive as Bonn and the West began to deal with the oil crisis.

Chapter 3

The Shaping of the Western Response to the Oil Crisis

October 1973-December 1974

A generation ago the western world faced a historic crisis—the breakdown of international order in the wake of world war. Threatened by economic chaos and political upheaval, the nations of the West built a system of security relations and cooperative institutions that have nourished our safety, our prosperity and our freedom ever since. A moment of grave crisis was transformed into an act of lasting creativity. We face another such moment today. The stakes are as high as they were twenty-five years ago. The challenge to our courage, our wisdom, and our will is profound. And our opportunity is great.
What will be our response?
I speak, of course, of the energy crisis.
Henry Kissinger,
14 November 1974[1]

-Introduction-

The West was unprepared when, on the back of the October War, the oil producing states unilaterally raised the price of oil, imposed a complete embargo on the United States and the Netherlands and cut supplies to nearly all other industrialized states.[2] In the immediate aftermath, Western leaders struggled to find a solution to their oil supply predicament and the changed dynamics between the oil producers. Before either a European or Western approach could be fully realized, in late December 1973, the Organization for Petroleum Exporting Countries (OPEC) more than doubled the price of oil. Faced with massive economic challenges brought on by the price surge, a first significant step was taken towards a joint Western response at the Washington Energy Conference (WEC) in February 1974. Yet, because of French refusal to participate in the advances made there, Western solidarity was weakened. Neither the change of political leadership in the United Kingdom, France, West Germany and the United States, nor the fading of competing European efforts, served to strengthen Western cooperation through spring and summer 1974. Instead, in the context of worsening economic conditions in autumn 1974, the United States and France announced opposing strategies. Given this discord,

[1] Helmut Schmidt Archives (hereafter HSA), Mappe 6579, *Kissinger Address in Chicago on Energy Crisis* (hereafter Mappe 6579, *Kissinger*).
[2] The October War broke out on 6 October 1973 when Egyptian and Syrian forces crossed over ceasefire lines in the Golan Heights and Sinai Peninsula and attacked Israel. Fighting ceased on 25 October 1973. The October War is sometimes referred to as the Yom Kippur War because fighting began on the Jewish holiday of Yom Kippur.

Kissinger's concern about the fate of the West in November 1974 was not misplaced. Yet within a few short weeks of Kissinger's pronouncement, and more than a year after the outbreak of the oil crisis, a remarkable turn of events occurred: Western leaders agreed upon a join response.

Highly dependent on imported Arab oil as well as international trade for its domestic growth, the oil crisis placed the Federal Republic in a vulnerable economic position. At the same time, Bonn fell into a political quandary: while it was recognized that the oil crisis necessitated a multilateral response, the government was torn between choosing a European course, which would keep its European integration goals on track, or a more broadly conceived Western path, which was economically more advantageous and essential to preserving the transatlantic link. Although West Germany had taken the economic line more forcefully during the C-20 talks, Bonn's European integration goals remained an important aspect in West German policymaking after the collapse of Bretton Woods.

In this chapter, the following questions are explored: as economic pressure of the oil crisis began to take hold, to what degree was the Federal Republic able to balance its economic and political goals? Were Willy Brandt, the West German Chancellor, and his Minister of Finance (and later chancellor) Helmut Schmidt, instrumental in shaping the Western response to the oil crisis or did Bonn rely on other means to influence it? Lastly, as it did during the C-20 talks, was the Federal Republic able to capitalize on the Group of Five (G-5) forum to advance its position in the West? Did Bonn's actions during the oil crisis allow West Germany to enhance its role in other ways?

-The Outbreak of the Oil Crisis-

The oil crisis began on 16 October 1973 when OPEC, angered by the West's support for Israel in the days-old October War and frustrated by the ongoing attempts of the multinational oil companies to keep oil prices suppressed, made the unilateral decision to increase the price of oil by 70 percent, raising the price of a barrel of Persian Gulf crude (Arabian Light) from

\$3.01 to \$5.12.[3] It intensified the following day, when the Organization of Arab Petroleum Exporting Countries (OAPEC) declared a production cut of 5 percent on oil supplies. Then on 18 October 1973, Abu Dhabi began a total embargo of oil exports to the United States and the Netherlands because of their continued backing of Israel in the October War and threatened to use the 'oil weapon' in the same way on any country adopting a pro-Israeli stance. By 30 October 1973 nearly all Arab countries had adopted this position.[4] Less than a week later, OAPEC decided again to reduce production, now by 25 percent of its September output, with a threat to reduce oil production by a further 5 percent in December.[5] These conditions applied to all countries deemed 'neutral' in the October War, while those regarded as friendly towards the Arabs would receive oil supplies as usual.[6] By early December 1973, however, OAPEC reversed this decision and threatened to cut supplies for all countries in January 1974. The combination of these acts by OPEC and OAPEC meant that throughout the last months of 1973, many Western countries, in particular those in Europe and Japan, faced a supply crisis in its energy sector, due to their heavy dependency on imported Arab oil.

Already before the crisis, West Germany had been increasingly concerned about this dependency. By 1973, 55.4 percent of the West German energy supply was in the form of oil and 71 percent of its oil supplies were imported from the Middle East via Rotterdam in the Netherlands.[7] Federal reports projected that within a decade West Germany's dependence on oil would be even greater, as it would require significantly more supplies.[8] Thus, it was initially deemed that access to supplies, much more than price, would be one of the fundamental problems relating to oil. During 1973, Bonn had started

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[3] Hans-Peter Schwarz et al., eds, *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1974*, vol. 1, (München: R. Oldenbourg Verlag, 2005) (hereafter *AAPD 1974/1*), 139; Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), 87-91.

[4] *AAPD 1974/1*, 3.

[5] Hans-Peter Schwarz et al., eds, *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1973*, vol. 3, (München: R. Oldenbourg Verlag, 2004) (hereafter *AAPD 1973/3*), 1757.

[6] *AAPD 1974/1*, 3.

[7] *AAPD 1973/3*, 1610; Historisches Archiv der Deutschen Bundesbank (hereafter Bbk), N2/K155, *Vermerk-Betreff: Auswirkungen der Erdölverknappung auf die deutsche Wirtschaft*.

[8] Bundesarchiv Koblenz (hereafter BAK), B102/123568, *Brief an Brandt vom BM für Wirtschaft, 27. April 1973* (hereafter, B102/123568, *Brief*).

its first energy program.[9] Alongside a domestic program aimed at securing oil imports, the Federal Republic also advocated greater cooperation in areas such as research and development, advancement of alternative energy sources, energy conservation and consumer-producer relations.[10] Fortunately, many of its EC partners shared similar concerns. On 22 May 1973, the EC Council met to discuss a European Commission report on energy problems and proposals for a common policy. After a long debate, however, no agreement could be reached. Instead, while West Germany, Britain and the Netherlands wanted less market interference and cooperation with partners outside the EC, above all the United States, France refused to support any advance on the issue of external relations without first gaining agreement on an internal EC oil market which in the French view should include controls on imports, investment and price.[11]

Across the Atlantic, Washington also understood that the energy paradigm of the first half of the Cold War was in flux. In April 1973, the Director of the Office of Fuels and Energy in the US State Department, James Akins, published an article in *Foreign Affairs* warning that oil demand would soon outstrip supply. He argued that this would lead to higher prices, damaging the world's balance of payments structure severely. Oil producing states would be unable to absorb their new wealth, oil consumers would be forced to work out a common response as well as a new mode of cooperation with oil producers, Arabs were likely to use oil as a political weapon, and much depended on Arab-Israeli politics and the West's reactions to them.[12] Knowing the risks, the Nixon administration like their German colleagues introduced a

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[9] BAK, B102/108467, *Aufzeichnung: Betr.: Ergebnis des Gesprächs zwischen den Bundesministern Schmidt und Dr. Friderichs über den Stand des energiepolitischen Programms und dessen finanzielle Konsquenzen*; BAK, B102/123568, *Aufzeichnung über das Gespräch zwischen Minister Friderichs und Minister Charbonnel am 21./22.6.1973* (hereafter B102/123568, *Friderichs, Charbonnel*); BAK, B136/8030, *Vermerk: Betr.: EG-Energiepolitik; hier: Mitteilung der Kommission vom 29.5.1974.*

[10] Ibid.

[11] Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1973*, vol. 2, (München: R. Oldenbourg Verlag, 2004) (hereafter *AAPD 1973/2*), 780-791; B102/123568, *Friderichs, Charbonnel.*

[12] James Akins, "The Oil Crisis: This Time the Wolf is Here," in *Foreign Affairs* vol. 51 issue 3: 462-80.

new energy program (in April 1973) which included the elimination of import quotas on oil and the implementation of import fees on it.[13]

Despite these earlier efforts toward energy programs as well as concerns about rising Arab-Israeli tensions and the possible use of the oil weapon, West Germany and the West in general were nonetheless unprepared for the oil crisis. The sudden rise in prices and reduction in production shocked the Federal Republic. It was among the European countries most reliant upon imported Arab oil, and because its supplies were shipped through Rotterdam, West Germany, even if not officially included in the oil embargo, was still strongly affected and its economy suffered.[14] This was all the more the case as the Federal Republic had an export-led economy, and as such was very much dependent on the smooth functioning of international trade for growth and employment. World trade was, however, anything but smooth after the onset of the oil crisis, as the oil embargo disrupted established trade patterns and the unstable oil prices caused great fluctuations in exchange rates. [15]

Domestically, the Brandt government immediately took steps to reduce energy consumption, implementing conservation measures such as Sunday driving bans and passing an emergency energy law which would provide the outline for action should rationing or price measures become necessary.[16] Hoping to further their domestic efforts through international cooperation, Bonn looked to its European partners, rather than seeking a transatlantic approach, for several reasons. First, the interests of West Germany and its European partners, both in regard to oil supplies and dependency, were closely aligned. Like the Federal Republic, almost all other EC member states met more than 40 percent of their energy requirements through imported oil, with roughly half coming

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[13] Skeet, 86; B102/123568, *Brief.*

[14] United States National Archives and Records Administration II (hereafter NARA II), NSC Subject Files, Box 321, *Memorandum for Secretary Kissinger; Subject: Assistance for the Dutch* (hereafter Box 321, *Dutch Assistance*).

[15] BAK, B136/17041, *Deutsche Wirtschaftspolitik*; Wolfgang Hager, "Germany as an Extraordinary Trader," in *West Germany: a European and Global Power*, eds. Wilfrid L. Kohl and Giorgio Basevi (Lexington, Massachusetts: D.C. Heath and Company, 1980), 3-4.

[16] BAK, B102/200539, *Stichworte für das Einführungsstatement von Minister Dr. Friderichs zur Beratung des Energieprogramms im Wirtschaftsausschuss des Deutschen Bundestages*; *AAPD 1973/3*, 1759, 1813, 1892.

from Arab producers. The United States relied on oil imports for approximately 15 percent of its energy needs, with only six percent coming from Arab sources.[17]

In addition, since the Paris Summit in October 1972, the Federal Republic, and Brandt in particular, had been heavily involved in European efforts toward establishing economic and monetary as well as political unity by 1980.[18] Beyond its commitment to the monetary and energy aspects of closer integration (which was examined in chapter 1), Bonn was also a key participant in European political cooperation (EPC), with the West German Foreign Minister, Walter Scheel, among its strongest supporters.[19] And for nearly a year now, the Federal Republic had been working with its Community partners on a common Middle East policy.[20] The outbreak of the war and the oil crisis was an opportunity for the Nine to demonstrate their cohesion in the foreign policy realm. For the Brandt government it also offered the chance to pursue a more Arab-friendly policy – an approach which would have been political suicide in West Germany given its recent past. Moreover, it would presumably be beneficial to its economic position, given Arab threats to again use the oil weapon against those countries supporting Israel.[21]

Finally, it seemed to West Germany that a common Atlantic Western approach was unlikely. Not only was Washington clearly pro-Israeli, but the Community's increasing drive towards closer integration and the United States' desire to redefine the Western alliance under a new Atlantic Charter as part of its Year of Europe initiative, meant that political relations between the EC and America had deteriorated significantly through the second half of 1973.[22] With

[17] *AAPD 1973/3*, 1610; *AAPD 1974/1*, 124; Box 321, *Dutch Assistance*.
[18] Daniel Möckli, *European Foreign Policy during the Cold War: Heath, Brandt, Pompidou and the Dream of Political Unity*, (London: I.B. Taurus, 2009), 17-55; Several articles in Andreas Wilkens, ed., *Wir sind auf dem richtigen Weg: Willy Brandt und die europäische Einigung*, (Bonn : Dietz, 2010).
[19] Ibid; Walter Scheel, *Erinnerungen und Einsichten: Walter Scheel in Gespräch mit Jürgen Engert* (Stuttgart: Hohenheim, 2004).
[20] Möckli, 205-6.
[21] *AAPD 1973/3*, 1609.
[22] NARA II, NSC Country Files, Box 688, *Letter from Kissinger to Schmidt, November 26, 1973* (hereafter Box 688, *Kissinger November*); Pascaline Winand, "Kissingers 'Jahr Europas'

tensions running high, a Western consensus looked increasingly less likely, not least because of Kissinger's handling of the October War. Barely communicating his actions with his European counterparts and excluding the EC from the cease-fire negotiations and peace settlement talks, Europe, and in particular France, began to feel as though Kissinger was treating the Community as a "non-person" and grew suspicious of a Soviet-American condominium.[23] By the end of October 1973, Bonn and its European allies were extremely agitated with Washington's actions.[24]

Initially, the Federal Republic desired a dual approach: a common European energy policy to address the oil supply problems arising from the oil crisis and a common European foreign policy to handle consumer-producer relations. On the former, Bonn pushed for coordination on alternative energy development and strongly supported a Dutch initiative in the EC for supply sharing and coordinated conservation.[25] But France, fearing Arab retribution, and the United Kingdom, worried about both the Arabs and the future possibility of having to share North Sea oil supplies, blocked the Dutch-led effort.[26] Instead, these two countries advocated that EC member states handle supply issues through bilateral negotiations with oil producing states and consumer-producer relations through concerted political cooperation within the EPC framework.[27] While Bonn would have preferred cooperation in both energy and foreign policies, for the time being West Germany was willing to follow the French lead and concentrate on political cooperation.

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und die Europäer," in *Wir sind auf dem richtigen Weg: Willy Brandt und die europäische Einigung*, Andreas Wilkens, ed., (Bonn : Dietz, 2010), 363-386; Möckli, 140-183.

[23] BAK, B136/6310, *Fernschreiben, 14.11.73, Betr.: französische Aussenpolitik*; *AAPD 1973/3*, 1560-1, 1634-5, 1671; British National Archives (hereafter, TNA) T354/52, *Group of Five Meeting, Chateau d'Artigny, Montbazon 24-26 November 1973* (hereafter T354/52, *G-5 November*); Jussi Hanhimäki, *The Flawed Architect: Henry Kissinger and American Foreign Policy*, (Oxford: Oxford University Press, 2004), 309.

[24] *AAPD 1973/3*, 1668-70.

[25] Ibid., 1758, 1771-2.

[26] Ibid., 1758-9.

[27] Ibid., 1757-1760; Fiona Venn, "International Co-operation versus National Self-Interest: the Untied States and Europe during the 1973-1974 Oil Crisis," in *The United States and the European Alliance since 1945*, eds. Kathleen Burk and Melvyn Stokes (Oxford: Berg, 1999), 83.

On the same day that Paris and London obstructed a common European energy policy, 6 November 1973, Bonn joined them and the other EC member states in issuing a "Declaration on the Middle East", which called for all parties to return to the positions occupied on 22 October 1973. In addition, it advocated that as part of any peace settlement Israel should leave the areas occupied since 1967, grant Palestinians greater rights, and agree to the principal of Palestinian sovereignty.[28] In many respects, the European declaration was pro-Arab: a return to the positions occupied on 22 October 1973 supported the Egyptian stance that all territories captured in violation of the cease-fire agreement should be relinquished. Palestinian rights were an Arab rallying point as was even more the evacuation by Israel of territories occupied in 1967.

As Möckli has pointed out, aspects of the EC's declaration can be traced back to earlier talks within the EPC on their collective position vis-à-vis the Middle East. Yet, the oil crisis and the need to secure energy supplies certainly seems to have played a much larger role in the timing and overall direction of the Declaration.[29] Up until this point, because of its relationship to Israel and declared neutral position in Middle Eastern affairs, the Federal Republic had kept quiet aspects of the EC's Middle Eastern policy which were more pro-Arab.[30] Bonn's outlook changed, however, after it received an ultimatum from the Libyan leader, Muammar al-Ghadafi, only days before the 6 November declaration. Ghadafi threatened to include West Germany in the Arab oil embargo should its position towards the Arabs not become more favorable.[31] Moreover, even if such a policy was underway before the outbreak of the crisis, European ministers were surely aware of the conclusions that would be drawn from such a biased policy announcement only days after OPEC decided to reduce its energy supplies. Naturally, the Arab governments warmly welcomed the European declaration, while Israel reacted with anger as did the United States.[32] In the European press, the declaration was taken as sign of giving into Arab blackmail for oil and within the Federal Republic, Brandt was forced to

[28] *AAPD 1973/3*, 1777-8; William C. Cromwell, *The United States and the European Pillar: the Strained Alliance* (London: Macmillan, 1992), 88.
[29] Möckli, 205-6.
[30] Ibid., 206.
[31] *AAPD 1973/3*, 1812-3.
[32] Ibid., 1804-6, 1944.

defend the act to the Bundestag and the Bundesrat, arguing that it was necessary for all countries to make compromises in order to further the interests and influence of Europe in the Middle East, and that the special relationship between West Germany and Israel would not be harmed.[33]

The criticism, however, did not sway West Germany or its European allies from their political path. Instead, attempting to capitalize on the Arab favor achieved through their declaration, the EC foreign ministers latched onto a British suggestion for a demarche to the Arab capitals. After some negotiations, the demarche was sent to Arab capitals on 22 November 1973.[34] In it, the Nine made clear that improving European-Arab relations was a priority and Europe was prepared to contribute to the peace process as well as cooperate with the Arabs, but that such cooperation could only occur should the oil weapon not be used against the EC member states again.[35]

Yet not all in the Brandt government were satisfied with the European political course Bonn had adopted; Schmidt strongly disagreed. He was particularly worried about the economic repercussions of the oil crisis and their potential to lead to greater macroeconomic problems, such as a recession, high inflation or even stagflation, and his proposed response varied greatly from that of official West German policy.[36] Unlike Brandt, Schmidt was not swayed by a great attachment to European integration efforts; he was more concerned with maintaining West German economic strength: despite the threats his unwillingness posed to advancing EMU efforts, Schmidt was reluctant to contribute the sums requested of the Federal Republic for EMU, as well as the EC budget, arguing that they would upset the West German national budget.[37] In addition, as was evident in the previous chapter with his promotion of the G-5, Schmidt's viewpoint was much more Atlanticist than that of Brandt and, as

[33] Ibid., 1806; TNA, FCO 93/226, *UK Embassy to Bonn, 13 November 1973.*
[34] BAK, B136/6310, *Betr.: Heutiges Gespräch mit PM Messmer*; TNA, FCO 8/1967, *Proposed Demarche to Arab Governments.*
[35] *AAPD 1973/3*, 1843; Möckli, 206.
[36] T354/52, *G-5 November.*
[37] BAK, B136/6306, *Helmut Schmidt, Bundesminister der Finanzen, Rede vor dem Institut für das Studium der internationalen Politiik in Mailand* (hereafter B136/6306, *Mailand*); BNA, T354/69, *European Regional Development Fund: Herr Schmidt.*

the previous chapters have shown, he had good working relationships with Kissinger and Shultz.[38] Given his perspective and economic concerns, Schmidt looked to the Western alliance to tackle the oil crisis. Regardless of the political tensions of the previous months and even Washington's handling of the October War, Schmidt believed that Europe was not in the position either economically or politically to overcome the oil crisis without the United States.[39] Moreover, Schmidt worried that the bilateral deals Paris and London were pursuing with the oil producers equated to little more than beggar-thy-neighbor policies which would only exacerbate the global economic problems and hence harm the West Germany economy.[40]

Schmidt first voiced his economic concerns in a speech in the West German state of Rhineland Palatinate in October 1973. Fearful that Schmidt's comments may affect the performance of the West German economy, Brandt reacted negatively to the finance minister's remarks.[41] Yet while Schmidt refrained from making more public pronouncements of a similar nature, his qualms did not subside. Despite the official perspective of his government, on 5 November 1973, Schmidt contacted Kissinger with a "personal initiative." In his letter, Schmidt recognized that he was not "directly responsible according to the delimitation of Federal German Government functions" for this matter, but nonetheless was concerned about the lack of cooperation between oil consuming countries, even among those within the EC. Schmidt suggested that the United States hold a "private symposium (without any publicity) where a not so great number of energy, particularly petroleum, experts from government and company service in the some major industrial nations would meet to exchange views on certain subjects previously determined and perhaps to evolve suggestions for submission to their governments." In addition, Schmidt

[38] See also Martin Rupps, *Helmut Schmidt: eine politische Biographie* (Stuttgart: Hohenheim, 2003), 175-80.
[39] T354/52, *G-5 November*; TNA, PREM 15/2178, *Record of Conversation between Heath and Schmidt.*
[40] TNA, T354/52, *Group of Five – Meeting of EEC Finance Ministers, 16 January* (hereafter T354/52, *G-5 January*).
[41] Helmut Schmidt, *Men and Powers: a Political Retrospective*, trans. Ruth Hein (London: Jonathan Cape, 1990), 163.

voiced his displeasure at the recent discord in the Western alliance and promised to do his best to smooth West German-American relations.[42]

While acknowledging the usefulness of such a conference, Kissinger felt that given the on-going friction in the Western alliance the timing was inappropriate for another American-led, alliance-based program of action. He responded, "Events associated with the Middle East Crisis and the discouraging experience we have had in connection with the 'Year of Europe' initiative indicate that much needs to be done in this direction." Kissinger decided against immediately acting on Schmidt's suggestion, but he did leave the door open for further backdoor communication of the sort undertaken with Schmidt during the March 1973 currency crisis on transatlantic relations, and on questions of future Atlantic cooperation on energy.[43] Despite Kissinger's negative response, Schmidt continued to push for united Western cooperation on energy issues. When the G-5 met in France on 24-26 November 1973 to discuss international monetary reform efforts in the C-20, Schmidt took the opportunity to raise the issue of oil, expressing dismay at both American unwillingness to cooperate and the divide among the European states on energy policy and supply sharing. He reminded his counterparts of the grave economic effects of the oil crisis and advocated a common response to this crisis.[44]

Eventually, Schmidt's concerns were recognized in official West German policy. Having focused on European political cooperation for nearly a month, in late November 1973 the Brandt government returned to its earlier goal of a common energy policy. While Schmidt's perspective contributed to Bonn's shift, so too did the clear failure of the Declaration and the demarche to sway Arab behavior; instead West Germany along with the entire EC faced further supply cuts.[45] Since the failure of the Dutch initiative in early November

[42] NARA II, NSC Country Files, Box 688, *Letter from Schmidt to Kissinger, November 5, 1973.*
[43] Box 688, *Kissinger November.*
[44] T354/52, *G-5 November.*
[45] Although as a gesture of goodwill after the 6 November declaration, the Arab oil ministers agreed on 18 November 1973 that the planned 5 percent reduction in oil supplies would not apply to the EC member states, they refused to lift the embargo against the Netherlands. In addition, only days after the European demarche, at their meeting on 26 November 1973, the Arab oil ministers called on Europe to go beyond their first declaration. Nearly a week later,

1973, no progress had been made on a joint approach to energy issues. For Bonn, the refusal of the leading proponents of the political approach to cooperate on the creation of a common energy policy seemed to contradict the broader goals of European unity that the Nine were meant to be working towards. At the West German-French Summit in Paris on 26 November 1973, Brandt told the French president, Georges Pompidou, "Wenn die Europäische Gemeinschaft Bestand haben solle, so könne man diese [Energie]fragen nicht ausklammern; man könne in solchen Situationen nicht getrennt voneinander weiterleben, denn dann komme man nie wieder zusammen."[46] Pompidou, however, disagreed, arguing instead that Community solidarity was better expressed in political terms alone.[47]

The Federal Republic did not give in. Only a week later at the meeting of EC economics and finance ministers on 3-4 December 1973, Bonn raised the issue again in a special session on the oil crisis. There Schmidt maintained that "Wenn ein gemeinsamer Wille nicht bestehe, wenn Rat oder Gipfel sich nicht zum gemeinsamen Handeln fänden, sei ein Verfall von Ansehen und Vertrauen der Gemeinschaft in der öffentlichen Meinung, ein schnelles Auseinanderfallen der Außenpolitiken großer Partner in der Welt (USA, Japan, Europa), aber auch der europäischen Staaten entsprechend ihren unterschiedlichen nationalen Interessen zu befürchten."[48] Schmidt also highlighted the short-term effects on production, inflation and employment levels, while the West German Economics Minister, Hans Friderichs spoke of long-term goals regarding alternative energies. Lacking any sort of official paper or report, the West German representatives, backed by the Netherlands, Denmark and Italy, called for the pooling of energy reserves within the Community, pushing for a decision to be made at the upcoming EC summit in Copenhagen. Paris and London, however, opposed such action, maintaining that they were unprepared for discussions on such matters and lacked the permission of their governments to agree to such terms. In addition, the French Finance Minister, Valéry Giscard

OAPEC resolved that the suspended December supply cuts would be reinstated in January 1974, should the EC fail to do more to support the Arab cause.

[46] *AAPD 1973/3*, 1893-4.

[47] Ibid., 1893-4.

[48] Ibid., 1964.

d'Estaing, argued that the focus of a common policy should be on the long-term effects which the Community would have to face as raw materials became more expensive.[49]

Schmidt though was loath to allow France and Britain once again to obstruct efforts towards a common European energy policy. Aware of London's dependence on the establishment of the Regional Development Fund (RDF), a funding facility about to be established as part of Europe's efforts toward European Economic and Monetary Union (EMU) before the start of its second stage on 1 January 1974, and Paris's strong desire that this second stage begin as scheduled, Schmidt maintained that the Federal Republic would not negotiate on greater monetary support for the RDF unless agreement could be achieved on a common energy policy at the Copenhagen Summit.[50] With this use of West German economic power, the debate around the oil crisis within the EC started to move away from the French-led political perspective and towards a West German-led economic one. The debate was moving in the direction that Schmidt had advocated.

A week later, only days before the Copenhagen Summit was to start, it seemed that Schmidt's approach was poised to receive yet another boost when Kissinger proposed a Western response to the oil crisis. At a meeting of the Pilgrims Society in London on 12 December 1973, Kissinger gave an address in which he called for consumer solidarity and advocated the establishment of an Energy Action Group (EAG). Through the EAG, Washington hoped to tackle all aspects of the oil crisis including supply – both cutbacks and future output— along with prices and possibly the problem of balance of payments surpluses.[51] Kissinger's initiative was greeted warmly by West Germany.[52] In the the Ministry of Economics it was commented "Sie entspricht unseren eigenen Grundvorstellungen, wie wir sie im Energieprogramm niedergelegt haben, und im Hinblick auf die Gemeinschaft unseren immer wieder vorgebrachten

[49] Ibid., 1965.
[50] Ibid., 2074.
[51] BAK, B102/201338, *Betr.: Gipfelkonferenz am 14./15. Dezember 1973*; TNA, T354/152, *Draft Briefing for the Chancellor of the Exchequer: Rome Meetings 15 January to 18 January.*
[52] Ibid.; TNA, PREM 15/2041, *Copenhagen Summit: Kissinger's Proposal on Energy* (hereafter PREM 15/2041, *Proposal*).

Förderungen nach einer Zusammenarbeit zwischen der EG und den großen Verbraucherregionen sowie mit den Förderländern. . . . Die Gemeinschaft kann es sich politisch nicht leisten und sollte es sich auch angesichts des Energiepotentials der USA nicht leisten, dies ausgestreckte Hand auszuschlagen."[53]

Trying to rally support for the Kissinger initiative before the Copenhagen Summit, Brandt telephoned the British Prime Minister, Ted Heath. Given Britain's preference for bilateral deals and reluctance to undertake a common energy policy in the EC, Brandt was surprised when Heath not only supported the American proposal but was also prepared to work with Bonn to achieve a "positive response" from the other Community members, even France.[54] The main motivation for British support of the EAG plan was London's concern about the price of oil. Over the preceding weeks, speculation in the oil market had pushed a barrel of oil to $17, a development which the United Kingdom doubted OPEC would ignore. Britain worried that if another oil price surge occurred, it could "bring down all or most of the developed countries."[55] Such had long been the worry of Schmidt as well as those of the West German Ministry of Economics. Indeed, the Finance and Economics Ministries had become so concerned about this prospect that they advocated cooperation with Americans on the EAG initiative even if the other EC members were unwilling to do so.[56] Yet, while this may have been the position of the West German Economics and Finance Ministries, Brandt and the Foreign Ministry were not yet willing to go so far.

At the Copenhagen Summit Brandt and Heath raised the issue of the American proposals for an EAG. After a "lively discussion," however, the two leaders failed to win support even for the inclusion of "a welcome" to it in the Summit communiqué.[57] Although a significant faction of his cabinet desired otherwise, Brandt was unwilling to support EAG if it meant breaking with his

[53] Ibid.
[54] TNA, PREM 15/2041, *Record of Telephone Conversation between Heath and Brandt, 12 December 1973.*
[55] PREM 15/2041, *Proposal.*
[56] Ibid.; BAK, B102/201338, *Betr.: Gipfelkonferenz am 14./15. Dezember 1973.*
[57] TNA, PREM 15/2041, *Letter to Nixon.*

European partners. After much negotiation, Bonn managed to garner basic agreement on a common energy policy which called for the European Commission to prepare proposals for a common energy market by the end of February 1974 and provisions for energy conservation.[58] Under the weight of Schmidt's threat on the RDF funding, the United Kingdom reversed its earlier resistance to a common European approach to energy matters.[59] Thus, despite his desire to do so, Brandt did not have to contradict the earlier hardline position taken by his finance minister.[60] Although he initially voiced opposition to receiving the four Arab foreign ministers who had attended the summit uninvited, Brandt eventually relented and agreed that the EC foreign ministers should receive their four Arab counterparts. Finally, Bonn agreed to a new French initiative, calling for a Euro-Arab dialogue.[61]

As the Copenhagen Summit closed, the West German foreign ministry and Brandt were pleased with the outcome.[62] Within weeks, however, the achievements of the summit proved almost entirely irrelevant. The efforts toward a common energy policy collapsed after West Germany and the United Kingdom failed to agree on the size and division of the RDF.[63] Möckli argues that the course of accommodation towards the Arabs which Bonn, along with the other EC member states, had adopted within the EPC framework furthered their goals of creating a single European foreign policy. It had little effect though on Arab actions.[64] Instead, at their meeting on 22-23 December 1973, as both the Federal Republic and Britain had feared, OPEC moved to more than double the price of crude: a barrel of Arab light crude rose from $5.01 to $11.65, quadrupling the price of oil since October 1973.[65] With this, the oil crisis became not merely a crisis in oil supplies, but also a crisis of the entire economic system of the West, shifting the Federal Republic's and most of its

[58] *AAPD 1973/3*, 2063; BAK, B102/201338, *Bundesrepublik und Niederlander drängen auf gemeinsame Energiepolitik der EG.*
[59] *AAPD 1973/3*, 2074.
[60] TNA, T354/69, *European Regional Development Fund: Herr Schmidt.*
[61] *AAPD 1973/3*, 2058-64; BAK, B102/167571, *Die Beziehung der Gemeinschaft zu den Energieerzeugerländern.*
[62] Ibid.
[63] *AAPD 1974/1*, 80-2.
[64] Möckli, 244-7.
[65] *AAPD 1974/1*, 3.

European partners' perspectives foremost to economic concerns and making them more receptive to American offers for coordination on a common Western response to the oil crisis.

-Economic Chaos and a Subtle Shift to the West-

The second, December, oil price hike had a devastating effect on the world balance of payments structure, as huge amounts of capital moved from the industrialized countries and non-oil less developed countries (LDCs) to the oil producing states.[66] In January 1974, the IMF estimated that the oil producing states would run balance of payments surpluses of $66 billion while the industrialized states would have balance of payments deficits of $45 billion.[67] Within the Western alliance, it was predicted that Japan, the United Kingdom, and France would be the hardest hit, with their deficits increasing to around $12 billion, $10 billion and $7 billion respectively. Forecasts of a $4 billion deficit each were made for the Federal Republic and the United States.[68] Relative to the size of their economies, the LDCs were projected to have even worse deficits.[69]

The gross disequilibrium in the balance of payments posed serious problems for the international economic system and the West in general in three important regards. First, no method existed for adjustment on such a massive scale: it was unclear whether the Euromarkets could handle the enormous task of recycling the oil surpluses and financing the oil deficits, or if banks would collapse in the new arrangement. Moreover, no public institution in existence, not even the IMF or World Bank, had the means to support such an endeavor.[70] Second, without a proper system for recycling surpluses it was very likely that the OPEC countries would deposit large amounts of capital on the Euromarkets.

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[66] BAK, B102/167576, *Betr.: Vorbereitung der Konferenz über Energiefragen am 11. Februar 1974 in Washington* (hereafter B102/167576, *Vorbereitung*).
[67] TNA, T354/ 152, *C/XX/Doc/74/3, Subject: External Policies in the Current Situation*; TNA, T354/152, *Draft Brief for the Chancellor of the Exchequer: Rome Meetings 15 January to 18 January*.
[68] Ibid.
[69] Bbk, N2/K155, *Working Party No. 3 of the Economic Policy Committee, the Increase in Oil Prices*; BAK, B126/48887, *Weltweite wirtschaftliche und finanzielle Perspektiven und die Zurückschleusung der Ölgelder* (hereafter B126/48887, *Zurückschleusung*).
[70] B102/167576, *Vorbereitung*.

If this occurred, there was now the chance that oil-producing states would use the 'oil weapon' in a new way: namely, by suddenly moving their large capital holdings between currencies for either economic or political gain. Finally, and most importantly, after twenty-five years of extended growth, it was difficult to tell how the industrialized countries and the LDCs alike would respond to a massive change in their economic fortunes. No country in the West had experienced payments deficits similar to those which were predicted to occur. If oil-consuming countries refused to cooperate with one another, it could lead to competitive devaluations, import restrictions or other beggar-thy-neighbor policies. Should this occur, it would result in a drop in international trade, which in turn could lead to a recession and a rise in unemployment, especially in export-led economies such as the Federal Republic.[71]

Motivated by both the economic difficulties and a feeling of political disunity among the Western alliance, the United States proposed an initiative not too dissimilar from the one Schmidt had suggested to Kissinger in early November 1973.[72] On 9 January 1974, Richard Nixon, the American president, sent invitations to West Germany, France, Britain, Italy, the Netherlands, Norway, Canada and Japan for their foreign ministers to attend a conference in Washington, DC on 11 February 1974 to discuss the oil crisis and possibilities for cooperation in dealing with it. As key objectives for the conference, Nixon named the establishment of an energy action committee whose aim would be to develop cooperative measures to deal with the growing energy demands as well as consumer-producer relations. The American president also envisioned holding a consumer-producer meeting within 90 days of the conclusion of the consumer conference or, as it came to be known, the Washington Energy Conference (WEC).[73] Balance of payments difficulties were not to be covered initially in the WEC, as Washington wished to use the first discussions to "set a policy tone" and it was for this reason that foreign ministers, as opposed to

[71] Ibid.; TNA, T354/152, *C/XX/Meeting 74/1 – 1/17/74, a.m.*; Gerald A. Pollack, "The Economic Consequences of the Energy Crisis," *Foreign Affairs* 52 no. 3 (1974): 455.
[72] Möckli points out the political elements, but it is clear from later discussions between Bonn and Washington and London and Washington that the WEC was not simply a tool for the United States to destroy European integration efforts.
[73] *AAPD 1974/1*, 17; TNA, PREM 15/2178, *FCO Telno 168 of 11 January 74* (hereafter PREM 15/2178, *Telno 168*); *AAPD 1974/1*, 138-40.

economics ministers, had been invited.[74] Yet, eventually, Washington did extend invitations to certain finance ministers and offered to include either finance or economics ministers if the European states so desired.[75]

The Federal Republic reacted positively to the American invitation.[76] Yet in the interest of European integration efforts, Bonn refrained from accepting the invitation until after discussing the matter with its European partners at the Council of Ministers on 15 January 1974.[77] At the gathering, it was decided that the Community should accept the invitation on the condition that all members of the EC be permitted to take part as well as a representative from the European Commission.[78] In addition, the Nine agreed that there should be a joint mandate for the conference. On this point, however, there was no immediate agreement: while most EC members were generally prepared to work with America on the topics proposed, France was reluctant to agree to any of the discussion points put forward by the United States.[79] As a result, a decision on the matter was postponed.

Yet while Bonn's official response to the WEC initiative was positive but wrapped in a muted European tone, its unofficial response through the West German finance minister was far more supportive. Where, before the second oil price hike, Schmidt had been gravely concerned about the economic repercussions of the oil crisis, after the second price surge his concerns had turned to alarm. He now became convinced that because of the interdependence of the Western economies and democracies, the only way for the West to avoid complete economic and political disintegration was through Western solidarity.[80] And whereas, throughout autumn 1973, Schmidt used back channels to garner support for such an approach, in January 1974, he publicly campaigned for it, openly attacking any policy which seemed to compromise

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[74] T354/52, *G-5 January.*
[75] Ibid.
[76] PREM 15/2178, *Telno 168.*
[77] *AAPD 1974/1*, 17-8.
[78] TNA, PREM 15/ 2178, *Telno 120 of 17 January 1974.*
[79] PREM 15/2178, *Telno 168*; TNA, PREM 15/2178, *FCO Telno 44 of 12 January 1974* (hereafter PREM 15/2178, *Telno 44*).
[80] TNA, PREM 15/2178, *Record of Conversation between Heath and Schmidt.*

this solidarity. At the G-5 meeting on 15 January 1975 in Rome, Schmidt twice railed against British and French bilateralism, "insisting they were doing great damage to the collective interest of the oil consumers."[81] At the same meeting Schmidt expressed support for the WEC, mentioning that he preferred finance ministers to attend alongside foreign ministers and noting that his determination to keep economic, rather than political, matters at the fore of discussions.[82] The following day, at the C-20 meeting on 16 January 1974, before European as well as oil producing states, Schmidt again assailed the use of bilateral deals, championed Western cooperation and supported the WEC initiative.[83]

Unlike during the first weeks of the oil crisis, Brandt did not attempt to quieten Schmidt. Rather, throughout January 1974, the entire Brandt government grew increasingly committed to the successful completion of the WEC. Underlying this development were several factors. First, heavily dependent on America for military support, the Federal Republic wished to avoid giving Washington any reason to reduce the presence of American troops in West Germany.[84] Their fear was not unfounded given recent comments by Nixon suggesting that this might be the consequence of a failure at the WEC.[85] Yet their future defense was not their primary concern; rather, the Federal Republic was more worried about their economic prospects should the WEC fail.

After the second price hike the entire Brandt government began to agree with what Schmidt had maintained for several months: namely, neither the Federal Republic nor the European Community could overcome the economic challenges without the United States.[86] While the second price hike and the resulting balance of payments difficulties certainly contributed to this realization, so too did the collapse of EMU and efforts towards a common Community energy policy in January 1974. This left Bonn with no viable European options to deal with the massive economic and oil supply challenges

[81] T354/52, *G-5 January.*
[82] Ibid.
[83] TNA, T354/152, *C/XX/Meeting 74/1 – 1/17/74, a.m.*
[84] *AAPD 1974/1,* 123.
[85] TNA, PREM 15/2178, *Transcript of a Press Conference, Kissinger and Simon.*
[86] *AAPD 1974/1,* 93.

before them, even if they would have preferred it otherwise.[87] More persuasive still to Brandt and his cabinet was the possibility of eliminating bilateral deals. The United States was opposed to the use of bilateral deals and through the WEC framework hoped to eliminate them all together.[88] Yet Washington also warned that should the multilateral approach offered through the WEC fail, America would have to resort to the use of bilateralism, and in such an economic dynamic, only the United States could survive.[89] Bonn did not disagree with this American conclusion.[90] Although West Germany doubted whether Washington would adopt such a policy because it would ruin the Western alliance and thus the United States too, but the Brandt government was not willing to take the risk.[91] Instead, the Federal Republic was prepared to see the establishment of follow-up machinery and conferences, as these would not only be useful in coordinating Western policies, but were also seen by the United States as outcomes without which the conference could not succeed.[92]

Still, despite West Germany's perspectives on the WEC, the Federal Republic did not turn its back on its EC partners or its European goals. Rather, Community solidarity was also an important consideration for Bonn with regard to the WEC.[93] As the Council of Ministers came together on 5 February 1974 to discuss a common position for the conference, Bonn attempted to find a solution which would allow both unity among EC member states and the success of the WEC. The prospects for achieving their dual aims, however, remained uncertain given the contrasting perspectives of Britain and France.

[87] Although the European heads of state had agreed to the 1 January 1974 deadline for the start of the RDF, the EC economics and finance ministers failed to reach an agreement at its meeting on 17-18 December 1973. Given the British acquiescence to an EC energy policy, the Federal Republic did, as promise, increase the sum it was willing to give in support of the RDF. Yet, the amount hardly corresponded to that desired by London. At their meeting on 7 January 1974, the British responded by blocking all measures on a common European energy policy. A little over a week later, the EC economics and finance ministers failed to reach an agreement on the institutional aspects of the ECMF. Thus, both primary preconditions for passage into the second stage of EMU were in deadlock. The final blow to EMU came on 19 January 1974 when France decided to leave the European currency snake and float the franc. The move came as a shock to all, but particularly to the Federal Republic, given that only days before it had offered a loan of $2 billion to France to remain in the snake. *AAPD 1974/1*, 80, 92-4.

[88] *AAPD 1974/1*, 139-40.

[89] Ibid., 139-40.

[90] Ibid., 139-40.

[91] Ibid., 139-41.

[92] Ibid., 169-70, 197-8.

[93] *AAPD 1974/1*, 126; PREM 15/2178, *Telno 168*.

While the United Kingdom wished to preserve unity among the EC states, London only partially defined WEC success in the same terms as the Federal Republic. Instead, Britain hoped that, alongside follow-up machinery, the West could agree a code of conduct for bilateral deals.[94] Although France had agreed to a Community presence at the WEC, Paris was neither anxious to attend the conference nor keen to allow the American agenda to be fulfilled. The Pompidou government argued that the American conference would be perceived by the oil producing states as an attempt by the West to establish a consumer cartel which would spark Arab retaliation.[95] In an attempt to again appease the Arabs only days after the Nine's agreement to attend the WEC, France proposed the convocation of a world energy conference through the United Nations, which would include both consumers and producers, to discuss developments in the international energy market.[96] Aside from this counterproposal, Paris openly criticized American policy choices in front of Arab audiences, condemning the United States for what France perceived as a confrontational policy.[97] Furthermore, France refused to accept its invitation to the WEC until it was satisfied the conference would pose no harm to efforts begun at the Copenhagen Summit towards a Euro-Arab dialogue.[98] Even the possibility of a West German-led EC retreat from the French-led Euro-Arab dialogue, did not sway the French position.[99]

Given the differences in outlook, it is surprising that the Nine ultimately managed to achieve a joint mandate for the WEC at the Council of Ministers gathering.[100] They did so after many hours of debate and heavy-handed tactics by France. The EC agreed that the agenda topics proposed by the United States would be discussed and that Europe would consider the establishment of short-term working groups on specific issues. But the Community also rejected the creation of any permanent follow-up machinery, new institutions or a

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[94] TNA, PREM 15/2178, *Steering Brief for the Washington Energy Conference.*
[95] PREM 15/2178, *Telno 44*; *AAPD 1974/1,* 124.
[96] TNA, PREM 15/2178, *Letter from M. Jobert to Dr. Waldheim*; TNA, PREM 15/2178, *Aide Memoire.*
[97] *AAPD 1974/1,* 167.
[98] Ibid., 169.
[99] *AAPD 1974/1,* 93.
[100] Politisches Archiv des Auswärtigen Amts, ZA 105693, *Mandat der Vertreter der Gemeinschaft für die Washingtoner Konferenz.*

committee of senior officials to prepare for a follow-up conference. Finally, the mandate confirmed that the EC could review this position in the course of the conference and amend it as need be.[101] With a common mandate agreed, France accepted its invitation to the WEC – only days before the conference was to begin. Despite an additional American invitation to Giscard, Paris sent the French Foreign Minister, Michel Jobert, as its only representative.

While France was manoeuvring to get its way in the conference, so too was the United States. In the days before the start of the WEC, Kissinger met confidentially with Scheel, the British Foreign Secretary, Sir Alec Douglas-Home, Schmidt and eventually also Jobert. The aim of his talks was to garner as much support for the WEC as possible. In his meeting with Scheel, Kissinger reminded the West German foreign minister of the security and economic challenges the Federal Republic would face should the multilateral approach offered by the Americans through the WEC fail to materialize, and expressed flexibility on the matter of follow-up machinery.[102] Kissinger came away from the meeting feeling less than optimistic, but he did have the impression that the Council mandate reached could be sidestepped.[103] After his talks with Home, Kissinger felt greater reassurance that the conference's goals would be met, while in his meeting with Schmidt –attending the conference as the West German representative (Scheel served as the EC representative) – Kissinger found the most willing of partners. By the meeting's end, it seemed to Kissinger that from the American perspective "[Schmidt] shared our general assessment of the energy crisis and the need for the kind of program we had outlined. He would do his utmost to fight for it. . . . He would not participate in the attempt to turn Europe against America on an issue insoluble except by common efforts. He would affirm a program parallel to ours."[104] As expected though, Kissinger had little success in shifting the French perspective during his meeting with Jobert; it seemed to the American secretary of state that a showdown would occur between France and the United States at the WEC.

[101] Ibid.; Möckli, 267-268.
[102] *AAPD 1974/1*, 166.
[103] Kissinger, *Upheaval,* 908.
[104] Ibid., 909.

It took little time after the start of the WEC on 11 February for Kissinger's summations of his bilateral talks of the previous days to prove accurate. Kissinger opened the conference, presenting America's two main proposals – the establishment of an Energy Coordinating Group (ECG) consisting of senior officials to oversee the work, and a follow-up consumer conference then a consumer-producer conference.[105] After Kissinger concluded, Scheel spoke on behalf of the EC. Aware of the points Kissinger raised the previous day and his responsibility as the Community representative to abide by the EC mandate, Scheel struggled to find a balance between the two opposing approaches, ultimately leaving the impression that the Nine were willing to negotiate. Following Scheel, Schmidt immediately made it clear that the Federal Republic supported the initiatives put forward by the United States. Schmidt noted that while Bonn wished to avoid confrontation with the oil producers, a consumer cartel should not be regarded as confrontational given that the consumers already faced a producer cartel. Schmidt also called for solidarity not only on energy matters, but also on security, trade and monetary relations. Finally, the West German finance minister also heavily criticized bilateral deals. Drawing on West German economic strength as he had done in the debate over the RDF and a common energy policy, Schmidt implicitly warned that the Federal Republic would be willing to use its economic might, remarking that West Germany was not the worst affected by the second oil price shock; rather, it could pay its oil bill and was not afraid of competition should bilateralism continue.[106] As Kissinger had hoped, Home also supported the American proposals.[107] By the time Jobert spoke, he was angered by these attitudes; it seemed to him that the common Community mandate had not been observed. He even charged Schmidt with violating it. Jobert also rejected Schmidt's perspective on bilateral deals.[108]

When the EC went into internal discussions later that day, there was great tension between France and the other Eight. Yet rather than allow France

[105] TNA, PREM 15/2179, *Text: Kissinger Address to Washington Energy Conference*; TNA, PREM 15/2179, *Telno 540 of 12 February* (hereafter PREM 15/2179, *Telno 540).*
[106] Möckli, 273.
[107] PREM 15/2179, *Telno 540.*
[108] Ibid.

to manipulate the outcome as it had during the 5 February Council meeting, West Germany, and in particular Schmidt, took charge. Taking heed of Kissinger's comments of the previous day, Scheel encouraged his European counterparts to see that the debate was not merely about the establishment of the ECG, but rather the fate of the Western alliance as a whole: if Europe refused Washington again, he warned, it could have dire consequences for political relations.[109] Scheel recommended that the EC ministers contact their governments and discuss the options available to them. Jobert, however, refused to do so, maintaining that his instructions were clear.[110] For Schmidt the choice was clear. He implored the European ministers to accept that a European policy was futile, for the EC could not even preserve peace and a balance of power in Europe much less the Middle East.[111] Schmidt declared that if he must choose between Europe and the United States, then he chose the latter and he was prepared to say this in public as well.[112] In addition, he accused Jobert of lacking the economic understanding necessary to debate the economic challenges facing Europe and caring more about France's role in the world.[113] Bonn's pleas found a resonance with all other EC member states, save France, leaving the EC divided at the end of the first day. While France continued to adhere to a strict interpretation of the EC mandate, the Eight were willing to negotiate and accept many aspects of the American proposal.[114]

When work turned to the communiqué the following day, despite efforts by the Eight, Jobert refused to alter his stance.[115] With no European version of the communiqué agreed, the EC only had the American version on which to negotiate with Washington. France refused to collaborate on any parts of the communiqué which dealt with follow-up machinery, including specific tasks and procedures. Those were of course the points of the communiqué which required the greatest amount of consultation. As a result, the communiqué was negotiated between the Eight and the United States with the latter coming out

[109] *AAPD 1974/1*, 198.
[110] Ibid., 198.
[111] Ibid., 198.
[112] Ibid., 198.
[113] Schmidt, 164.
[114] PREM 15/2179, *Telno 540.*
[115] TNA, PREM 15/2179, *FCO Telno 562 of 13 February.*

on top. Not only did the Eight agree to the establishment of the ECG, they also agreed to the possibility of another consumer conference *before* a later consumer-producer conference. Crucially, this consumer-producer conference had no date or deadline attached to it. [116]

As the conference drew to a close, Bonn had mixed feelings about the result. Although there had been agreement between the Eight and the United States, Schmidt was unhappy that France remained outside the emerging Western approach to energy matters. Schmidt later concluded that "the structural crisis of the international economy thus began without the most important governments' agreeing on a diagnosis, much less on treatment."[117] Over the next several months, Schmidt worked intensely to alter the outcome of the WEC. Scheel too, despite his insistence to the press that European unity was still on track, was disappointed: of the ambitious goals established by the Paris Summit of 1972, only political cooperation within the EPC had survived, but now even this appeared to be in jeopardy.[118] Moreover, in the light of the WEC, Bonn concluded that the development of a Community energy policy in the near future was unlikely.[119] Jobert publicly denounced the actions of the Eight, maintaining that France alone abided by the agreed mandate, placing much of the blame for the division within the EC on Schmidt.[120] European integration efforts suffered further when the meeting of the political committee originally scheduled for 14-15 February 1974 to discuss the start of the Euro-Arab dialogue was postponed for two weeks.[121] Although Brandt and Scheel led a brief revitalization of the Euro-Arab dialogue at the 4 March 1974 Council meeting, this initiative, along with the ambitious goal of European unity by 1980, soon faded to the background, as political change swept through the West and the economic repercussions of the oil crisis wreaked havoc on the West through the second half of 1974.[122]

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[116] Ibid.
[117] Schmidt, 164.
[118] *AAPD 1974/1*, 199
[119] Ibid., 199-200.
[120] Ibid., 199; Kissinger, *Upheaval*, 922.
[121] TNA, PREM 15/2179, *FCO Telno 562 of 13 February*; *AAPD 1974/1*, 200-1.
[122] *AAPD 1974/1*, 260, 318-20.

-From Stalemate to a Common Western Approach-

Much of the failure to find a common Western response to the oil crisis stemmed from political discord and poor working relations between the Western heads of government and foreign ministers. In spring 1974 though, political changes began to occur, starting in the United Kingdom. Having failed to secure RDF support and faced with stark domestic economic problems, trouble with the unions and growing Euro-skepticism, Heath called a snap election in February 1974 in the hope of regaining his position and the public's confidence. His gamble though proved unsuccessful when the Conservatives lost the election on 28 February 1974 to the Labour Party with Harold Wilson replacing Heath as prime minister.[123] Unlike the previous Conservative government, the Labour government was much less instinctively pro-European than the Heath government had been. Soon after taking leadership, Wilson and in particular the new Foreign Secretary, James Callaghan, "wasted no time in restoring the special relationship" between the United States and Britain which had been strained under Heath.[124] In addition, Callaghan also fostered a close working relationship with Schmidt.[125]

A second political upheaval came in France with the death of Pompidou on 2 April 1974. In a close vote, Giscard was elected as his successor. As evidenced through his work in the G-5, Giscard's interaction with his European as well as American counterparts during his time as minister of finance was cooperative and productive. Moreover, Giscard admitted he was embarrassed by the bickering between Jobert and Kissinger over the two previous years, and as president would approach matters in a pragmatic manner.[126] That said, because of the Gaullists in his governing coalition, Giscard faced an uphill

[123] Ben Pimlott, *Harold Wilson* (London: Harper Collins Publishers, 1992), 615.
[124] Henry Kissinger, *Years of Renewal*, (New York: Simon and Schuster, 1999), 607-608. While much has been made about the deterioration of the 'special relationship' between the United States and Britain under Heath, recent scholarship shows that this has been exaggerated. See Niklas Rossbach, *Heath, Nixon and the Rebirth of the Special Relationship: Britain, the US and the EC, 1969-1974* (Basingstoke: Palgrave MacMillan, 2009).
[125] James Callaghan, *Time and Chance* (London: Collins, 1987), 301, 316.
[126] HSA, Mappe 9631, *Vermerk über ein Gespräch des Bundeskanzlers mit dem amerikanischen Botschafter am 6. Juni 1974* (hereafter Mappe 9631, *Botschafter*).

battle if he was to change French energy and Middle East policies.[127] Nonetheless, Washington and Bonn hoped that the change of government, while not necessarily leading to immediate changes in policy, might permit a more constructive *style* of French diplomacy.[128]

The greatest political shift affecting West German policymaking was the resignation of Brandt on 6 May 1974. Brandt's departure came in response to the revelation that Günter Guillaume, a personal assistant in the Chancellery who had access to high level discussions and documents, was an East German spy. It was not the Guillaume affair alone which forced Brandt to step down; rather, the Chancellor had been beset with a series of domestic political problems starting in 1972. The Brandt government already faced pressure because of accusations of underhand tactics surrounding the 1972 federal elections. Within his own cabinet, Brandt encountered a minor revolt by Herbert Wehner, who openly denounced him during an official state visit to Moscow in autumn 1973. Finally, from shortly after his re-election in 1972, Brandt had suffered health problems and severe depression, often making him a less than effective chancellor. Thus, the Guillaume affair was only the final blow to an already ailing leadership.[129]

On 16 May 1974, Helmut Schmidt became chancellor. Although the scandals surrounding Brandt's departure hampered the SPD's signature foreign policy initiatives—*Deutschlandpolitik* and *Ostpolitik*—as well as the standing of the Social-democrats domestically, in international political-economic terms, Schmidt's ascendancy proved to be very advantageous for the Federal Republic: his understanding of political-economic matters and the social and political ramifications of the energy crisis made him one of the West German politicians most capable of dealing with the looming economic crises.

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[127] Gerald R. Ford Presidential Library (hereafter GRF), White House Central Files, CO53-2, *Issue Paper: France*; GRF, White House Central Files, CO53-2, *Meetings with Helmut Schmidt, Federal Chancellor, FRG* (hereafter CO53-2, *Schmidt*).

[128] Mappe 9631, *Botschafter*; HSA, Mappe 9631, *Brief an Richard Nixon, 4. Juni 1974.*

[129] For more information about the weakness in Brandt's leadership, see, Willy Brandt, *Errinerungen mit den Notizen zum Fall G.* (Munich: Ullstein, 2003); Barbara Marshall, *Willy Brandt : a Political Biography* (Basingstoke: Macmillan, 1997); Arnulf Baring and Manfred Görtemaker, *Machtwechsel: die Ära Brandt-Scheel* (Berlin: Ullstein, 1998).

Moreover, unlike Brandt, Schmidt was much more pragmatic in his leadership and had experience in crisis management. [130] These factors, coupled with his Atlanticist approach, greatly shifted the dynamics of western political negotiations and consensus building among the allies on energy matters.

Although a change in leadership in Washington came only in August 1974, the increasingly positive relations in the Atlantic alliance were noticed and led to progress far sooner.[131] Briefing the US cabinet in June 1974 Kissinger was euphoric with regard to the changes in leadership that had taken place in Europe, remarking "The changes of government in Europe in the last year have been extraordinary. Wilson is the most cooperative; Schmidt is more energetic; and the French change is remarkable. We solved the problem with France in a half hour at the Ottawa meeting and the Foreign Minister spoke in English – the first time ever."[132] Indeed it seemed only months earlier that the highly contentious New Atlantic Charter, would tear the Western alliance apart. In the end, the United States and the EC signed it with very little debate and with good spirit on 26 June 1974. The good relations only improved after Nixon resigned on 8 August 1974 and Gerald Ford became president on 9 August 1974.[133] By autumn 1974, the Federal Republic determined that relations between the United States and the EC were "excellent" and that "no problems" existed.[134]

Yet while the changes in government certainly shifted the dynamics, it remained to be seen whether the improved prospects for cooperation would alter Bonn's and the West's response to the oil crisis. Although now chancellor, Schmidt's views did not noticeably change from those espoused while finance minister: his primary concern remained economics and he gave pride of place to Western cooperation. That said, he did not disregard European efforts; he believed that European cooperation, particularly in the areas of energy policy, should continue, so long as this work neither obstructed nor trumped the

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[130] Kissinger, *Renewal*, 610; Rupps, 175-80; CO53-2, *Schmidt*.
[131] BAK, B102/111907, *Schmidt Sees U.S.-Europe Tension Eased.*
[132] GRF, NSA Memcon, Box 4, *June 21, 1974-Cabinet Meeting*.
[133] Schmidt, 177; Gerald Ford, *A Time to Heal: the Autobiography of Gerald R. Ford* (New York: Harper & Row, 1979), 221.
[134] BAK, B136/17041, *Betr.: Beziehungen EG-USA*.

Western efforts.[135] By summer 1974, Bonn concluded, "Wir sehen die Notwendigkeit, in beiden Bereichen – dem internationalen und dem europäischen – voranzukommen. Allerdings sollte zwischen diesen Bereichen kein Junktim hergestellt werden. Es muss vermieden werden, daß die Bereiche sich gegenseitig blockieren."[136] Indeed, the Schmidt administration openly asserted, "regionale Systeme müssen die globalen unterstützen."[137]

As it turned out, however, Schmidt had little reason to worry about a European challenge. Trouble with European integration efforts started on 1 April 1974 when Callaghan announced at the EC Council of foreign ministers meeting that Britain would seek "renegotiations" on its terms of entry to the European Community.[138] Citing predominately financial concerns—above all Britain's disproportionate contribution to Europe's budget and objections to the common agricultural policy (CAP)—London threatened to leave the Community should discussions on their points of contention not take place.[139] The much altered British position vis-à-vis EC membership greatly affected the initiatives in the EC. Although efforts toward a common energy policy began again in May 1974 with a new European Commission proposal, they quickly faltered when the United Kingdom objected to the Commission's suggestions and refused to discuss any revisions until autumn 1974, when the renegotiation talks were expected to be settled.[140] Britain's obstructionist EC position also slowed work on the Euro-Arab dialogue, although so too did certain Arab demands.[141] With EMU having broken down in January 1974 and the lack of progress on common energy and foreign policies, the ambitious goal of European unity by 1980 collapsed. Only in December 1974 did the European

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[135] BAK, B136/7672, *Sprechzettel zum Thema Energie.*

[136] BAK, B136/8030, *TO-Punkt "Energiepolitik"*; BAK, B136/12413, *Aufzeichnung für die deutsch-französische Konsultationen am 8./9. Juli 1974 zum Thema Europäische Energiepolitik* (hereafter B136/12413, *Europäische Energiepolitik*).

[137] BAK, B136/16764, *Betr.: Konferenz sozialdemokratischer Parteien der EG in Den Haag* (hereafter B136/16764, *Haag*).

[138] Callaghan, 295-318; Pimlott, 610-611, 635-7.

[139] BAK, B136/16866, *Großbritannien und die EG, II. Sachstand, 19. November 1974*; Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1974*, vol. 2, (München: R. Oldenbourg Verlag, 2005) (hereafter *AAPD 1974/2*), 1183-4.

[140] BAK, B136/8030, *TO-Punkt "Energiepolitik"*; BAK, B136/12413, *Übersicht zu TO-Punkt "Neue energiepolitischen Strategie für die Gemeinschaft": Anlage 2.*

[141] Elfriede Regelsberger, "The Euro-Arab Dialogue: Procedurally Innovative, Substantially Weak," in *Europe's Global Links: the European Community and Inter-Regional Cooperation*, eds. Geoffrey Edwards and Elfriede Regelsberger (London: Printer Publishers, 1990), 59.

Community revive its efforts towards closer integration through the creation of the European Council. This act, though, was far from the grand vision of European identity and union envisioned at the 1972 Paris Summit.[142]

Initially it seemed that Bonn and the West would be able to capitalize on the improved political relationships and lack of European competition. By June 1974, the ECG began work on a new proposal by the United States – the Integrated Energy Program (IEP). The IEP called for energy supply sharing and controls on demand during emergency periods. It also set out a plan for oil pooling, alternative energy development and energy conservation over the long-term.[143] While the European ECG members were positive about the American suggestion, France's continued non-participation in this Western initiative worried them, especially West Germany.[144] Through summer 1974, Schmidt attempted to persuade Giscard to join the Western initiative and pressed Bonn's ECG partners to be patient, promising that the French president did want to take part in the IEP.[145] Yet, despite his efforts, France did not change its stance and by September 1974, unwilling to wait any longer, the ECG agreed to the establishment of the IEP without France.[146]

Given Bonn's desire for Western solidarity, the French refusal to participate in the IEP would have been a disturbing set-back at the best of times, yet by autumn 1974 the international economy was in a downward spiral. Although OPEC had not raised prices since December 1973 and the embargo against the United States was officially lifted in March 1974 and the Netherlands in July 1974, the economic repercussions of the oil crisis set in

[142] For more on the creation of the European Council see Emmanuel Mourlon-Droul, "Filling the EEC leadership vacuum? The creation of the European Council in 1974," *Cold War History* 10, no. 3 (2010): 315-339.
[143] B136/12413, *Europäische Energiepolitik.*
[144] BAK, B136/17143, *Vermerk für die Kabinettsitzung am 10. Juli 1974*; BAK, B136/12413, *Vermerk zur Schaffung einer energiepolitischen Aktionsgruppe in Rahmen der OECD.*
[145] HSA, Mappe 6933, *Vermerk über das Gespräch des Bundeskanzlers mit dem belgischen Premierminister Tindemans am 3. Juli 1974*; HSA, Mappe 6972, *Vermerk über das Gespräch des Bundeskanzlers mit dem britischen Premierminister Wilson 19. Juni 1974*; B136/12413, *Europäische Energiepolitik.*
[146] TNA, T354/170, *French Energy Measures.*

across the West.[147] IMF predictions on the severe disequilibrium in the global balance of payments structure were proving correct: nearly all Western states were in deficit, with, as forecast, the United Kingdom and Italy, suffering the most. The oil producers' surpluses had increased drastically. Through the IMF, the industrialized countries along with the oil producers and non-oil LDCs had managed to agree to the creation of the Witteveen facility, a recycling fund, which aided the countries suffering severe balance of payments surpluses.[148] In addition, the Euromarkets had reacted better than expected to the placement of the large oil surpluses.[149] Yet despite these positive developments, the balance of payments disequilibrium problems remained far from solved.

Furthermore, while prices were already rising before the oil crisis, during the second half of 1974 inflation rates throughout the industrialized states soared into the double-digits on the back of the massive oil price surge. Concern was growing that inflation would soon give way to recession, as global trade slowed and investor confidence waned. Indeed it seemed to Bonn already in autumn 1974 that such was the case in the United States. Helped by large export orders from the previous years and a strict money policy introduced after the collapse of Bretton Woods, the Federal Republic was able to maintain a balance of payments surplus and an inflation rate at 7 percent. Yet, despite its relatively strong economic performance, Bonn was not content to rest on its laurels. Rather, the Schmidt government was aware that because of their dependence on exports for growth and employment, West Germany could not maintain this strong position for very long, and needed both international trade and market confidence to rebound quickly.[150] For Bonn the key to both was Western cooperation.

Concerned about the state of the global economic system and aware that France would not participate in any Western forum associated with the IEP, the Federal Republic turned to the G-5. Schmidt strongly believed in the

147 Alfred Grosser, *The Western Alliance: European-American Relations since 1945*, trans. Michael Shaw (London: Macmillan Press Ltd, 1980), 277-8.
148 Bbk, N2/K90, *CXX Meeting, 13 June 1974, Communique.*
149 HSA, Mappe 6543, *Konsquenzen der Ölkrise auf die Währungslage* (hereafter Mappe 6543, *Währungslage*).
150 B136/16764, *Haag.*

effectiveness "[des] informellen persönlichen Kontakt[s] der fünf Finanzminister und Notenbankgouverneure gerade angesichts der schwierigen Weltwirtschaftslage."[151] The G-5 had been created primarily for the discussions on international monetary reform and its last meeting had been in January 1974 – right before the collapse of the C-20 negotiations. Soon after becoming chancellor though, Schmidt began to push for the use of this forum in respect to crafting a Western response to the oil crisis.[152] Finally in September 1974, Schmidt's efforts seemed to have paid off, as the United States proposed, and the other G-5 members agreed to, a G-5 gathering on 28-29 September 1974 in Washington.[153] To this G-5 meeting, however, Washington invited not just the finance ministers, but also the foreign ministers and central bank governors of the five countries.

Yet, in the expanded G-5, with different personalities, the consensus that Schmidt experienced as finance minister and hoped would lead to a common Western approach did not occur. Instead, the United States used the meeting as an opportunity to unveil a new American strategy towards the energy matters based on reducing the price of oil. Opening the talks, William Simon, who had replaced George Shultz as American Secretary of the Treasury, began by drawing comparisons with the challenges facing the West after the Second World War and highlighted three problem areas: "the overall state of the world economy; the problem of recycling; and the high level of oil prices."[154] The first two issues were of lesser concern to the Americans: despite evidence to the contrary, Washington "did not believe" the United States or the West as a whole were on the brink of a recession; rather, countering inflation was and would remain the major problem for and focus of American economic policymaking. Although confidence in the markets was

[151] BAK, B136/17041, *Aufzeichnung über das Gespräch zwischen dem Bundeskanzler und US-Botschafter Eberle, 10. Oktober 1974.*
[152] BAK, B136/17143, *Stenographisches Protokoll Plenarsitzung deutsch-französischen Konsultationen am 9. Juli 1974*; TNA, T354/167, *Call from Helmut Schmidt to Sir Derek Mitchell, 10 July 1974*; BAK, B136/16866, *Vermerk über das Gespräch des Bundeskanzlers mit PM Wilson, AM Callaghan, Schatzkanzler Healey, Verteidigungsminister Mason und Minister Lever.*
[153] BAK, B136/17041, *Betr.: Gespräche des Herrn Bundeskanzlers mit dem amerikanischen Senator Lloyd Bentsen* (hereafter B136/17041, *Bentsen*).
[154] TNA, T354/169, *Record of a Meeting at the State Department, Washington DC on 28 September 1974* (hereafter T354/169, *28 September*).

falling, and a major American bank and one in Germany had recently collapsed, Washington remained optimistic about the ability of the markets and the other institutions thus far established to handle the recycling issue.[155] Still, the United States recognized the need for new arrangements and advocated greater cooperation among the industrialized states on this matter.[156]

Raising the greatest alarm for the United States was the price of oil. Economically, Kissinger warned, "no industrialized country could live long with the current level of oil prices and increases in view."[157] Washington was also concerned about the political repercussions of oil prices: Kissinger maintained that "the problem was not a question of balances in banks but of the acquisition of political power."[158] The United States feared that OPEC could potentially misuse their political power to extort weaker industrialized states, such as Italy. In turn, these states could "become economic and political hostages of the producers."[159] Moreover, with the producers' increased political power there was also a greater risk of regional instability; given the large amount of armaments in the area, the possibility existed for local rivalries and disputes. These could lead to further outbreaks of war between the Israelis and Arabs and greater Soviet involvement in the Middle East. Washington called on the other industrial states to reach a unified position, insisting that only through Western solidarity could the industrialized world hope to overcome the economic and political problems facing them.[160]

To this end, Kissinger proposed a strategy focusing on three aspects: oil conservation, financial solidarity, and consumer-producer co-operation.[161] The overall thrust of the American plan was to drastically reduce the price of oil and limit the transfer of economic and political power to the oil producer countries. Under conservation, the Americans suggested that the consuming countries cut

[155] Mappe 6543, *Währungslage*; B126/48887, *Zurückschleusung.*
[156] TNA, T354/169, *Record of a Meeting in the State Department, Washington DC, 29 September 1974* (hereafter T354/169, *29 September*); T354/169, *28 September.*
[157] T354/169, *28 September.*
[158] Ibid.
[159] TNA, T354/169, *Telno. 3158 of 29 September.*
[160] Ibid.
[161] T354/169, *28 September*

oil imports by a combined total of 3 million barrels a day. How this was to be achieved in each country, i.e. taxation, import levies, price decontrol, allocation and rationing, would be left to the respective states to determine. In this way, Washington maintained, the West could exert downward pressure on the price of oil. Conservation was to be "basic to [the West's] relations with the producers."[162]

For financial solidarity, Washington proposed the establishment of a trust fund totaling at least $15 billion per year.[163] This "solidarity fund" was to be used by the industrialized states to support the LDCs and to assist troubled Western states overcome the financial challenges of the energy crisis. Thus the solidarity fund could be used to help relieve large oil deficits and, in conjunction with other existing arrangements, for recycling. Through its establishment, Kissinger argued, the West could curb the producers' ability to use oil as a weapon, as the consumer countries would be able to "take care of [their] own." Lastly, Washington advocated the development of a "common strategy" among the consumers vis-à-vis the producers, for without it, Kissinger warned "the producers would be in the driver's seat in any consumer-producer dialogue." The American belief in this statement was so strong that Washington refused to enter a consumer-producer conference without first achieving a shared consumer approach.[164]

While Bonn and the other G-5 member states could agree with aspects of the American analysis, there was little consensus on Washington's proposed strategy.[165] First, the Europeans and the Japanese did not believe that the centerpiece of the American strategy – the drastic reduction of oil prices – was feasible. Although in the immediate aftermath of the second price hike, West Germany had hoped to decrease oil prices to pre-hike figures, over the months the Federal Republic came to realize that this was impossible and instead argued that a reduction in oil prices would only come gradually and marginally

[162] Ibid.; BAK, B136/7671, *Betr.: US-Vorschlag zur Energie- und Währungspolitik* (hereafter B136/7671, *US-Vorschlag*).
[163] Ibid.; TNA, T354/169, *Telno. 3159 of 29 September 1974.*
[164] Ibid.
[165] B136/17041, *Bentsen.*

through solidarity on conservation measures and the resulting effect on market forces.[166] Indeed, it seemed to Bonn, Paris, London and Tokyo that overly aggressive action in such a direction would have the opposite of the desired effect. Denis Healey, the Chancellor of the Exchequer, expressed the four members' perspective well, classifying the reduction of oil prices as a matter of "importance" rather than one of "urgency." Of greater urgency to these states were other issues identified by Simon: namely, the overall economy and recycling. Far from the rosy American global economic outlook, the four other G-5 members foresaw the world economy worsening. While all maintained that inflation remained the chief concern, they did not underplay the effects of the stagnating American economy.[167] As to recycling, the new West German finance minister, Hans Apel, aptly expressed the other G-5 members' worries, stating, "Recycling was most important. We could not solve this problem by using our own economic means. The deficit would remain."[168]

On the growing political risks stemming from the energy crisis, there was little dispute. Yet the Europeans and Japanese worried that the proposed American program might actually exacerbate the situation.[169] Healey maintained that such a comprehensive Western response as proposed by Kissinger "smacked of confrontation."[170] The Japanese, French and West Germans representatives echoed the British concern, though arguing on different grounds. The French foreign minister, Jean Sauvagnargues, contended "Too close solidarity amongst the industrialised countries could provoke a kind of 'class-war'. [The West] should recognise that petrodollars were the only wealth most of the producers possessed."[171] Hans Dietrich Genscher, the West German Foreign Minister, presented the matter from a more practical standpoint, stating "confrontation should be avoided. Apart from anything else we could not carry it out."[172]

[166] BAK, B136/16795, *Betr.: Amerikanische Vorschläge für eine engere Zusammenarbeit zwischen den Industriländern* (hereafter B136/16795, *Zusammenarbeit*).
[167] BNA, T354/170, *Brief No. 2 (e), United States.*
[168] T354/169, *28 September.*
[169] B136/16795, *Zusammenarbeit.*
[170] T354/169, *28 September.*
[171] Ibid.
[172] Ibid.

Yet while the Federal Republic, Britain, France and Japan shared the same economic priorities, recognized the potential for political backlash and hoped to avoid confrontation, they presented no comprehensive alternative to the proposed American strategy. The closest they came was a British suggestion for a second recycling facility to be created within the IMF and outfitted with funds totaling $25-30 billion.[173] With it, Healey maintained, "at least part of the recycling problem would be under control, because a firm location for some of the surpluses would have been found in an international organization." Moreover, Healey noted it would help "to reassure, and therefore strengthen, the Euromarkets."[174] For his plan, Healey found tentative support from his European and Japanese counterparts. America, however, disliked the British approach because it relied on Arab participation and thus placed the West again at the mercy of the oil producers.[175] As the meeting drew to a close, no resolutions for the issues raised could be agreed.

In the coming weeks, the chances for agreement became even slimmer. A first major roadblock occurred on 24 October 1974 when in a press conference Giscard denounced the initiatives undertaken through the IEP as well as those suggested by Kissinger in the G-5 meeting. The French president announced that France would pursue a consumer-producer dialogue, although he made no concrete suggestions for its possible content.[176] These statements came as a great disappointment to Bonn.[177] Despite earlier French refusals, Schmidt had retained hope that they would reconsider their position. Yet, from Giscard's comments, it was not only clear that France had no intention of joining the IEP, but that it aimed to undermine the efforts taking place within it.[178] To be sure, West Germany supported dialogue with the producer states, but Schmidt's government believed it should only occur "wenn der

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[173] HSA, Mappe 9013, *Vermerk: Betr.: Treffen der Finanzminister und Notenbankgouverneure von USA, Großbritannien, Frankreich, Italien, Japan und Bundesrepublik Deutschland, 7./8. September 1974.*
[174] T354/169, *28 September.*
[175] Ibid.
[176] BAK, B136/17498, *Pressekonferenz des französischen Staatspräsidenten.*
[177] BAK, B136/7672, *Brief an Brandt vom BM Wirtschaft, 26. November 1974.*
[178] BAK, B136/8030, *Vermerk: Betr.: Analyse der energiepolitischen Vorschläge von Staatspräsident Giscard d'Estaing auf seiner Pressekonferenz.*

Weltölmarkt [sich] einigermaßen stabilisiert [hat]. . . . und muß von Seiten der großen Verbraucherländer entsprechend vorbereitet sein."[179] From Bonn's perspective, one of the purposes of the IEP was to fulfil the latter condition. This now seemed impossible given France's position on the IEP. Yet, despite Bonn's dismay over Giscard's comments, Schmidt refrained from publicly or privately criticizing the French president or his statements; instead, because of his personal friendship with Giscard, Schmidt placed the blame for the French position not on its leader, but on the Gaullist portion of his government.[180]

In Washington the French plan for a consumer-producer conference was perceived as a deliberate political attack on the United States, who in the G-5 meeting had clearly opposed such a dialogue *before* the consumers were coordinated.[181] After months of adherence to Schmidt's pleas for patience with Giscard, the Ford administration would wait no longer. A few weeks later they retaliated. Despite the less than positive comments Washington had received about its proposed strategy at the September 1973 G-5 meeting, and requests from the Federal Republic not to publicly disclose the financial aspects of its strategy, on 14 November 1974, in a speech at the University of Chicago, Kissinger unveiled the American plan.[182] Days later, Simon expanded on the financial aspects of it in his address before the Foreign Trade Convention, calling explicitly for the creation of a Western solidarity fund.[183] Given the lack of agreement on a Western course of action on energy matters nearly a year after the oil crisis began, Kissinger was right to ask, "What will be our response?"[184] Within a few short weeks, however, Western solidarity was achieved and Bonn was a driving force in its development.

Aware that he would soon be holding talks with Ford and Kissinger, Schmidt contacted Giscard in late November 1974 to discuss the possibilities for finding common ground between the American and French positions. In a

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[179] Ibid.
[180] BAK, B136/17041, *Vermerk über ein Gespräch des Bundeskanzlers mit den Herren Sonnenfeldt und Hartman am 27.10.1974.*
[181] Ibid.
[182] Mappe 6579, *Kissinger.*
[183] HSA, Mappe 6579, *Simon Address to Foreign Trade Convention.*
[184] Mappe 6579, *Kissinger.*

series of telephone conversations, Schmidt and Giscard, at the former's suggestion, hatched a plan for a three-phase consumer-producer dialogue: first, a preparatory meeting in early 1975 to be attended by senior civil servants who would decide the discussion topics; second, a consumer caucus, during which consumer positions could be established and coordinated, and in which the French would take part; third, a consumer-producer meeting to be attended by the heads of government in late 1975. The two European leaders also agreed that Schmidt would present this plan at his upcoming talks with the United States. [185]

When Schmidt met with Ford and Kissinger on 4-5 December 1974, the West German chancellor quickly turned the discussions to energy matters and the Western discord surrounding them. Schmidt began by relaying that "[Giscard] is willing, with you, to bring about not only what looks like but really serves the purposes of consolidation. With his consent, I will sketch out a few ideas on which you and he might publicly agree."[186] Schmidt remarked further that his plan was meant to bridge the American approach and "Giscard's carelessly launched ideas."[187] Having presented the West German-French strategy, Schmidt confidently informed Ford and Kissinger, "Giscard will buy this."[188] Yet, Schmidt did not only tow the agreed West German-French line, he also proposed a "personal idea". Schmidt suggested holding private talks between key consumer and producer countries, attended by 12-15 private citizens with access to their governments. He called it "a meeting of brains."[189] While Schmidt could not provide an assurance that Paris would definitely agree to this proposal, he appeared certain that they would consider it. [190]

[185] HSA, Mappe 6586, *Kurzvermerk über das Telefongespräch Giscard d'Estaing/BK am 28.11.74.*; HSA, Mappe 6586, *Kurzvermerk über das Telefongespräch Giscard d'Estaing/BK am 3. Dezember 1974*; HSA, Mappe 6586, *Vermerk: Betr.: Telefongespräch des BK mit Giscard d'Estaing am 13.12.1974.*
[186] GRF, NSA Memcon, Box 7, *December 5, 1974-Ford, Kissinger, Helmut Schmidt* (hereafter Box 7, *December 5*).
[187] Ibid.
[188] Ibid.
[189] Ibid.
[190] Ibid.

Washington was not immediately convinced that the West German-French plan or Schmidt's own initiative would work. Instead, Ford questioned if consumer unity had reached a point whereby they could avoid going "down the path of ineffective results." Kissinger added that under such circumstances, "A producers' conference could accentuate the sense of impotence of the West that could offset all policies."[191] Also a cause for concern among the American officials was the French argumentation on this matter in the preceding weeks, particularly the notion that the United States sought confrontation with oil producers. [192] Despite its skepticism, Washington was determined to find a common Western response on the matter. As the first day of the two-day meeting drew to a close, the American president concluded that "the problem is to save France's face and make it work. Let's try to find a formula which will work and let me finalize it at [the upcoming bilateral French-American talks in] Martinique."[193]

By "a formula", however, Ford did not mean a simple reworking of Schmidt's proposals. Ford's "formula" was to include also the American suggestion for a solidarity fund. Since first discussing multilateral options for recycling at the G-5 meeting, the Federal Republic had considered the advantages and disadvantages of both the British plan and the American one. Increasingly Bonn felt that the British proposal was a better solution, because "schemes based on the IMF helped to avoid confrontation; the Arabs were already there as members, and would bear some of the burden; also, the risk of guarantee would be more widely spread."[194] The American plan, however, raised multiple concerns in Bonn. In the $25 billion solidarity fund, West Germany would be expected, after the United States, to contribute the bulk of the financing. Having over the last half of 1974 already extended a $2 billion credit to Italy, adopted a $3 billion European loan program available to EC member states, backed by a 44 percent West German guarantee, and agreed to further expenditures to aid non-oil producing LDCs, the Federal Republic was

[191] Ibid.
[192] Ibid.
[193] Ibid.
[194] TNA, T354/105, *Record of Conversation between Wilson and Schmidt, Sunday 1 December 1974.*

feeling the strain of its international financial support. As one German official summed up, "Die Leistungsfähigkeit der Bundesrepublik ist nicht unbegrenzt."[195] As it stood though, the risks associated with $25 billion fund was just too great for Bonn.[196]

Alongside the financial aspects of the American proposal, was the matter of national responsibility. The Federal Republic did not wish to become a *lender of last resort* for economically weaker European states who have "undisciplined economic policies."[197] Instead, Bonn was clear that the onus for financing deficits should lie with the national governments, and funds should not encourage the deficit countries to pursue an inflationary policy at home.[198] Moreover, Bonn was not fully convinced that the proposed American facility was actually needed. The Witteveen Fund already existed, with the IMF recently proposing its extension through 1975 and an increase in its funding from $3.5 billion to $7-10 billion.[199] Moreover, discussions were taking place in the OECD about the possibility of creating a guarantee mechanism in the region of $5-10 billion (the so-called Van-Lennep plan), and, furthermore, the British plan presented at the September G-5 meeting was still on the table.[200] Although part of the appeal of the American plan was supposed to be that the oil-producing countries would be severely restricted in their use of the oil weapon, the Schmidt government worried that it may have the opposite effect. If OPEC perceived their actions as too confrontational, then it may push prices higher. Finally, Bonn foresaw the potential for an equally political catastrophe. Schmidt's government worried that the United Kingdom would lose even further interest in European Community membership if they were provided with too many options for receiving financing elsewhere.[201]

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195 BAK, B136/34377, *Vermerk für die Kabinettsitzung am 6. November 1974, Betr.: TOP 7: Europafragen*; TNA, T354/169, *G5: Brief C, Joint Community Borrowing*; BAK, B136/17041, *Aufzeichnung über das Gesprächs des Herrn Bundeskanzlers mit Undersecretary Bennett (US-Treasury) und Assistant Secreatry Enders (US-State Department)* (hereafter B136/17041, *Enders*).

196 B136/7671, *US-Vorschlag*.

197 GRF, White House Central Files, CO 53-2, *German Fed. Rep. 12/01/74*.

198 Ibid.; B136/16795, *Betr.: Rückschleusung*; BAK, B136/16795, *Betr.: Washington-Reise BK vom 4. bis 6. Dezember 1974, Translation*.

199 B136/16795, *Zusammenarbeit*; B136/6795, *Rückschleusung*.

200 Ibid.

201 B136/17041, *Enders*.

During the first meeting with Ford and Kissinger, Schmidt had relayed Bonn's reasoning for its hesitancy toward the American financing mechanism, saying "[the solidarity fund] is an invitation for Britain and Italy to continue with inflation. It takes away from the Arabs the risks of investment and puts it on us. . . . I can't commit my country to that amount. $4 billion is an enormous burden on our budget. It would explode my budget."[202] Yet, for the United States, the solidarity fund had come to play an integral part in their strategy.[203] Kissinger responded that the fund would be a means of introducing this discipline. Schmidt dismissed this line of argumentation though, maintaining that the economic risks were too great and "Italy wouldn't fulfill the conditions."[204]

As the second day of the bilateral talks began, Ford laid out America's counter proposal. In it, Washington was willing to agree to the West German-French plan, so long as steps one and two were reversed, making the consumer caucus precede a meeting of civil servants to decide conference topics. In this way, it seemed to Ford, consumer solidarity would be achieved before a meeting with the producers took place. Second, Ford accepted Schmidt's private group idea with the caveat that the initial meetings be restricted to the consumers. Finally, he wanted at least a $2 billion commitment from the Federal Republic to the solidarity fund. This sum seemed extremely reasonable to the Americans, as Ford noted before the gathering in private discussion with Kissinger, "Hell, he gave Italy two."[205]

Schmidt was willing to accept the American alterations to the West German-French plan as well as his private group initiative, but was unwilling to confirm whether it would also meet French requirements. Schmidt commented, "I will buy it. The question is whether Giscard will. I will convey it to him privately."[206] The West German chancellor was less forthcoming on the

[202] Box 7, *December 5.*
[203] Ibid.
[204] Ibid.
[205] GRF, NSA Memcon, Box 7, *December 6, 1974-Ford, Kissinger.*
[206] Ibid.

solidarity fund. Schmidt recognized that if he refused, the possibility for Western cooperation would again be lost. Thus, he agreed to consider further Washington's request in the coming weeks and asked that the United States consider West Germany's domestic difficulties as well. Schmidt noted, "If our two countries shoulder the whole burden, that amount is something I can't stand."[207]

Fortunately for the West, Giscard did buy the American counter proposal. Only ten days after Schmidt departed Washington, Ford and Giscard met in Martinique for bilateral talks. Here the two countries reached a four-stage agreement which corresponded closely to that discussed between Washington and Bonn. The first stage was "to complete efforts for cooperation among the consumers and within the Group of Ten." What constituted "cooperation" was left undefined, although it would soon become apparent in early 1975 that for Washington "cooperation" meant full "consumer solidarity" on financial matters, such as the solidarity fund, conservation measures and development of alternative energy resources — largely the same points that made up the American program for Western cooperation presented by Kissinger at the September 1974 G-5 meeting. The second stage of the Martinique agreement called for "technical talks with producers to see what questions would be discussed" in a conference. During the third stage, consumers were to reach concrete agreements among themselves on the topics decided in the second stage. Finally, a consumer-producer conference was to be held in summer 1975.[208] Given the American concern that consumer solidarity first be achieved, Paris and Washington decided that, as Schmidt suggested, work on the consumer position should be undertaken in and led by the G-5.[209] Thus, a year after the outbreak of the oil crisis, the West finally had agreed an approach to the changed energy paradigm.

[207] Ibid.

[208] GRF, NSA Memcon, Box 8, *December 15, 1974 – Ford, Kissinger, French President, Valery Giscard d'Estaing and Foreign Minister Jean Sauvagnargues*; TNA, PREM 16/611, *Telno Guidance No. 48 of 25 March*; TNA, FCO 30/2893, *Energy Questions to be Determined at the Community Level – COM (75).*

[209] HSA, Mappe 6586, *Betr.: Telefongespräch BK mit dem französischen Staatspräsidenten am 18.12.1974.*

-Conclusions-

In the immediate aftermath of the oil crisis, the Federal Republic attempted to balance its economic and political goals by pursuing multilateral approaches to both via the EC. Their efforts, however, were thwarted by the policy aims of France and Britain, which preferred to address the economic repercussions of the oil crisis through bilateral deals. In order to keep European integration efforts on track, Bonn initially refrained from pushing its dual approach, focusing instead on pursuing the European political course advocated most strongly by Paris and London. Only once it became clear that Europe's political gestures were having little affect on the Arab oil producers and West Germany's economic strength was at risk – a circumstance also made clear by Schmidt and the West German economics ministry – did the Brandt government again begin to forcefully advocate its economic agenda among its European partners. While Bonn's efforts did succeed in shifting the debate within Europe slightly in December 1973, it was not until after the second oil price hike in January and February 1974 that the Federal Republic achieved a balance between its political and economic aims: at this juncture they were able to encourage European political cooperation and to respond to the economic threat through Western cooperation. West Germany was able to maintain its dual path even when French opposition to the Washington Energy Conference threatened to undermine it. Had the Brandt government given in to French pressure over the WEC, as it had in November 1973, not only the outcome of the conference, but also all efforts toward a common response would probably have been fatally impaired.

As the balance of payments difficulties became acute and the macroeconomic conditions began swiftly to deteriorate through summer 1974, Bonn, now with Helmut Schmidt as chancellor, concentrated even more on achieving its economic objectives. After all, Germany's economic strength rested greatly on the fortunes of the world economy. Yet unlike through the previous six months, over the second half of 1974, West Germany placed achieving a common Western approach ahead of first agreeing a European path. While this shift was due in large part to the economic problems which could not be tackled without the assistance of the United States, it was also a result of the

Atlanticist and economics-focused Schmidt entering the chancellery, as well as the fading of a European alternative. Had any of these aspects been different, it is unlikely that the Federal Republic would have made Western solidarity its main policy aim. As such, Bonn played an even greater role in the West's response to the oil crisis, for even when Washington and Paris made opposing proposals, West Germany remained committed to finding a response acceptable to all and not biased towards Europe.

Yet the policy objectives alone would have had little bearing without a means of enforcing them. Rather, and similar to the methods examined in the first two chapters, to push its aims and influence the Western response to the oil crisis, the Federal Republic again relied on its economic strength and firm leadership. In order to shift the EC's focus back to economic matters, Bonn threatened to withhold its massive contributions to the Regional Fund as well as the EC budget. West Germany again relied on its economic might during the WEC in arguing against bilateralism and subsequently helping to win support for Western cooperation there. In addition, in order to strengthen the European economy and win favor among its European allies, the Federal Republic extended a $2 billion loan to Italy, served as the main guarantor on the EC's bond recycling program, and contributed greatly to Europe's additional support to non-oil LDCs. Finally, in order to gain Washington's approval for the eventual Martinique Agreement, Bonn committed billions of dollars to support America's proposal for a solidarity fund.

Although chancellor when the oil crisis initially unfolded, and for several months thereafter, Brandt's leadership was less effective than Schmidt's in the pursuit of a common Western response. Attached to European integration efforts, Brandt initially refrained from challenging either Pompidou or Heath on their views toward a common European economic response to the oil crisis. Even when the opportunity arose for the creation of a Western response in December 1973, Brandt shied away from pushing it too strongly at the Copenhagen Summit. Once the WEC was announced, Brandt was still greatly concerned with achieving a single European perspective even at the risk of the failure of the WEC. Aside from his European bias, ill-health, party infighting and the Guillaume affair were all distractions for Brandt and ultimately weakened his leadership abilities.

From the outbreak of the oil crisis, despite being only finance minister, Schmidt grabbed the reins of leadership. Capitalizing on his economic understanding, Schmidt recognized that the economic repercussions of the oil crisis were dire and could not be solved by political talks alone. Thus, he pushed the economic perspective in both Bonn and Europe, even though they were not favored at the time. Relying on good relations with USA, Schmidt took the initiative to write to Kissinger in November 1973 with an idea for a Western conference on energy. Although Kissinger did not immediately act on it, given the form and content of the WEC proposal, Schmidt's suggestion clearly planted a seed of inspiration. And once the WEC was announced, Schmidt was its greatest advocate, championing it in various Western forums and generating support for it. At the WEC, unlike Brandt, Schmidt did not allow France to dominate the discussions; instead, Schmidt stood up to Jobert and French obstinacy, leading the EC in a drive to accept the proposals for Western cooperation put forward by Washington. Finally, using personal politics, Schmidt shaped a compromise between the French and American positions which served as the basis for the Martinique Agreement. Without his mediating skills, it is doubtful that an agreement would have been reached between Paris and Washington and thus a common Western response achieved.

As a result of its efforts the Federal Republic was able to advance its position in the Western alliance. This advancement, however, did not come through the G-5, such as was seen in previous chapters; the expanded setting of the September 1974 G-5 meeting did little to help bring about Western agreement, and Bonn's voice within these discussions was lost as the United States dominated the proceedings. Still, despite the lackluster results of this G-5 gathering, the Federal Republic's belief in the forum was not diminished; as was evident from Schmidt's "personal initiative" to the United States during their December 1974 bilateral talks, Schmidt still believed in the efficacy of and the opportunities for West Germany through the G-5 forum. Within a year's time, Schmidt's belief would be justified with the success of the Rambouillet Summit.

Through 1974, however, Bonn's position within the Western alliance improved predominately because of a combination of a waning of French and American economic and political power, and the willingness of Schmidt to take the lead. While France did not suffer from the Arab's oil embargo, the price hikes made it impossible for France to remain in the EC currency snake. The floating of the French franc not only undermined the snake and hence the centerpiece of EMU, but also damaged France's economic authority. Floating after all contradicted Paris's long-held views on fixed exchange rate regimes. Paris was firmly in command of the EC political response to the oil crisis, but once this initiative faded along with the larger push towards European Union by 1980, France's voice within the Western alliance began to diminish. Although Giscard tried to continue to push the French agenda, without a strong EC backing, it appeared more as stubbornness rather than viable alternatives to the initiatives put forward by the United States.

Less dependent on imported oil, Washington nonetheless felt the economic repercussions of the oil crisis through skyrocketing inflation. Ultimately, though, the oil crisis, and in particular the divide between the American and European approaches to it, further weakened the Nixon administration's political authority within the West, which had already been undermined by the controversy over the new Atlantic Charter and America's handling of the October War. As is evident from Kissinger's meetings with Western allies about the WEC, Washington recognized that this Western energy conference was an important test of its political leadership and the strength of the Western alliance. Given these circumstances, Schmidt's willingness to lead and push for a Western solidarity, allowed Bonn to have a greater influence and also take on a stronger political leadership role in the West. As Schmidt settled into the chancellery over the following year, he built on these experiences, showing ever greater leadership, transforming the Federal Republic's position permanently.

Chapter 4

Unresolved Crises: The Failure of the Martinique Agreement and Deadlocked Monetary Reform

January 1974-June 1974

"Ölpolitik kann nicht nur ökonomische Politik sein, und Währungspolitik kann nicht nur eine ökonomische sein, es ist Weltpolitik, es ist Außenpolitik."[1]
Helmut Schmidt
March 1975

-Introduction-

By 1975, the West realized that the international economic system was in a fragile state: within a three-year period, two pillars of the economic order – the energy paradigm and the international monetary system – had collapsed. In addition, attempts to reform the international monetary system through the Committee of Twenty (C-20) had also failed. Yet, Western leaders were encouraged by the developments which had taken place in late 1974: in December of that year, France and the United States had concluded the Martinique Agreement which was to serve as a blueprint for cooperation among Western states and between oil consumers and producers through 1975. International monetary reform efforts had been re-launched in October 1974 through the International Monetary Fund's (IMF) Interim Committee, with negotiations on aspects of reform scheduled to begin in January 1975.

But, quite quickly, their hope turned to dismay. First, the Martinique Agreement proved difficult to implement. After a promising start, the West struggled to complete its first stage. Focused on fulfilling the initial stage's terms, the industrialized states failed to adequately prepare for the second stage. Thus, as the latter began at the preparatory meeting between the oil consumers and producers in April 1975, the West remained united but was unable to negotiate on the heavy demands made by the oil producers and non-oil less developed countries (LDCs). As a result, the preparatory meeting ended in a stalemate and weeks later the oil producers threatened further oil price hikes.

[1] Bundesarchiv Koblenz (hereafter BAK), B136/8482, *Thema: Kooperation oder Konfrontation – Stirbt die Wirtschaft in eine weltpolitische Krise?" Einführendes Referat* (hereafter B136/8482, *Referat*).

Under pressure, the industrialized states quickly rallied, giving into some of the demands of the oil producers and non-oil LDCs as well as advocating the revival of the preparatory meeting. Their efforts though came too late as the oil producers formally agreed at their June 1975 meeting to raise oil prices by autumn of the same year. Over the same period, monetary reform efforts through the Interim Committee also faltered. Arguments among the industrialized states over quota shares, the legalization of floating exchange rates and gold stymied progress towards amending the IMF Articles of Agreement (the Articles). The West's actions not only angered the other IMF members – above all the oil producers and non-oil LDCs – contributing to their demands and serving as a uniting force at the preparatory conference, but also undermined the struggling global economy.

In the previous chapter, the Federal Republic's priorities shifted away from European political concerns, being replaced by economic stability and Western cooperation. To what extent did the latter continue to drive West German policy making as the West attempted to deal with the consequences of both crises? Did Bonn again rely on a combination of economic strength, strong leadership and mediation to sway its Western partners? And lastly, did the Federal Republic's actions help to further advance its standing within the Western alliance as they had in the initial stages of the two crises?

-Solidarity, but Stalemate: The Failure of the Martinique Agreement -

The Martinique Agreement was composed of four stages. During the first stage, the West was to complete its efforts toward consumer solidarity, including common approaches to financial aspects, conservation, and the development of alternative resources. In the second stage, the consumers were to meet with the oil producers for technical talks. In this preparatory meeting, procedural matters such as participants and themes for a future consumer-producer conference were to be negotiated. Third, the consumers would hold discussions among themselves, forming as much as possible joint positions on the agreed conference themes. Finally, the last stage would be the consumer-producer conference. It was originally envisioned that the four stages would take no longer than 6 months, as it was hoped that the final conference would take place in July 1975.[2] While this was the West's plan, after many months attempting to implement it and indeed achieving a degree of Western solidarity, by April 1975, its full realization proved impossible.

Having contributed greatly to its crafting, the Federal Republic was pleased with what appeared to be the blueprint for Western cooperation on issues related to oil. For Bonn the Martinique Agreement offered many economic and political benefits. Heavily dependent on the Organization of Petroleum Exporting Countries (OPEC) for its energy requirements, solidarity on conservation and the development of alternative energy resources would help West Germany spread its risk and improve the West's negotiating power vis-à-vis the oil producers. Moreover, the consumer-producer conference was a non-confrontational way to negotiate with OPEC on oil prices. It was the hope that this negotiation would lead to a stabilization of oil prices which would help counter the disruption in world trade experienced since the oil crisis. Having an export-led domestic economy, functioning global trade and a sound international economy were essential not only to the Federal Republic's economic fortunes. In addition, the Martinique Agreement bridged the French and American perspectives on energy matters. This made political relations within the West less antagonistic than at any point in the first half of the 1970s and relieved West Germany of again having to choose between France and the United States. Thus, Bonn had much to gain from the success of the Martinique Agreement and much to lose from its failure.[3]

Yet from the start, the West's plan seemed doomed. Shortly after negotiations began on the first stage of the Martinique Agreement, the United States let it be known that in its view, consumer solidarity would only be achieved and hence the first stage completed, when Western leaders had agreed

[2] Gerald R. Ford Presidential Library (hereafter GRF), NSA Memcon, Box 8, *December 15, 1974 – Ford, Kissinger, French President, Valéry Giscard d'Estaing and Foreign Minister Jean Sauvagnargues* (hereafter Box 8, *December 15*).

[3] Ibid.; GRF, NSA Memcon, Box 7, *December 5, 1974-Ford, Kissinger, Helmut Schmidt*; BAK, B136/17041, *Deutsche Wirtschaftspolitik*; Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1973*, vol. 3, (München: R. Oldenbourg Verlag, 2004), 1610; Historisches Archiv der Deutschen Bundesbank (hereafter Bbk), N2/K155, *Vermerk-Betreff: Auswirkungen der Erdölverknappung auf die deutsche Wirtschaft.*

a common position on financial matters, conservation and the development of alternative energies. America contended that anything less than full solidarity would leave the West open to division and ultimately failure at a consumer-producer conference. Thus, until complete consumer solidarity was achieved, Washington refused to approve or attend a preparatory conference for the consumer-producer conference.[4] While the Federal Republic also believed that Western solidarity was a prerequisite to the consumer-producer conference, the Federal Republic was more willing to make compromises to achieve this than many of its Western partners, including the United States. Compromise began with the matter on which Bonn was the key to its outcome: financial solidarity.

Under this heading, the main issue of debate was the recycling facilities. By January 1975, there were two main competing visions: Witteveen II and the Solidarity Fund. The former initiative reflected closely the suggestion made by the British Chancellor of the Exchequer, Denis Healey, at the Group of Five (G-5) meeting in September 1974. Much like Witteveen I, the IMF oil facility established in 1974, Witteveen II was to aid IMF member states suffering from balance of payments deficits as a result of the increase in oil prices. Witteveen II, similar to its predecessor, would be financed through borrowing from both oil consuming as well as oil producing states and access to it was in proportion to IMF voting rights. Witteveen II though would be much larger than Witteveen I. The Solidarity Fund called for a $25 billion support fund, financed by and available to the OECD member states. As the strongest economy in Europe, holding a large payments surplus, West Germany would be one of the largest contributors to the Witteveen II facility and after the United States, the second largest financier of the proposed Solidarity Fund.[5]

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[4] Horst Möller, et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1975*, vol. 1, (München: R. Oldenbourg Verlag, 2006) (hereafter *AAPD 1975/1*), 215; Box 8, *December 15*; British National Archives (hereafter TNA), FCO 30/2893, *Energy Questions to be Determined at the Community Level – COM (75)6 final* (hereafter FCO 30/2893, *COM(75)6 final*).

[5] Bbk, N2/K83, *Thema: Recycling/ Allg., 3.1.1975*; N2/K83, *Thema: A Recycling IWF-Ölfazilität 1974, 3.1.1975*; Bbk, N2/K83, *Thema: B Recycling IWF-Ölfazilität 1975, 3.1.1975*; Bbk, N2 K83, *Thema: C Recycling Simon/Kissinger-Plan, 3.1.1975*; Bbk, N2/K83, *Press Excerpt – Genügend Fazilitäten vorhanden.*

Initially, West Germany neither saw the distinction between the two plans nor believed that two facilities were needed. Despite having promised Washington at its December 1974 meetings that it would reconsider its position on the recycling facilities, by early 1975, the Federal Republic's views had not changed; rather the Schmidt government still preferred the IMF option to the Solidarity Fund. Witteveen II was appealing because it spread the financial contribution among the industrialized states and the oil producing states. This meant not only that West Germany had to contribute less, but also required the oil producers to use some of their oil surpluses to benefit deficit countries. From Bonn's perspective, the latter was both economically and politically justified. With regard to the Solidarity Fund, the Schmidt government still maintained that Bonn had neither the resources nor the legal rights to contribute such a large amount. Moreover, the Federal Republic worried that the fund would be utilized by governments to pay for past economic policy blunders and would allow deficit states to continue with policies which West Germany viewed as having failed and being damaging to the international balance of payments equilibrium, global liquidity and ultimately the overall global economy.[6] Despite America's argument that given the oil weapon, the Solidarity Fund was politically necessary, at this juncture, Bonn's concerns about its own economic strength were still the driving force in its approach to the issue.[7]

The first opportunity to discuss the two recycling options after the Martinique Agreement of December 1974 was at the European Community (EC) finance ministers' meeting on 7 January 1975. There the Federal Republic led the push for acceptance of Witteveen II and voiced the greatest objections to the Solidarity Fund.[8] By meeting's end, the EC member states decided to support Witteveen II at the forthcoming Interim Committee meeting in Washington, DC on 15-16 January 1975. Understanding the role that they played in achieving financial solidarity though, neither Europe nor Bonn was prepared to refuse the American initiative outright. Rather, the EC determined that the "economically ambitious" Kissinger Plan needed further consideration,

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[6] Ibid; *AAPD 1975/1*, 41.
[7] Ibid.
[8] TNA, T354/520, *Meeting of the EEC Finance Ministers*; TNA, T354/383, *Principal Private Secretary: Developments – Recycling*; TNA, T354/383, *B. The Washington Monetary Meeting.*

while in Bonn, Schmidt's government concluded, [dass] "der US-Vorschlag zum Rückschleusungsproblem stößt bei uns in seiner Gesamtheit als auch in seinen Einzelelementen auf starke Bedenken – wir sind aber bereit, an einer Prüfung mitzuarbeiten."[9]

The European position on the recycling facilities was met with strong disdain in Washington. In a meeting between American President Gerald Ford, and American Secretary of State, Henry Kissinger, on 8 January 1975, the latter remarked,

> On the financial issue in the paper, this could be a disaster. Truman was dealing with a different generation with the Marshall Plan. This generation is a group of petty narrow politicians. The Europeans snipe at everything we try – they object to being screwed. The Europeans have now accepted Witteveen's second plan. We have resisted because it puts the Arabs in the driver's seat. IMF voting is proportional to the contributions. The Europeans like this because it relieves them of responsibility.[10]

Given the opposing stances over the financing plans, it seemed hard to imagine that a consensus would be reached very easily. In the European press, the Solidarity Fund was being written off and predictions appeared of "difficult debates" on the recycling issue during the forthcoming economic and monetary meetings in Washington.[11] Kissinger, however, was confident that the United States had the bargaining chips to achieve America's interests. He detailed his tactics to Ford explaining, "The Europeans will agree to our facility too. We have to keep the Witteveen fund small enough. . . . If we could keep it at $5 billion, it would be useless for the industrial countries or the basket cases. We must keep it at $5-6 and conditional on acceptance of our fund."[12] Questioned by Ford as to their leverage, Kissinger responded, "It can't happen without us. Also we can reject the consumer-producer meeting."[13]

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[9] *AAPD 1975/1*, 38, 40.
[10] GRF, NSA Memcon, Box 8, *January 8, 1975 – Ford, Kissinger* (hereafter Box 8, *January 1975*).
[11] Bbk, N2/K83, *Frankfurter Allgemeine Zeitung, "Absage an den Kissinger Plan," 9 January 1975.*
[12] Box 8, *January 1975.*
[13] Ibid.

This was strong leverage indeed. But just as Witteveen II could not be established without American support, neither could the Solidarity Fund without West German backing, circumstances Washington recognized. To help win Bonn over, Ford sent Arthur Burns, the Chairman of the Federal Reserve, to Hamburg to hold talks with West German Chancellor Helmut Schmidt on 9 January, only days before a series of monetary and economic meetings began in Washington.[14] In their discussion, Schmidt repeated West Germany's concerns about the means of financing the Solidarity Fund, the conditions for its use and indeed its purpose assuming the establishment of the IMF fund. Burns assured Schmidt though that the Solidarity Fund was necessary alongside Witteveen II, as it would protect financially weak countries from being exploited by the oil producing states.[15] In addition, Burns stressed "the political need for a demonstration of solidarity."[16] Eventually the American politically-driven reasoning began to register in Bonn.[17] West Germany realized: "dieser OECD-Fond [hat] eine rein politische Funktion, um momentane aktuelle politische Pressionen oder Nötigungen abzuwehren, falls sie vorkommen sollten. . . . [er] ist eine außenpolitische Notwendigkeit, er ist kein ökonomisches Heilmittel. Er kann zur Bereinigung ökonomischer Schwierigkeiten mit beitragen. Er kann nur zeitweilig politische Schwierigkeiten durch Solidarität aus der Welt schaffen."[18]

Having recognized the political need for it not only in terms of the oil producers' use of the oil weapon, but also with regard to achieving Western solidarity, the Schmidt government began to place political cooperation ahead of its previous economic concerns. That said, the Federal Republic was not prepared to simply accept the American proposal. Rather, as West Germany had done several times over the previous three years, Bonn utilized its economic power in order to gain Washington's support for its priority, in this case Witteveen II. As their meeting drew to a close, Schmidt informed Burns

[14] BAK, B126/48887, *Elemente für den Bericht im Kabinett am 22. Januar über Washington; Betr.: Kanalisierung der Ölgelder* (hereafter B126/48887, *Kanalisierung*).
[15] *AAPD 1975/1*, 39-40.
[16] TNA, T354/383, *FCO Telegram Number Eager 36 of 14 January* (hereafter T354/383, *Eager 36*).
[17] B136/8482, *Referat.*
[18] Ibid.

that Bonn would be prepared to support the Solidarity Fund in principle, so long as the United States agreed to certain provisions. First, there were to be "strict conditions" on opting out of the fund, and it was to be used only as a "last resort" among OECD members.[19] Second, given the constitutional difficulties the Schmidt government would face in providing direct contributions to the fund, the Federal Republic would only provide guarantees of credit.[20] Finally, Washington had to support the creation of Witteveen II.[21]

Considering that only a day before Ford and Kissinger had decided internally to accept the new IMF recycling facility, the United States should have had few objections to the West German requirements.[22] As it turned out, Burns voiced only one. Although Ford and Kissinger had decided that the size of Witteveen II should be limited to $5-6 billion, Burns reduced that number, maintaining that the United States would accept a new IMF recycling facility so long as its size did not exceed $3 billion. This amount was not enough for Bonn.[23] Although the Federal Republic concluded the meeting noting that it was "ready to give the US any assurance they wanted that the US/OECD scheme would be taken forward constructively," the Schmidt government remained concerned about Washington's views on Witteveen II.[24] So too did many of its European partners.[25]

As talks on the funding facilities moved from Hamburg to Washington for a series of economic and monetary meetings, the conditions set out by the Federal Republic served as a basis for cooperation. Having fully grasped Schmidt's message that the IMF facility needed to be larger than $3 billion, at the G-5 meeting on 13 January 1975, the Ford government increased its offer to $5 billion. Yet, for West Germany as well as France and Britain, this sum was

[19] T354/383, *Eager 36.*
[20] *AAPD 1975/1*, 39-40.
[21] TNA, T354/383, *Note for the Record: Chancellor's Meeting with Herr Apel and M Fourcade* (hereafter T354/383, *Chancellor, Apel, Fourcade*).
[22] Box 8, *January 1975.*
[23] T354/383, *Eager 36.*
[24] B126/48887, *Kanalisierung*; TNA, T354/390, *Meeting of the G5 Finance Ministers on Monday 13 January* (hereafter T354/390, *G-5 January*).
[25] Bbk, N2/K83, *Press Excerpt - Arm in Arm, 20.1.75*; Bbk, N2/K83, *Press Excerpt – EG und USA einigen sich in der Mitte, 15.1.75*; Bbk, N2 K83 *News Article – Schmidt stellt klar: Bonn hat kein Geld für den Kissinger-Plan, 13. Jan. 1975.*

still too small. Both the West German Finance Minister, Hans Apel, and his French counterpart, Jean-Pierre Fourcade, maintained that $7 or $8 billion was the minimum they could accept, while Healey informed the American secretary of the treasury, William Simon, that unless the United States improved its offer considerably "all bets would be off."[26] At the end of the meeting, the issue remained unresolved. Sensing that the deal arranged with Schmidt would fall through if they failed to raise their offer, Simon attempted to reach a deal with Healey later that same evening. Simon gave a final offer of $6 billion, to which London countered SDR 6 billion was the minimum.[27] The only other possible way forward, advised Healey, was for the Americans to agree to allow for a provision for review of the quantum, should $6 billion prove too little throughout the year. Yet Simon was reluctant to agree to such terms; in turn, Healey contacted Kissinger in an attempt to push the American position. The latter, however, would promise nothing; instead, he said only that he would speak with Ford.[28]

When the Group of Ten (G-10) deputies and ministers gathered for their talks on 14 January 1975, the financing facilities were a main point of debate. While the Federal Republic had refused the American offer of a $5 billion IMF facility a day earlier at the G-5 meeting, Bonn had resolved that same evening that it was unwilling "to risk the chances of agreement with the Americans" on financial solidarity in order to increase the size of Witteveen II.[29] In this perspective, West Germany was joined by France, but was opposed by the Netherlands while Britain remained undecided.[30] Yet, as the meetings proceeded, cooperation began to occur.[31] The Americans maintained that in the spirit of compromise, they were prepared to support the creation of Witteveen II on four conditions: first, the Solidarity Fund also had to be established; two, the IMF fund be limited to one year; three, total borrowing be capped at $6 billion;

[26] T354/390, *G-5 January.*
[27] SDR stands for "Standard Drawing Rights." SDRs 6 billion = approximately $7.25 billion
[28] TNA, T354/390, *Note for the Record: Chancellor's Conversations with Secretaries Simon and Kissinger.*
[29] T354/383, *Chancellor, Apel, Fourcade*
[30] Ibid.
[31] TNA, T354/383, *Summary of Views expressed by Ministers and Governors of the Group of Ten in their Meeting in Washington on 14th-16th January, 1975* (hereafter T534/383, *G-10 January*).

and four, the IMF had to use its own resources if more funding was needed.[32] The American provisions initially received mixed reactions from the remaining G-10 states. Britain as well as the Netherlands expressed their reservations about the proposed cap on borrowing.[33] West Germany and France, however, were unwilling to jeopardize an agreement with America on financial solidarity over financing of Witteveen II. Thus, neither state questioned the condition on borrowing limits; instead, Apel expressed his government's understanding of and support for both funding facilities.[34] Fourcade went a step further, noting the "converging positions" between the United States and the EC. He remarked that he "fully agreed" with Apel and supported the establishment of the Solidarity Fund.[35]After intense negotiations, all G-10 states agreed to the conditions laid out by Simon for the IMF facility. In addition, the G-10 outlined its intentions to establish a Solidarity Fund, renamed the "OECD Support Fund," "at the earliest possible date, to be available for a period of two years" and under the financial terms agreed between Burns and Schmidt in Hamburg[36]

Yet, despite the G-10's agreement on the financing facilities, it soon became clear at the Interim Committee meetings on 15-16 January 1975 that the matter was not settled. Instead, there many of the non-oil LDCs objected to the American cap on the fund's size, arguing that a much larger fund, somewhere in the magnitude of SDR 6-12 billion or perhaps even SDR 15 billion was required to pay not only for imported oil, but also their debts to the industrialized states.[37] While Washington did not ignore the non-oil LDCs'

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[32] Ibid.
[33] Ibid.
[34] Ibid.
[35] Ibid.
[36] TNA, T354/383, *Communiqué of the Ministerial Meetings of the Group of Ten in Washington on 14th and 16th January, 1975.* Within the Federal Republic, disagreement arose between the Bundesbank and the Schmidt government as to the economic feasibility of the Support Fund, but Schmidt pushed ahead with the fund on political grounds. An agreement for the establishment of the Support Fund in the amount of SDR 20 billion was signed in Paris on 9 April 1975 by all members of the OECD. Ultimately, however, the Support Fund never came into being, as the United States Congress refused to ratify the agreement in a vote in 1976. By that point, such a large recycling fund was not needed, as the capital markets were doing the work of recycling sufficiently and the political need no longer existed. See: Bbk, N2/K155, *Fernschreiben an den Herrn Bundesfinanzminister vom 12. Februar 1975;* Bbk, N2/K155, *OECD, Ad Hoc Working Party to Prepare a Draft Agreement Establishing a Solidarity Fund*; TNA, PREM 16/611, *Telno Guidance No. 48 of 25 March.*
[37] Bbk, N2/K81, *Record of Conversation, First Session, ICMS/Meeting 1 (1975) – 1/15/75 (a.m.)* (hereafter N2/K81, *ICMS Meeting 1(1975)*).

complaints, the Ford government argued that the Witteveen II Fund was not the proper support facility in which to address the LDC's economic difficulties. Instead, for such a purpose, the United States proposed the establishment of a Trust Fund, to be financed by the profits from the sale of IMF gold. Yet, Washington could convince neither the non-oil LDCs nor its Western allies of their Trust Fund plan: the LDCs needed aid now and it would take a significant amount of time to establish such a facility under the best conditions, much less when its financing was linked to the reform of the monetary system and the sale of IMF gold; and France opposed the use of the proceeds from the sale of IMF gold to this end.[38]

Ultimately, somewhat surprisingly, it was the French finance minister who was able to shape a solution which was suitable to all. Fourcade's resolution called for the establishment of Witteveen II with a borrowing cap of SDR 5 billion. Any funds leftover from Witteveen I would be added to those procured for Witteveen II. A constant review of the oil facility and the positions of the deficit states would be carried out and if necessary, the IMF would expand Witteveen II through its own resources. In addition, to assist those developing countries most strongly affected, the French, along with all its EC counterparts strongly backed a proposal by the IMF managing director to create a special account to cover the interest payments of those LDCs accessing the oil facility.[39] Although the United States was not particularly keen on the proposed interest subsidy account, the American representatives did not view it as significant enough to block progress on the larger issue. West Germany offered full support to the plan proposed by Paris. Eventually, the other members of the Interim Committee also agreed with the structure set out by Fourcade and it was agreed in the meeting's communiqué.[40]

At the conclusion of more than a week of economic meetings, the West German minister of finance exclaimed, that through "konstruktive Politik" an

[38] For more on the Trust Fund and France's position on gold, please see the section on monetary reform negotiations in this chapter.
[39] Bbk, N2/K83, *Press Communiqué of the Interim Committee of the Board of Governors on the International Monetary System, January 16, 1975.*
[40] Ibid; N2/K81, *ICMS Meeting 1(1975).*

"erstaunliche Wende zum Positiven" had occurred. Apel noted that the work between the Americans and Germans in Hamburg had a great impact on the series of conferences beginning well, and that the French had added to the positive work in Washington. He called the January 1975 IMF Interim meeting "eine der erfolgreichsten Währungskonferenzen."[41] Indeed, it had been a successful week, as Western leaders had reached agreements on one of the main aspects of consumer cooperation – financial solidarity. Even Washington agreed that its requirement for financial solidarity had been met.[42] This success, however, came at a high price to the Federal Republic: within a week, Bonn had signed on as chief financier of both Witteveen II and the OECD Support Fund. As the British noted, West Germany had had to make the biggest compromises. The Federal Republic's willingness to place Western solidarity ahead of its economic interests and its use of its economic strength had made these compromises possible and were essential to reaching financial solidarity.

Unfortunately, achieving solidarity on matters of conservation and alternative energies was a longer process. Coordination on both these points was in some ways more difficult to realize than on financial solidarity: no single forum existed for western coordination of conservation and alternative energy efforts, as the G-10 had no part in the energy sector and the French refused participation in the International Energy Agency (IEA).[43] Instead, as the EC enjoyed a period of rebirth after the first European Council and the British positive referendum vote, Paris looked to the EC and the Commission's efforts to build a common European energy policy as an alternative to the IEA.[44] Although French President Valéry Giscard d'Estaing informed Ford in Martinique that France would not "hamper" or "complicate" the United States efforts on conservation and alternative energy development within the IEA, it was inevitable that the process would be slower and tensions would arise, given

[41] Bbk, N2/K83, *News Article – Apel: "Eine der erfolgreichsten Währungskonferenzen."*
[42] TNA, FCO 96/266, *Telno 296 of 22 January 1975.*
[43] The member countries of the IEA were the United States, Japan, the Federal Republic, Great Britain, the Netherlands, Belgium, Luxemburg, Italy, Sweden, Austria, Canada, Turkey, Denmark, Spain, Ireland. Norway participated in the IEA under a special agreement.
[44] TNA, FCO 30/2893, *European Council Meeting (Dublin) 10-11 March 1975 – Preparations for the Consumer/Producer Conference* (hereafter FCO 30/2893, *EC Dublin*); TNA, FCO 96/266, *International Energy Agency: Standing Group on Consumer/Producer Relations, 14-16 January 1975* (hereafter FCO 96/266, *IEA*).

that European IEA members would be forced to align EC actions with those taken in the IEA.[45]

Luckily on matters of conservation, European efforts complemented those undertaken in the IEA quite well. After a short debate at their 7 February 1975 meeting, the IEA governing board welcomed a commitment by the IEA members to reduce their oil imports by 2 million barrels per day by the end of 1975.[46] Achieving a consensus on this point was aided by steps already taken in the EC. According to the Martinique Agreement, consumer cooperation on conservation efforts over both the short and long terms needed to be improved. Indeed, the EC had taken steps on a plan for long run energy saving at the 17 December 1974 energy ministers meeting, working out a set of energy consumption targets for 1985 and action plans for the "rational use of energy."[47] More immediate conservation methods were left, however, to individual EC member countries. Thus, the short-term solution of the IEA worked well in conjunction with the decisions already taken in the EC.

More widely coordinated action on the development of alternative energy sources proved much more difficult. Particularly troubling was the American proposal for a floor price for oil. One British diplomat described the rationale behind Washington's floor price proposal in the following terms: "new sources would cost much more than what the US paid for energy in 1973 and could never compete with the production costs of Middle East oil. This disparity poses a dilemma. If the industrial consumers succeeded in developing alternative sources on a large scale, the demand for OPEC oil would fall, and international prices might be sharply reduced. Inexpensive imported oil could then jeopardize the investment made in the alternative sources. Lower oil prices would also restimulate demand, creating a new cycle of raising imports, increased dependence and vulnerability."[48] While the reasoning was sound enough, not all IEA members were convinced that a floor price would work, as

[45] Box 8, *December 15.*
[46] TNA, PREM 16/611, *Telno Guidance No. 48 of 25 March.*
[47] FCO 30/2893, *COM (75)6final.*
[48] TNA, FCO 96/266, *FCO Telno 451 of 3 February.*

it would be very difficult to implement and control.[49] Within the Ford administration too there was disagreement about the issue with Kissinger arguing for the initiative and Simon remaining skeptical of its feasibility.[50]

As they had done on matters of financial solidarity, the United States again turned to the Federal Republic. During a visit to West Germany on 16 February 1975, Kissinger attempted to gain Bonn's support for its floor price proposal.[51] While the Schmidt government understood the theoretical reasoning, they were suspicious that a floor price would heavily favor the oil-rich countries over those which were oil-poor, with West Germany of course belonging to the latter.[52] Moreover, a floor price ran counter to Bonn's strongly held free-market sensibilities and the Schmidt government worried that it would lead to a possible indexation of oil prices to which the Federal Republic was strongly opposed.[53] Yet, despite their economic concerns, Schmidt maintained he would be willing to discuss a $5-6 floor price and at least allow for a debate on the issue within the IEA in order to achieve consumer solidarity.[54] For many months thereafter, however, Schmidt continued to doubt whether the Americans had properly "thought through" the pricing issue.[55]

Yet, while Bonn was willing to do its part on the floor price, the Federal Republic could not again play the decisive role in achieving consumer solidarity it had played during discussions on financial solidarity; instead, talks on the development of alternative energy slowed because of a lack of agreement of these issues within the EC. At their meeting on 17 December 1974, EC energy ministers had agreed that research and development of alternative energy sources should undergo further study throughout 1975. Given the Martinique Agreement, however, the EC had to accelerate its studies on the matter and reach a decision which would allow EC member states that were

[49] TNA, PREM 16/611, *IEA – Accelerated Development of Alternative Energy Sources, and the Floor Price for Oil* (hereafter PREM 16/611, *Floor Price*).
[50] TNA, PREM 16/610, *FCO Telno 759 of 10 February.*
[51] *AAPD 1975/1,* 153.
[52] TNA, FCO 96/278, *Appendix V: The Common Minimum Selling Price for Imported Oil.*
[53] B136/8482, *Referat.*
[54] PREM 16/611, *Floor Price.*
[55] Horst Möller, et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1975*, vol. 2, (München: R. Oldenbourg Verlag, 2006) (hereafter *AAPD 1975/2*), 522.

also IEA members to reach an accord on the matter within the IEA. Yet, through January and February 1975, the EC failed to do so.

Although the first stage of the Martinique Agreement had clearly not been completed, on 1 March 1975, France sent out invitations for the preparatory meeting of the consumer-producer conference (the second stage of the Martinique Agreement) to take place on 7-8 April in Paris. Washington was angered by the French actions. During his talks with Giscard in February 1975, Kissinger had informed Giscard that the Ford administration would oppose any consumer-producer conference without consumer solidarity first being achieved.[56] Yet Paris had ignored Washington's warning. In a conversation with Schmidt on 4 March 1975, Giscard had explained the French decision, saying that Washington had originally agreed to such a move and later reversed its position; thus, Paris had elected to go with the original plan. Schmidt had accepted Giscard's explanation almost without question and given his full support to the French president's actions as well as the preparatory meeting initiative. Schmidt's reaction can partially be attributed to his close working relationship with Giscard, but a greater portion of the chancellor's reply was due to Bonn's increasing worry that the debate over alternative energy and indeed the entire first stage of the Martinique Agreement were blinding the West to the larger problems developing with the oil producers and non-oil developing states. In order to address those, the consumer-producer conference needed to get underway as soon as possible.[57]

Fuelling West German worries most was the outcome of the first meeting of OPEC heads of state on 4-6 March 1975 in Algiers. After more than a year of Algerian insistence, nearly all OPEC leaders met to coordinate the producers' strategy for the proposed consumer-producer dialogue.[58] The outcome was the Solemn Declaration which consisted of 14 sections. In it the oil producers laid out their "opening positions" for the forthcoming consumer-

[56] *AAPD 1975/1*, 215.
[57] Ibid, 215.
[58] Some of the OPEC heads of state were concerned that the meeting would appear confrontational to the industrialized states and consequently decided not to participate. Notably absent was King Faisal of Saudi Arabia.

producer preparatory meeting, listing initiatives and compromises they were willing to make.[59] These "opening positions," however, extended far beyond energy issues into raw materials and special concerns of the developing countries. The logic behind OPEC's desire to extend the subject matter and indeed its strategy was two-fold: first, the oil producers fundamentally viewed the energy crisis and recent economic difficulties very differently from the industrialized states and thus, sought different solutions. Second, the oil producers wished to build solidarity with the non-oil developing states, demanding discussion of topics important to the non-oil developing states and aligning the two factions' conference goals.

In its declaration, the OPEC heads of state categorically denied that the rise in oil prices since 1973 had been a cause of the instability in the world economic system and stated that the oil price hikes had only marginally contributed to inflation problems. Instead, the oil producers attributed the instability to the unpredictability of terms of trade and the recent decline in the industrialized states' financial assets. OPEC viewed inflation as a problem of the West, and believed that the current high world inflation came from the inflationary policies followed by the industrialized states during the early 1970s. As remedies, OPEC offered to negotiate on the stabilization of oil prices, but the oil producers demanded that matters of conservation and development of alternative energies be included in the discussion. In addition, OPEC advocated the indexation of oil, linking prices to manufactured goods, the rate of inflation or the terms of transfer of goods and technology for the development of OPEC member-states. Moreover, because of their worries about the deteriorating terms of trade and the West's financial assets, the oil producers sought talks on reform of the international monetary system. Although this was already taking place through the Interim Committee, OPEC heads of state felt that they and developing states were still being excluded from important decisions and thus desired to use the consumer-producer conference to this end.[60]

[59] BAK, B136/8482, *Niederschrift aus Bergedorf.*
[60] Ibid.; TNA, PREM 16/611, *Telno Guidance 47 of 19 March.*

Over the previous several months, certain OPEC members, in particular Algeria, had pushed for solidarity between the oil and non-oil developing countries. It had been, however, a hard sell. The pairing seemed illogical, especially as the quadrupling of oil prices had significantly worsened the non-oil LDCs' already existing economic problems, particularly their high inflation and unemployment rates. Moreover, the oil producers had massive surpluses, while the non-oil developing states were crippled with debt due to the increased costs of oil imports. Yet what both shared were deteriorating terms of trade with the West on their respective commodities – oil and raw materials—, a global recession and the feeling that the global economic order was fundamentally tilted heavily in favor of the industrialized states. The OPEC heads of state clung to these similarities in their declaration, demanding discussions on raw materials and a broad range of developmental problems during the consumer-producer conference. In addition, the OPEC heads of state adopted the philosophy of some of the most extreme non-oil developing states which called for a "new international economic order." The concept and the phrase had first been used at the Sixth Special Session of the United Nations General Assembly in April 1974 by non-oil LDCs. Throughout their declaration, the oil producers had made several references to the Sixth Special Session, helping to reinforce the notion that although the two factions came from different starting points, they suffered under the same systemic bias and ultimately shared the same political goal.[61]

While discussions on the consumer-producer preparatory meeting had occurred for the preceding couple of months in nearly every relevant Western and European energy forum, talks generally focused on the meeting's participants, rather than the actual topics which would be discussed with the oil producers and how the consumers would present their positions on the issues.[62] The only forum in which a common Western approach had been loosely debated was the G-5. As Schmidt had arranged with Ford and Giscard in December 1974 alongside the Martinique Agreement, a "Private Group of

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[61] Ibid.

[62] FCO 30/2893, *EC Dublin*; FCO 96/266, *IEA*; TNA, FCO 96/266, *Telno 41 of 6 February 1975*.

Five," — made up of non-government experts with access to the highest levels of government — had been established in late December 1974 to discuss all the problems which had arisen as a result of the oil price explosion, including monetary, trade and energy issues, with consumer-producer relations falling under the latter.[63] Schmidt was pleased with the outcome of the first meeting of the Private G-5 on 2 -3 February 1975 in Kronberg, Germany, as the experts agreed on all the major points. Given their general agreement, Schmidt advocated a further meeting at which the group could work on formulating a common position for the industrial states for the dialogue with the oil producers.[64] The other G5 members agreed and a second gathering was scheduled to take place on 22-23 March in New York.[65] When the EC heads of state came together on 10 March 1975 in Dublin, Schmidt attempted to shift the emphasis within the Europe as well towards reaching a common position. Schmidt pushed his counterparts to address the "substance of the oil consumers' position" and "what should be offered to the producers" or risk further economic decline.[66] The West German chancellor even offered an outline for how such work could advance.[67] Schmidt's words seemed to awaken his counterparts to the reality of the situation, as the EC heads of state eventually agreed to the West German plan for achieving a common European position.[68]

Yet Schmidt's efforts in the EC and the work of the Private G-5 would be irrelevant if the matter of consumer solidarity on the development of alternative energy resources in the IEA was not settled and thus the first stage of the Martinique Agreement completed. While the EC Council of Ministers had managed to agree general guidelines for IEA members on matters of alternative energy development at their meeting on 3-4 March 1975 in the hope that these guidelines would allow for an agreement with the IEA at its

[63] Hans-Peter Schwarz et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1974*, vol. 2, (München: R. Oldenbourg Verlag, 2005), 1677; *AAPD 1975/1*, 215.
[64] Ibid., 215.
[65] BAK, B126/48887, *Second Meeting of the Private Group of Five on March 22/23, 1975 in New York* (hereafter B126/48887, *Private G-5*).
[66] TNA, PREM 16/611, *Record of EEC Heads of Government Meeting at Dublin Castle on Tuesday 11 March 1975*.
[67] Ibid.
[68] Ibid.

upcoming meeting on 7 March 1975, such was not the outcome.[69] Instead, the IEA members developed a draft with the aim of reaching an agreement at the next gathering.[70] The EC Council of Ministers had agreed in principle to attend the preparatory meeting of the consumer-producer conference, but by mid-March, none of the consuming countries had accepted their invitations and there was now a further condition posed by the Americans that the IEA be invited to participate as well.[71] Finally on 20 March 1975, after very tough negotiations, the IEA agreed on a package of measures to encourage the development of alternative sources of energy.[72] With the conditions met, the IEA member-states formally accepted their invitations to the preparatory meeting. In addition, the IEA planned to attend the meeting alongside the OECD after receiving an invitation from Paris on 20 March 1975.[73]

Thus, with just over two weeks before the start of the preparatory meeting, the West had completed the first stage of the Martinique Agreement. Little time remained, however, to develop the strategy of the industrialized states for the preparatory meeting. The original purpose of the preparatory meeting was to decide on the agenda of a consumer-producer conference, but this no longer seemed possible to the Federal Republic given OPEC's Solemn Declaration. Instead, it seemed to Bonn that the industrialized states also had to at least agree on a common response to the oil producers' demands. In the few weeks before the preparatory meeting though, Western leaders failed to reach a consensus on many of these issues, as each country had different priorities. Indeed, the most significant agreement made was that the topic of energy, including the stabilization of oil prices and the associated financing issues, should be discussed at the formal conference scheduled to begin in July 1975. As to raw materials and monetary issues, the West could find no common ground.[74] West Germany, and in particular Schmidt, was very dismayed about the lack of a common position. For this, the Federal Republic believed, the

[69] FCO 30/2893, *EC Dublin.*
[70] PREM 16/611, *Floor Price.*
[71] FCO 30/2893, *EC Dublin.*
[72] TNA, FCO 96/278, *Appendix V: The Common Minimum Selling Price for Imported Oil.*
[73] TNA, PREM 16/611, *Telno Guidance No. 48 of 25 March.*
[74] B126/48887, *Private G-5.*

West could only blame itself. At an economic and monetary conference in late March, Schmidt remarked,

> Die andere Seite hat eine opening position, die sie, wie es scheint, mit sehr viel weniger Mühe zusammengebracht hat als wir. Mich beunruhigt dieses sehr. . . . Wir haben gesehen, dass hier unter uns in vielen Punkten zumindest tendenzielle Meinungsverschiedenheiten aufgetreten sind. . . . Warum gibt es keine gemeinsamen westlichen Positionen? Meine Antwort ist: weil der Westen zu lange Zeit verbraucht hat, sich für Vorfragen innerhalb des Westens herumzuschlagen.[75]

Considering the meager progress the industrialized states had made on a joint position, as the preparatory meeting began on 7 April 1975 and concluded on 15 April 1975, the most they could hope for was to retain a united front and keep the focus of the preparatory meeting strictly on procedural matters. On the former, Western countries were remarkably successful.[76] On the latter point, little success was achieved. Over nine days the representatives of the oil producing states, Iran, Saudi Arabia, Algeria and Venezuela, the representatives of the industrialized states, the United States, the EEC and Japan, and the representatives of the LDCs, Zaire, Brazil and India, attempted to reach an agreement on an agenda for the main conference, including the topics to be discussed, the participants, and the location. In the end though, they failed. At the core of the dispute were fundamentally different notions not only about the purpose of the conference, but also the development of the international economic system. As Bonn had feared the OPEC states had won through their declaration the non-oil LDCs to their side and the two factions stood together, advocating a world economic conference with a focus on energy, raw materials, financing and development questions, as well as a discussion of the indexation of raw materials, the indexation of oil and capital investments. In addition, the oil producers and LDCs called for a "new international economic order." The industrialized states though desired a conference specifically about energy and the questions that were related to it.[77] The differences in perspectives could not be bridged. Instead, the three parties decided to suspend the preparatory meeting.[78]

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[75] BAK, B136/8482, *Niederschrift aus Bergedorf.*
[76] *AAPD 1975/1*, 404-5.
[77] Ibid., 404.
[78] Ibid., 405.

West Germany was greatly dismayed by this outcome for several reasons. First, being highly dependent not only on imported oil, but also imported raw materials for the functioning of its domestic economy, Bonn feared retaliation by both the oil producers and the non-oil LDCs which exported large amounts of raw materials. In addition, the suspension of the preparatory talks coupled with on-going threats to cartelize raw materials as well as calls for indexation of oil and commodity prices and a new international economic order, created greater uncertainty in the markets about oil prices and now also raw material prices. The resulting instability further undermined an already severely strained global economy. Indeed, as will be shown in the next chapter, macroeconomic conditions deteriorated drastically through the first half of 1975 with growth and trade falling across the West. Highly reliant on international trade for growth, the Federal Republic was keen to avoid a further deterioration of the international economy.[79]

Hence, within days of the failed preparatory meeting the Schmidt government began revising its stance on international raw materials policies and pushing for a cooperative approach among the EC member states on questions of raw materials.[80] Moreover, over the coming weeks, Bonn started to openly support the resumption of the preparatory conference as soon as possible and the inclusion of raw materials as one of the conference themes.[81] Yet, the West German position initially encountered resistance from the United States, who viewed relations with the oil producers in terms of *Machtpolitik*. Washington wanted to refrain from appearing too anxious to revive the preparatory conference. Moreover, the US was less dependent on imported raw materials and remained hesitant about including them as a separate conference topic.[82]

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[79] GRF, NSA Memcon, Box 12, *May 29, 1975 – Ford, Kissinger, Chancellor Helmut Schmidt*; OECD Economic Outlook, 17 (1975: July), 5, 18-9, 32-3, 37, 48-9, 87.
[80] *AAPD 1975/1*, 158, 405-7, 416-9.
[81] *AAPD 1975/1*, 583.
[82] BAK, B136/12623, *Text: Secretary Kissinger's Address in Kansas City*; TNA, PREM 16/611, *The International Energy Agency and the Consumer/Producer Dialogue (MES(E)(75)11)*; *AAPD 1975/2*, 903.

Under the threat of a new oil price hike, the West, including Washington, quickly did a volte face on its positions taken at the preparatory meeting.[83] At the IEA meeting on 27 May 1975, Kissinger suggested a plan for resumption of the preparatory meeting and indeed a format for the eventual consumer-producer conference. He proposed the establishment of three commissions to deal with the critical areas of energy, raw materials and the problems of the developing states.[84] Oddly enough, the three-commission plan proposed by Kissinger was very similar to the one suggested by the oil producers and non-oil LDCs at the close of the April preparatory meeting. At that time, the industrialized states, and above all the Americans, had refused the scheme. Only France had considered it, but eventually under pressure from its Western partners, placed unity among the industrialized countries ahead of its own desires.[85] After some negotiations with the French and minor amendments, Kissinger's proposal along with an agreement to revive the preparatory meeting was adopted by the IEA governing board at its meeting on 11 June 1975.[86] The West's concessions on the subject matter and desire to restart the preparatory conference, however, did not suffice. Only weeks later, the oil producers went ahead and decided to raise prices at OPEC's September 1975 meeting.[87]

Despite Bonn's efforts, the completion of the four stages of the Martinique Agreement failed to materialize by summer 1975. While the West had largely achieved solidarity – due in great part to the Federal Republic's willingness to compromise and use its economic strength—, its relations with the oil producers and now also the non-oil LDCs had deteriorated drastically, as Schmidt's calls for cooperation went unheeded. As a result, Western leaders were now facing an increase in oil prices, potential raw material cartelization and the suspension of the one initiative that brought oil consumers and producers together. Had these been the only economic problems, perhaps the

[83] TNA, FCO 96/277, *Speech by the Honorable Henry A. Kissinger before the Meeting at the Ministerial Level of the International Energy Agency, May 27, 1975.*
[84] TNA, FCO 96/277, *FCO Telno 268 of 28 May.*
[85] *AAPD 1975/1*, 385-6, 405.
[86] *AAPD 1975/2*, 751-2.
[87] Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), 130.

West could have solved them more easily. Unfortunately though, at the same time, difficulties also recurred in monetary reform efforts.

-Deadlock in the West: Monetary Reform Negotiations through the Interim Committee-

According to the Outline of Agreement approved at the final C-20 meeting in June 1974, an "Interim Committee" was to establish short term palliative measures until a more propitious economic climate would allow for long term systemic reform.[88] The C-20's recommendations for the establishment of the Interim Committee were followed, with its first meeting taking place on 3 October 1974. This gathering focused predominately on procedural matters, including choosing a chairman, agreeing terms of reference, fixing dates for forthcoming meetings and deciding topics to be addressed. The Interim Committee elected to focus above all on proposals for dealing with further recycling arrangements within the IMF, the adjustment process, IMF quotas, and amendments of its articles, specifically amendments on the exchange rate regime and gold, among other subjects. In addition, the Interim Committee set a goal to complete a draft of amendments of the Articles by February 1975.[89]

Discussion and analysis continued throughout the autumn on the various topics, with the IMF Executive Committee producing suggestions for amendments to the Articles and further development of the oil facilities.[90] In a series of economic and monetary meetings between 7 and 14 January 1975, European leaders then met in the EC context and the G-5 and G-10 tried to establish joint positions on the issues before the second meeting of the Interim Committee on 15-16 January. As detailed earlier in this chapter, through some

[88] The makeup of the Interim Committee was very similar to the C-20. Representatives of the twenty constituencies that were represented at the C-20 also made up the Interim Committee. The Interim Committee, however, did not have a central organizational bureau. It was named the Interim Committee as it was only supposed to function in the interim period until a permanent council could be established. A permanent council, however, never came into being.
[89] Bbk, N2/K81, *Interim Committee of the Board of Governors on the International Monetary System, Meeting No. 1, ICMS/ Meeting 1 (1974), Press Communiqué.*
[90] Bbk, N2/K83, *Fernschreiben-Betreff: Vorbereitung Sitzung Interimausschuss, 24. Dezember 1974*; TNA, T354/519, *Sixth General Review of Quotas – ICMS/Doc/74/4*; TNA, T354/519, *Amendment of IMF Articles: ICMS/Doc/74/5.*

shrewd negotiating and willingness to compromise, the West was able to bridge their divisions on their perspectives on recycling facilities for the coming year and to push through a joint position at the said Interim Committee meeting. Unfortunately, the industrialized states were far less successful in reaching a common perspective on issues related specifically to the reform of the international monetary system. Causing disputes and stalling reform above all were the issues of an increase in IMF quotas and amendments to the Articles, specifically those referring to the exchange rate regime (Article IV) and gold (Article VIII).[91]

Given the shift in economic weight towards oil producing countries, the Interim Committee needed to decide whether IMF general quotas should increase and if so, how this increase should be divided among IMF members. West Germany supported raising the general quota, but believed that the shares of the quota of the oil producing states should increase, while the non-oil LDCs should remain unchanged and the industrialized states should be reduced.[92] Through this configuration, it seemed to Bonn that the oil producers would be obliged to use some of their balance of payments surpluses to support the deficit countries. Yet, while the Schmidt government advocated a reduction in the West's shares, West Germany did not believe its own shares should be lowered. Rather, given the Federal Republic's increased role in the international economy and its potential as financier of IMF liquidity, Bonn believed that its shares should be raised.[93] West Germany's position, as was clear from its stance on contributions to the recycling facilities highlighted previously, was not driven by an overwhelming desire to contribute more to the IMF; instead, because quota shares were linked to voting rights, West Germany hoped to gain a greater say in the IMF.[94] As it stood in 1975, the only country holding a veto right was the United States. While the Western allies could agree that a general quota increase should occur and that the shares of the industrialized countries

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[91] BAK, B126/48887, *Bericht über die Sitzung des Interimausschusses der IWF-Gouverneure in Washington am 15./16. Januar 1975* (hereafter B126/48887, *Interimausschuss Januar*).
[92] Ibid.
[93] BAK, B126/48887, *TO-Punkt 4: Vorbereitung des IWF-Interimsausschusses.*
[94] Ibid.

should be reduced, none were prepared to decrease their own quota shares.[95] Thus, at the Interim Committee on 15-16 January 1975, the industrialized states could only manage to agree, along with the other oil producers and developing states, to a quota increase and to double the share of quotas of OPEC countries, leave the developing states' share quotas unchanged and reducing those of the industrialized states.[96] Yet, when compared to the disagreements on the exchange rate regime and gold, the West appeared to be making progress on quota shares.

Despite the fact that the Fund had approved guidelines for floating and the vast majority of IMF member countries were doing so, it was still illegal under the Articles and the goal of reform remained a system based on fixed, but adjustable par values. As the Interim Committee debated amending the articles on the exchange rate regime, they had to resolve whether floating should be legalized.[97] Bonn was prepared to accept a legalization of floating for two main reasons. First, as Apel stated at the G10 meeting, "a practice which was now used by practically all members of the Fund should be legalized."[98] Second, given the Federal Republic's great concern over the deteriorating global economy and the associated macroeconomic indicators, the Schmidt government was prepared to support an exchange rate system which would provide stability to the West German domestic economy as well as help revive the international economy. Schmidt's government concluded that in 1975, only a floating exchange rate system would do. They noted, "Solange der weltwirtscahftliche Strukturwandel und die damit einhergehende Weltrezession nicht überwunden sind, würde eine feste Bindung der europäischen Währungen an den Dollar erneut zu Friktion führen."[99] It seemed to Bonn that in such economic conditions "friction," such as speculative capital movements or rising inflation, would only undermine a fixed exchange rate system.[100] That said, the

[95] B126/48887, *Interimausschuss Januar*; BAK, B126/48887, *Bericht über die Sitzung des Interimsausschusses am 10./11. Juni 1975 und die Sitzung der Zehnergruppe am 10. Juni 1975* (hereafter N2 K83, *Interimausschuss, G-10 Juni*).
[96] B126/48887, *Interimausschuss Januar.*
[97] TNA, T354/519, *Possible Amendments: Commentary.*
[98] T354/383, *G-10 January.*
[99] BAK, B136/12623, *Vermerk für das Gespräch Bundeskanzler/Präsident Ford, Wirtschaftspolitische Fragen.*
[100] Ibid.

Federal Republic supported an eventual return to a fixed, but adjustable par value system when conditions allowed and advocated greater government management of the floating rates instead of complete market determination.[101]

Nearly all of Bonn's Western partners shared its position on the Articles relating to the exchange rate regime. The United States had long been a strong proponent of the legalization of floating rates. With the structural changes taking place in the international economy as a result of the oil crisis, including widespread floating, it seemed to Washington that to delay legalization any longer would only undermine the IMF and the global order further. As Simon stated at the January 1975 G-10 meeting, "the legalization of floating would introduce an element of realism in the Articles; not to do so would be to detract from the credibility of the system."[102] The United Kingdom, Canada and the Netherlands argued along the same lines. While Italy and Japan saw no need to legalize floating, they did not wish to have it banned: they were not frustrated by the prevailing arrangements and were "content to go on living in sin."[103] Only France opposed the legalization of floating exchange rates under any circumstances.[104] Dissimilar to any of its Western partners, Paris argued that floating was actually exacerbating the current economic crisis. Such reasoning corresponded to France's long-held stance on exchange rate policy: namely, a fixed exchange rate regime leads to international economic stability, rather than it only being possible after a stable economic environment exists. At the January 1975 G-5 and G-10 meetings, the debate became then polarized with Paris clinging to its philosophy of fixed exchange rates and the United States staunchly promoting floating exchange rates.[105] As a result of the deadlock in the West, no consensus was reached on the matter at the January 1975 Interim Committee meeting.

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[101] Ibid.; GRF, NSA Memcon, Box 14, *July 27, 1975 - Ford, Kissinger, Schmidt.*
[102] T354/383, *G-10 January.*
[103] Ibid.; Bbk, N2/K83, *Thema: Amendment IWF Float-Sanktionierung, 3.1.1975*; Bbk, N2/K93, *Informal Record of the Discussions of the Deputies of the Group of Ten Meeting in Washington D.C. on 10th, 11th, 13th and 15th January, 1975* (hereafter N2/K93, *G-10 Deputies January*).
[104] T354/383, *G-10 January*; T354/390, *G-5 January.*
[105] Ibid.

A similar scenario played out over gold. In September 1974, the decision had been taken at the IMF Annual Meeting to replace gold with the SDR as the numeraire, i.e. the monetary system was in the future to be based around the SDR.[106] While all members agreed that gold should be phased out of the monetary system, for this to occur, three main issues had to be settled: the removal of gold references from the Articles; disposal of the Fund's gold; and the regulations for gold transactions between its members. The first point, removing gold from the center of the monetary system implied fundamental changes to the Articles, including abolishing the official price of gold, writing gold out as the numeraire, removing any obligation for member states to make quota payments in gold or for the Fund to accept gold as payment. It also involved abolishing all formal restrictions on Fund's members' rights to buy or sell gold on the market or to deal with the Fund and other members in gold.[107] On this first matter, there was little disagreement among G10 or IMF member states. Rather, it was the final two points which caused the greatest debate.

The main problems regarding the disposal of the Fund's gold were two-fold: to whom did the gold belong – the Fund or its members; and, what proportion, if any, should be used by the Fund for its facilities and continued functioning, and what proportion, if any, should be restored to the members at the "official" price?[108] To these questions, two very different answers emerged. First, France maintained that the gold held by the IMF belonged to its members and thus, Paris wanted immediate, full restitution of members' gold holdings at the official price. In addition, the French wanted the Fund to have no role in gold policy in the future.[109] Without this, the Giscard government refused to pass any amendments to the Articles.[110] The United States, however, argued that the IMF's gold holdings belonged to the Fund, not its members. From this perspective, Washington proposed that the Fund should be free to sell the gold

[106] T354/383, *G-10 January*.
[107] Ibid.; Bbk, N2/K83, *Thema: Goldgeschäfte des IWF, 3.1.1975*; Bbk, N2/K83, *Thema: Goldpreis und Goldbewertung, 3.1.1975*.
[108] Bbk, N2/K83, *Thema: Goldbestände des IWF, 3.1.1975*; TNA, T354/392, *Gold*.
[109] TNA, T354/392, *Telno Eager 92 of 14 May*; TNA, T354/392, *Gold, the Amendments under Consideration* (hereafter T354/392, *Gold Consideration*).
[110] TNA, T354/394, *G.5 Dinner – Paris, Wednesday, May 28, 1975* (hereafter T354/392, *G-5 May*); TNA, T354/390, *G-5 January*.

on the market with the bulk of the proceeds going towards strengthening the Fund's liquidity in the General Account and any other outside purposes. For the outside purposes, an 85 percent majority vote would be required. With the remainder of the proceeds, the United States advocated that they be placed in a Trust Fund.[111] This proposed Trust Fund was to be used on behalf of developing countries and financed partially through said gold sales as well as through voluntary contributions from the oil producing states and other countries with the means to do so.[112] Thus, the Ford administration argued, the advantages of its proposal were dual: a solution to the issue of IMF gold; and aid to the LDCs.[113]

Of the two responses, the Federal Republic, like nearly all its European partners, was less convinced of the French position: West Germany doubted that the French demand for full restitution would get the majority vote it needed to be passed and if it somehow did, Bonn was concerned it would "be the end" of the Fund.[114] The Schmidt government, however, was also not fully supportive of the American perspective. The Federal Republic agreed that the Fund should retain the gold and, with an 85 percent majority enabling clause attached, should be allowed to sell its gold to the members and the market and that a portion of the gold should be used to strengthen the Fund's liquidity. Indeed, Bonn believed this should be the chief usage of it.[115] Yet, West Germany disagreed that the proceeds from the sales of gold should be placed in a Trust Fund. Instead, Bonn viewed the Trust Fund as another funding facility of which there were already too many. Moreover, Schmidt's government felt, it was unlikely to gain adequate financing.[116] In addition, the Federal Republic was willing to see a portion of the gold used for restitution to members at the official price.[117] The only stipulation the Federal Republic placed on the

[111] BAK, B126/65732, *Betr.: Haltung zur Frage des Goldes* (hereafter B126/65732, *Haltung*) ; T354/392, *Gold Consideration.*
[112] BAK, B126/48887, *Betr.: Errichtung eines Trust Fund.*
[113] T354/383, *G-10 January.*
[114] T354/393, *G-5 May.*
[115] B126/65732, *Haltung.*
[116] Bbk, N2/K76, *Betreff – IWF Document EBD/75/108 vom 1. Mai 1975 (Trust Fund)*; BAK, B126/48887, *Fernschreiben: Betr.: Errichtung eines Trust Fund (SM/75/54)*; TNA, T354/392, *Trust Fund and 3rd Window.*
[117] BAK, B126/48887, *Goldproblem*; T354/393, *G-5 May.*

restitution issue was that if it occurred, provisions were to be made for the developing states.[118]

As regards the final gold matter, gold transactions between IMF member states, the main question was whether countries' formal freedom to buy gold should be restrained?[119] While the Federal Republic wanted to reduce the role of gold, Bonn saw little problem with gold transactions continuing among IMF member states, so long as they were restrained. The vast majority of West Germany's EC partners were of the same opinion. As a result, the EC central bankers had worked out an agreement whereby EC monetary authorities would refrain from increasing their gold holdings through net purchases on the market over the next two years.[120] The United States disagreed with the EC position; Washington argued that allowing freedom for gold transactions between national monetary authorities, including not only buying gold on the market, but also IMF member states settling in gold, conflicted with the agreed goal of removing gold from the international monetary system. For America, the goal was a resolution which led to the complete demonetization of gold.[121] Washington also desired that the Fund be kept informed of any transactions in gold among monetary authorities.[122]

At the G-5, G-10 and Interim Committee meetings in January 1975, the industrialized states tried to reach an agreement on the disposal of the Fund's gold and regulations on gold transactions between IMF member states. For the most part, West Germany refrained from engaging in the gold debate too greatly, preferring rather to allow Paris and Washington to take the lead and work out their differences.[123] Indeed at the G5 and G10 deputies and ministers meetings, representatives of the Federal Republic did not even enter into the

[118] Ibid.; B126/65732, *Haltung*.
[119] Bbk, N2/K83, *Thema: Goldgeschäfte der Zentralbanken, 3.1.1975.*
[120] T354/392, *Gold Consideration.*
[121] BAK, B126/48887, *Goldproblem.*
[122] N2/K83, *Interimausschuss, G-10 Juni*; TNA, T354/396, *Main Brief No. 2 – International Monetary System.*
[123] Bbk, N2/K83, *Thema: Goldbestände des IWF, 3.1.1975*; Bbk, N2/K83, *Thema: Rolle des Goldes/Allg., 3.1.1975.*

conversation.[124] Bonn's silence, however, did not aid consensus-building. Instead, despite lengthy discussions, the West failed to overcome their discordant views. Consequently, the issues surrounding gold went unsettled at the January 1975 IMF Interim Committee meeting.[125]

Although a draft of the amended Articles was to be prepared by February 1975, that deadline proved impossible to meet. Instead, for several months a stalemate ensued on the quota increase and distribution as well as on the amendment of the Articles. At last, a slight breakthrough occurred at the 13 May 1975 meeting of the G-5 deputies. With the discussions on gold taking on the same circular character that they had for the previous four months, West Germany finally began to weigh in on the issue of disposal of the Fund's gold. Acting as mediator between the French and Americans, Otmar Emminger, the Vice President of the Bundesbank, proposed that the $6 billion of IMF gold be divided into three tranches: $1.5 billion should be sold with the profits used to finance the Trust Fund or an interest subsidy; $2 billion should be sold with the profits being returned to the IMF members; and the rest should remain in the IMF, with an enabling clause attached. With regard to the clause, Emminger advocated that it set out a requirement of an 85% vote or a similar proportion to determine the purposes for the remaining gold. Moreover, Emminger suggested, if possible, the purposes should be determined before the gold was sold.[126] While at the time Emminger's solution was greeted with "mild amusement", over the coming month the Western powers would seize on his suggestion as a way forward on this issue.[127]

After a comprehensive debate at their meeting on 28 May 1975, the G5 ministers determined that the Emminger compromise was "the most promising approach."[128] While many technical details remained to be worked out, least of

[124] Compare T354/ 390, *G-5 January*; N2/K93, *G-10 Deputies January*; T354/383, *G-10 January.*

[125] N2/K83, *Interimausschuss, G-10 Juni*; Bbk, N2/K83, *Press Communique of the Interim Committee of the Board of Governors on the International Monetary System, June 11, 1975.*

[126] TNA T354/392, *Telno Eager 92 of 14 May*; T354/393 *G-5 May*; TNA, T354/393, *Gold: The Emminger Compromise.*

[127] Ibid.

[128] T354/393, *G-5 May.*

all the exact size of each tranche, after months of inflexibility on this question, movement towards compromise had begun. Progress continued on this issue in the meetings of the G-5 deputies and ministers on 8 June and 9 June respectively. By the meeting's end on 9 June, only a day before the start of the June 1975 Interim Committee meeting, the G-5 ministers had agreed a ratio of the tranches of 2/3:1/6:1/6. [129]

Yet, while progress on the disposal of IMF gold was occurring, talks on the other aspects of monetary reform had all but frozen. Any attempts at reconciliation on the issues surrounding gold transactions between monetary authorities were blocked by the French who continued to refuse any limitation on gold transactions between central banks. Washington had eased its position on this point, more or less accepting that IMF members could settle in gold among one another, so long as the gold transactions were undertaken only in times of "severe need," but this stipulation was unacceptable to Paris.[130] No agreement had been reached on quota shares and distribution either. West Germany again tried to find a compromise solution, offering to keep its quota shares unchanged so long as the United Kingdom reduced its proportion. The British though refused to lower their quota demands.[131] The United States too was reluctant to reduce its proportion of shares, even though a proposal was on the table for increasing the percentage necessary to pass a measure in the IMF from 80 to 85 percent. Thus, although Washington no longer had to fear losing its veto right, America still rejected the notion of lowering its share ratio. [132]

Yet, of all the issues, agreement appeared most distant on the legalization of floating rates and the amendment of Article IV on the exchange rate regime. At the 28 May G-5 ministers meeting, Bonn tried to find a compromise solution, preparing a draft of the amended Article on exchange rates which allowed for the legalization of floating rates, but also interjected

[129] TNA, T354/394, *Note for the Record: G5 Ministerial Lunch – Paris Monday June 9* (hereafter T354/394, *G-5 June*).
[130] N2/K83, *Interimsausschuss, G-10 Juni*; TNA, T354/396, *Main Brief No. 2 – International Monetary System.*
[131] TNA, T354/394, *Interim Committee – Meeting of G5 Deputies, June 8* (hereafter T354/394, *G-5 Deputies June*); T354/394, *G-5 June.*
[132] Ibid.

words to indicate that there would be a return to fixed, but adjustable par values. Yet, these efforts proved fruitless, as France refused the draft. What seemed like resolve to Paris was increasingly viewed as French intransigence among its Western allies. Apel accused the French of being "unnecessarily strict" and the American undersecretary of the treasury, Jack Bennett, asked the Fourcade "whether he wanted to try to reach some accommodation with the US or whether he would prefer to hold his position until the last moment and then be outvoted." The French finance minister's only response was a simple "we will see."[133] The divide between France and the West could not be bridged before the June 1975 Interim Committee meeting, as talks on this point at the G-5 meetings of the deputies and ministers on 8-9 June 1975 proved once again to be inconclusive.[134]

Given the lack of consensus among the Western leaders on nearly all the major points of monetary reform, the likelihood for a success at the Interim Committee meetings on 10-11 June 1975 was small indeed. At the conclusion of it, the only issue on which any progress was made was that of the use of IMF gold.[135] Although the developing countries had decided days earlier that all gold should remain in the Fund, after negotiations they revised their position and agreed that a small proportion could be returned to IMF member states.[136] The Emminger compromise provided the framework for the work on this issue. It was left, however, until the August 1975 Interim Committee to determine the exact figures for the three divisions. The agreement on this aspect of gold was a step in the right direction vis-à-vis the developing states, but its success was not ensured. Instead, many Western states were opposed to passing individual reforms: they demanded that the quota issue, all aspects of the gold question and the exchange rate regime be combined in a package of reforms.[137] On the remaining aspects of reform though, the Interim Committee had difficulty even

[133] T354/393, *G-5 May*.
[134] T354/394, *G-5 June*; T354/394, *G-5 Deputies June*.
[135] Bbk, N2/K84, *ICMS/Meeting 3 (1975) –, First - Fourth Sessions*; Bbk, N2/K84, *ICMS/Meeting 3 (1975) – Aide Memoire by the Chairman on Gold and Exchange Arrangements, Annex I*.
[136] N2/K83, *Interimausschuss, G-10 Juni*; Bbk, N2/K83, *News Article – Entwicklungsländer immer noch sehr kritisch zu den Reformplänen des internationalen Währungssystems, 10.6.75*.
[137] N2/K83, *Interimausschuss, G-10 Juni*; B126/48887, *Interimausschuss Januar 1975*; T354/383, *G.10 January*.

agreeing on the language to use in the communiqué; thus, the communiqué was quite vague and in the case of the exchange rate regime, the Interim Committee had to resort to the same wording used in the January communiqué.[138]

The Federal Republic had attempted to break the stalemate on the three main reform issues through mediation and compromise, but had little success; instead, France and the United States, above all, refused to loosen their respective positions. The deadlock not only hindered progress on monetary reform efforts, but as highlighted in the previous section, it also contributed to uniting the oil producers and LDCs and affected the discord over the conference themes for the preparatory conference. In addition, like energy matters, the disagreements over the monetary system had a strong effect on the deteriorating macroeconomic conditions, above all falling growth and trade in the West. Indeed, as the next chapter will show, resolving both the monetary deadlock and energy stalemate were essential to overcoming the 1975 global recession, which by mid-1975 became the focus of Western leaders.

-Conclusions-

Much like during the previous year, a desire to maintain its economic strength and achieve a unified Western response continued to drive West German policy decisions through the first half of 1975. At first glance, it appears that Western solidarity was the main motivation in West German policymaking. As the West struggled with the implementation of the Martinique Agreement, the Schmidt government was willing to subjugate national economic concerns, such as the financing of both the Solidarity Fund and Witteveen II, in order to bring about financial solidarity and achieve its aim of Western solidarity. In addition, Bonn did not abandon the West's plan for cooperation, although it appeared as though it was blinding the industrialized states to larger problems with the oil producers. Instead, West Germany remained committed, aggressively pushing for the West to take steps necessary to form a common response to the oil producers' demands. Even after the preparatory meeting failed, the Federal Republic continued efforts to coordinate

[138] N2/K83, *Interimausschuss, G-10 Juni.*

its raw materials policy with other EC states as well as the United States. Moreover, Bonn refrained from publicly advocating a resumption of the preparatory meeting until all Western states had agreed.

During monetary reform talks, West Germany was much more willing to negotiate than it had been only two years earlier when talks were being carried out in the C-20. At that point, the Federal Republic's desire to ensure that any future monetary system did not impede its economic development, hindered agreement within both the EC and the West. In the Interim Committee efforts, however, the Schmidt government behaved quite differently. Despite its significance in the global economy, Bonn was willing to maintain its quota shares in order to reach an agreement. In addition, West Germany presented compromise solutions on gold as well as the exchange rate regime.

Yet despite appearances, the maintenance of its own economic strength remained a core factor in West German policy decisions. Because the Federal Republic was so reliant on oil imports, its economic might was very dependent on the price of oil which after the oil crisis was controlled by the oil producers. Bonn was convinced that only through solidarity and a consumer-producer conference would the West have any chance of influencing the oil producers' pricing policies in a non-confrontational manner. Moreover, concluding monetary reform negotiations also would have been beneficial to the Federal Republic, as the disagreements around them were undermining investor confidence and hurting international trade. This, in turn, was damaging to the export-led West German economy.

As Bonn attempted to achieve its policy goals, the Schmidt government relied on many of the same means they had employed in 1974 to gain cooperation and influence the West's response to the factors contributing to the emerging economic crisis. As had been the case in the period described in the first three chapters, the Federal Republic used its economic strength. West Germany was the linchpin to both recycling facilities and thus achieving financial solidarity and completing the first stage of the Martinique Agreement. In addition, Bonn cleverly utilized its economic means to push the United

States to accept Witteveen II and to negotiate special conditions for its contributions to the Solidarity Fund.

Similar to its actions during the oil crisis, the Federal Republic again adopted a mediating role. Yet, by 1975, the Schmidt government not only sought to mediate between the United States and France, but also attempted to find compromise solutions between America and the EC and within the EC. As the Martinique Agreement began to unravel, Bonn called upon its European allies to unite on matters of raw materials, although the United States was still reluctant. On monetary issues, West Germany provided a compromise solution on the use of IMF gold, breaking the deadlock over the American and French approaches. In addition, through the first six months of 1975, Schmidt continued to be particularly important to Bonn's impact on the West. The chancellor lead efforts to reach a common position on the consumer-producer conference, proposing and organizing the Private G-5 as well as pushing the EC heads of state to focus on creating a joint European position on these issues and adopt the West German plan for doing so.

Although West German efforts did not prevent the failure of the conclusion of the stages of the Martinique Agreement or provide for a smooth path to the conclusion of monetary reform efforts, Bonn's actions through this period did serve to further enhance its role in the Western alliance. By June 1975, energy and monetary negotiations were being dealt above all by the G-5. In nearly all cases, the Federal Republic was the leading proponent of their use and within them West Germany was among the most outspoken, significantly choosing to present its options for compromise in the monetary field in the G-5 rather than an EC forum or in bilateral talks. The result of Bonn's actions was that through the first half of 1975, the G-5 became a key forum for Western countries to deal with both matters. Finally, Schmidt's strong leadership continued to alter the Federal Republic's role in the alliance, as was illustrated by Europe's response to Schmidt's calls for cooperation on a joint position for consumer-producer conference and Bonn's push for a common approach to raw materials. This institutional development and Schmidt's leadership would become even more important as Western leaders battled through the latter half of 1975 to pull their national economies as well as the international economy back from the brink of another Great Depression and political upheaval.

Chapter 5
Steps to Overcome the Economic Crises: The Road to Rambouillet, Jamaica and Paris
June 1975-November 1975

> *"Economics has moved to the forefront of international diplomacy. The reconciliation of conflicting economic interests has become the test of statesmanship in foreign affairs."*[1]
> -Hans Dietrich Genscher,
> 2 September 1975

-Introduction-

Through the first half of 1975, Western leaders had continued to focus on the respective efforts to overcome the two economic crises which had drastically altered the international economic system of the West: namely, the consequences of the collapse of the Bretton Woods monetary system and the oil crisis. Their endeavours, however, had yielded few positive results; instead, the oil producers had threatened to raise oil prices, non-oil less developed countries (LDCs) were threatening cartelization of raw materials, and monetary reform through the International Monetary Fund's (IMF) Interim Committee was in deadlock. Yet by mid-1975, these problems simultaneously became a motivating factor in and overshadowed by a third economic crisis – the 1975 global recession. Already before the breakdown of Bretton Woods, inflation rates throughout the West began to increase, skyrocketing after the quadrupling of oil prices in 1974. By late 1974 and into early 1975 inflation gave way to a slowdown in international trade, a drop in growth rates and a rise in unemployment. In response to these deteriorating macroeconomic conditions, many industrialized states attempted to deal with them via national efforts, but with little success.

With the world economy rapidly spiralling downward, Western leaders began to change their tactics in summer 1975. Recognizing the interrelatedness of the three economic crises, Western leaders took a French suggestion for a meeting of the Group of Five (G-5) heads of state to discuss monetary issues

[1] British National Archives (hereafter TNA), PREM 16/612, *The Bulletin: Speech by Hans-Dietrich Genscher before the Seventh Special Session of the General Assembly of the United Nations* (hereafter PREM 16/612, *UN*).

and refashioned it into a G-5 summit to discuss all aspects of the West's economic problems. In addition, the industrialized states approached each crisis with a new strategy; in response to the ever graver macroeconomic difficulties, the members of the European Community (EC) agreed to greater stimulus measures and to align their efforts with one another. While the United States refused to join its European partners on this path, Washington did act at the behest of its allies, in particular the Federal Republic, to address the fiscal crisis in New York which threatened to disrupt European capital markets and showed a willingness to consider alignment in the future. On monetary issues, the industrialized states managed to finally reach a consensus on key reform aspects, allowing the Interim Committee to move ahead with amending the Fund's Articles of Agreement (the Articles). Remarkably too, the West succeeded in convincing the oil producing states and the non-oil less developed states to resume the consumer-producer dialogue and the majority of non-oil LDCs against cartelizing their raw materials. In addition, the industrialized states, in particular the United States, were able to impress upon the Organization of Petroleum Exporting Countries (OPEC) that another drastic oil price hike was not in its interest. By November 1975, the combined Western efforts allowed for the advancement of three major economic conferences in Rambouillet, Jamaica and Paris respectively, which would not only serve to overcome the crises, but also change both the international economic system of the West and the Western alliance.

In the previous chapter, the maintenance of Bonn's economic strength as well as a desire to maintain Western solidarity drove West German policy; however, despite the Schmidt government using its economic strength, mediating skills and strong leadership to bring about compromise, the Federal Republic's efforts did not suffice to propel the West's strategies for overcoming the crises to success. As the West began to deal with the 1975 global recession and the interrelatedness of all three economic crises of the early 1970s, did Bonn's policy goals remain the same? Would the Schmidt government again use the same means to influence the West's response to the crises and would they achieve greater success? Finally, would West Germany be able to continue the transformation of its political role in the alliance as a result of its response to the recession and the other economic problems?

-An Economic Crisis Unlike Any Other-

Macroeconomic problems within the West began to develop long before mid-1975. Inflationary economic policies, high levels of dollar liquidity, poorly regulated Euromarkets and surging union wage demands combined to push prices both nationally and internationally higher and higher throughout the early 1970s. This underlying inflation coupled with the massive increase in oil prices and oil supply cuts, resulted in a wage-price spiral and skyrocketing inflation rates throughout the West.[2] By April 1974, inflation among the member states of the Organization for Economic Cooperation and Development (OECD) – the group of countries also considered to be the industrialized states –stood at an average of 12.5 percent p.a.. This was a three-fold increase over the average annual inflation rate between 1961 and 1971 and a five percent escalation on the average for 1973.[3] Despite the introduction of domestic anti-inflationary measures in all Western states, through 1974, the inflation rates in the United States, France, Great Britain and Italy hit highs of 12.1, 14.7, 17.1 and 23.7 percent respectively.[4] Having introduced a strict inflation-fighting program in spring 1973 though, the Federal Republic became "an island of stability in a sea of inflation," holding the lowest inflation rate in the West and being the only state capable of reducing inflation from 7.1 to 6.8 percent by year's end.[5]

Price stability, however, was not the West's only worry. Instead, through 1974, inflation quickly gave way to a retraction in growth and an

[2] Horst Möller, et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1975*, vol. 1 (München: R. Oldenbourg Verlag, 2006) (hereafter *AAPD 1975/1*), 809-13; Herbert Giersch, Karl-Heinz Paque and Holger Schmieding, *The Fading Miracle: Four Decades of Market Economy in Germany* (Cambridge: Cambridge University Press, 1992), 156; Otmar Emminger, *D-Mark, Dollar, Währungskrisen: Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart : Deutsche Verlags-Anstalt, 1986), 267-8.

[3] OECD, *Economic Outlook*, 15 (1974, July) (hereafter OECD 15), 19.

[4] Bundesarchiv Koblenz (hereafter BAK), B136/16795, *Betr.: Washington-Reise; hier: Sprechzettel zu den wirtschaftlichen Themen.*

[5] BAK, B136/16764, *Betr.: Konferenz sozialdemokratischer Parteien der EG in Den Haag* (hereafter B136/16764, *Konferenz*); Emminger, 269-70.

increase in unemployment. Within a year, the annual growth rate of the industrialized countries fell from 8 percent in the first half of 1973 to 1.25 percent during the first half of 1974.[6] By autumn 1974, unemployment in the United States was approaching 7 percent, while in the Federal Republic it was hovering around 3 percent. In addition, the United States was on the brink of a recession with growth in West Germany also dropping.[7]

With *Stabilitätspolitik* one of its main economic and monetary goals, Bonn was reluctant to shift its focus too quickly from inflation-fighting to stimulating growth. Yet, by September 1974 with unemployment rising and Schmidt's Social-Democratic Party (SPD) facing serious defeats in state elections, the Schmidt government introduced small stimulus measures.[8] Yet, these meager steps had little impact, as growth continued to wane and unemployment rise. By November 1974, the Federal Republic decided to officially make both maintaining price stability and safeguarding economic growth and a high rate of employment goals of West German economic policy.[9] To this end, Bonn introduced a large stimulus package in December 1974 and the Bundesbank lowered interest rates.[10] Yet, because of the Federal Republic's reliance on world trade for its growth, the Schmidt government was well aware that domestic measures would not suffice if the United States – the largest economy and alongside West Germany, trading nation – did not also begin to stimulate its economy. Consequently, in his meetings with Gerald Ford, the American President, in December 1974, West German Chancellor Helmut Schmidt pressed his American counterpart to relax America's economic and monetary policies and focus less on inflation and more on growth.[11] As Ford later admitted, Schmidt's efforts proved vital to the United States introducing

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[6] OECD 15, 19.

[7] OECD, *Economic Outlook*, 16 (1974: Dec.), 13.

[8] TNA, T354/169, *Economic Prospects: Recent Action by Germany*; Gerald R. Ford Library (hereafter GRF), White House Central Files, Box CO53-2, *The German Economy*; GRF, NSA Memcon, Box 7, *December 5, 1974-Ford, Kissinger* (hereafter Box 7, *December*).

[9] B136/16764, *Konferenz*.

[10] OECD, *Economic Outlook*, 17 (1975: July) (hereafter OECD 17), 95; Box 7, *December 1974*.

[11] Box 7, *December*.

its stimulus package in January 1975.[12] In addition, Bonn also succeeded in pushing through its dual approach in the EC.[13]

By spring 1975, France and the Netherlands had followed West Germany's lead, relaxing anti-inflationary programs and introducing small stimulus measures.[14] Because of their high inflation rates though, the United Kingdom and Italy could not yet relax their tight economic and monetary policies.[15] These various domestic actions, however, had very little effect on the deteriorating macroeconomic conditions. Only the American economy had shown the slightest signs of improvement, but these did not extend to other industrialized countries.[16] In the Federal Republic, after the January introduction of a stimulus plan aimed at bolstering investor activity and domestic demand, Bonn saw domestic demand stabilize, but consumer spending and investor activity remained weak.[17] Retarding national growth the most in West Germany was the decline in its exports.[18] This was not surprising given that the Federal Republic was an export-led economy, but even in those states were trade seemed not to be such a dominating factor (at least on paper), growth continued to fall and unemployment rise.[19]

Economic conditions had deteriorated to such a degree that Western leaders feared that a political crisis could erupt as high unemployment was creating social and political unrest, particularly in Italy.[20] Some European

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[12] GRF, NSA Memcon, Box 12, *May 25, 1975 – Ford, Kissinger, Schmidt* (hereafter Box 12, *May*).
[13] BAK, B126/65731, *Vermerk: Betr.: Treffen der Finanzminister der im europäischen Währungsverbund zusammengeschlossenen EG-Mitgliedstaaten.*
[14] OECD 17, 5; Emmanuel Mourlon-Droul, "Economist or Monetarist?: The Difficult Creation of and Internal French Consensus about European Monetary Integration (1974-1976)," in *The Two Europes: Proceedings of the 3rd International RICHIE Conference*, eds. Michele Affinito, Guia Migani and Christian Wenkel (Brussels: Peter Lang, 2009), 8-10.
[15] Ibid., 7, 23-33.
[16] Box 12, *May*.
[17] GRF, NSA Memcon, Box 14, *July 27, 1975 – Ford, Kissinger, Schmidt – Plenary Session* (hereafter Box 14, *Plenary*).
[18] Emminger, 270.
[19] OECD, *Economic Outlook* 18 (1975:Dec.) (hereafter OECD 18), 6, 13, 19.
[20] Box 14, *Plenary*; GRF, NSA Memcon, Box 12, *May 30, 1975 – Ford, Kissinger, Euro. Commissioner* (hereafter Box 12, *Commissioner*); GRF, NSA Memcon, Box 12, *May 29, 1975 – Ford, Kissinger, Thorn*; Horst Möller, et al., eds., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1975*, vol. 2 (München: R. Oldenbourg Verlag, 2006) (hereafter *AAPD 1975/2*), 1016.

leaders were even concerned about the stability of democracy in the Federal Republic.[21] While the Schmidt administration seemed confident about West German political order, it was nevertheless worried about the rising number of unemployed and the effect it would have on the SPD's chances of winning the next general election.[22] As the party of the worker, the SPD would have a difficult time staying in power should unemployment continue to increase and growth to be elusive. By June 1975, the macroeconomic problems had deteriorated to such a degree and the West's response become so disparate and weak that Schmidt lamented,

> [dass es] den Regierungen an Verständnis für die Problematik dieser bisher schwersten Krise seit den 30er Jahren fehle. Es habe allseits nur hilflose Reaktionen auf die gegenwärtigen Strukturverwerfungen, die Anpassungsprobleme und die Rezession gegeben, keine der anderen Regierungen sei weit genug in die Probleme eingedrungen. Auch im Kreise der USA, Frankreichs, Großbritanniens, Japans und der Bundesrepublik sei man sich über die Beurteilung der gegenwärtigen Weltwirtschaftskrise nicht einig, geschweige denn über die Therapie. Selbst die USA, auch Kissinger, werteten die Problematik unter herkömmlichen Gesichtspunkten der Machtpolitik. . . man [erwarte] von uns, zu wissen, wie es weitergehen solle.[23]

The Federal Republic realized that this recession differed in many ways from previous economic downturns, including the Great Depression. One of the most defining characteristics of the 1975 recession was the presence of high inflation, creating the phenomenon of stagflation.[24] The traditional Keynesian prescription to a recession was to relax policies, stimulating domestic demand by increasing the level of money in circulation.[25] Yet, such a response was difficult, as high inflation, or the fear of it, was rampant in the Western world. In countries with high inflation rates, like Great Britain, governments had to focus on reducing inflation which implied restrictive policies rather than the expansionary ones needed to boost growth. Even in states with lower inflation rates, like West Germany and the United States, officials were worried about overstimulating the economy – that is, there was a fear that if a recovery came

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[21] *AAPD 1975/2*, 1016.
[22] Ibid.; GRF, NSA Memcon, Box 14, *July 27, 1975 – Ford, Kissinger, FRG Chancellor Helmut Schmidt, Foreign Minister Hans-Dietrich Genscher* (hereafter Box 14, *July*); Box 14, *Plenary*.
[23] *AAPD 1975/1*, 809.
[24] OECD 18, 46.
[25] *AAPD 1975/1*, 811-2.

too quickly, the flames of inflation would be sparked again.[26] As a consequence, it appeared to the Federal Republic that some smaller European governments had introduced less aggressive stimulus measures than expected. While Bonn recognized the conundrum inflation caused in overcoming the 1975 recession, there were no new economic guidelines to replace the now inadequate Keynesian approach.[27] Although the United States and the Federal Republic had agreed to set up an international commission to deal with the problem of stagflation, the results of their efforts would only be available after several months at best. Schmidt lamented, "wir [haben es] mit einer völlig neuartigen Form von Rezession zu tun, die noch in keinem Lehrbuch beschrieben [ist]."[28]

Yet Bonn also understood that stagflation was not the only phenomenon complicating recovery efforts; rather, a greater degree of economic interdependence among the industrialized states also played a role. Over the last decade, the Western economy had undergone a major transformation: trade among the industrialized states and the size and role of the capital markets, the Euromarkets in particular, had increased substantially. The former meant that an individual nation's economic fortunes rested more heavily on those of their trading partners. This was even more acute for those European states which participated in the European Currency Snake or those states with export-led economies such as the Federal Republic.[29] The latter had various effects on the international economic system through the early 1970s, from undermining the monetary order through speculation to helping the capitalist world manage the effects of the oil price shocks.[30] Although the introduction of floating exchange rates had decreased speculation for a time, in 1975 the practice was once again

[26] BAK, B136/12623, *Vermerk für Gespräch Bundeskanzler/Präsident Ford* (hereafter B136/12623, *Vermerk*).
[27] Box 12, *May*.
[28] *AAPD 1975/1*, 812.
[29] BAK, B136/17144, *Deutsch-französische Konsultationen Plenarsitzung: Ausführungen von Bundeskanzler Helmut Schmidt und Staatspräsident Giscard d'Estaing* (hereafter B136/17144, *Ausführungen*).
[30] For accounts of the effects that the growth of capital markets had on the international economic system, see Harold James, *International Monetary Cooperation since Bretton Wood* (Washington, D.C.: International Monetary Fund, 1996), 179-180, 309-346; Barry Eichengreen, *Globalizing Capital: a History of the International Monetary System* (Princeton, NJ : Princeton University Press, 1996), 128-145.

on the rise. This time though speculators were betting on changes in government interest rate policies and the fluctuation of the dollar. This problem became especially apparent through the first half of 1975, as the United States kept adjusting its interest rates in an effort to affect the dollar exchange rate and each move led to large sums of money being transferred across borders.[31] Given this interdependence, it seemed to Bonn that the Western states had to be more cautious about the effects their chosen policies had not only on their domestic economy, but also on those of their partners and the global economy in general.

A final impediment to overcoming the economic downturn was the dangerous downward spiral that had developed through the interplay between the weakness of investor confidence and the lack of progress on international monetary reform as well as the instability in the oil market. With exchange rates fluctuating greatly and no clear indication as to if or when the world's leaders would return to a fixed regime, investors were reluctant to invest or buy abroad.[32] The uncertainty of energy prices and the threat of another oil price shock increased investors' worries also.[33] As investor sentiment declined so too did international trade, hurting the growth of the international and national economies alike. Thus, although stimulus measures existed to bolster activity, investors themselves were unwilling to take advantage of them, rendering the West's various reflationary programs much less effective. Ultimately, Bonn concluded, investor skepticism also affected employment levels, for without investment and growth, hiring would not return.[34]

There was no strategy, however, to deal with the lack of confidence that had developed over the last few months. Rather, the strategy of the Western leaders, as shown in the previous chapter, exacerbated the psychological aspects of the crisis. West Germany estimated that at least fifty percent of the crisis was due to a lack of confidence.[35] Thus, while Bonn believed that it was important

[31] Box 14, *July*.
[32] Ibid.
[33] *AAPD 1975/2*, 1036.
[34] Box 14, *July*.
[35] *AAPD 1975/2*, 1036.

to continue the work begun on the reform efforts in their respective forums, it had become clear that if the Western economy, and by extension the democratic order, were going to overcome the crisis, it was imperative that the industrialized states take steps to rebuild confidence.

Taking into account the economic complexities of the 1975 recession, Bonn determined that in order to revive private investment and reduce unemployment – by summer 1975 West Germany's top priority – the West needed to harmonize their economic and monetary policies.[36] While this approach did not fully compensate for a lack of practiced theory, the Federal Republic hoped that it would encourage smaller European countries to adopt more and larger stimulus measures. In addition, aligned policies would decrease speculation and its negative effects. Most importantly, Bonn reasoned, it would help build investor and consumer confidence.[37]

Unfortunately though Ford and American Secretary of State, Henry Kissinger, did not immediately agree with the chancellor. Rather, when Schmidt first mentioned the need for greater alignment of Western policies in May 1975, Ford and Kissinger were less than eager. Through the first half of 1975, the United States had partaken in several acts which ran counter to open trade practices. Changing policies now would mean battling Congress and Ford was in no place to do so given the weakened presidency after the Watergate scandal.[38] Moreover, considering the slight upturn in the American economy, Washington was satisfied with the trajectory of its policies and showed little interest in coordinating efforts on this front.[39] The chancellor worried, however, that it was too early to speak of a recovery and was unsure that the meager upswing in the American economy would be enough to pull the rest of the West, much less the world, out of its severe recession.[40] Yet rather than simply waiting for the United States to change its position or to see if the American

[36] BAK, B126/48887, *Private Memorandum on International Concertation of Economic Action by Helmut Schmidt* (hereafter B126/48887, *Memorandum*).
[37] Box 14, *July*.
[38] BAK, B136/12624, *Subject: The Drift towards Protectionism in the United States*; Box 12, *Commissioner*.
[39] Box 12, *May*.
[40] B136/12623, *Vermerk*; Box 12, *May*.

recovery would spread, Schmidt turned his attention to Europe, in particular France and his friend, the French President, Valéry Giscard d'Estaing.

Utilizing his close relationship with the French president, the chancellor raised his concerns about the deteriorating world economy and pressed his counterpart in Paris on the need to coordinate efforts. By early July 1975 the two leaders had reached an agreement to harmonize their countries' reflationary policies.[41] Starting at the end of August 1975, France and the Federal Republic aimed to introduce new stimulus programs based primarily on public investments with the goal of stimulating domestic demand.[42] By the time the European Council meeting took place on 16-17 July 1975, Bonn had also reached similar agreements with Denmark and the Benelux states. At the meeting, the European heads of state and government adopted the West German perspective, affirming the need for harmonized policies.[43]

Despite this progress, however, West Germany and other European leaders recognized that their efforts alone would not suffice to pull them out of the recession; rather, the EC concluded that their policies must also be coordinated with those of the United States and Japan.[44] Given Washington's earlier reluctance to harmonize policies and its general shift towards domestically-orientated policies over the past years, it seemed unlikely that the European Community could achieve this goal. Yet, Bonn saw an opportunity for American participation, should it be presented to the Ford administration alongside its other initiative to combat the economic crisis – a G-5 heads of state summit on the world economy and the monetary reform efforts.

During their June 1975 talks, Schmidt and Giscard not only discussed harmonizing French and German stimulus programs, but also the need for, and

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[41] *AAPD 1975/2*, 966.
[42] Ibid., 966; B136/17144, *Ausführungen*.
[43] *AAPD 1975/2*, 965-6. It should be noted that over the coming months the degree of coordination between EC states varied. For instance, France and West Germany both introduced extensive stimulus policies, but the coordination between them was limited. See Emmanuel Mourlon-Droul, "The Emergence of a European Bloc?" (PhD diss. European University Institute, 2010).
[44] Ibid., 965-6.

possibility of, such a gathering. Several factors motivated Bonn to advocate a meeting of the G-5 leaders. First and foremost, West Germany believed that it would bolster investor and consumer confidence. As the chancellor later explained to his counterpart in the United States, "Our private entrepreneurs – more in Europe than in the United States because you were the first into a depression and now, properly, the first to come out – need this sense of cooperation in order to give confidence."[45] This did not mean, however, that the Federal Republic expected many concrete results, in fact quite the opposite; Bonn advised against creating great expectations, as they could surely not be met. Rather, Schmidt contended that the impression alone of the Western leaders working together, confronting "the dangers eye to eye" and coordinating their actions would be enough to revive confidence.[46]

Yet as Bonn was aware, key to confidence building was also progress on reform of the international monetary system and stabilizing the oil market. To the Federal Republic, and especially the country's leader, however, in these two areas, especially the former, it seemed that discussions had faltered because the talks had been dominated by economic technicians lacking political perspective. By 1975 the future monetary order along with energy policy had become political matters; thus, the economic soundness of a proposed solution was not necessarily the key to reaching a consensus on the outstanding issues. Rather, diplomacy could be just as persuasive. Bonn recognized this, as Schmidt stated:

> Es hat kaum je Phasen von so enger Verflechtung gegeben zwischen weltwirtschaftlichen Problemstellungen und Lösungsmöglichkeiten und Instrumenten mit der Bewegung der Weltpolitik insgesamt, was eben auch heißt, dass man alle die Fragen, von denen hier die Rede sein soll, nicht den Fachidioten der Ökonomie überlassen darf, weil sie die weltpolitischen Zusammenhänge falsch sehen oder gar nicht sehen. Genauso wenig wie sie Währungspolitik treiben dürfen als ökonomische Fachpolitik. Währungspolitik ist Außenpolitik und Weltpolitik. . . . Weltenergiepolitik ebenso ist keine rein ökonomische Sache, sondern eine weltpolitische Angelegenheit. . . .[47]

[45] Box 14, *July*.
[46] Ibid.
[47] BAK, B136/8482, *April Konferenz 1975*.

Despite his strong words, however, the chancellor did not desire nor suggest that politicians alone should make decisions on such complicated technical economic matters as the world monetary system; rather, Schmidt hoped that any political consensus reached in a meeting of the G-5 leaders would give direction and impetus to the talks already begun in the various forums.[48] In this way perhaps a greater balance between the political context and economic rationale could be found and significant progress achieved, particularly in the area of monetary reform.

Several established organizations for Western economic cooperation existed, in particular the Group of Ten (G-10), in which political discussions at the heads of state level could have taken place. Yet, as it had during Committee of Twenty (C-20) and Interim Committee talks on international monetary reform as well as in respect to energy matters, West Germany and especially its chancellor advocated the G-5. Officially, Bonn desired this forum because it was a "small, relatively homogenous, economically and politically influential circle."[49] But it cannot be overlooked that the informal nature of G-5 meetings, lacking the bureaucracy and strictures of other long-established organizations, as well as their dependency on good working relationships and personal politics corresponded well with the Schmidt's practical governing style.[50]

Although Schmidt and Giscard discussed the prospect of a meeting of G-5 heads of state, they made no formal plans. Thus, when the French president on 9 July 1975 in an interview with Hearst Press called for an international monetary summit to be held in autumn 1975 and to be attended by the heads of state of the United States, the Federal Republic, the United Kingdom, Japan, France and possibly Italy, Bonn's initial reaction was one of surprise and slight disappointment.[51] Giscard's announcement, however, seemed to catch his own

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[48] Historisches Archiv der Deutschen Bundesbank (hereafter Bbk), N2/K84 *Giscards Initiative für Gipfelkonferenz über Wirtschafts- und Währungsfragen* (hereafter N2 K84, *Giscard*).
[49] Ibid.
[50] K.H.F. Dyson, "The Politics of Economic Management in West Germany," *West European Politics* 4 no. 2 (May 1981), 38; Helmut Schmidt, *Men and Powers: a Political Retrospective*, trans. Ruth Hein (London: Jonathan Cape, 1990), 173; Martin Rupps, *Helmut Schmidt: eine politische Biographie* (Stuttgart: Hohenheim, 2003), 175-80.
[51] Bbk, N2/K84, *Fernschreiben- Betr.: Französische Währungspolitik*; N2/K284, *Giscard*; *AAPD 1975/2*, 946; TNA,T354/335 *Giscard's Proposal for a Monetary Summit Conference.*

government off guard as well: the French leader made his proposals unbeknownst to the French ministry of finance or French treasury.[52]

The reasoning Giscard provided during the interview for such a meeting corresponded closely with that of Bonn. The French leader's actions seemed to be motivated by two factors: First, thus far, the international monetary problems had only been handled from the viewpoint of technicians. While Giscard felt the respective ministers of finance and central bankers had been successful, discussions had now reached a point where monetary issues were gaining political importance for global economic developments. Like Schmidt, Giscard felt that long term solutions and political decisions were needed in order to both resolve the disagreements on monetary reform as well as address the deteriorating world economy. Giscard's second motivation was his dissatisfaction with American policies and leadership. The French president felt that, similar to the past, Washington was attempting to solve its problems without taking into account how its policies would affect the rest of the world.[53] At the conference, the French leader hoped to show a connection between the disorder in the exchange rate system and the deteriorating economy. France had long advocated a return to fixed exchange rates and wished to push this view at the level of heads of state. In addition, Giscard hoped to motivate his counterparts in the leading industrialized countries to coordinate their economic policies more closely, in particular the United States.[54]

The initial responses to Giscard's proposal were cool.[55] After years of debate on the exchange rate regime and continued stalemate, it seemed to Washington that Paris's move was an attempt to garner support for its position on fixed exchange rates.[56] Since the United States was not prepared to cease backing a floating exchange rate regime, the Ford administration found it "hardly sensible" to have a meeting of the heads of state on purely monetary

[52]Ibid.
[53] Ibid.
[54] Ibid.
[55] BAK, B126/48887, *Fernschreiben Betr.: Französischer Vorschlag einer Wirtschafts- und Währungskonferenz der Hauptindustrieländer auf Regierungschefebene, hier: Haltung der amerikanischen Regierung* (hereafter B126/48887, *Haltung*).
[56] James, 267.

matters.[57] Yet, given the decline of the world economy, America did not immediately dismiss the prospect of a conference of G-5 heads of government; rather, the secretary of the treasury, William Simon, was noncommittal on the issue. Testifying before Congress, Simon would only say, "President Ford will – although we have received no proposal specifically from the French on a meeting like this – study it very carefully if and when it arrives."[58] Japan was less receptive to Giscard's suggestion, showing "no interest" in engaging in a top level meeting on monetary matters.[59]

The United Kingdom shared America's skepticism of the true aims of the French proposal, viewing it as a ploy to return to a fixed exchange rate regime to which they were opposed.[60] Yet rather than openly oppose the French president's plan, the British hoped that they could let West Germany, in particular its chancellor, take the lead in resisting such a conference. A first opportunity to discuss the idea at the heads of state level would be at the European Council meeting on 17-18 July 1975. The British treasury advised, "The prime minister should be able to count on strong support – indeed a strong lead – from Herr Schmidt and should not have to fear much enthusiastic support for President Giscard's ideas."[61] The uncertainty about that claim grew after Karl Otto Pöhl, the West German State Secretary in the Finance Ministry, warned Derek Mitchell, the British Deputy Chancellor, only days before the European Council gathering that Schmidt "might be reluctant when it came to the point to be seen to be in disagreement with his close friend, Giscard."[62] Realizing that Bonn may not come through as expected, the British treasury determined that greater lobbying of the West Germans was needed.[63] In a preparatory meeting, Mitchell suggested to the British Prime Minister, Harold Wilson, that "he should get hold of Chancellor Schmidt at an early stage to make sure that he was sound and to try to stiffen him if he was not."[64]

[57] B126/48887, *Haltung.*
[58] Ibid.; BAK, B126/48887, *Questions and Answers, Simon Testimony July 21.*
[59] B126/48887, *Haltung.*
[60] TNA, T354/335, *International Monetary Problems: UK Objectives.*
[61] Ibid.
[62] TNA, T354/335, *IMF Interim Committee: State of Play, 15th July 1975.*
[63] Ibid.
[64] Ibid.

This, however, would be much more difficult for the British than they expected: although Schmidt could definitely be counted on to take the reins of leadership on this matter, his perspectives on Giscard's proposal varied significantly from those of the United Kingdom. Having developed the idea of a meeting of G-5 leaders along with his counterpart in France, the West German leader was certainly in favor of it taking place and, to London's dismay, said as much at the European Council.[65] Yet while Paris placed a higher priority on settling the outstanding issues of monetary reform, the Federal Republic's main concern was reversing the deteriorating macroeconomic conditions, in particular unemployment and declining world trade.[66] In the coming weeks and months it was these problems and their political repercussions, which Schmidt repeatedly emphasized both to explain his support of and to win over other G-5 leaders to what came to be viewed as Giscard's initiative, despite the chancellor's role in the origins of the idea. In doing so, Bonn eventually not only convinced its G-5 partners to participate in a heads of state summit, but also shifted the focus of the meeting, aligning it more closely with West Germany's approach to overcoming the entire economic crisis, including of course its goal of harmonizing economic and monetary policies.

-Shifting the Focus and Establishing the Rambouillet Summit-

The first opportunity West Germany had to persuade prospective participants was in talks with Britain on 24 July 1975 in Hamburg. After providing the background on the Federal Republic's economic state, including expressing his worries about unemployment in West Germany, Schmidt told Wilson that he was very concerned about future economic developments, as too few Western governments had adopted the expansive economic policies needed to overcome the crisis. For this reason, the chancellor explained, he had recently supported Giscard's call for a world economic conference.[67] Schmidt also noted that he was disturbed by the downward trend of world trade and the devastating effect an increase in the price of oil would have on it. West

[65] *AAPD 1975/2*, 967.
[66] Hartmut Soell, *Helmut Schmidt 1969 bis heute: Macht und Verantwortung* (München: Deutsche Verlags-Anstalt, 2008), 420.
[67] *AAPD 1975/2*, 1019.

Germany's leader concluded, "Die Weltwirtschaft habe jetzt ein 'management from the top' nötig. Er werde Präsident Ford vor Augen führen, daß die Verhinderung von Massenarbeitslosigkeit in Europa für Italien die Rettung vom Kommunismus bedeuten könne."[68] London had reacted quite negatively to Giscard's proposal when it seemed to be little more than another monetary conference. Yet, with the majority of the Labour Party's constituency being made up of the working class and unemployment nearing 1.5 million, Wilson could not help but agree with Schmidt's conclusions on the political dangers. Although they were yet unwilling to fully agree to a G-5 summit, the British were starting to come around to the idea.

Still, even if Bonn won the support of London, just as with the harmonization of policies, a G-5 leaders meeting would be wholly ineffective without the United States. Washington, however, had seemed less than anxious to take part in either plan. Thus, West Germany had a difficult task ahead, if they hoped to change Washington's earlier opinions. The Federal Republic had its first opportunity to discuss matters with America during bilateral talks on 27-28 July 1975. As he had done in London, Schmidt emphasized the political effects of the economic crisis in the hope it would spur America to action. Shortly into his discussions with Ford and Kissinger, Schmidt raised the topic, saying:

> Giscard says what I have been saying since a year ago May. I have kept quiet currently because I too am pessimistic. He says the greatest threat to the West is not the Communists or the Southern flank of NATO, but the economic ability of the West. If it were a political or military crisis, the leaders would get together and act. Since it is economic, we leave it to our finance ministers. If we leave it this way for five years, there will be a political disaster.[69]

The political disaster, the chancellor warned was already taking root in Italy, where the Communist Party was on the verge of entering government.[70] Given the threat the economic crisis posed to democratic order, Schmidt explained that Europe looked to America. He informed Ford, "Let me speak a few frank

[68] Ibid., 1020.
[69] Box 14, *July*.
[70] Ibid.

words. The leadership here should be by the United States. Your strong leadership is needed, without appearing to do so."[71]

While Ford agreed with Schmidt's analysis of the political implications of the economic crisis, he lacked a solution for it himself. Rather, Ford's reply to Schmidt's request for leadership was "That is difficult. What would you recommend?"[72] As he had also explained to Wilson, Schmidt pointed to rising unemployment and deteriorating trade as the most worrisome economic developments for political stability. Both of these, Schmidt noted, were dependent on private investment which was weak because of the instability created by the disorder in the monetary system and OPEC's threat to increase the price of oil. The result, he concluded was that "in all of Europe, the boards of the big industrial companies are so skeptical they do not invest, so employment stays low."[73]

To solve these macroeconomic problems, America again sought Bonn's advice, as Kissinger asked Schmidt, "What is your solution?"[74] The chancellor's response focused on Western political unity and policy coordination on the major aspects of the economic crisis. Schmidt replied:

> Die Hälfte des Problems bestehe in Psychologie. Wenn die OPEC-Länder im Herbst die Ölpreise auch nur um 10% heraufsetzen (oder gar um 30% , wie der Schah es wolle), so werde das zum allgemeinen Pessimismus beitragen. Es sei wichtig, den Wirtschaftsführern im Westen zu zeigen, daß wir keinen Streit mit den Öllländern suchten. Zweitens komme es aus psychologischen Gründen darauf an, daß die wichtigsten Industrieländer der Welt sagen könnten, die Probleme seien erkannt und wir würden gemeinsam handeln. Dies sei wichtiger als das, was man wirklich tun könne.[75]

At Kissinger's request, Schmidt went on to clarify for Ford why such steps were necessary. First, he noted, Europe unlike the United States, was not rich in raw materials; thus, the EC needed stable oil prices and an assured supply. The policy of confrontation with OPEC which Washington had been pursuing, despite its claims to the contrary, since the outbreak of the oil crisis, was

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[71] Ibid.
[72] Ibid.
[73] Ibid.
[74] Ibid.
[75] *AAPD 1975/2*, 1036.

unacceptable to its European allies for this reason. Schmidt explained that Europe hoped to come to terms with the energy suppliers and refused the American approach, saying, "We can't join a policy of confrontation. It would raise unemployment as to be disastrous."[76] On the second point on concerting policies, aware of the United States earlier reluctance, Schmidt noted that "if we can create the impression we intend to work together and coordinate policies, that will be enough."[77] As a possible way of achieving the proposed Western unity on questions of energy and relations with oil producers as well as economic policies, Schmidt advocated an economic conference.

While Ford was convinced by Schmidt's reasoning, he was much more hesitant about the means. Ford stated, "my immediate reaction is favorable to a meeting. Simon is a hardliner. My tendency is to work closely – on the economic side the perception of us working closely would help us with the producers and the Soviets."[78] There was a divide in the Ford administration over the proposed G-5 meeting: so long as its focus was monetary issues, it found little support in Ford's cabinet, especially among treasury department officials.[79] If, however, the subject matter were shifted towards developments in the world economy in general, the summit proposal would gain more favor, particularly in the state department.[80] Another potential complication to the United States' participation was the American senate, from which any international agreement had to receive approval.[81] If America was to take part in the meeting, it would have to be planned meticulously. Although the American president was leaning more towards participation, he had yet to make a clear decision. None would come during these bilateral talks either. Instead, Schmidt and Ford agreed to continue discussions on the matter during a Quadripartite meeting while in Helsinki for the Conference on Security and Cooperation in Europe (CSCE). Still, although no formal plans were set in motion, Bonn felt "relieved" and encouraged when Ford concluded the meeting by concurring that Europe and the United States needed to align its economic

[76] Box 14, *July*.
[77] Ibid.
[78] Ibid.
[79] Henry Kissinger, *Years of Renewal* (New York: Simon & Schuster, 1999), 692.
[80] B126/48887, *Haltung*.
[81] Soell, 415.

thinking and actions.[82] For such, Schmidt noted, "We are at your disposal day or night."[83]

There were only a few days between Schmidt's talks with the Americans and the Quadripartite meeting. In this limited time Schmidt took the opportunity to prepare a private memorandum on international concertation of economic action, which he then distributed to Ford, Wilson and Giscard before the start of their gathering on 31 July 1975.[84] In it, he laid out the steps he felt Western leaders needed to take to tackle the economic challenges before them. Although the chancellor had already highlighted the majority of his points separately during his discussions with various world leaders, the document provided Bonn's allies with a complete strategy for overcoming the global recession. For Schmidt, the key to economic recovery and political survival was Western unity and cooperation.

Schmidt began by acknowledging that through the series of high level talks held over the last several weeks, there had been a "tangible improvement in the climate," but he warned, "what is important for us now is to agree on concrete steps to stabilize the world economic situation. Otherwise I believe there is a danger of a set-back in international public opinion."[85] According to the chancellor, the "most pressing task" was reactivating private investment and reigniting growth.[86] To this end, he advocated harmonizing economic policies, including the alignment of stimulus programs as well as monetary policies, particularly between the United States and Europe. [87]

Schmidt recognized, however, that harmonization alone would not be enough to improve the economic climate; thus, he also called for "concrete results" on monetary reform at the upcoming Annual Assembly of the IMF.[88] For Bonn, this was especially important psychologically, as Schmidt noted,

[82] Box 14, *July*.
[83] Ibid.
[84] B126/48887, *Memorandum*.
[85] Ibid.
[86] Ibid.
[87] Ibid.
[88] Ibid.

"Only in this way can it be demonstrated that the present world monetary system is also viable in times of economic crisis."[89] Understanding that the differences between the French and American positions on the future exchange rate regime would be more difficult to bridge, the chancellor believed that it was both possible and necessary to reach agreement on the issues of quotas, gold transactions among the central banks and the use of IMF gold at the IMF gathering at the end of August 1975. As to the exchange rate system, he proposed that it be discussed during an economic summit conference. Schmidt advocated the Giscard initiative calling for a summit to discuss questions of the world economy and world monetary system. Bonn's leader even went so far as to suggest that Giscard's proposal be adopted at the forthcoming meeting in Helsinki.

Yet, as Schmidt emphasized in his discussions with Wilson and Ford, economic recovery hinged on the West's ability to coordinate their respective approaches to energy, raw materials and relations with developing states. In the short-term, the West had to work together to prevent an increase in oil prices. Over the long run, cooperation was necessary to stabilize the oil market. To achieve the former, the chancellor pushed for the resumption of the preparatory meeting by the beginning of October, with invitations for the conference sent by the end of August, "*before* the OPEC meeting" at which the price increase was to be discussed.[90] As to the latter, Schmidt agreed with Kissinger's proposal to set up three commissions on energy, raw materials and development issues, but also believed a fourth dealing with financial questions should be included.[91] Not only in substance, but in style the West German chancellor sought unity, writing, "We attach great importance to a co-operative approach to the oil-producing and developing countries. Any aggravation of the conflict leads in the industrialized countries dependent on the world market to deepening pessimism and recession."[92]

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[89] Ibid.
[90] Ibid.
[91] Ibid.
[92] Ibid.

Although Schmidt's memorandum was never officially adopted, action on the various economic challenges over the following months developed along very similar lines to those proposed by the chancellor. The first was the quadripartite meeting in Helsinki. There Schmidt, Giscard, Ford and Wilson discussed the French president's proposal for an economic and monetary summit. While the four leaders generally concluded that any conference should be kept to the G-5 members, they did not reach any formal agreements on themes or dates.[93]

Within weeks, however, Ford had reached a decision to take part in the summit. In his memoirs Kissinger explained the American president's decision as a political one, writing, "we had been insisting, [Ford] argued, on charting a common destiny for the industrial democracies in our diplomacy and in our public pronouncements, and [Ford] would not turn his back on the opportunity to give it additional meaning."[94] Ford's biographer, Yanek Mieczkowski, however, ascertained that the economic factors had a greater bearing, claiming, "the meetings represented an opportunity for the United States to practice internationalism on economic and trade issues, particularly important since its foreign trade during the 1970s jumped to 7 percent of its GDP (compared to previous estimates of 4 percent). . . ."[95] West German analysis concluded that the increase of the dollar exchange rate as well as the signs of economic improvement in Europe achieved in August 1975 made the prospect of such a summit more appealing to the United States, as Washington would be less likely to be pushed by its G-5 allies to alter its economic and monetary policies.[96] The true motivations were probably a mixture of all three. What is clear, however, as Ford expressed to Schmidt in a letter at the end of August, was that Schmidt's efforts to find a common basis for the talks – acceptable to

[93] *AAPD 1975/2*, 1096.; B126/48887, *Haltung*. Although Schmidt claims in his memoirs that the plans for the first economic summit were made in Helsinki, the above noted documents show otherwise. Schmidt's claims are also not supported in Soell's biography or in Kissinger's memoirs.
[94] Kissinger, 692.
[95] Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970s* (Lexington, KY : University Press of Kentucky, 2005), 301.
[96] BAK, B126/48887, *Fernschreiben: Betr.: Gipfeltreffen der Sechs über Wirtschafts-und Währungsfragen; hier: Haltung der USA – im Grundsatz und zu einzelnen Themenkreisen* (hereafter B126/48887, *Themenkreisen*).

both France and the United States – had been instrumental in creating a compromise which the American president could accept.[97]

Upon his decision, Ford followed Schmidt's suggestion and appointed George Shultz, the former Treasury Secretary, as Washington's special delegate for conference preparations.[98] Shultz was the preferred choice for Bonn because he and Schmidt had developed a good working relationship during their days as minsters of finance and because Shultz understood the Gaullist pressure that Giscard was under in France.[99] Consultations between Shultz and the Schmidt government began shortly thereafter in early September 1975. By 13 September 1975, the two parties had crafted a draft outline of the agenda for a G-5 meeting of the heads of state and government. Only days later, Schmidt and Shultz met with Giscard in Paris to discuss the draft's suggested themes and possible dates. Giscard seemed willing to accept the broader focus and it turned out that France, West Germany, the United States and Great Britain all favored a conference that year. Particularly Washington wanted to avoid holding a summit in 1976, an election year. It was agreed that special delegates from the G-5 member states should meet bilaterally in the coming weeks and convene all together on 6 October 1975 in New York to finalize an agenda and the details of the summit.[100]

At the New York meeting in October 1975, the special delegates had to determine a series of procedural questions – place, host, participants, date, length of conference, and character of the communiqué – as well as the conference's discussion themes.[101] Having come together bilaterally in the previous weeks, the delegates had a good idea of where the others stood, making building a consensus on most issues relatively easy. The summit would take place on 15-17 November 1975 in France at the Rambouillet Chateau and

[97] Soell, 421.
[98] Box 14, *July*.
[99] Soell, 421.
[100] BAK, B126/48887, *Vermerk über das Gespräch StS Pöhl/ Ushiba am 25. September 1975*; BAK,
B126/48887, *Betr.:Wirtschafts- und Währungsgipfelkonferenz* (hereafter B126/48887, *Währungskonferenz*); Kissinger, 692.
[101] Ibid.

be hosted by the French president. The topics of discussion would be world economic developments, trade and monetary policy, developments in energy, raw materials and relations with developing nations and east-west relations.[102]

The exception to the accord was the matter of participants, with the disagreement on this point threatening to derail the entire conference. Although France, the Federal Republic and Great Britain were content with the limited attendance, its European allies in the EC were not.[103] Above all, Italy felt it should be included in any summit.[104] Rome argued its exclusion would affect its domestic standing negatively, as it would give the impression that Italy's role internationally was secondary.[105] Moreover, Italy, with the support of the smaller European states, claimed that the G-5 meetings undermined the work and cohesion of the EC. To avoid this Rome proposed that a member of the smaller European countries take part in the G-5 meetings on a rotating basis. Since Italy was to be EC president in November 1975, it made sense that Rome should be the representative at the G-5 summit.[106] The European G-5 members, however, were hesitant to include the Italians, as they hoped to keep the number of participants small.[107]

Although Kissinger informed the West German Foreign Minister, Hans-Dietrich Genscher, on 23 September 1975, that he was leaning towards the inclusion of Italy in the conference because of the domestic political threat posed by Rome's exclusion from it, the American secretary of state said Washington would leave the decision to the European G-5 member states.[108] Yet, Kissinger also made it be known that if the Europeans chose to include Italy, then America would also expect Canada to be included.[109] Soon thereafter Canada made its own appeal to participate in the summit.[110] After weeks of

[102] TNA, PREM 16/838, *Text of Agreed Statement, 10 October 1975* (hereafter PREM 16/383, *Text*); *AAPD 1975/2*, 1355.
[103] *AAPD 1975/2*, 1201.
[104] Ibid., 1159-60.
[105] Ibid., 1229.
[106] Ibid., 1229.
[107] B126/48887, *Währungsgipfelkonferenz.*
[108] Ibid.; *AAPD 1975-2*, 1296.
[109] B126/48887, *Währungsgipfelkonferenz.*
[110] *AAPD 1975-2*, 1355.

debate, France, West Germany and Great Britain agreed that Italy should be included, as Rome's exclusion would create problems with the smaller European states, which likewise felt excluded.[111] By early October 1975, all G-5 states consented to Italy's participation.[112]

With this, however, the question became one of Canadian inclusion. While West Germany was more open to it, France was very much opposed.[113] In a letter to Schmidt on 4 November 1975, Giscard explained his reasoning, noting that should he invite Canada, then he would be forced to invite representatives from the EC, OECD and IMF who had also appealed to him for an invitation. If such were to occur, then the summit would lose its informal nature.[114] As host of the diplomatic event, Giscard had the final say on those attending the meeting, but Washington was less than pleased about the exclusion of Canada. It seemed to the American president that his French counterpart had taken advantage of diplomatic protocol just to prohibit the participation of America's chief trading partner. Yet, by the time the decision was made Ford had come too far in his preparation of the summit and the matter had become too politically explosive to pull out of the conference. Thus, despite their great annoyance at Italy's participation and Canada's exclusion, the United States had no choice but to attend the summit. Though Ford threatened to behave coldly towards Giscard, he never followed through with it during the conference.[115]

By November 1975, the G-5 summit, or Rambouillet as it had come to be known, was set to take place. Yet, Bonn realized that its establishment alone would not suffice. Rather, as Schmidt pointed out in his memorandum and to his counterparts in Washington and London in July 1975, their efforts to overcome the world economic crisis were also dependent on the alignment of European and American economic policies, progress on international monetary reform as well as stabilizing the oil and raw material markets. Without

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[111] Soell, 422.
[112] PREM 16/838, *Text.*
[113] BAK, B136/12624, *Vermerk über das Gespräch des Bundeskanzlers mit Präsident Ford.*
[114] BAK, B126/48887, *Brief an Herr Bundeskanzler, 4. November 1975.*
[115] Kissinger, 693.

resolving these three issues, in particular the latter, it is highly doubtful that the West would have managed to recover from the recession by 1976 or Rambouillet would have found its lasting place in history.

-Macroeconomic Policy Coordination-

During bilateral talks in July 1975, Schmidt had appealed to Ford and his cabinet advisors to adjust their policies in such a way that their effects on the international community would be less negative.[116] By autumn 1975, however, little had changed. While the G-5 conference was intended to help in this matter, Schmidt took steps to push action on it during his trip to America in early October 1975, meeting with leading American businessmen at the United States Council of the International Chamber of Commerce in New York, holding a press conference and carrying out discussions with the Ford administration. America's policies and even its domestic economic problems, in particular the United States' interest rate policy, exchange rate policy and the very precarious financial position of New York City, were of greatest concern to the Federal Republic.

As had been its view since early 1975, Bonn believed America's high interest rates were slowing world growth and disrupting European capital markets. Although the slight signs of an upswing seen in the United States economy in May 1975 had grown into a full recovery by October 1975, the same could not be said in Europe. There, recovery had begun, but was still very much in its nascent stage.[117] West Germany worried that if American policies remained tight the upswing in both the United States and Europe could be stifled.[118] In addition, the Federal Republic believed that American interest rate policy was disrupting European capital markets, as short-term funds needed by the West German economy were steadily fleeing Europe for the United

[116] Box 14, *July*; BAK, B136/12623, *Vermerk für das Gespräch Bundeskanzler/Präsident Ford (White House, 3. Oktober 1975 12-13 Uhr)* (hereafter B136/12623, *Vermerk 3. Oktober*).
[117] BAK, B126/48887, *Basic Outline of the Economic Situation*; BAK, B136/12624, *Vergleich der amerikanischen Wirtschaftslage und –politik mit der deutschen Situation* (hereafter B136/12624, *Vergleich*); B126/48887, *Themenkreisen.*
[118] *AAPD 1975/2*, 1354.

States.[119] Moreover, Bonn worried about the swings in the exchange rate system. Since the end of 1972, the dollar had fallen against the D-mark by nearly 30 percent overall with the peak reached at the end of 1974, having a negative impact on West German exports. Through 1975, however, the dollar exchange rate vis-à-vis the D-mark had risen by nine percent, soothing Bonn's export concerns somewhat.[120] While the Federal Republic was certainly pleased about the exchange rate trend, the Schmidt administration was unconvinced that the drastic fluctuations that had plagued the West through the previous three years had indeed come to an end.[121]

As to New York's fiscal crisis, Bonn feared that a default by New York City could trigger a catastrophic reaction in the Euromarkets and thus on the credit available to European governments. The need for Euromarket credit was especially acute in West Germany. Over the previous months, Bonn had engaged in deficit spending in order to fund its enormous stimulus package introduced in late August 1975. By autumn 1975, the Federal Republic's public sector deficit had reached 7 percent of GNP, a sum so enormous in that era and worrying to the Schmidt government that the West German leader referred to it as "the largest since Jesus."[122] In the coming year, the Federal Republic would have to take nearly DM 60 billion in credit to finance its budget deficit. Even if the economic consequences of a bankrupt New York turned out not be so dire, the New York crisis would still have political implications for West Germany. 1976 was an election year, and the Schmidt government feared that if nothing was done about New York's fiscal problems, it would be all too easy for the opposition to swing the election by giving the impression that the West German federal government was headed for bankruptcy.[123]

[119] GRF, NSA Memcon, Box 15, *October 13, 1975- Ford, Kissinger, FRG Chancellor Helmut Schmidt*; BAK, B136/16800, *Schmidt Criticizes 'Restrictive' U.S., 2.Oktober 1975* (hereafter B136/16800, *Restrictive*); B136/12624, *Vergleich.*

[120] B136/12624, *Vergleich.*

[121] Ibid.; BAK, B136/12624, *Fernschreiben: Pressekonferenz vom 2.10 in New York* (hereafter B136/12624, *Pressekonferenz*).

[122] GRF, NSA Memcon, Box 16, *November 15-17, 1975- Rambouillet Economic Summit, First Session.*

[123] BAK, B136/12624, *Brief von Pöhl an Schmidt.*

In his meetings both in New York and Washington Schmidt expressed West Germany's concerns over these three issues.[124] Before the Chamber of Commerce and in his press conference, just as he had done in his private memorandum on international economic concertation, the West German chancellor called for greater cooperation among political leaders to align their economic and monetary policies against recession and inflation. Schmidt also implored the American business community to take heed of the effects their various actions had not just on the domestic but also the global economy, as problems of other large industrial powers also had an effect on business in the United States. In addition, Schmidt reiterated his memorandum's suggestion of greater coordination between European and American central banks in order to narrow the range of exchange rate movements between the dollar area and the snake. As to the financial difficulties facing New York, the West German leader warned of the devastating effects these might have on the international financial system, reminding the world of the impact of the collapse in 1974 of the medium-sized banks Herstatt and Franklin National. Schmidt also pointed out the negative results it could have on American economic and political leadership.[125] Noticeably absent, however, from the West German chancellor's comments was any mention of the repercussions for West Germany's budget financing and domestic politics.

By the time Schmidt arrived in Washington, his sentiments had been well publicized and were well-known. Although Bonn's leader had refused to criticize outright the Ford administration's economic and monetary policies, it was clear that the Federal Republic was not fully in agreement with their direction. During his talks with Ford and Kissinger, Schmidt only briefly mentioned his worries about American interest rate policies and did not bring up exchange rate coordination at all. Instead, the West German chancellor seemed to save his comments for discussions with Arthur Burns, the chairman of the Federal Reserve, over a closing dinner. Schmidt and Burns did not see eye-to-eye on these matters; rather, the American Fed chief was much more

[124] B136/16800, *Restrictive*; BAK, B136/16800, *"Schmidt sees World Impact in N.Y.C. Default"* (hereafter B126/16800, *Default*); B136/12624, *Pressekonferenz*; Schmidt, 177-8; *AAPD 1975/2*, 1355.
[125] Ibid.

concerned about the inflation rate than the growth rate, about which Burns was reluctant to speak.[126] Given the nature of the talks, it seemed unlikely that Schmidt's sentiments would have any significant effect on America's future economic and monetary policy choices.[127] Yet, all hope was not lost: the democrat-led Congress, to whom the White House had lost a considerable amount of power after the Watergate scandal, was much more interested in increasing the money supply and conducting a policy of lower interest rates.[128] After concluding his talks with the Ford administration, Schmidt met with some American Congressmen who besieged him with questions on his perspectives on economic policy rather than foreign policy.[129] While the extent to which the United States would shift its policies in the coming months remained to be seen, it was clear that Bonn's opinions on these matters were heard and respected.

This was even more evident when it came to the New York fiscal crisis. During his talks with Ford and Kissinger, Schmidt again raised his concerns about New York to which Ford replied that he neither fully agreed with Schmidt's conclusions nor intended to provide federal aid to the city.[130] The West German leader's comments in New York, however, had caused quite a stir there and gained much attention in the media. It was not long before Washington also realized the threat, with Ford eventually adopting Schmidt's earlier advice.[131] Schmidt would later express regret over his press comments, feeling it was undiplomatic to publically attack the domestic policies of a host country. Indeed, it did seem at odds with the approach he had taken with Rambouillet in which Schmidt clearly led the initiative behind closed doors, but pushed Washington to take the credit for it in public. Yet, after several months of American intransigence on these matters and with the Federal Republic's economic health and the SPD's political livelihood at stake, it is doubtful that Schmidt was unsatisfied with the outcome, regardless of the means employed. Although Schmidt left Washington without any firm commitments from American officials to align their economic and monetary policies more closely

[126] B136/12623, *Vermerk 3. Oktober.*
[127] Ibid.
[128] B136/12624, *Vergleich.*
[129] Soell, 422.
[130] B136/12624, *Vermerk 3. Oktober.*
[131] B136/16800, *Default*; Kissinger, 614.

with Europe's, it was clear from his discussions with members of the Ford administration as well as the American Congress that they were at least considering it and if pushed publicly would probably do so. This was at least a favorable starting point for negotiations on these matters at the Rambouillet Summit. That said, progress on monetary issues and oil matters had to occur before such talks could even take place.

-Progress on Monetary Reform-

The June 1975 meeting of the IMF Interim Committee was a grave disappointment for Western leaders. Despite numerous meetings in the G-5, G-10 and EC monetary committee attempting to reach a consensus on a package of reforms to the IMF Articles of Agreement, the industrialized states had managed only to agree on one of the four major points: the use of IMF gold. This left to be solved the matters of gold transactions among central banks, the increase and fixing of new IMF quotas and the exchange rate regime. The stalemate that had developed principally between the United States and France over these issues began to worry many Western leaders during the summer of 1975. As noted previously, the stalled monetary reforms had been a key consideration in the thinking behind Rambouillet and for Giscard, the primary concern. Yet, the G-5 summit would not come before autumn 1975 and as Schmidt noted in his memorandum, it was essential for investor confidence for the Annual Assembly of the IMF to produce concrete results before then.[132]

West Germany's allies seemed to recognize this also. In the couple of months between the conclusion of the June 1975 Interim Committee meeting and the August 1975 gathering, a remarkable spirit of compromise took hold. The United States, which had been impeding progress on quotas and gold transactions among central banks, reversed its stance. For months, America had refused to lower its quota share below 20 percent, even after the suggestion that the blocking minority be lowered from 20 to 15 percent.[133] In August, however, Washington reversed its position and agreed to lower its quota share below 20

[132] B126/48887, *Memorandum.*
[133] TNA, T354/396, *IMF Interim Committee: Review of Prospects, Review of Quotas*; Also see previous chapter.

percent, so long as the blocking minority was lowered to 15 percent. The other industrialized states were willing to support such a decrease in the blocking minority. With America prepared to reduce their quota share and Britain and the Federal Republic having given up their hopes of a higher share as well, the IMF Interim Committee was able to progress on this issue at the August IMF Interim Committee meeting. There, members agreed to a decrease in the blocking minority to 15 percent, and eventually to a doubling of the oil producing countries' quota shares, a continuation of the non-oil developing states' quota shares previously held and a decrease of the industrialized states' quota shares.[134]

On gold transactions among central banks, Washington had refused the notion of a global limit along the lines suggested by the European Community and practiced there.[135] America had feared that such a limit would leave the door open for gold to be monetized again rather than the complete demonetization of gold, Washington's goal.[136] In August though, the United States reversed this view to embrace the European suggestion. Aboard the presidential yacht *Sequoia*, the G-5 finance ministers came to an understanding on this aspect of gold on 30 August 1975.[137] This allowed the G-10 to reach a complete agreement on the issue of gold at its August 1975 meeting.[138] The reversal of the American position on gold was remarkable – and not fully explained by Washington. The Ford administration defended its actions noting that it could use its economic power in two years again to renew the agreement, but the United States already had the same power in 1975.[139] It seems more likely that Washington hoped to gain on the exchange rate issue, the only major issue yet to be settled in the package of reforms. The French, however, were

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[134] Bbk, N2/K84, *Thema: Allg. Quotenerhöhung IWF, Datum: 5.1.1976*; Bbk, N2/K84, *ICMS/Meeting 4 (1975)*; Bbk, N2/K84, *ICMS/Meeting 4 (1975), Press Communiqué.*

[135] See previous chapter for the debates surrounding gold. Tom de Vries, "Jamaica, or the non-Reform of the International Monetary System," *Foreign Affairs* 3, (1976): 594.

[136] Ibid., 593-4; Kenneth W. Dam, *The Rules of the Game: Reform and Evolution in the International Monetary System* (Chicago: The University of Chicago Press, 1982), 271, 274; B126/48887, *Memorandum.*

[137] de Vries, 594.

[138] Bbk, N2/K84, *ICMS/Meeting 4 (1975) – Annex 1 – Proposals on Resolution of Principal Issues on Gold.* For details on the exact technical agreements made see Bbk, N2/K84, *Thema: B Goldgeschäfte der Zentralbanken (ZB), 5.1.1976*; Dam, 274; Bbk, N2/K84, *ICMS/Meeting 4 (1975), Press Communiqué.*

[139] de Vries, 595.

still intransigent. Thus, as Schmidt surmised, the gap between the American and French positions could not be overcome by the August IMF Interim Committee meeting. While there was discussion about the possibility of splitting the package, i.e. passing the package of reforms without settling the exchange rate system issue, the Interim Committee opted against it. Instead, it hoped to reach a conclusion to the matter at its January 1976 meeting to be held in Jamaica.[140]

Over the following couple of months numerous meetings followed in the various multilateral forums as well as bilateral discussions with the intention of resolving the exchange rate regime issue. The two main proponents of the opposing positions, however, seemed to be in an ideological dispute with neither willing to shift its perspective in the least: the French were determined to return to a par value system and the Americans desired the full legalization of floating rates without any obligation to return to fixed exchange rates. Most other industrialized states were satisfied with the floating exchange rate system or at least viewed legalization as simply affirming reality. The Federal Republic in particular felt that a return to fixed exchange rates in the future was preferable, but in the interim floating exchange rates were necessary and should be legalized.[141] By November 1975, most industrialized states worried that the French-American impasse would ruin their previous efforts on the reform package.[142] Without a doubt, failure to agree on a reform package would have had a negative effect on investor confidence levels and the success of the Rambouillet summit.

A turning point finally occurred at a private dinner hosted by Otmar Emminger, vice president of the Bundesbank and West Germany's representative at, and chairman of, Working Party 3 in the OECD. There Emminger informed his French and American counterparts that should they meet bilaterally to resolve the issue and reach an agreement, he promised to accept the compromise.[143] The other Working Party 3 members supported this

[140] Bbk, N2/K84, *ICMS/Meeting 4 (1975), Press Communiqué.*
[141] See previous chapter for details of the positions of various states on the legalization of floating exchange rates.
[142] TNA, T385/47, *WP3, Economic Summit, G10, Interim Committee, 6 November 1975.*
[143] Emminger, 297.

statement. With this mandate, the French representative, Jacques de Larosière, Director of the Treasury, and the American representative, Edwin H. Yeo III, Undersecretary of the Treasury for Monetary Affairs, resolved to convene as often and as long as necessary in order to reach an agreement.[144]

In the first weeks of November 1975, de Larosière and Yeo III, did indeed meet several times. Initially, the two sides held to their long established positions, but eventually Paris and Washington began to give ground, albeit the former much more so than the latter. Finally on 15 November 1975, the two representatives arrived at a "Memorandum of Understanding." In it, France and the United States redrafted the obligations on exchange rates to read "each member pledges to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates."[145] Without saying so, the phrasing of this text allowed for floating exchange rates, as nowhere in the agreement is a "stable system of exchange rates" defined or is floating clearly excluded as such. Instead, the agreement left the choice of exchange rate system open to the individual country. The only limitation on a state's freedom of choice was that their respective choice of system had to foster "orderly economic growth within the context of relative price stability," could not produce "erratic disruptions," or "manipulate the system in order to gain an unfair competitive advantage over another member or members."[146] There was no definition for what constituted "erratic disruptions." Instead, it was proposed that G-5 central bankers should consult daily, G-5 finance ministry officials weekly and G-5 finance ministers "periodically" about the conditions in the exchange markets and coordinate their actions to counteract any erratic fluctuations."[147] The IMF was not to be included in these discussions; rather, the IMF should remain outside the day-to-day affairs of the markets and offer its advice on long-term developments only when requested.[148]

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[144] Ibid., 297; James, 268.
[145] TNA, T382/26, *Memorandum of Understanding, Obligations Regarding Exchange Arrangements.*
[146] Ibid.
[147] Ibid.
[148] James, 269.

In theory, the door was left open for a return to a par value system; in reality though, that would have been very difficult, as the French-American agreement stipulated that an 85 percent majority vote in the Fund was required for it.[149] Given America's voting power, no return to par values would be possible without their consent. Overall the "Memorandum of Understanding" came down heavily on the side of the United States. As Emminger concluded, "Es sah auch sehr nach einem "Sieg" der amerikansichen über die französische Haltung zum Wechselkurssystem aus."[150] The reasons' behind France's capitulation on this issue are unclear, but the outcome did finally bring an end to the deadlock, opening a path for productive work on the issue at Rambouillet and potentially an agreement on a reform package at Jamaica. Yet, this path would most likely have been closed had the issues surrounding energy, raw materials and relations with the LDCs remained unsettled.

-Cooperation on Oil, Raw Materials and Relations with Developing States-

Greatly dependent on raw materials and OPEC oil, the Federal Republic began within weeks of the failed preparatory meeting to rework its policies on raw materials and relations with developing countries and pushed its EC partners to coordinate their actions on these matters. By June 1975 Bonn had crafted a general approach to these issues along with oil.[151] As Schmidt later revealed in his memorandum on international economic concertation, Bonn believed a dual approach to the problems in this sector was required: In the short-run, the West had to persuade the oil producers and the non-oil developing states to reconvene the preparatory conference by autumn 1975. If so, perhaps the oil producers would refrain from drastically increasing oil prices and the non-oil developing states hold off on any cartelization plans.[152] Over the long-run, the West had to learn to work with the oil producers and developing states to shape a new energy paradigm to provide for stable oil and raw materials markets. For West Germany, this was essential if the capitalist world was to recover from the economic downturn and the functioning and efficiency of the world economy was to improve in the future. Yet, if the

[149] TNA, T382/26, *Memorandum of Understanding, Schedule K.*
[150] Emminger, 299.
[151] Ibid., 809.
[152] B126/48887, *Memorandum.*

industrialized states wished to achieve this – and not be extorted along the way – it seemed to Bonn that the West had to have consumer solidarity in style and content as well as name.[153]

Although the industrialized states had managed to come together on the matter of conference discussion themes, in June 1975 the West was still very much divided on the proper course of action vis-à-vis the oil producers and the non-oil developing states.[154] With only months until the next OPEC meeting and a rapidly deteriorating world economy, time did not allow for lengthy discussions on strategy. While work continued in the International Energy Agency (IEA) and EC, the United States, France and West Germany –as yet unconvinced by each other's reasoning and approaches, but recognizing the necessity for action— began bilateral talks with the oil producing and non-oil LDCs present at the conference.[155]

In late June 1975, the Schmidt government sent State Secretary in the Finance Ministry Jürgen Wischnewski as an envoy to all the oil producing states and the non-oil developing states which had taken part in the meeting on a "fact-finding mission."[156] The mission had two stated purposes: The first was to discuss the possibility of resuming the preparatory conference and the continuation of the consumer-producer dialogue. Bonn hoped to settle procedural questions as well as agree upon the expanded conference themes the industrialized states had recently adopted – energy, commodities, and development issues in general. The Federal Republic also sought, however, the inclusion of a fourth topic, monetary and financial questions, to address questions such as the effect of OPEC price policy on the monetary system, the balance of payments situation in both the industrialized and developing countries and the role of capital markets.[157] Although these matters had moved to the background because of the recession, Bonn felt that they would likely

[153] *AAPD 1975/2*, 1201; Box 14, *July 1975*.
[154] *AAPD 1975/1*, 809.
[155] Ibid., 945.
[156] Ibid., 809; TNA, PREM 16/612, *Report on the Fact-finding Mission of Herr Wischnewski, Minister of State* (hereafter PREM 16/612, *Fact-finding*). The states visited by Herr Wischnewski included Saudi Arabia, Iran, Algeria, Venezuela, India, Brazil and Zaire.
[157] *AAPD 1975/1*, 814; B126/48887, *Memorandum*.

return once an upswing began. Through such discussions, West Germany hoped to make the oil producers more accountable for their actions.[158]

The second purpose of the meeting was to convey to the governments of the countries visited the Federal Republic's great concern about world economic developments and their respective approaches to these problems.[159] Bonn's leader was convinced that neither the oil producers nor the non-oil developing states understood the problems of the economic crisis or the consequences their proposed actions would have on the world economy and in turn their own national economies.[160] It seemed to the Schmidt government that although the West had become dependent on oil and raw materials over the previous decade, the relationship between the industrialized states and the developing world was not entirely asymmetrical. Rather, it was one of interdependence, as both the oil producers and the non-oil LDCs had export-led economies and thus were highly reliant on Western states for their economic prosperity.[161] Schmidt hoped that through dialogue – explaining West Germany's interpretation of the economic crisis and the likely damaging effects of a drastic increase in the price of oil, a cartelization of raw materials or the indexation of crude and commodity prices – that both the oil producing states and non-oil developing states might reconsider their proposed actions. Schmidt and his cabinet ministers advised Wischnewski,

> Man müsse den Ölländern darstellen, was die Ölpreisvervierfachung schon bewirkt habe und was weitere Preissteigerungen für die Weltwirtschaft bedeuten. Sie müßten erkennen, welche ungeheure Auswirkungen bereits eine Steigerung von „nur" 10%, geschweige denn 25 oder 30%, haben. . . . Es gehe darum, den Erdöl- und Rohstoffländern klar zu machen, welche Rückwirkungen eine Indexierung auf ihre eigene Wirtschaft und Entwicklung haben werde. . . . man müsse den Ölländern klarmachen, daß sie bei einem Zusammenbruch der Weltwirtschaft selbst bedroht seien.[162]

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158 Ibid.

159 *AAPD 1975/1*, 809-11; PREM 16/612, *Fact-finding.*

160 Ibid., 809-11.

161 PREM 16/612, *UN*; TNA, PREM 16/612, *Statement by the Hon. Hans Apel, at the Joint Annual Discussion.*

162 *AAPD 1975/1*, 811.

As the West German leader informed the state secretary days before his departure, the fact-finding mission represented for Bonn "die bedeutendste politische und außenpolitische Aufgabe."[163]

After eight weeks, Wischnewski completed his mission with fairly favorable results: all countries visited indicated that they were prepared to resume the preparatory meeting and cooperate with the industrialized countries now that the West had agreed to give equal weight to the areas of energy, raw materials and development issues. Nearly all were interested in the inclusion of a fourth subject matter to deal with monetary and financial problems, with only Venezuela against it. The oil producing and non-oil developing states were willing to continue on with the preparatory conference at the same location and with the same participants as those in attendance in April. They also agreed that this meeting should take place in late September or the beginning of October 1975.[164] France and the United States also received the same positive replies on restarting the preparatory conference in their bilateral negotiations and in mid-September 1975 Giscard sent out invitations for a preparatory conference to take place in Paris on 13 October 1975.[165]

On his second task, Wischnewski was relatively less successful. Although he conveyed West Germany's position on the economic crisis to the oil producing and non-oil developing states, the West German representative was far from convincing them to alter their respective positions on the issues; rather, all countries visited claimed to understand the factors contributing to the economic crisis and to recognize the effect that a worsening of the recession could have on their respective economies. Despite this, only Saudi Arabia questioned whether the various actions proposed by the oil producers and the non-oil developing states were justified and correct.[166] Even though the oil producers were prepared to reconvene the preparatory conference, Iran claimed,

[163] Ibid., 809.
[164] *AAPD 1975/2*, 945.
[165] Ibid., 945. Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), 128.
[166] PREM 16/612, *Fact-finding.*

"the resumption of the dialogue will have no influence, however, on any increase in oil prices decided upon by OPEC."[167]

Indeed, the continuation of the preparatory conference probably did not have a great effect on its pricing decisions, but OPEC nonetheless decided against drastically raising oil prices at its meeting on 24-26 September 1975. Significantly influencing this outcome was the power struggle within OPEC between the hardliners or radical states, led by Iran, and the moderate states, with Saudi Arabia at the helm. This divide had been growing for several months. In March 1975, Saudi Arabia had refused to attend the OPEC heads of state summit in Algiers, arguing it was too confrontational towards the oil consuming countries. Yet the hardliners could not simply exclude Saudi Arabia from OPEC negotiations, because of the capacity of the Arab kingdom's crude supplies. As Wilson pointed out to Schmidt, "der Bestand des OPEC-Kartells hänge vor allem vom Verhalten Saudi-Arabiens ab."[168]

Fortunately for the West, the United States had particularly good relations with Saudi Arabia, relations which became even better when Fahd became both king and prime minister after the murder of King Faisal in late March 1975.[169] At the September 1975 OPEC meeting, the hardliners and the moderates went back and forth, with the former initially arguing for a 15 percent increase and the latter a 5 percent increase. Reaching a compromise was difficult, but eventually OPEC settled on a solution put forward by Venezuela, Kuwait and Algeria which called for a 10 percent increase on 1 October 1975 followed by a nine month freeze.[170] Although no definitive answer can be given as to the motivations of Saudi Arabia, it would be only logical to assume that America's influence played at least a small role in the Saudi's position, particularly given the approach to relations with the oil producers which Washington would suggest only a few weeks later at the Rambouillet Summit.

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[167] Ibid.
[168] *AAPD 1975/2*, 1020.
[169] Skeet, 128-32
[170] Ibid., 131-2.

Yet, energy was not the only area where the industrialized states fortunes were improving; rather, the same was also taking place in regard to the West's relations with the non-oil developing states. At the Seventh Special Session of the UN General Assembly in early September 1975, the first meeting of all factions since the failed April preparatory meeting, the tone of the gathering was conciliatory and productive.[171] Over the previous months two important developments had taken place which helped bring about this easing of tensions. First like the oil producers, certain LDC states were moderate and others more radical. Through 1974 and early 1975 much of the dialogue between the LDCs and the industrialized states was led by the more hardline countries, particularly those seeking a new international economic order. By autumn 1975, however, the moderate faction of the non-oil developing states led by India had become the stronger voice in the group, thus, creating an environment in which talks between the two factions could proceed more smoothly.[172]

Also aiding the moderate LDCs' position greatly and helping to improve relations in general was the changed attitude of the West.[173] Shortly after the collapse of the first preparatory conference, Western attitudes about the complaints and demands made by the non-oil developing countries over the previous year shifted greatly.[174] In the OECD declaration of 28 May 1975, the industrialized states announced their determination to continue work on the issues of the LDCs in all appropriate forums "um echte Fortschritte auf dem Wege zu einer ausgewogeneren und gerechteren Struktur der internationalen Wirtschaftsbeziehungen zu erreichen."[175] In addition the push West Germany had made within the EC for a common policy on raw materials and relations with the developing states had begun to pay off. By the end of summer 1975, the Europeans had agreed a joint statement for the Seventh Special Session

[171] Branislav Gosovic and John Gerard Ruggie, "On the Creation of a New International Economic Order: Issue Linkage and the Seventh Special Session of the UN General Assembly," *International Organization*, Vol. 30, No. 2 (Spring, 1976): 310; GRF, Arthur Burns Papers, Box B62, *International Economic Summit Rambouillet, November 1975 – General I, Economic Summit: Relations with Developing Countries* (hereafter Box B62, *Developing*).
[172] Ibid.
[173] *AAPD 1975/2*, 1257.
[174] See previous chapter for details on demands.
[175] *AAPD 1975/2*, 969.

which included responses to the difficulties faced by the LDCs.[176] Also at the UN meeting, individual European countries including the Federal Republic as well as the United States, Japan and other industrialized states also delivered addresses presenting further schemes for action on the most pressing concerns of the non-oil developing states, including their enormous balance of payments deficits and the deterioration of their export earnings.[177] While no definitive agreements were achieved on the various proposals presented there, the clear evidence of concern and interest by the industrialized states in tackling the problems of the non-oil developing countries helped to create a "constructive environment for north-south relations."[178] In addition, the easing of tensions between the two factions did seem to dampen the calls for a new international economic order, though it did not prevent some countries from cartelizing certain commodities in the latter half of 1975.[179] Still, the level of cartelization would no doubt have been much greater, had relations deteriorated further.

The goodwill fostered at the Seventh Special Session carried over to the preparatory meeting on 13 October 1975 in Paris. Having already discussed their perspectives on the main conference during the bilateral meetings, the industrialized, oil producing and non-oil developing states had little difficulty agreeing on the details. Rather than attempting to resolve their issues in one gathering, all participants determined that the consumer-producer dialogue, renamed the Conference on International Economic Cooperation (CIEC), would have an ongoing nature, similar to the CSCE. The first meeting was scheduled for 16-18 December 1975 in Paris and talks were to be held at the level of minister with the total number of participants expanded to 27 countries.[180] Two co-presidents were appointed from Venezuela and Canada, but it was left to those states already present from the three divisions to select the additional participants. In addition, it was agreed that the first gathering would be used to establish individual commissions for the four subject matters agreed – energy,

[176] Ibid., 1259.
[177] Ibid., 1177, 1259; PREM 16/612, *UN.*
[178] Box B62, *Developing.*
[179] TNA, PREM 16/838, *Note of the Third Session of the Heads of Government Conference at the Chateau de Rambouillet*; GRF, NSA Memcon, Box 16, *November 15-17, 1975, Rambouillet Economic Summit- Third Session.*
[180] Box B62, *Developing.*

raw materials, development issues and financial issues –including the appointment of two chairmen for each commission, one from the industrialized states and one from either the oil producers or non-oil developing states. Ministers would also use the initial CIEC meeting to create general guidelines for each commission. These guidelines would include such specifics as the time limit, linkages between the individual commissions and the degree to which their work should be parallel.[181]

With the first ministerial meeting of the CIEC planned, a drastic increase in oil prices averted and relations with the non-oil producers improving, by autumn 1975 the West seemed to have managed to avoid economic disaster, at least in the short run. Yet, Bonn felt this was only a temporary reprieve, as oil and commodity prices remained unstable and with it the long-term functioning and stability of global economy uncertain.[182] The Schmidt government believed that in order to achieve economic stability across the board, growing economic interdependence between the West and the developing states made it "an absolute necessity" for the industrialized states to work with the oil producers and non-oil developing states in the consumer-producer dialogue.[183] The Federal Republic, however, also realized that the dialogue could be hazardous not only to its economic aims but also to Western political strength, should the industrialized states enter into the conference unprepared or divided on the issues. Thus, in the months before the start of the conference, Bonn maintained, it was essential to attain consumer solidarity on all matters of discussion among the West and especially within the EC.[184]

Achieving these goals, however, would be a significant challenge. Despite months of debate in multilateral forums like the IEA, EC and OECD as well as in bilateral talks and through written position papers, little progress had been made; instead, as the Rambouillet Summit drew near, the industrialized states grew increasingly divided. Towards the oil producers, America remained

[181] PREM 16/612, *Fact-finding.*
[182] BAK, B136/16800, *Principles Adopted by the Government of the Federal Republic of Germany for the Dialogue with the Oil-producing and other Developing Countries.*
[183] Ibid.
[184] Ibid.

reluctant to abandon its more confrontational approach, whereas Europe, much more dependent on OPEC oil, continued to desire a more conciliatory and cooperative stance. Although the industrialized states agreed that the oil market was unstable and another oil price increase would be catastrophic, they were divided on how to prevent this. While the Federal Republic and France believed the answer lay in negotiations with the oil producers through the CIEC, the United States maintained only through reducing energy consumption could the West hope to influence the price of oil. For the Ford administration, the oil-producer dialogue was as much about maintaining the necessary consumer solidarity needed to support America's leadership and energy strategy, as it was about interacting with the oil producers.[185] A similar degree of discord existed on matters of raw materials and relations with the LDCs. Although several proposals to improve the balance of payments position, export earnings and overall plight of the non-oil developing states at the Seventh Special Session had been made by various Western states, there was no agreement on a preferred path.

Unfortunately by autumn 1975, the West even lost the appearance of consumer solidarity when the British began to demand individual representation at the upcoming CIEC.[186] Given the importance Bonn attached to Western unity throughout the dialogue, the Federal Republic was particularly disturbed by London's position. On 10 October 1975, Schmidt wrote to Wilson expressing his concerns on this matter. The West German leader pointed out first that Britain's intentions could potentially upset the fine balance that the industrialized countries had agreed with the oil producing and non-oil developing countries over matters of representation, having a negative impact on the main conference overall. Second, Schmidt argued that British plans could also disrupt "the material foundations of our [European] Community will."[187] After several days the British Prime Minister replied to the West German chancellor's letter. He refused to alter Britain's position on the grounds

[185] GRF, Arthur Burns Papers, Box B62, *International Economic Summit, Rambouillet, Nov. 1975, Briefing Book 2, Energy*.
[186] BAK, B136/11572, *"Konferenz über die internationale wirtschaftliche Zusammenarbeit" (einschließlich des britischen Problems)*.
[187] TNA, PREM 16/1062, *Brief an Premierminister, den 10. Oktober 1975.*

that a common Community policy was still far from being agreed upon and that was due not solely to the United Kingdom, but rather also, and more so, to France. In addition, Wilson maintained that as a country rich in natural resources there was a case for separate British participation.[188]

Given that Paris refused to join the IEA, demanded that EC members not agree to anything in the IEA that was not in accordance with EC energy policy and was blocking certain initiatives key in the long-term program being considered in the IEA, such as the minimum safeguard price (MSP) and alternative energy development, in EC energy policy negotiations, it did seem as though Wilson had a point about the French. Yet, Schmidt did not agree. Instead, he had been arguing for months that the divide between Britain and the Eight was greater than that between France and its EC partners. The West German chancellor was not swayed by the Prime Minister's letter nor did he agree with Wilson's reasoning for the lack of Community policy nor would the West German chancellor give up on a united European presence at the CIEC.[189]

On 24 October 1975, Schmidt called on the British ambassador to once again present his concerns. This time he showed his heightened disapproval by speaking in German rather than English to make his points.[190] Schmidt began by stressing that he had been the most fervent supporter of British membership in the EC; however, if the Community was to go on and be a viable entity, then full British participation and indeed leadership along with France and the Federal Republic was required. He continued, maintaining that although Europe had just completed the CSCE, the appearance of the divide in the European Community on these matters would come across as a sign of weakness to the Soviets and thus have a devastating effect on Europe's position in the coming years. Lastly, Schmidt argued, it would be greatly disadvantageous to the industrialized countries during the conference and the West's overall

[188] TNA, PREM 16/1062, *Letter from Wilson to Schmidt, 21 October 1975.*
[189] BAK, B136/17104, *Betr.: EG-institutionelle Ergebnisse meiner Vier-Augen-Gespräche mit Premierminister Wilson und Staatspräsident Giscard d'Estaing am 24. Juli bzw. 16. Juli 1975*; *AAPD 1975/2*, 1020, 1037.
[190] This was unusual for Schmidt, as he spoke excellent English and would regularly converse with foreign dignitaries in it. The change in language was definitely noticed by the British representative, making it less like a conversation of equals and more of a lecture.

relationships with the oil producing and non-oil developing states, on which he noted, "the future of our industries in Europe and therefore the future wellbeing and prosperity of our people depend." The West German leader pointed out, "if he were an Iraqi or Algerian he would be laughing all the way home about the lack of unity in the Community in these matters."[191] While the British representative thanked Schmidt for his "magisterial survey of the world scene," he gave no impression that the United Kingdom would change its mind on this matter and indeed, before the Rambouillet Summit, London did not.[192]

As the Rambouillet Summit drew near, the Western powers seemed more divided than ever on matters of energy, raw materials and relations with the developing world. Given the role Bonn believed the Rambouillet Summit played in overcoming the economic crisis and the long-term stabilization and functioning of the markets and international economy, the Schmidt government was greatly worried. As it turned out, so too were West Germany's allies, for it was on these issues, not monetary or even the economic outlook, which debate among the heads of state at the Rambouillet Summit would be the longest and heaviest.

Yet, despite their lack of agreement going into the G-5 meeting, for Bonn the prospects for the success of the Rambouillet Summit were quite good. Within five months nearly all of the points Schmidt had called for in his memorandum on international economic concertation had been attained. West Germany hoped that those items that remained – complete coordination of economic and monetary policies between the United States and Europe and cooperation on long-term energy matters – could be settled at Rambouillet. Moreover, through the efforts of the Western leaders, it seemed that the West was beginning to emerge from the economic crisis. Investor and consumer confidence was returning and the American economy had entered into a recovery while growth rates were stabilizing in most European states. The key to full recovery, however, remained the three economic conferences in Rambouillet, Paris and Jamaica.

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191 TNA, PREM 16/1062, *FCO Telno 846 of 24 October.*
192 Ibid.

-Conclusions-

By July 1975, the West faced a recession unlike any previously experienced. There was no economic theory to guide their macroeconomic policies, as Keynesian policies did not apply to stagflation. In addition, individual national responses to the economic problems were of little value, for the international economy had developed in such a manner over the previous decade that a state of interdependence had developed not only between the economies of the West, but also between those of the industrialized states on the one hand and the oil producing and non-oil LDCs on the other. Moreover, a lack of investor and consumer confidence contributed greatly to the economic downturn due to the failure to conclude monetary reform negotiations as well as to stabilize oil and raw material prices. Thus, national governments could not simply hope to adjust their economic and monetary policies to overcome the crisis; rather, they also needed to address the problems in the monetary, oil and raw materials sectors.

As West Germany reacted to this crisis, the Federal Republic's policies were driven by a desire to maintain its economic strength as well as by a concern for political stability. Both factors were central in Bonn's support for the Rambouillet Summit. In particular, the Schmidt government pointed out the risks to economic and political stability in order to convince Britain and the United States of the necessity of the G-5 summit. West Germany sought alignment of European economic and monetary policies in order to bolster its own efforts to revive the West German economy and pushed for an American federal response to the New York fiscal crisis, which posed a serious threat to the Federal Republic's ability to finance its own government debt. Because the lack of consensus on international monetary reform was undermining consumer and investor confidence, Bonn was particularly keen to bring talks to a close, even if it meant the Schmidt government having to remove itself from the conversation. Finally, on matters of oil, the Federal Republic was also primarily concerned with its dependency on OPEC oil and raw material imports. Yet, as in previous chapters, Bonn realized that it could neither secure its economic strength nor political stability without Western solidarity on all aspects of the crisis; thus Western cooperation was likewise central to West German policies.

In order to achieve their economic and political aims and bring about the coordinated Western response desired, the Federal Republic again relied on strong leadership from Schmidt, an ability to mediate between its Western allies and build compromise and finally its economic strength, albeit indirectly. Through this five month period, Schmidt became central to the crafting of the West's response. Utilizing their good working relationship, Schmidt shaped with Giscard the idea for a summit. The West German chancellor then again relied on his positive relations as well as his economic understanding to win Wilson and Ford over to the summit notion, while in the process shifting the focus of it away from monetary issues and towards the economic crisis. As Ford pointed out, Schmidt was instrumental in refashioning Giscard's initiative into a conference he could support. In addition, Schmidt's willingness to allow both Paris and Washington to be perceived as the leaders of the initiative, despite the central role the chancellor was playing in the creation of it, was also crucial to the establishment of the G-5 gathering. Had Schmidt desired greater international recognition for his efforts, he would have risked either Giscard or Ford losing face domestically and thus the domestic support needed in order for these two countries to take part in the Rambouillet Summit.

Aside from the Rambouillet Summit, Schmidt also contributed greatly on the individual aspects of the crisis. Relying on his economic knowledge and good relations with the Giscard, Schmidt led the drive to align economic and monetary policies within the EC. In addition, the chancellor succeeded in shifting American perspectives on the New York fiscal crisis. Although Schmidt did not persuade Washington to relax its policies further and align them more closely with Europe as was his aim, it was clear from the discussions and the questions posed to the chancellor by not only the Ford administration but also by members of Congress and the American business community that Schmidt's perspectives were highly respected and could still have an effect on American policies in the near future. Finally, Schmidt drafted a clear strategy to overcoming the economic crisis through international cooperation. While his memorandum was never officially adopted, it did provide the West with a common approach for the crisis which it had been lacking previously and as events showed, it seems to have at least provided some basis for concerted action on the various aspects of the economic crisis.

Yet Schmidt alone was not responsible for the Federal Republic's significant influence during this period; rather, as in previous chapters, Bonn's willingness to adopt a mediating role and drive compromise was also crucial. The initial reactions of Washington, London and Tokyo to Giscard's call for a G-5 summit ranged from hostility to simple disagreement. But in the months after the announcement, Schmidt began mediating between France and the other G-5 member states. On monetary matters too, a West German suggestion for the compromise solution of bilateral talks, allowed France and the United States the time and space necessary to overcome their differences on gold and the exchange rate mechanism. A similar outcome would have been unlikely had talks continued in the G-5 or G-10, if for no other reason than each negotiation would have had to occur between more members requiring more time.

Lastly, although Bonn did not use its economic strength directly, providing funding to various support facilities or other countries to win their backing for certain policies as had been the case in earlier chapters, the power of the West German economy still influenced the West's response. Had West Germany not been the largest economy within the European Community upon which several member states were dependent through trade, the European Currency Snake or both, it is doubtful that Schmidt's pleas for larger stimulus packages and alignment of economic and monetary policies would have been as well received. Moreover, Schmidt would have been far less credible and effective in general without the implicit support of West German economic strength.

Because of its actions during this period, the Federal Republic was able to further alter its position in the Western alliance. Already with the oil crisis and through the first half of 1975, economics was beginning to move into the realm of high politics. Yet the line between economics and politics became even more blurred through the latter half of 1975. While part of this was due to the outbreak of the economic crisis, part of it was also a result of a conscious push by the Federal Republic and above all its leader to make economics more political. In his bilateral meetings, Schmidt made economic issues the main focus of his conversations. Furthermore, the chancellor openly admitted that an aim of the Rambouillet Summit was to take these issues out of the hands of economic technicians and provide the political push necessary to reach a consensus on the matters at hand, in particular monetary reform efforts. Given West Germany's central position in the international economy as one of the largest trading nations, some of Bonn's economic power was bound to translate into greater political standing.

Yet economic strength would only go so far without a strong political advocate and a beneficial institutional setting. Throughout this period, Schmidt proved that he had not only the willingness to lead, but also the capability to do so, starting initiatives, working with his allies to find compromises, applying political pressure when necessary and remaining in the background when prudent. These skills were not only crucial to the shaping of the West's response to this economic crisis, but would be essential if Bonn was to continue to maintain a greater political role after the economic crisis had been overcome. Finally, with the establishment of the Rambouillet Summit, the West had a forum in which the heads of state and government could discuss economic matters. Given the size and make-up of its membership as well as the heavy reliance on personal relationships for its functioning, the Federal Republic now had a setting highly conducive to advancing its political role in the Western alliance. It remained to be seen if at the forthcoming Rambouillet Summit as well as the monetary meeting in Jamaica and the energy conference in Paris, West Germany would be able to solidify its new place.

Chapter 6

Summitry, Overcoming and Re-shaping

November 1975-January 1976

Despite the optimistic noises being made in some quarters,
I am not convinced that we have yet seen the worst of the recession.
This is not so much a matter of economic analysis
as it is because the recession itself has been due partly to political errors.
Politicians are capable of making further mistakes.[1]
Helmut Schmidt,
November 15, 1975

-Introduction-

By November 1975, signs had begun to emerge that the economic crisis which had taken hold of the West throughout the year and threatened political order was beginning to ease, as macroeconomic conditions in many Western states ceased their downward spiral. Yet, a full recovery was far from assured. Investor and consumer confidence throughout the industrialized countries remained weak and the slight upturn could easily be suffocated if efforts to reform the monetary system and stabilize oil and raw materials prices faltered. Western leaders realized that a sustained recovery rested firmly on the outcome of the three upcoming economic gatherings: the Rambouillet Summit, the first ministerial meeting of the Conference for International Economic Cooperation (CIEC) and the meeting of the Interim Committee of the International Monetary Fund (IMF) in Jamaica.

Positive results first came from the Rambouillet Summit. There, the heads of state and government of the Group of Five (G-5) as well as Italy discussed the various aspects contributing to the economic downturn. While Western leaders failed to bridge their differences on economic and monetary policy coordination as well as intervention in the exchange markets, they did reach a consensus for cooperation on trade and international monetary reform as well as oil, raw materials and relations with the developing states. Also contributing to the success of the gathering was the clever crafting of the meeting's communiqué which helped to rebuild investor and consumer

[1] Gerald R. Ford Presidential Library (hereafter GRF), NSA Memcon, Box 16, *November 15-17, 1975- Rambouillet Economic Summit, First Session* (hereafter Box 16, *First Session*).

confidence. Shortly after the Rambouillet Summit, the West achieved another encouraging outcome at the CIEC. Relying on agreements made at the Rambouillet Summit as well as those concluded through their ongoing work in the International Energy Agency (IEA) and the European Community (EC), the industrialized states stood united throughout this meeting, eventually managing to agree steps for the further development of the conference series with the oil producers and non-oil LDCs. This result contributed to the stability of oil prices over the forthcoming months. Lastly, at the Jamaica Interim Committee meeting, the West was able to push through an amendment of the IMF Articles of Agreement (the Articles) based heavily on a system worked out by the industrialized states over the previous months. With it, monetary reform efforts begun in 1972 through the Committee of Twenty (C-20) finally concluded and Western investors could begin to adjust to a new system of monetary relations.

By spring 1976, due in large part to the efforts of its leaders, the West had managed to overcome the worst economic crisis since the Great Depression and avoid political disarray. In nearly all the economies of the West, growth increased, inflation receded or at least remained steady. Only unemployment was slow to recover to pre-crisis levels. Although exchange rates continued to fluctuate in the floating system, global trade picked up considerably. Even more important for long-run economic and political stability was the creation of new economic institutions and the reform of existing ones. This reshaping of the international economic system allowed continued economic dominance of the Western industrialized states, in particular the United States, despite the changed energy paradigm and the growing importance of the developing states in global trade. But it also resulted in many changes. Economically, the markets had a greater impact on the global economy in this transformed economic system. Politically, despite America remaining the hegemonic power, political relations within the Western alliance were permanently altered through the process of transformation as well as the establishment of new institutions, in particular the G-5. This in turn significantly enhanced the role of the Federal Republic.

As the economic crises drew to a close, did the Federal Republic's concern for its economic strength and the political order continue to drive its policies? The preceding chapters have shown Bonn's influence on the West's response to the various economic difficulties increased as the complexity of the problems escalated. Indeed, the West German Chancellor Helmut Schmidt had been vital to the establishment of the Rambouillet Summit and his government had pushed hard to ensure that both the CIEC and the Jamaica meetings took place. As the G-5 summit unfolded, did the West German chancellor maintain his central role? What impact did the Federal Republic have overall on the outcome of the three economic conferences? Finally, since the collapse of the Bretton Woods monetary system in 1973, the position of West Germany within the Western alliance had slowly been enhanced due to its actions in response to the economic problems plaguing the West. As the West emerged from the crises and the transformation of the international economic system became complete, to what degree had Bonn succeeded in advancing its political position permanently and how?

-The Rambouillet Summit-

When the Rambouillet Summit convened on 15 November 1975, much had changed since Schmidt and French President Valéry Giscard d'Estaing first discussed the necessity for a G-5 heads of state and government gathering. The slight upturn seen in the United States economy in summer 1975 had become a full-blown recovery by late autumn. Japan too had two quarters of growth behind it. In Europe, after the introduction of substantial, coordinated stimulus programs, encouraging signs had begun to appear in West Germany and France, though similar indications had not yet followed in the United Kingdom or Italy. Among the industrialized states only Great Britain still struggled with high inflation, while in the other industrialized states price stability had generally returned.[2] Of all the macroeconomic indicators, only unemployment remained a major concern, as it was still rising.[3] In addition, on international monetary reform, the French and Americans had finally reached an accord on the exchange rate regime and the other major aspects of the package of reforms to

[2] OECD, *Economic Outlook*, 18 (1975: Dec), 5-12, 46, 13-15, 56, 79, 87-9.
[3] Ibid, 37-9.

the IMF Articles of Agreement had been settled at the August 1975 meeting of the Interim Committee. Moreover, the West had managed to avoid a drastic increase in oil prices, pacify the LDCs in their quest for cartelization and a new international economic order and revive the consumer-producer dialogue. Yet while pleased with the encouraging economic indicators and the common ground the industrialized states had managed to establish over the previous months, West Germany was neither convinced that a full recovery was assured nor entirely satisfied with the level of Western cooperation. Rather, as would quickly become evident, the Federal Republic believed that much of the West's economic and political fortunes still hinged on the Rambouillet Summit.

Given that Schmidt's grave concern about the world economy had led him to both promote the G-5 meeting and indeed transform it from a gathering on monetary matters to one on the wider economic crises, it was fitting that Schmidt opened the Rambouillet Summit, leading the discussion of the first session on the general economic outlook. Although there had been a slight upturn in the economies of the West recently, and some leaders were more optimistic, Schmidt was unconvinced that the capitalist world had seen the worst of the recession yet, as "the recession itself had been due partly to political errors and neglect: and politicians were capable of making further mistakes."[4] He pointed out the threats to recovery still loomed because of high unemployment, unstable oil prices, raw material cartels, monetary disorder and protectionism. Of all these, Schmidt acknowledged that high unemployment was the most worrying as it could lead to social unrest and ultimately political disorder.[5] Yet, he also highlighted the dangers posed by the other aspects. On oil, Schmidt noted, if the price of oil increased another 10 percent, any upswing would be easily undermined.[6] Bonn's leader warned that a similar fate could be expected if raw materials cartels developed, an accord at the IMF Interim

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[4] British National Archives (hereafter TNA), PREM 16/838, *Note of the First Session of the Conference of Heads of Government of France, Germany, Italy, Japan, the United Kingdom and the United States at the Chateau de Rambouillet on Saturday, 15 November 1975* (hereafter PREM 16/838, *First Session*); Bundesarchiv Koblenz (hereafter BAK), B126/48887, *Aufzeichnung der Gespräche der Staats- und Regierungschefs in Rambouillet, 15. bis 17. November 1975* (hereafter B126/48887, *Aufzeichnung*).

[5] Box 16, *First Session.*

[6] Ibid.; B126/48887, *Aufzeichnung.*

Committee meeting in Jamaica was not reached and if trade restrictions and protectionism among Western states did not cease.[7] As he had done since May 1975, Schmidt called for the alignment of economic and monetary policies among the Western states in order to emerge from the recession. He also advocated further policies to stimulate private investment and consumption, more expansionary measures – even if that meant the creation of a deficit – and low interest rates.[8] In addition, Schmidt maintained that the leaders assembled must "send a message of confidence from Rambouillet" as this would be crucial to rebuilding investor and consumer confidence.[9]

West Germany's view of economic developments and the remedies it proposed received strong support from nearly all other G-5 member states. Although Japan had experienced strong growth over the previous quarters, Takeo Miki, the Japanese Prime Minister, believed that recovery was not assured until the other leading industrialized states also had strong growth.[10] Aldo Moro, the Italian prime minister, pointed out several weaknesses in the Italian economy which he felt could only be overcome with help and encouragement from "the stronger economies in the recession – the US, Japan and West Germany."[11] The British Prime Minister, Harold Wilson, confirmed that he "agreed with the diagnosis of Chancellor Schmidt. . . . he was not convinced that a rapid recovery was taking place and he was worried lest the recovery be choked off."[12] Wilson though argued not only for greater alignment and less restrictive American policies, but also maintained that economically stronger European states running large budget deficits as a result of their expansionary policies, in particular West Germany, should be careful not to try to reduce their deficits before the growth had an opportunity to take hold not just nationally, but also internationally.[13] Giscard too doubted whether a sustained economic recovery was underway throughout the West, noting that both importing and exporting countries were suffering and, as Wilson

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[7] B126/48887, *Aufzeichnung*.
[8] Ibid.; PREM 16/838, *First Session*.
[9] PREM 16/838, *First Session*; Box 16, *First Session*.
[10] Ibid.
[11] Box 16, *First Session*.
[12] Ibid.
[13] Ibid.

highlighted, as soon as European states attempted to reduce their massive deficits, it would put "the brakes on growth."[14] Thus, it seemed to Giscard that growth of a non-inflationary kind was highly unlikely and without strong growth, unemployment was likely to remain high. While Giscard believed that there was hope for an economic recovery in Europe and the wider West if the strong upturn in the United States continued, he was also convinced that if America's recovery slowed or stopped, another downturn would surely follow. Thus, like Schmidt, the French president pushed for further expansion in the American economy.[15]

Unsurprisingly given its stance throughout 1975 and the seemingly strong recovery occurring in the United States, Washington did not agree with Bonn's or the other participants' views of the world economy. Instead, American President Gerald Ford gave a starkly contrasting view of economic and political developments over the previous months. While he agreed with Schmidt that the Western partners had to work together, particularly to ensure political stability, Ford quickly pointed out that the American people and economy had "reacted very well to the recession."[16] He reported that there had been no serious political problems as a result of a rise in radicalism and gave a very positive view of the development of the American economy, noting that the health of the U.S. economy was significantly better than when they had spoken at the Quadripartite meeting in Helsinki in July 1975. Indeed Ford expected that the strong recovery taking place in the United States would continue and eventually pull up the European economies as well.[17]

With this optimistic perspective on the world economy, Washington's views on how to ensure the upswing continued to differ from those of its Summit counterparts. Like the Federal Republic, America argued that the revival of consumer and investor confidence was essential to a sustained recovery.[18] Yet, the United States did not agree with West Germany's position

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[14] Ibid.
[15] Ibid.
[16] PREM 16/838, *First Session.*
[17] Ibid.; Box 16, *First Session.*
[18] Ibid.

that further expansionary measures or low interest rates would provide economic stimulus to the global economy; rather, as Ford stated "the policies now in place are appropriate in our judgement" to generate maximum growth in the short term without sparking inflation over the long term and to accommodate strong business expansion as well as allow for a sustained recovery.[19] Indeed, it seemed to Washington that changing its chosen course of action now would only disrupt efforts at rebuilding confidence. Ford argued, "the stability of current policy will do a great deal to enhance confidence. In light of our prospects, and the policy actions we have already taken, we are able to publicly reaffirm our confidence that although the response to stimulative policy measures is slower than most in the post-war period, recovery from the present recession is well underway."[20] Both points applied, Ford felt, to all summit participants, not just the United States. Washington maintained that while the industrialized states waited for the policies to take hold and their respective economies to fully rebound, Western leaders had to avoid creating an image of the current world economic conditions as a crisis in democracy or the capitalist system.[21] In America's view, this meant the West continuing on the course laid out in the short run, but achieving sustained economic growth without inflation over the long run.[22] As Ford stated, Western leaders had to have "consistency in national economic policies and [resist] the pressures for stop-go measures that inevitably have resulted in greater economic instability and uncertainty."[23]

As the first session came to a close, Western leaders failed to resolve their contrasting perspectives on the state of the recession and how to achieve a sustained recovery; instead, the heads of state simply agreed that rather than produce a more detailed communiqué, they would issue "a declaration" stating "broad intentions and lines of action."[24] In the Rambouillet Declaration, the Western leaders set both reducing unemployment and creating growth without inflation – the primary concerns of the Europeans and Americans respectively –

[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Ibid.
[24] Ibid.

as main objectives.[25] In this way, as Western leaders emphasized in the document, consumer and investor confidence would be restored.[26] Although there was neither consensus on the soundness of the upswing nor on the accuracy of the policies being pursued, above all in the United States, the Rambouillet Declaration did not reflect this; instead, it claimed that "recovery is underway" and the policies in place were accurate and effective.[27] The only reference to the West German desire for more expansionary measures and greater policy alignment in the document was the statement that the West would remain "vigilant and adaptable" in its policies so as not to let the recovery falter.[28] Clear strategies for how any of the stated objectives were to be attained appeared nowhere.

Overall, the Rambouillet Declaration carefully masked the stark differences in opinion that existed and gave the impression of unity. While Bonn would have preferred to have reached agreements on all its goals, most important to the Federal Republic was the appearance of consensus. For as Schmidt had explained to Ford in their July 1975 talks, the impression of Western leaders working together on the economic problems and taking responsibility for the world economy and hence the democratic order, even if in reality their respective approaches to the issues were not aligned, would suffice to revive confidence.[29]

As talks moved to monetary issues and trade during the second session, Western leaders had greater success aligning their positions, but still relied heavily on clever wording in the communiqué for the purposes of confidence building. On monetary matters, the Federal Republic had two primary goals: to reach a consensus on the package of amendments which was to be discussed at the upcoming IMF Interim Committee meeting in Jamaica and to devise a

[25] BAK, B126/48887, *EBD/75/256 - Declaration of Rambouillet* (hereafter B126/48887, *Declaration*).
[26] Ibid.
[27] Ibid.
[28] Ibid.
[29] GRF, NSA Memcon, Box 14, *July 27-28, 1975-Ford, Kissinger, FRG Chancellor Helmut Schmidt* (hereafter Box 14, *July*).

common approach to reduce the disorder in the exchange markets.[30] Prospects for achieving Bonn's two main objectives on monetary issues were greatly improved given the agreement on the exchange rate regime and gold reached between France and America shortly before Rambouillet's start. In fact, the first aim was easily agreed, as each G-5 leader voiced a desire to pass the package of amendments at the Jamaica meeting and to take the steps necessary in the coming weeks in order to ensure that such would occur.[31] West Germany's second goal in the monetary field, however, ran up against resistance, again from the United States.

Since the introduction of floating exchange rates, Bonn and Paris both maintained that the wide fluctuations that occurred between the dollar and other Western currencies, in particular the D-mark, had contributed greatly to the uncertainty "that plagued the Western economies."[32] Giscard argued that the swings, especially between the dollar and the Snake countries had been more effective in diminishing the competiveness of certain sectors than tariffs.[33] Schmidt agreed with this assessment, Schmidt agreed. As he had done in his July 1975 meeting with Ford, Schmidt again pointed out that while large multinational corporations and the G-5 economies could adjust to the drastic exchange rate shifts, small businesses as well as smaller nation states could not.[34] Annoyed, the West German chancellor stated, "we need to stress greater continuity and calculability. What we have now is not a system, it is a constellation."[35] While it was hoped that the conclusion of the monetary reform efforts in Jamaica would help calm the market swings, there was no assurance that such would occur. To find a way to dampen the exchange rate fluctuations and stabilize the monetary system, Schmidt and Giscard offered similar approaches. Both pushed for greater cooperation between the central banks and

[30] B126/48887, *Aufzeichnung*; PREM 16/838, *First Session..*
[31] GRF, NSA Memcon, Box 16, *November 15-17, 1975- Rambouillet Economic Summit, Second Session,* (hereafter Box 16, *Second Session*).
[32] TNA, PREM 16/838, *Note of the Second Session of the Conference of Heads of Government of France, Germany, Italy, Japan, the United Kingdom and the United States at the Chateau de Rambouillet on Sunday, 16 November 1975* (hereafter PREM 16/838, *Second Session*).
[33] Box 16, *Second Session.*
[34] Ibid.; Box 14, *July.*
[35] Box 16, *Second Session.*

intervention in the markets in order to keep exchange rates stable.[36] In essence, the two leaders advocated a managed float. Schmidt noted that he understood that the United States was not keen to intervene and indeed it would not make that great of a difference as they would have to do so through swaps. Yet, it seemed to Schmidt that if Washington at least gave the impression that they were "interested in dampening volatility," the stated intention would be as effective as carrying it out.[37]

Italy and Great Britain echoed many of the sentiments expressed by Schmidt and Giscard.[38] Given the United States' earlier reluctance to accept the Federal Republic's views on this issue, however, it seemed unlikely that Washington would change its position now, particularly after already having succeeded vis-à-vis the French on the exchange rate regime issue. Indeed, America did not. Although Ford hoped more stability could be achieved in the monetary system, the American president saw such stability resulting from "successful management of domestic economies" and to that end, it was necessary to allow individual nations to chose the exchange rate system and times of intervention which allowed them to achieve growth, employment and low inflation.[39] Ford admitted that there were a number of exchange rate systems which could allow for this, but he also noted, "we should be aware that no regime that runs counter to the market realities could remain in effect for very long."[40]

Despite much discussion, Bonn and its European allies could not persuade the United States to agree to a managed float. Yet, as had been the case with the talks on the general economic outlook, the Rambouillet Declaration reflected none of the discord over how to correct monetary disorder. Instead, only a commitment was made to "counter disorderly market conditions, or erratic fluctuations, in exchange rates."[41] More striking, however, was another omission. During the talks, each leader had expressed a strong

[36] Ibid.
[37] Ibid.
[38] PREM 16/838, *Second Session.*
[39] Box 16, *Second Session.*
[40] Ibid.
[41] B126/48887, *Declaration.*

desire to bring reform efforts through the IMF Interim Committee to a close in Jamaica, but in the Rambouillet Declaration this agreement was markedly less pronounced. Instead, the focus was placed on the rapprochement between the United States and France on the reform of the international monetary system.[42] It can only be assumed that Western leaders downplayed the consensus on Jamaica because they did not wish to raise expectations. Thus with the Rambouillet Declaration, Western leaders used many means to rebuild confidence, even masking agreement.

On trade, all of the Federal Republic's practical aims were met, as on this issue, the heads of state achieved the greatest degree of consensus. In their own respective ways, each leader advocated further trade liberalization, a decrease in protectionism, the conclusion of the Tokyo Round of GATT by 1977, renewal of the OECD trade pledge and the need for a Gentlemen's Agreement on export credits.[43] Yet despite the general accord, there were subtle, but important differences in their resolve to implement these changes. As Schmidt noted, "it looks as if the Heads of Government were in agreement, but the tone of their determination as expressed at the meeting has differed."[44] Although his statement was general, in the talks it was clear that Schmidt disagreed most with the British approach. Schmidt pushed for completely removing trade barriers, even advocating removing the protectionist measures in the agricultural markets in the United States and Europe.[45] In contrast to Schmidt, Wilson took a more lenient approach, announcing he intended to support industries which would be "essential when recovery came," but leave the "non-viable" or the "lame ducks" on their own.[46] Schmidt though was doubtful that Wilson was capable of making such a distinction.[47] The positions of France and the United States fell between the British and West German perspectives on this matter.[48] This fine, but important distinction was hidden in

[42] Ibid.
[43] PREM 16/838, *Second Session.*
[44] Ibid.
[45] Box 16, *Second Session.* It should be noted that the Federal Republic had been pushing for liberalization of the Common Agricultural Policy since its inception without ever really achieving it.
[46] Ibid.
[47] Ibid.
[48] Ibid.

the Rambouillet Declaration with the phrase "the maximum possible level of trade liberalization."[49] Despite the omission, however, Bonn regarded the agreements reached on trade to be among the greatest accomplishments of the entire Rambouillet Summit.[50] Moreover, all the agreements were reported in the Rambouillet Declaration, as further trade liberalization would only encourage investor confidence.[51]

The success West Germany achieved on trade issues did not necessarily carry over to the issues discussed in the third session: energy, raw materials and relations with developing countries. Rather, on these matters, the longest and most controversial debate took place and while Bonn definitely had an impact on the agreements achieved, these did not necessarily correspond to its original aims. Talks focused first and most intensely on energy. For Bonn, these matters were particularly important, as "[energy] represented not only a test case of [the West's] ability to cooperate but also a major factor in the recession."[52] It seemed to Schmidt that if the West could not "live up to decisions on energy, [it] would fail on others."[53] Also, although the oil producers had only increased oil prices by ten percent in October 1975, the Federal Republic worried, if OPEC again increased oil prices by the same amount in a few months time, then any recovery the West might have realized would be ruined.[54] While West Germany's allies could agree with Bonn's second concern, reaching an agreement for a common strategy to prevent such an increase was more difficult.

Ford led the discussion on energy matters and began by reiterating his view that the West could only shift the balance on the world oil market by

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[49] B126/48887, *Declaration.*
[50] BAK, B126/48887, *Fernschreiben: Betr.: Ergebnisse des Wirtschafts- und Währungsgipfels in Ramboulliet vom 15.-17.11.1975*; BAK, B136/8482, *Fernschreiben: Zum Treffen von Rambouillet am 15./17. November 1975.*
[51] B126/48887, *Declaration.*
[52] TNA, PREM 16/838, *Note of the Third Session of the Conference of Heads of Government of France, Germany, Italy, Japan, the United Kingdom and the United States at the Chateau de Rambouillet on Sunday, 16 November 1975* (hereafter PREM 16/838, *Third Session*).
[53] Ibid.
[54] Ibid.

reducing its dependency on OPEC oil.[55] In order to do so, much as the Americans had pushed for since early 1975, Ford again called for domestic energy programs aimed at conservation and developing new domestic supplies as well as greater cooperation in the IEA.[56] The United States was unwilling to consider the oil producers' demands for the indexation of oil prices and looked instead to the introduction of a minimum safeguard price (MSP), or floor price, as part of a package of measures being passed in the IEA to help eventually lower prices.[57] The United States did not believe that the consumer-producer dialogue would "enable [the West] to negotiate an agreement on oil prices at a cost we are willing to pay."[58] Rather it seemed to America, that the oil producers would never relinquish their unilateral control over prices or agree to reduce them.[59] That being said, Washington did see some utility in the CIEC.

In the American energy strategy, the consumer-producer dialogue played a unique role. As revealed in Summit briefing books, the United States was interested in taking part in the CIEC for two main reasons: first, "to encourage on the part of the oil producers a greater awareness of their own stake in our economic well-being, thereby reinforcing the moderate OPEC countries on pricing decisions"; and second, "to keep the Europeans and Japanese locked on to our overall energy strategy. This requires that we assure them that their cooperation with us in the IEA will be reciprocated by our coordination with them vis-à-vis the producers, where they recognize that our political and economic weight gives us unique leverage. This link can be used to reinforce consumer cooperation."[60] For Washington, consumer cooperation was critical: if Europe lost faith in America's plans, the entire approach taken thus far in the IEA would be rendered useless. Moreover, Washington feared that Europe would turn to bilateral negotiations with the oil producers on supplies and price, thereby robbing America of its "role as leader among the

[55] GRF, NSA Memcon, Box 16, *November 15-17, 1975- Rambouillet Economic Summit, Third Session* (hereafter Box 16, *Third Session*).
[56] Ibid.
[57] Ibid.
[58] Ibid.
[59] Box 16, *Second Session*.
[60] GRF, Arthur Burns Papers, Box B62, *International Economic Summit, Rambouillet, Nov. 1975, Briefing Book 2, Energy*.

consumers and the major bridge between the producers and consumers."[61] The United States worried that this loss of leadership could have a carry-on effect to other areas as well. The Ford administration concluded, "the exercise of U.S. leadership on this central issue is essential if we are to retain our leadership position in the other areas of our economic, political and security relationships with Europe and Japan."[62] Naturally though, the American President did not present Washington's position in quite those terms at the Rambouillet Summit. Instead, Ford mentioned the first motivation, but gave a different second one: namely, to create and put into action cooperative programs between the industrialized and oil producing states to help non-oil developing states with their economic and financial burdens caused by the increase of oil prices, in particular, their balance of payments deficits.[63] Ford added that the United States was "committed to a successful dialogue," but stressed that in order to achieve this there had to be consumer solidarity.[64]

Although Schmidt agreed with Ford that reducing dependency on OPEC oil was important and to this end conservation, development of domestic energy sources and cooperation in the IEA needed to be increased, he did not see the American plan as having any real effect for several years.[65] Bonn's leader gave a similar assessment of the American proposal for a floor price, calling it theoretically sound, but practically impossible. Schmidt stated, the MSP "was not a bargaining device versus OPEC, since when you mention it to them they just smile."[66] Like Washington, Bonn was opposed to indexation, but exasperated by the lack of options, Schmidt maintained that the West would probably have to accept it because they had developed no alternative and, in any case, it was better than the oil producers unilaterally raising prices every six months.[67] Confessing he had no defined strategy, Schmidt nonetheless pushed his counterparts to consider two questions in the process of forming a common approach. The first and main one was how to convince the oil producers that

[61] Ibid.
[62] Ibid.
[63] Box 16, *Third Session.*
[64] Ibid.
[65] Ibid.
[66] Ibid.
[67] Ibid.

they could not unilaterally raise prices as they wished without damaging themselves in the process.[68] As highlighted in the previous chapter, Bonn's attempt to make OPEC realize its responsibilities through the mission of its special envoy in summer 1975 had failed. The second question was how to "break up the unholy alliance that had developed between the LDCs and OPEC."[69] At present, Schmidt conceded, the answers to these questions, new proposals on how to deal with them and a vehicle for proposing them jointly were still lacking. He hoped though that in the process of forming a new strategy OPEC would not strengthen, the recession not intensify and the West not resort to infighting, as had occurred during the West's search for a common approach to energy issues in 1974 and early 1975. Schmidt was doubtful, however, that these three outcomes could be avoided.[70]

Schmidt's conclusions about the lack of strategy were repeatedly confirmed by several of those who spoke subsequently, as each voiced different views on how to stabilize oil prices and interact with the oil producers. Although Giscard agreed with Ford on matters of conservation and the development of alternative energy sources, he also advocated indexation, refused French participation in the IEA and maintained that the West was "lucky" to be working with the OPEC cartel because some of the members were moderate and had favourable relations with the United States, Saudi Arabia in particular.[71] In his view, the industrialized states should do all they could "to demonstrate our goodwill" towards the oil producers.[72] In addition, Giscard advocated greater regulation of the energy market, implying that some of the power of multinational companies in distributing oil supplies should be restrained or adopted by national governments.[73] Wilson concurred with the general consensus that conservation and development of alternative resources was necessary, but as far as how to deal with the oil producers and the instability of the energy market, he agreed with Schmidt, stating, "all of our discussions and all the multitude of international organizations failed to provide

[68] Ibid.
[69] Ibid.
[70] Ibid.
[71] Ibid.
[72] Ibid.
[73] Ibid.

any common strategy at all. I don't mean only in the EC, but for oil consumers in general. I do not know what the strategy should be. I certainly don't want confrontation between consumers and producers."[74]

After listening to his counterparts, Schmidt offered an important suggestion. Being careful to qualify his remarks as merely "speaking aloud" with "no plan in mind yet," he proposed that in the near future it would be sensible for the governments of the industrialized states to deal directly with those of the oil producers.[75] He reasoned that the multinational corporations were no "serious partners in OPEC capitals."[76] Rather, Schmidt noted, "In fact, they are despised," particularly in Iran where officials "wanted to deal between governments."[77] He highlighted that already Saudi Arabia had close links with the United States as well as a very substantial amount of funds invested through the Euromarkets in the City of London. In addition, although Iran was overly ambitious in its plans, the Iranians nonetheless "understand us better than we may believe."[78] Schmidt's suggestion went against the official West German line which maintained that oil should be left to the free market, but he seemed not to care. Instead Schmidt declared West German policy "wrong" on this matter, arguing it would be preferable for industrialized governments to intervene rather than leave pricing decisions completely in the hands of the oil producing governments.[79]

Schmidt's suggestion and his argumentation throughout caught the attention of the American Secretary of State, Henry Kissinger. Silent throughout the entire summit until this point, Kissinger finally spoke up. He began by stating that he "was impressed by the observations and train of thought of Chancellor Schmidt" and while he agreed there was no complete strategy there were elements of one.[80] Thus far, Kissinger pointed out that the West's strategy had been to transform the market conditions for oil through

[74] Ibid.
[75] Ibid.
[76] Ibid.
[77] Ibid.
[78] Ibid.
[79] Ibid.
[80] Ibid.

conservation and development of alternative resources. The goal of the industrialized countries had been "to reach a point where OPEC loses its unilateral power to control oil prices."[81] Kissinger conceded though that Schmidt's conclusions were probably correct: the West's strategy would not become effective before 1980 and in the meantime the dire circumstances which had been the fear and focus of many leaders might very well come to pass.[82]

Yet Kissinger maintained that all hope was not lost and went on to propose a plan of action for the coming five years. He began by pointing out that OPEC was not a monolith and only one country, Saudi Arabia, could afford to cut production. Kissinger explained his reasoning in the following terms:

> OPEC cuts production to achieve set prices. On the other hand, cuts in production are not uniform. This is an opportunity for us. If the West has the strength to absorb the financial surpluses of OPEC, they must export oil in order to import goods. Iran can no longer significantly cut production to sustain oil prices. Iran is tempted to increase oil to keep up exports. . . . Algeria, Iran and Iraq cannot afford to cut production. Only one country can cut production – Saudi Arabia. . . . What this amounts to is that OPEC is playing with Persian Gulf chips. Iran provides the intellectual leadership, not the economic leadership. In addition, the countries sustaining oil prices are politically the most vulnerable; they cannot politically or psychologically sustain real confrontation with the West. We should not give them the assurances by avoiding confrontation. . . . [the West] should attempt to convey the idea that Saudi Arabia cannot underwrite the oil price increases for free without paying an economic and political price.[83]

Knowing that the leaders of Europe and Japan were opposed to a more confrontational approach, Kissinger pointed out that when in 1974 some American officials threatened military action the result, after initial outbursts by OPEC and America's allies disassociating themselves from the United States, was worry on the part of oil producers. OPEC members had approached Washington wanting to know what they could do to avoid military confrontation.[84] The American secretary of state highlighted that the huge oil prices were being sustained by the moderate OPEC countries, i.e. "those who

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[81] Ibid.
[82] Ibid.
[83] Ibid.
[84] Ibid.

are most psychologically dependent on the US."[85] Kissinger argued that Washington could achieve a lot in this respect in they were not "immediately dissociated by our colleagues" and "disavowed by our friends."[86]

Yet Washington believed cooperation with the producers of oil and raw materials also had its place. Kissinger maintained that through cooperation the West could separate the radicals from the moderates in OPEC, the LDCs from the OPEC states and also prevent other "pecs" from arising.[87] He agreed with Schmidt that the industrialized states needed to break "the unholy alliance between the LDCs and OPEC."[88] Washington believed this could be achieved by linking energy discussions with commodities. In this way, any disruptive actions by OPEC could be countered with a halt to the discussions on commodities or the threat to make oil producers pay a price in terms of military exports or cooperation. Kissinger summed up, "in this way we can combat our dependence with a coherent strategy."[89]

Still, the American secretary of state warned that the American plan could be easily foiled if consumer solidarity was not achieved.[90] Given Washington's view that consumer solidarity was essential to America maintaining its dominant role in the Western alliance and vis-à-vis the oil producers, it was not surprising that Kissinger stressed the need for consumer cooperation. Yet, like Ford before him, Kissinger did not explain his reasoning in those terms. He highlighted two areas in which consumer cooperation would be essential for success. First, given that some OPEC countries had already cut production to the lowest point possible, some oil producers would no doubt approach the industrialized countries for bilateral oil deals.[91] On this point, Schmidt acknowledged that Iran had already approached Bonn in an attempt to get the Federal Republic to import more Iranian oil.[92] If individual consuming

[85] Ibid.
[86] Ibid.
[87] Ibid.
[88] Ibid.
[89] Ibid.
[90] Ibid.
[91] Ibid.
[92] Ibid.

countries accepted these deals it would be to the detriment of the entire West; thus, it was crucial for the consumer states to maintain consumer solidarity in such instances.[93] Moreover, Kissinger felt it "would be suicidal to enter a dialogue without cohesion among the oil importers. We should not be deceived into thinking that cooperation among us is confrontational vis-à-vis OPEC. We can in this way, hold our ground if we are confronted."[94] He concluded by again agreeing with Schmidt's point that consuming countries needed to "work out a common strategy between now and 1980, for the next five years."[95]

Kissinger's analysis was met with much interest by the Western leaders, even by Giscard. The latter called Kissinger's analysis of market strategy correct and although he still felt that the West should "be careful" on the issue of confrontation, Giscard was open to the United States creating "special tensions" so long as the other industrialized states were kept abreast of the results.[96] He felt, however, that such a divided confrontational approach would be better so as not to place the moderates in OPEC in too a difficult position.[97] In addition, Giscard proposed that the heads of government assembled at the Summit should agree that in the event of an oil producer approaching one of them with a bilateral deal, they would consult with one another.[98] Through such consultations, Giscard maintained, the leaders could "see how to make their response accord with a common strategy."[99]

Schmidt had no fundamental disagreement with either Giscard's suggestion or the "partial strategy" put forward by Kissinger.[100] Given that bilateral deals had been a particular concern of the Federal Republic since the outbreak of the oil crisis, Schmidt was particularly keen to see Giscard's proposed procedure towards any bilateral deals offered by the oil producing states taken up. Schmidt also urged that the same approach be applied whenever

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[93] Ibid.
[94] Ibid.
[95] Ibid.
[96] Ibid.
[97] Ibid.
[98] Ibid.
[99] Ibid.
[100] PREM 16/838, *Third Session.*

Western states engaged in special deals on the delivery of industrial products with the oil producing states, particularly preferential deals.[101] As to Kissinger's partial strategy the West German leader felt that "the reality of coordination among the six countries here, or the Nine, differed from this partial strategy."[102] Schmidt also seemed unsure about the Americans pursuing a more confrontational approach.[103] That being said, Schmidt was satisfied that "this partial strategy [could] work with a measure of solidarity at the bargaining table and cohesion here to facilitate its success."[104] With consumer-producer dialogue set to begin at the ministerial level in a month's time at the CIEC, it was essential in Bonn's view that a minimum degree of solidarity was maintained at that negotiating table.[105] He noted that while he had believed the likelihood of achieving this aim slim, from the tone of the discussions in this session, he had got the sense that the chances for solidarity were better than he had previously thought. Nonetheless, Schmidt warned that should "danger" occur, it was vital the consumers "stick together" or risk a political crisis in the West "an order of magnitude which might be beyond the power of the West to solve."[106]

Having spent a great deal of the session discussing energy, the Summit participants had only a limited time to consider raw materials and relations with the LDCs. For the Federal Republic these issues were nearly as important as energy given its dependency on raw material imports.[107] Within the short timeframe though, the Western leaders managed to agree on the three matters most important to Bonn. First, the heads of state concurred that the balance of payments deficits of the LDCs had become enormous ($35 billion) and it was necessary for recovery from the world recession and for moral reasons that the West assist the LDCs in financing their deficits. Next, the conference participants all believed that a scheme should be developed to stabilize the

[101] Ibid.
[102] Ibid.
[103] Ibid.
[104] Ibid.; Box 16, *Third Session.*
[105] PREM 16/838, *Third Session.*
[106] Ibid.
[107] BAK, B136/16800, *Principles Adopted by the Government of the Federal Republic of Germany for the Dialogue with the Oil-producing and other Developing Countries* (hereafter B136/16800, *Principles*).

LDCs' export earnings. Finally, Western leaders agreed that, the "unholy alliance" which had developed between the oil producers and the non-oil developing states must be broken.[108] Yet, there was no consensus on how to achieve these aims.

On the matter of the LDCs' adjustment difficulties, France and Great Britain supported granting further budgetary aid, but the United States and Federal Republic were opposed.[109] For Bonn, any Western efforts on this point should help "educate the developing countries to understand, think, and operate in market economy terms."[110] Schmidt noted, "We should make them understand that in the long run they can't spend more than they earn. We should help them to earn more rather than get more and more aid."[111] To help the LDCs earn more, as West Germany had done at the Seventh Special Session of the United Nations General Assembly in September 1975, Schmidt advocated the establishment of a loan scheme, analogous to the Lomé agreement, for stabilizing export earnings from a certain number of commodities.[112] In addition, very surprisingly, he called for a link between Standard Drawing Rights (SDRs) and aid to the developing countries.[113] For years, the Federal Republic had been opposed to "the Link" which implied the creation of further SDRs in order to give a greater share to the LDCs because of the impact it would have on world liquidity and hence inflation. Yet with the world economy deteriorating and the liquidity problem less acute, Bonn was willing to consider such an option.[114]

Schmidt's counterparts did not respond to his point on SDRs, but there were mixed views about how best to stabilize export earnings. At the Seventh Special Session, the United States had proposed its own method through the

[108] Box 16, *Third Session*.
[109] Ibid; GRF, Arthur Burns Papers, Box B62, *Economic Summit: Relations with Developing Countries* (hereafter Box B62, *Developing*).
[110] Box 16, *Third Session*.
[111] Ibid.
[112] TNA, PREM 16/612, *Speech by Hans-Dietrich Genscher, Minister for Foreign Affairs of the Federal Republic of Germany before the Seventh Special Session of the General Assembly of the United Nations, September 2, 1975*; B136/16800, *Principles*.
[113] See Chapter 2 for further details on "The Link" and the Federal Republic's perspectives on it.
[114] Box 16, *Third Session*.

establishment of a new agency – "The Development Security Facility of the IMF."[115] Ford did not waver from America's own suggestion. Giscard was unconvinced that the Lomé model should be extended, given that it had not been applied and no one was quite sure of its success.[116] As to severing the alliance between OPEC and the LDCs, only one suggestion was made. Giscard commented that an option would be to limit the aid available to the non-oil developing states through the IMF, but no other Western leader offered another suggestion or remarked on the French proposal.[117]

As the third session came to a close, it appeared as though the Federal Republic had achieved some of its goals. With regard to oil, West Germany had failed to achieve the consumer solidarity it sought with regard to the CIEC; the United Kingdom was still reluctant to be represented collectively by the European Community. Moreover, while all the heads of government voiced a commitment to a successful consumer-producer dialogue, not everyone foresaw it as a means for stabilizing oil prices. Yet upon closer analysis, Bonn actually did gain substantially through the negotiations. Thus, although the Federal Republic may have preferred agreement from Britain on representation and a firm belief in the usefulness of the consumer-producer dialogue, the partial strategy which the Western leaders agreed on and Schmidt was key in creating, provided, as Schmidt noted, the West with enough common ground to stand on for the purposes of the CIEC. On raw materials and relations with developing states, there was consensus, as Bonn desired, among the Western leaders on the need to assist the LDCs with their balance of payments difficulties as well as to establish an export earnings stabilization scheme. On the latter though, there was no firm conclusion about which of the many proposals to adopt. Schmidt's suggestion for the toppling of the "unholy alliance" between the oil producing and non-oil producing states, however, became a top priority in the West's approach to these matters.

[115] Box B62, *Developing*.
[116] Box 16, *Third Session*.
[117] Ibid.

In the previous sessions, in an effort to build confidence, the heads of state and government had relied on clever wording to mask any underlying disagreements or openly stated their consensus in the Rambouillet Declaration. On the questions discussed in the third session, however, this pattern was broken, as the goal in regard to issues of energy, raw materials and relations with the developing states was to improve the industrialized countries' position at the CIEC and influence over the oil price, since this would do much more to build confidence and ensure recovery both in the short-term and over the long-run. Thus, only the general agreements were published, while the details of the partial strategy on oil and bilateral deals as well as the West's desire to break the alliance between the oil producers and non-oil developing states were left out. Yet, just because these points did not appear in the print, did not mean that the heads of state did not agree on the matters or were not committed to them. Rather, as Giscard noted at the time, "During the discussions there is a difference between what we have said and what we have agreed on. We go along with the conclusions. The question now is what will be said. The fact that we don't publish it doesn't mean we haven't agreed."[118]

The fourth and final session was on East-West relations. The shortest of the meetings, the Western leaders had little difficulty reaching a consensus on the two main issues. Thus, the G-5 quickly agreed that trade into Eastern Europe, the Soviet Union and China should be extended and a Gentleman's Agreement on export credits should be concluded in the next year.[119] Because such economic cooperation and the prospect of new markets for growth would only encourage investor confidence, there was little discrepancy between what was agreed and what was printed in the Rambouillet Declaration.

When the summit concluded, the Federal Republic declared that its "expectations had been completely fulfilled." Despite not having achieved all of its individual goals, Bonn determined that it in many of the points, the G-5 leaders had managed to speak "eine gemeinsame Sprache zur Definition der

[118] Ibid.

[119] TNA, PREM 16/838, *Note of the Fourth Session of the Conference of Heads of Government of France, Germany, Italy, Japan, the United Kingdom and the United States at the Chateau de Rambouillet on Monday, 17 November 1975.*

Probleme" and in political and economic terms were on parallel tracks. It seemed to West Germany that a spirit of "common responsibility for the shared fate of the world economy and with it democratic order" was visible. Just as importantly, the Schmidt government also believed that the results of the Rambouillet Summit would serve to bolster confidence and thus assist significantly in the emerging economic recovery.[120] The Federal Republic's allies also declared the G-5 heads of state gathering a success. While this was to be expected given that the Western leaders were attempting to rebuild investor and consumer confidence, the development of the G-5 heads of state and government gatherings thereafter shows that the comments of Western leaders were not simply empty platitudes.

Only six months after the conclusion of the Rambouillet Summit, the second G-5 summit was held in Puerto Rico at the invitation of Washington.[121] Since then the meetings have been repeated nearly every year and membership in the group has grown from five to seven through the remainder of the Cold War with the official inclusion of Italy and Canada in 1976, then to eight after the fall of communism. Such gatherings have come to be the main forum for coordination of international economic and monetary policies among the largest economies in the world, as the adoption of the "non-system" of monetary relations through the Jamaica agreement coupled with the preferences of Western leaders for the G-7 relegated the IMF – the organization which more or less held this role through the first half of the Cold War – to a funding agency for the LDCs. Yet at the time the G-5 leaders did not necessarily envision such an outcome. Indeed, at the conclusion of the Rambouillet Summit, Western leaders had not officially agreed on a follow-up summit. Instead, Bonn in particular was still focused on the 1975 economic crisis. While the Federal Republic believed that the G-5 gathering had served to increase investor and consumer confidence, in order to fully rebuild confidence and overcome the economic crisis, there remained two important summits to conclude: the CIEC and the IMF Interim Committee meeting in Jamaica in January 1976. In the

[120] BAK, B136/8482, *Betr.: Betwertung der Gespräche von Rambouillet.*
[121] BAK, B136/8483, *Fernschreiben: Zum Staats- und Regierungscheftreffen von Puerto Rico am 27. 28. Juni 1976.*

success of both, the discussions and agreements made at the Rambouillet Summit played a key role.

-The Conference on International Economic Cooperation and the Jamaica Agreement-

The CIEC was to convene in mid-December 1975 and, as agreed at the Final Declaration of the Paris Preparatory Meeting in October, was to be of a more procedural nature. Yet, only weeks before the conference's start the conflict within the EC over separate British representation at the conference remained unresolved. Although the Schmidt government had hoped that the United States may put pressure on the United Kingdom over this matter at Rambouillet, aside from veiled references to it by the Federal Republic, the matter was not discussed.[122] In the weeks following the meeting of the heads of state, Bonn continued to pressure London on this issue, arguing that Britain's position was "a rebuff to the ideals of the Community and totally unacceptable."[123] Finally Schmidt determined that the matter could only be settled by the leaders themselves.[124] The next opportunity for talks on this level was the European Council meeting in Rome on 1-2 December 1975.

Waiting paid off for the West German chancellor, as at this gathering of the heads of state and government after serious negotiations a breakthrough on this issue occurred. Finally, the United Kingdom consented to be represented as part of the EC, so long as it was permitted to speak from within the Community delegation on its own behalf. With this, Europe and indeed the West were able to move forward to the CIEC with a united front. In addition, at this meeting, the EC reached an agreement in principle for Community decisions on the minimum safeguard price and emergency sharing.[125] Because of the French position that no resolutions on these issues could be made within the broader western energy forum of the IEA without the EC first agreeing a course of

122 BAK, B126/48887, *Fernschreiben: Betr.: Gipfeltreffen der Sechs über Wirtschafts- und Währungsfragen; hier: Haltung der USA –im Grundsatz und zu einzelnen Themenkreisen*; bak; B136/8482, *Fernschreiben: Zum Treffen von Rambouillet am 15./17. November 1975.*
123 TNA, T382/26, *FCO Telno 945 of 26 November – European Council: 1-2 December.*
124 Ibid.
125 TNA, PREM 30/2899, *Council of Ministers (Foreign Affairs), Brussels, 9 December 1975, Preparation for CIEC.*

action on them, the settlement of these issues was key to the West reaching a common positions for the CIEC.[126] Thus, even if at the first meeting of the CIEC no negotiations on positions were to take place, unlike in April 1975, the West was beginning to take concrete steps towards a common perspective.

The first ministerial meeting of the CIEC took place in Paris on 16-18 December 1975. Throughout this gathering, Western solidarity remained strong. Despite worries by the industrialized states that the oil producers or non-oil LDCs would attempt to disrupt the meeting as they had the April preparatory meeting, the conference proceeded as planned. The four commissions were formed and the guidelines for their work approved. In addition, co-presidents were appointed for each commission: the United States and Saudi Arabia were appointed as co-presidents of the Commission on Energy, the EEC and Iran of the Commission on Financial Affairs, Algeria and the EEC of the Commission on Development and Japan and Peru of the Commission on Raw Materials.[127] The ministers continued working in their respective commissions for another 18 months until the final CIEC ministerial meeting convened on 2 June 1977.

On the one hand, the CIEC was a failure for Bonn, as no means were created for the industrialized countries to negotiate with OPEC on oil and the non-oil LDCs on raw materials over the long-term. Yet, it did have an impact on oil prices throughout its tenure. In the two years between the successful preparatory conference in October 1975 and the conclusions of the CIEC in June 1977, oil prices remained stable, as Saudi Arabia and its moderate allies succeeded in blocking attempts by its OPEC partners to drastically increase prices. One of the reasons Saudi Arabia gave for its pricing stance was a desire to "maintain an atmosphere conducive to a positive outcome for CIEC." [128]

Yet, playing an even stronger role in the developments in the oil and raw materials sectors and pricing of those commodities was the "partial

[126] Ibid.
[127] Ian Skeet, *OPEC: Twenty-five Years of Prices and Politics* (Cambridge: Cambridge University Press, 1988), 133.
[128] Ibid., 141.

strategy" established among the Western leaders at the Rambouillet Summit and the long-term efforts undertaken in the IEA and reaffirmed at the G-5 gathering. Over the following four years, fissures within the West's united front towards OPEC were minimal and the United States continued to exploit its security relationship with Saudi Arabia in order to influence the latter on its oil pricing decisions.[129] The second oil crisis was not a result of the failure of the West's partial strategy, but was rather primarily a consequence of the Iranian revolution and Iran's displeasure with American-Iranian relations over the previous decades. In addition, the program of conservation and the development of alternative resources begun in 1974 in the IEA and whose direction was confirmed by Western leaders at the Rambouillet Summit began to bear fruit in the early 1980s, as prices between 1980 and 1986 dropped by 46 percent. While the developments in oil prices were certainly not due entirely to the programs developed in the IEA, the conservation and development of alternative energy sources contributed greatly to the decline in price as did the concerted effort to break the OPEC alliance.[130] Yet, these developments were some ways off and Western leaders still had to consider the short-term effects of the first ministerial meeting of the CIEC. From Bonn's perspective it was successful and gave an additional boost to investor and consumer confidence. All that could undermine the upward trend now would be the failure of the Interim Committee to reach an agreement on the amendment of the Fund's Articles at their upcoming meeting in Jamaica in January 1976.

Once the Rambouillet Summit concluded, the "memorandum of understanding" reached between the United States and France and agreed among the G-5 heads of government was distributed to its Western allies. The American-French document along with all aspects of the amendments was discussed in a series of meetings in the G-10 and in the EC in December 1975.[131] Having already agreed the French-American memorandum at Rambouillet and having contributed so greatly throughout 1975 to reaching a

[129] Ibid., 141; Morris Albert Adelman, *The Genie Out of the Bottle: World Oil Since 1970* (Cambridge, MIT Press, 1995), 163-167

[130] Adelman, 167-178.

[131] BAK, B126/65733, *Ergebnis des Finanzministertreffens in Brüssel am 15.11.1975 zur Vorbereitung der Zehnergruppe und des Interimausschusses.*

consensus on the other aspects of reform such as gold and quota shares, the Federal Republic had few qualms about the solutions to the monetary reform issues on the table. Instead, they encouraged the other industrialized states to accept the agreement. By late December 1975, the industrialized states had agreed a package of reforms to be presented at the Jamaica meeting. Those issues agreed previously at the August 1975 Interim Committee meeting on quota shares and gold remained unchanged. In addition, the West, with only minor changes to the wording, agreed to the resolution reached between the United States and France on the exchange rate regime. Also the industrialized states settled on other finer aspects related to SDRs, including the interest rate attached to them, as well as to the future functioning of the IMF. Given the accord reached among the industrialized states beforehand, the Interim Committee encountered very little resistance in the passing of the package of reforms at their meeting in Jamaica on 6-8 January 1976. Rather, within these three days, the Interim Committee agreed the Second Amendment of the Articles of Agreement of the IMF. In little over a month, the Executive Board of the IMF had prepared a draft of the amendments and by April 1978 the Second Amendment had been ratified by the requisite number of IMF members to go into practice.[132]

With the Jamaica Agreement nearly four years of negotiations on the reform of the international monetary system came to a close. The Second Amendment of the Fund's Articles was a far cry from the overhaul of the system envisioned at the start of the Committee of Twenty talks. The hope remained though that once the markets settled and conditions allowed, the IMF member states would again take up the task of a more thorough reform and indeed at that point return to a system of fixed, but adjustable exchange rates with the SDR, rather than gold or the dollar, as the primary reserve asset. As would become evident with time though, there was no comprehensive reform, no return to fixed exchange rates and no replacement of the dollar with SDRs. Rather, the Jamaica Agreement actually set up what came to be known as the "non-system" of monetary relations.

[132] B136/11567, *April 1976 - Betr.: Änderung des Abkommens über den Internationalen Währungsfonds (IWF)* (hereafter B136/11567, *Änderung*); James, 276-7.

The "non-system" was an apt name for the new monetary order for unlike the Bretton Woods system it was not only based on floating exchange rates but its functioning was by and large left to the markets. Although provisions were included in the amended article on the exchange rate regime calling for coordinated action among the central bank governors to ensure orderly markets and naming the IMF as initiator of such action, these provisions were hardly ever used. Instead, the American attitude towards policy coordination and intervention in the markets shown by the Ford administration at the Rambouillet Summit hardly changed with subsequent administrations. Moreover, through the remainder of the Cold War, despite the erratic fluctuations of exchange rates in the late 1970s and early 1980s, the Fund only initiated talks on coordination twice: once in regard to Scandinavia and the other with respect to Korea.[133] Indeed, progressively since 1976 until the credit crisis in 2008, governments had become less involved in market oversight and regulation of the monetary system, both on the side of exchange rate maintenance and control over capital movements. In this same period, the role of the IMF changed substantially as well. As highlighted previously, the G-5 and its subsequent incarnations became the main forum for policy coordination rather than the Fund as had been the case under the Bretton Woods system. Instead, since the Jamaica Agreement the IMF has grown to be a trusted source of economic data and forecasts through its World Economic Outlook publications as well as a financing center for those countries encountering balance of payments difficulties.[134] Finally, unlike the predictions of many scholars at the time, the collapse of Bretton Woods and the creation of the "non-system" did not spell the end of the hegemonic position of the United States and the dollar in the world monetary system; rather, through some clever restrictions on the interest rate of SDRs among other factors, the dollar retains its role as the primary reserve asset to this day.[135]

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[133] James, 270-7.
[134] Ibid, 270-7
[135] Andrew Walter, *World Power and World Money: the Role of Hegemony and International Monetary Order* (London: Harvester Wheatsheaf, 1991).

Yet, in 1976, the long-term developments were unknown and the focus of Western leaders was on the short-term, for after all, the second amendment of the Articles was only to be for an interim period. At the time, West Germany was very satisfied with the Jamaica Agreement. For years the Fund's Articles had no longer corresponded to the actual activities being undertaken in the monetary system, creating a series of problems. Bonn concluded, "angesichts der weiterhin bestehenden Ungleichgewichte in der Welt, kann ein solches realistisches Vorgehen nur begrüsst werden." It seemed to the Federal Republic, the amended articles returned a sense of order and rules for the functioning of the monetary system. The benefits of this to the Federal Republic were three-fold: first, in the short-term it would aid in reviving consumer and investor confidence; next, it would help in the functioning of West German stability policy; and finally, it would serve as a basis for a balanced and stable expansion of world trade over the long-run.[136]

As Bonn had hoped, the positive outcomes from the three summits served to stabilize both the economic and political systems of the West. First, the results helped revive consumer and investor confidence and move the global economy into a phase of recovery. Through 1976, growth took hold not only in the United States, but also in Europe and in particular in West Germany. Contrary to their fears, this recovery came without stoking the flames of inflation. That said, price stability still remained sensitive and inflation rates were on-average still above those experienced through the 1960s. Unemployment also started to recede from its peaks in 1975 within most Western countries, yet it still remained uncharacteristically high.[137] The main exceptions in the West's economic recovery were Italy and Britain. High inflation and extraordinary balance of payments deficits forced the governments in both countries to seek large aid packages from the EC and the IMF respectively.[138] Also through 1976, the political instability so greatly feared by West Germany and its Western partners never materialized; instead, in autumn 1976, the coalition government of the Social-Democratic Party (SPD) and the

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136 B136/11567, *Änderung*; B136/11567, *Part IV Resolution*; B136/11567, *April 1976 - Sprechzettel für den Regierungssprecher*.
137 OECD, *Economic Outlook*, 19 (1976: July).
138 Ibid.; James, 279-85.

Free Democratic Party (FDP) won re-election in the Federal Republic and Schmidt continued his reign as chancellor. While Ford lost the 1976 election to Jimmy Carter, this had more to do with the political legacy of Watergate than it did with the economic crisis of 1975. Finally, even in the United Kingdom, where the economic problems were most acute and strikes most prevalent, Wilson and the Labour government were able to avoid calling early elections.

Yet, the reformation of the international economic system through the early 1970s and the economic recovery experienced in 1976 did not spell an end to the West's economic problems permanently or indeed even for several years. Rather, although growth returned in the late 1970s and early 1980s the unemployment rates in many Western states remained much higher than those experienced through the first twenty-five years of the Cold War. In addition, price instability stayed significantly above average. As Western leaders were well aware, the application of Keynesian theories seemed to have little effect on these circumstances. Thus, industrialized states adopted new and varying approaches to deal with these structural changes taking place, including monetarism and the locomotive theory. In dealing with these economic challenges, however, Western leaders relied heavily on the new institutions for economic cooperation and the positive political relationships forged during the early 1970s, in particular the G-5 and the Schmidt-Giscard friendship.[139] Through both, the role of West Germany within the Western alliance was enhanced and ensured for the long-term.

-Conclusions-

By spring 1976 the West had overcome the economic crisis which only a year previously had threatened to destroy the economic and political order. Nearly all Western states were in the midst of a full recovery from the recession and inflation remained steady. Unemployment was still above average, but was receding in most countries and global trade was again increasing. In addition, a

[139] That said, the deterioration of West German-American relations during the late 1970s also contributed to this outcome. See also, Klaus Wiegrefe, *Das Zerwürfnis: Helmut Schmidt, Jimmy Carter und die Krise der deutsch-amerikanischen Beziehungen* (Berlin: Propyläen, 2005), 48-66, 99-120, 206-23.

cooperative approach to restructuring the energy paradigm was underway in the CIEC between the industrialized states, the oil producers and non-oil LDCs. This, along with the partial strategy on energy matters developed and agreed at the Rambouillet Summit helped to keep oil and raw material prices stable enough to allow the recovery to completely take hold. Moreover, reform efforts on the international monetary system had finally concluded and although floating rates continued to be somewhat erratic, the legalization of floating and the overall amendment of the Fund's articles did bolster investor and consumer confidence. The response of Western leaders to this economic crisis not only helped the West overcome it, but also in the process re-shaped the international economic system: the G-5 first at the ministerial level and then by the late 1970s among heads of state and government became the permanent forum for economic and monetary policy coordination; the central role of the multinational oil companies in the determination of oil prices receded to become dominated by a system of bilateral and multilateral intergovernmental negotiations with some market determination; the "non-system of monetary relations" was erected in which the role of the markets was increased and that of the IMF significantly altered. These institutional changes reinforced the economic and political transformations already taking place within the West as well as between the industrialized, oil producing and non-oil developing states. Essential to both the short-term effects as well as the long-term results of the Western response to the economic crisis was the Federal Republic.

As in previous chapters, West German policy with regard to the economic crisis and, in particular, the Rambouillet Summit, the CIEC and the Jamaica Agreement, was driven by a desire to revive the international economy, on which the Federal Republic was highly dependent, and to prevent the social and political disorder that could result from high unemployment. Indeed, Schmidt noted in his opening address that this last factor and its resultant effect on political order were of the utmost concern to Bonn and should also be for the West as a whole. Motivated by these economic and political concerns, West Germany sought cooperation among the G-5 heads of state and government on all themes discussed at the Rambouillet Summit and Western solidarity at the CIEC and in Jamaica. To a great extent, the Federal Republic achieved its aims.

Most essential to Bonn's achievements were the efforts of Schmidt. Given that the Rambouillet Summit was a meeting of the heads of state and government and many of the decisions made there were used as guidance for the other two gatherings, this outcome is only logical. Yet, Schmidt's influence cannot be attributed purely to chance. Rather, as in the last chapters, it was a combination of the West German chancellor's willingness to lead and his ability to compromise and reach practical solutions which were central to his impact during the Rambouillet Summit and ultimately to the building of Western solidarity. When G-5 leaders failed to reach a consensus on the alignment and further loosening of economic and monetary policies as well as greater management of the exchange rate system at the Rambouillet Summit, despite the Federal Republic's strong desire that Western leaders come together on both these points, Schmidt pushed forward calling for at least the appearance of agreement in the communiqué. In so doing, Schmidt helped to create an image that would rebuild consumer and investor confidence.

On crucial issues of energy and relations with the developing states, the West German chancellor's observations were the driving force behind the partial strategy developed there. On the former, Schmidt first called attention to the lack of a common Western strategy for the short-term and pointed out key questions that Western leaders needed to answer in order to make a breakthrough on the issue. He then went against the Federal Republic's official position calling for market determination of energy prices and proposed government negotiations. While Schmidt's line of argumentation could not be said to be the main motivation behind Kissinger's comments and the plan he presented there for controlling the oil prices in the medium-term, for the proposal made by Kissinger reflected closely Washington's position as explained in pre-summit briefings, the West German chancellor had influenced the American secretary of state, as the latter twice openly admitted. Finally, the West German leader supported and expanded upon Giscard's proposal on bilateral deals. On the latter issue, it was Schmidt who led the drive to break the alliance that had developed between the oil producers and the non-oil LDCs, which would become crucial to the West's approach to the two factions in the consumer-producer dialogue.

Yet, even at a conference where Schmidt was not personally included such as the first ministerial meeting of the CIEC, his leadership and ability to compromise were also important. In this regard, Schmidt was determined to achieve Western solidarity and would settle for nothing less. After the West German chancellor failed to fully attain this at the Rambouillet Summit because the British still refused to be represented as part of the EC at the upcoming CIEC, he did not give up. Instead, in the weeks thereafter, he continued to push London, managing eventually through compromise to settle this issue along with matters relating to the building of a common Western position for the consumer-producer dialogue before the start of the CIEC. Had Schmidt given up on the ideal of Western solidarity earlier or had been inflexible with the United Kingdom, it is doubtful that agreement would have been achieved in the run-up to the ministerial meeting of the CIEC and thus it is quite likely that during the dialogue a split of the West would have occurred, much to its economic and political detriment.

Having only agreed to the memorandum of understanding reached between America and France at the Rambouillet Summit, Schmidt's influence on the outcome of the Jamaica agreement was far less direct. Indeed, as shown in chapter 5 much of the Federal Republic's impact on this process came in the weeks immediately preceding the American-French agreement. In the time between the Rambouillet Summit and the Interim Committee meeting, Bonn served as a mediating force, moving the process along by accepting the memorandum of understanding and encouraging its approval among the industrialized states. In this way, the Federal Republic fulfilled the promise made by Otmar Emminger, the Vice President of the Bundesbank, as highlighted in the previous chapter.

Through its efforts during the three economic gatherings West Germany was able to build upon the advancements made in its political position over the previous three years and solidify an enhanced status within the Western alliance. Contributing greatly to this was the changed institutional setting. The reformed monetary system created conditions for the expansion of trade and the continued economic hegemony of the United States and dollar. From both of these aspects the West German economy stood to gain significantly. Because much of the Federal Republic's political advancement and the longevity of it rested on the strength of its economy, a system which assisted Bonn in maintaining its economic prowess indirectly aided West Germany in its political pursuits.

Ensuring the Federal Republic's position even more so were the positive results of the Rambouillet Summit and subsequent institutionalization of the G-5. Within the G-5, West Germany held a privileged position having the largest and most powerful economy of any European state in a Western organization biased towards European membership. As was shown in this chapter and previous chapters, Bonn, and in particular Schmidt, skillfully used this imbalance, West German economic strength and the characteristics of this forum, including its size, its homogeneity and its informal and personal character, to advance economic and political aims. Once the G-5 became the main organization for economic and monetary policy coordination through the second half of the 1970s and thereafter, the Federal Republic's seat at the center of the debates on the shape of the global economy and the subsequent Western efforts to respond to economic challenges was assured.

The latter development may not have been so meaningful in raising and retaining the Federal Republic's political position, had the relationship between economics and high politics not changed or had Schmidt failed in his 1976 re-election bid. Yet, such was not the case. Rather, as the Rambouillet Summit and the institutionalization of the G-5 clearly illustrated, by 1975 economic problems were no longer being handled by economic technicians and economics and finance ministers; instead, they had become a staple of diplomatic meetings at the highest levels. Even after the 1975 economic crisis had been overcome, economics continued to be a matter of high politics, as economic challenges continued throughout the remainder of the Cold War. Furthermore, because the G-5 forum was so amenable to Schmidt's preferred governing style and he was so effective in it, as was apparent from the success of the Rambouillet Summit, the re-election of Schmidt to continue to lead the Federal Republic in this forum was also instrumental in advancing West Germany's role among its partners.

Conclusions

This thesis has two main conclusions. The first is that through carefully managing its economic and political goals, utilizing its economic strength, providing strong leadership and brokering compromise among its Western allies, particularly the United States and France, the Federal Republic was able to greatly influence and thus play a crucial role in the West's response to the collapse of the Bretton Woods international monetary system, the 1973/1974 oil crisis and the 1975 global recession and the resultant re-shaping of the international economic system of the West.

With the move to generalized floating in March 1973, the Bretton Woods monetary system collapsed. Yet, the West's response to it did not cease in 1973; rather it extended through reform efforts in the Committee of Twenty (C-20) and the Interim Committee of the International Monetary Fund (IMF), ending with the eventual adoption of the Jamaica Agreement in 1976. From the beginning West German actions were decisive in the manner in which Bretton Woods broke down as well as the crafting of the West's response to it. Coming under heavy pressure from the markets, the Smithsonian realignment began to crack in June 1972. At the center of this speculative storm was the D-mark. Faced with the option to float or erect capital controls and defend the Smithsonian parities, Willy Brandt, the chancellor at the time, chose the latter, putting Bonn's goals of closer European integration, both economic and political, and positive relations with France ahead of its national economic interests, in particular *Stabilitätspolitik.* Considering America's policy of benign neglect and France's unwillingness to join a European group float, had Brandt elected to float in summer 1972, it would have had to have been a national one. This, in turn, most likely would have spelled the end of Bretton Woods, leaving the Federal Republic and Europe in a much worse position politically and economically. Bonn continued this approach to the unfurling economic crisis for the following several months, not even abandoning it under pressure from the Bundesbank during the February 1973 currency crisis. Only once the threat to West German economic strength became immense in March 1973, did the Brandt government's objectives begin to shift. Yet, the Federal

Republic's policy decisions over the previous year had not only signalled to Bonn's European partners its trustworthiness and commitment to European integration efforts, but also actually resulted in furthering them. Thus, when the discussion of a European group float arose during the March 1973 crisis West Germany had a stronger political and technical platform on which to argue for it.

During C-20 negotiations, Bonn was careful not to let its enthusiasm for European integration fog its vision of a reformed system beneficial to the West German economy. Instead, while contributing to European efforts to reach a common negotiating position for the talks, the Brandt government emphasized the need for a system which controlled global liquidity and hence global inflation and which would thus enhance the Federal Republic's domestic *Stabilitätspolitik*. Although this inflation-focused approach to monetary reform made achieving a common European position during the C-20 talks more difficult, the Federal Republic refused to alter its course. Instead, after the move to floating in March 1973, the Brandt government became more attached to regaining domestic price stability, introducing an extensive anti-inflation program to this end. Under this economic policy goal, in C-20 negotiations, Bonn became even more inflexible on the need to control international liquidity and its desire to continue floating increased. When, after a year, the C-20 had failed to make any substantial progress, the Federal Republic, under the strong influence of the West German finance minister, Helmut Schmidt, began to look to its key Western allies, rather than the EC, to advance monetary reform.

The Federal Republic's focus on price stability and its emerging Western perspective upset West Germany's European partners, but neither was the source of the failure of the C-20 negotiations and both actually proved beneficial to the Federal Republic and the West in the long run. The positions of the Brandt government were not the only impediment to agreement in the C-20: despite efforts to appear otherwise, EC states had disparate approaches to key aspects of reform and gulfs existed between the United States and Europe on the issues of adjustment and asset settlement. With the onset of the oil crisis, C-20 reform talks were undermined by massive balance of payments disequilibria. As inflation became a chief concern throughout the West after the quadrupling of oil prices, West Germany's inflation rate hovered around 7 percent, rather than in the double-digits like nearly all other Western states. This in turn reinforced the relative economic strength of the Federal Republic and thus its means of influencing the Western response to not only the monetary problems, but also the oil crisis and the 1975 recession. Finally, the shift in perspective to Western cooperation contributed greatly to the emergence of the G-5, the forum in which the Rambouillet Summit took place and a significant factor in the enhancement of Bonn's political position within the Western alliance.

As Interim Committee negotiations began to stall in 1975, the Federal Republic understood that the ongoing deadlock was a problem for monetary reform efforts and exacerbating the economic downturn. As a result, Bonn shifted its policy aims slightly: economic stability still remained a chief concern, but Western cooperation also became fundamental to the Schmidt government's approach to monetary reform. Thus, West Germany focused less on inflation and more on building compromises and concluding monetary reform, thereby achieving significant success. Bonn was among the first to break the deadlock in the West over quota increases, offering to keep its quota shares unchanged. The Federal Republic was also the architect of the compromise solution on the uses of IMF gold. Finally, it was a suggestion from Otmar Emminger that prompted the French-American bilateral negotiations which led to a resolution on the exchange rate regime and gold transactions between governments and without which the Jamaica Agreement could never have been achieved.

Alongside prudent management of its economic and political goals and compromise-building, West Germany also cleverly utilized its relative economic strength to impact the West's response to monetary difficulties. Rather than move to a two-tier market, close the exchange rate market for an extended period of time or adopt floating sooner as many of West Germany's European allies were forced to do in response to speculative pressure in 1972 and early 1973, the Federal Republic enacted various administrative controls.

This economic ability gave the Brandt government the time necessary to achieve its domestic and European political goals, with the latter, as highlighted above, proving extremely important to the eventual creation of the European group float in March 1973.

Finally, strong leadership also increased Bonn's influence. Brandt's determination to follow the European political course through the final fifteen months of Bretton Woods was, as highlighted above, a significant factor in the manner in which Bretton Woods eventually collapsed and the move to floating occurred. Soon after this, however, Brandt's influence on monetary difficulties faded, as he became more focused on domestic affairs, European political integration and international political developments such as the Year of Europe. Moreover, the role of the chancellor was structurally diminished, as the monetary reform efforts were handled by the ministry of finance and the gatherings were at ministerial level. As a result of this structural aspect, as well as several others factors, Helmut Schmidt came to be the Federal Republic's strongest advocate not just in response to monetary problems, but to all three crises.

Schmidt's significant influence on the West's responses to each economic crisis was primarily a result of four particular aspects of his leadership style: namely, his readiness to exploit his greater understanding of economics and his belief that economics alongside its technical function had a political one; his willingness to lead on economic issues; his use of personal politics; and his ability to mediate among Western partners. Schmidt along with his friend, Karl Klasen, the President of the Bundesbank, led the push for capital controls in the discussions of the West German cabinet in response to the summer 1972 speculative pressures. Upon becoming dual finance and economics minister in July 1972, he showed his willingness to lead and his decidedly more political perspective on economic developments by standing up to American officials and informing them in no uncertain terms that the Federal Republic was not going to float because of the damage it would do to European integration efforts. Relying on personal politics, Schmidt, during the February 1973 currency crisis, nearly orchestrated a European group float. Lastly, Schmidt capitalized on his good relationships with Kissinger and Shultz, to help bring about a European group float in March 1973. Schmidt also left his mark on the C-20 negotiations. Frustrated with the large, bureaucratic structure of the C-20, Schmidt turned to the smaller, more homogenous Group of Five (G-5) forum, pushing its use among the Western powers. By autumn 1973, the few decisions that were made about international monetary reform among the Western states were reached first in the G-5, with Schmidt successfully leading the charge on one of the most important conclusions, namely, the suspension of the C-20 talks in January 1974.

Overall, West Germany played a pivotal role in the West's response to the monetary problems throughout this period. The Federal Republic's contributions, however, have been little recognized in the existing literature. Gray makes the strongest attempt, but his article falls short in key areas.[1] First, Gray fails to acknowledge both Bonn's strong drive for a European group float during the February 1973 crisis and the key role the Federal Republic played in shifting American perspectives during the March 1973 crisis. In so doing, he distorts Schmidt's influence on both currency crises. In addition, Gray's study of monetary developments ends in 1973. Gray, however, is not the only author to overlook West Germany's impact. Instead, in key works on the C-20, the Interim Committee and the Jamaica Agreement, Bonn's role is also diminished in three main ways.[2] First, monetary reform negotiations, particularly those in the C-20, are presented as a US-Europe debate, with the West German position being grouped together with its EC counterparts. As this thesis shows, however, there were actually quite strong divisions within the EC, with Europe consciously deciding to present only those ideas upon which a consensus appeared. A significant factor in the European split was due to the Federal Republic's position on inflation and its acceptance of floating. Second, authors

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[1] William Glenn Gray, "Floating the System: Germany, the United States and the Breakdown of Bretton Woods, 1969-1973," *Diplomatic History* 31 no. 2, (2007): 295-323.

[2] Kenneth W. Dam, *The Rules of the Game: Reform and Evolution in the International Monetary System* (Chicago: The University of Chicago Press, 1982); John Williamson, *The Failure of World Monetary Reform, 1971-1974* (New York: New York University Press, 1977); Robert Solomon, *The International Monetary System, 1954-1976* (New York: Harper & Row, 1977); Tom de Vries, "Jamaica, or the non-Reform of the International Monetary System," *Foreign Affairs* 3, (1976): 577-605; Harold James, *International Monetary Cooperation since Bretton Woods*, (Washington, D.C.: International Monetary Fund, 1996).

generally overlook the role of the G-5 in the talks, thus missing Bonn's important contributions in this forum. Finally, to a large extent, the literature ignores the mediating role that West Germany played in the Interim Committee which allowed for compromise on key aspects of reform and the eventual acceptance of the Jamaica Agreement.

Although the oil crisis took place in autumn 1973, much like the collapse of Bretton Woods, its repercussions were strongly felt through 1975, as Western leaders struggled to agree a common approach to the changed energy and raw materials paradigms. Not until the Rambouillet Summit in November 1975 and the Conference for International Economic Cooperation (CIEC) in December of the same year, did the West finally agree a joint response. In this process, the Federal Republic was again highly influential, relying on similar means to those employed to deal with monetary problems. After initially struggling both internally and externally with its European dual-track approach to the oil crisis through late 1973, Bonn shifted its policy aims in January 1974, continuing its political course within Europe, but also ensuring its economic survival through the creation of broader Western efforts at the Washington Energy Conference (WEC). Had West Germany not altered its policies, it is very likely that the WEC would have been a failure and the burgeoning Western response crushed. With European integration efforts beginning to falter, mounting balance of payments deficits and skyrocketing inflation in the West and the Atlanticist Schmidt at the helm as chancellor since May 1974, West German policy became decidedly more focused on economic aspects and transatlantic in perspective between spring 1974 and early 1976. Western solidarity became a cornerstone of Bonn's approach to matters of energy, raw materials and relations with developing states. The Federal Republic's commitment to this policy was crucial in achieving agreement on these issues at the Rambouillet Summit as well as presenting a united front at the CIEC.

In response to the oil crisis, the Federal Republic again used its economic strength to sway its partners' positions. At the WEC, the implication that because of its economic might the Federal Republic alone of all European states could withstand an oil pricing paradigm based on bilateral deals contributed to the Brandt government's argument for Western cooperation and hence the eventual agreement of nearly all EC member states to it. Bonn also made literal use of its economic abilities, serving as the chief underwriter of the EC loan scheme for the financing of oil deficits and extending a $2 billion loan to Italy. In the Western fora, West German economic strength was a determinant factor in the establishment of the key recycling facilities – Witteveen II and the OECD Solidarity Fund. Not only was the Federal Republic a major financial backer of both of them, but also by refusing to contribute to the American-led OECD Solidarity Fund unless Washington also supported Witteveen II, Bonn skillfully utilized its economic might to overcome American intransigence and bring about a consensus on a fundamental aspect of the Martinique Agreement.

Together with savvy policy management and economic strength, Schmidt's leadership also greatly influenced Bonn's impact on the Western response to the oil crisis. Grasping the economic repercussions of the oil crisis and recognizing that cooperation with the United States was necessary to overcome it, Schmidt reached out to Kissinger with an idea for a Western energy conference. While Kissinger did not immediately take up Schmidt's suggestion, Schmidt's idea influenced Washington's later proposal for the WEC, as is evident through its strikingly similar purpose and form. Unwavering in his economic assessment and with a growing willingness to lead, Schmidt pushed his views of the oil crisis in the Brandt government and among Bonn's European allies though late 1973 and early 1974. His efforts culminated at the WEC where arguing primarily on economic grounds, he stood up to the French foreign minister, Michel Jobert, and presented a strong alternative to Jobert's political approach. Schmidt actions were decisive in the outcome of the gathering and thus turning the Federal Republic and the EC towards a Western approach, rather than solely a European political one.

Once chancellor and with a common Western approach beginning to take form, Schmidt used a combination of personal politics and mediation skills to bring about full Western solidarity by December 1975. Working closely first with Giscard and then Ford and Kissinger, Schmidt managed to create a plan which bridged the French and American approaches to energy matters and served as the basis for the Martinique Agreement agreed between France and America in December 1974. When a Western strategy again seemed to be failing in late 1975, Schmidt made a strong appeal to his counterparts at the Rambouillet Summit to work together, posing questions and driving a discussion which eventually led to the creation of a partial strategy for energy matters and relations with the non-oil developing states. Finally, Schmidt managed to broker a compromise with the United Kingdom on representation at the CIEC, thereby allowing for Western solidarity at the conference. This, in turn, offered greater chance of success of the consumer-producer dialogue overall and contributed to the steadiness of oil prices in the coming years.

Despite the clearly great influence that the Federal Republic had on the West's response to the oil crisis, in broader historical works on the Western alliance and even some works on West German foreign policy, Bonn's efforts are largely overlooked. Instead, because their studies focus on the immediate aftermath of the oil crisis and predominately the political debates, Bonn appears to be caught between America and France.[3] In writings specifically on the oil crisis the Federal Republic is given greater credit. Venn accurately points out how national objectives of the four Western powers undermined the broader Western approach.[4] While Möckli admits Bonn's key role, because of his focus on European political cooperation, he frequently depicts Bonn's moves toward Western cooperation and in particular Schmidt's role in events in less than positive terms, particularly at the Washington Energy Conference.[5] Yet analyzed from a more widely Western and economic point of view, West Germany's actions, and especially those of Schmidt, are shown in this thesis to be decisive in the West remaining unified and achieving a common response.

[3] William C. Cromwell, *The United States and the European Pillar: the Strained Alliance* (London: Macmillan, 1992); Derek W. Urwin, *Western Europe since 1945: a Political History*, 4th ed. (London: Longman, 1989).
[4] Fiona Venn, "International Co-operation versus National Self-Interest: the United States and Europe during the 1973-1974 Oil Crisis," in *The United States and the European Alliance since 1945*, eds. Kathleen Burk and Melvyn Stokes (Oxford: Berg, 1999), 71-100.
[5] Daniel Möckli, *European Foreign Policy during the Cold War: Heath, Brandt, Pompidou and the Dream of Political Unity* (London: I.B. Taurus & Co Ltd, 2009).

Moreover, Möckli ceases his analysis in spring 1974, failing to cover the entire timeframe of the Western response to the oil crisis.

As macroeconomic conditions deteriorated and the 1975 recession set in, the Federal Republic, and in particular Schmidt, were central in creating a common Western response to overcome it. The same commitment to Western cooperation which featured in Bonn's policy aims in response to monetary difficulties and the oil crisis was also a key component in its approach to the 1975 recession. This objective drove West German officials to advocate joint action, even when the traditional leader of the West, the United States, was initially opposed and led in part to the alignment of economic and monetary policies and the Rambouillet Summit. Having an even greater part in these latter developments, however, was strong leadership from Schmidt.

As growth began to falter and unemployment began to rise in late 1974, Schmidt recognized that while continuing to fight inflation was important, so too was countering the slowing global economy. Using his economic authority and the perceived West German economic strength, Schmidt succeeded in convincing Ford to enact further stimulus measures. Once the 1975 recession had reached its full impact in summer 1975, Schmidt realized that it was a downturn unlike any before it and overcoming it required progress on the other two crises and political direction. After Washington made clear to Bonn in May 1975 that America was uninterested in pursuing a multilateral response to the economic downturn, Schmidt took the lead. Working closely with Giscard, he first arranged for economic and monetary policy coordination among European states. Although Schmidt failed to convince the United States of the same, Schmidt did persuade the Ford administration that federal support was necessary to avoid New York City going bankrupt.

Schmidt again collaborated with Giscard to come up with the idea for the Rambouillet Summit. After Giscard presented the G-5 heads of state and government meeting as primarily a conference to resolve differences in the monetary sector, rather than publicly rebuke the French president, Schmidt worked behind the scenes transforming the gathering into one focusing on the problems of the international economic system. In the process, Schmidt managed to convince the United States, Britain and Japan – all skeptical of Giscard's original proposal – to attend the Rambouillet Summit. As Ford later noted, it was due to Schmidt's efforts that Washington was willing and able to participate in the G-5 gathering. This was due not only to the expanded content of meeting, but also the manner in which Schmidt handled the talks around the summit. By orchestrating action, yet staying out of the spotlight, Schmidt avoided raising suspicions among Bonn's allies about its intentions and trustworthiness, as had been the case with *Ostpolitik* and the 1969 and 1971 floating of the D-Mark. Moreover, it allowed the United States and France to save face domestically – crucial to both as each were restricted by domestic pressures – and in the case of the Rambouillet Summit, it bound both countries to the success of the conference. Had Schmidt not pushed for Washington to take at least the appearance of leadership on the first world economic summit, it is conceivable that America would have backed out of the conference when Giscard refused to invite Canada.

Finally, Schmidt was also central to the success of the Rambouillet Summit. Although he would have preferred full agreement on all points discussed at the Rambouillet Summit, Schmidt understood the appearance of such was enough to revive confidence. Thus, he strongly pushed for a communiqué that presented this image, regardless of the actual results. In few months time, Schmidt's notion on confidence proved accurate, as confidence was recovering together with the Western economies. Moreover, Schmidt's efforts to bring the G-5 heads of state and government gathering into being and focused on questions of the international economy was essential to the G-5 becoming the main forum for Western cooperation on economic issues.

Recent works, such as those by Soell and von Karczewski, contribute significantly to the scholarship on West Germany's role in the creation of a Western response to the 1975 recession.[6] The detail in their books on the

[6] Johannes von Karczewski, *"Weltwirtschaft ist unser Schicksal:" Helmut Schmidt und die Schaffung der Weltwirtschaft* (Bonn: Dietz, 2008); Hartmut Soell, *Helmut Schmidt 1969 bis heute: Macht und Verantwortung* (München: Deutsche Verlags-Anstalt, 2008).

development of the Rambouillet Summit and the proceedings corresponds closely to that put forward in this thesis. In addition, they reach similar conclusions about the key role Schmidt played in both. Yet, by primarily focusing on Rambouillet their analyses barely explore the interconnectedness of the three crises and this shapes – and to a degree limits – their interpretations of Bonn's impact on the West's response to the 1975 recession. While the Rambouillet Summit was essential to overcoming the 1975 recession, it was only one component in the West's response and of Schmidt's activities. As this thesis has shown, the Rambouillet Summit would most likely not have even taken place, had progress in response to monetary and energy problems not also occurred.

The second conclusion of this thesis is that through its actions in response to these three crises, the Federal Republic was able to permanently elevate its political standing in the Western alliance. This came about because of three main factors: American, French and British economic and political weakness; the transformation of the institutional setting; and the shift of economics to the foreground of political debates and diplomatic relations.

By the early 1970s, American economic strength was declining. Significant balance of payments and trade deficits and slowing growth coupled with perceived increasing strength of the EC led the Nixon administration to adopt expansionary measures, introduce its unilateral acts of 15 August 1971 and pursue a policy of 'benign neglect.' As intended, these actions provided the United States with greater room to manoeuvre in domestic economic and political terms. Yet, these economic policy decisions, coupled with Washington's refusal to support the terms of the Smithsonian Agreement, its inflexibility in the C-20 negotiations, its initial response to the oil embargo and price hikes, its confrontational tone towards the oil producers, and its unwillingness to introduce further stimulus measures in 1975, severely weakened Europe's trust in the accuracy of its economic policies and ultimately American leadership on economic issues. During this period, American diplomatic efforts, such as the "Year of Europe" and arms reduction talks with

Moscow and its handling of the October War undermined European-American relations. A change of leadership in the four leading Western countries in 1974 repaired some of the damage to the transatlantic relationship, but Washington still faced difficulties regaining its former political status because of the Watergate scandal and the subsequent weakness of the American presidency.

Although the United States never completely lost its status as the Western economic and political hegemon, its relative economic and political weakness meant that Washington could not simply exert its economic or political might in order to guide the Western response to the crises. Nor given the interdependence of the Western economies and the Cold War context could the United States simply pursue its own course of action, particularly on energy. Rather, cooperation with its Western alliance partners, above all those in Europe, was necessary to overcome the economic challenges and maintain the political alliance. By 1975, as briefing books for the Rambouillet Summit show, even Washington was aware of the delicate position of its traditional leadership role and the need to work with Europe, especially on energy matters.

To ensure such European cooperation though, Washington could not look to France as it had done in the run up to the Smithsonian Agreement or to its traditionally closest ally, Britain, as the relative economic and political might of both declined during this period. In rather quick succession through 1973 and early 1974, France lost its leadership role within Europe. With the collapse of Bretton Woods and the move to the European group float, the cornerstone of French arguments on monetary reform, namely that fixed rates were essential for an orderly international economy, was undermined. This combined with the failure of EMU to advance to the second phase in early 1974 and France's exit from the European snake in January 1974 severely weakened Paris's authority in Europe on economic and monetary matters, as both the theoretical and institutional frameworks of their positions appeared unsound. France's double-digit inflation in 1974 and its macroeconomic difficulties in 1975 did not help this situation. Paris lost political influence within the EC when the French-led European political position on energy failed to prevent a second oil price hike and lost even more political capital due to Jobert's antics at the WEC and through the fizzling of the European political approach through summer 1974. Moreover, until 1975, the French-American relationship was highly acrimonious, only becoming more cordial with a change in leadership in both countries and the assistance of Schmidt. Suffering severe balance of payments problems as well as high inflation and unemployment rates after the quadrupling of oil prices, Britain's economic woes surpassed those of any Western state. Politically, London was also weakened, as first its 'special relationship' with America was strained due to Britain's focus on EC entry and integration processes, and later its relations with Europe were soured by its threats to leave the Community.

In West Germany, plagued by neither similarly serious economic nor political difficulties, both the United States and Europe had a potential ally. By carefully balancing its economic and political policy aims, Bonn appeared a firm contributor to European integration efforts without permanently souring its relations with the United States. This also contributed to West Germany's ability to mediate between America and Europe. But unlike in the 1950s and 1960s when Bonn frequently mediated between Washington and Paris, but hardly advanced its political role within the alliance, by the 1970s, this changed due to its economic position, leadership and specific aims.

During this period, the Federal Republic's economic strength increased relative to its Western counterparts. Despite also suffering a downturn in 1975, after the increase in oil prices, West Germany actually managed to reduce its inflation rate and maintain balance of payments and trade surpluses. As highlighted previously this economic strength was used to great effect to sway the West's response to the economic crises. Moreover, West Germany had an able and willing leader in Schmidt. His economic knowledge mixed with the strong performance of the West German economy gave Schmidt authority on economic matters which in turn made his perspectives on the economic crises more respected by the other Western leaders. Such was evident in Schmidt's meetings with American officials in December 1974, May 1975, July 1975 and October 1975 in which Ford, Kissinger and members of the American Congress solicited Schmidt's advice on how to respond to the economic crises. Using personal politics, Schmidt built good relationships with his Western counterparts, coming to be seen as an honest broker. Indeed, Schmidt's mediating skills proved crucial in the establishment of the Rambouillet Summit and the culmination of the Martinique Agreement. Schmidt was also willing to take the lead, as he did with regard to the Martinique Agreement, the Rambouillet Summit initiative, the coordination of economic and monetary policies in Europe in 1975 and the New York budget crisis. Important in each of these, however, was Schmidt's ability to balance his leadership drive with the right degree of public awareness of his personal efforts.

Lastly, West Germany's influence grew because its specific approaches to the crises were often middle-of-the-road between American and French positions, but still beneficial to the Federal Republic. On monetary issues, while Bonn's thinking was more akin to the United States on "the link" and gold and more similar to that of France on issues of adjustment and asset settlement, West Germany sat squarely in the middle on the exchange rate regime: satisfied with floating in the interim, but ultimately preferring the stability of a fixed exchange rate system. On energy issues, alongside America, the Federal Republic advocated consumer solidarity, but, like France, also sought a non-confrontational dialogue with the oil producers as a means of influencing the price of oil. Finally, at the Rambouillet Summit Bonn hoped to settle outstanding monetary issues as did Paris, but also like Washington wanted to use the G-5 gathering to discuss the international economy and rebuild confidence. Thus, quite frequently, the compromise solution between French and American perspectives was the West German position. Through this period then West Germany became the key link between the United States and Europe, enhancing its role within the Western alliance without significantly compromising its goals in the process.

Another significant reason for the shift in the Federal Republic's political position within the alliance was the overhaul of the Western economic institutional structure during this period. Through it not only did the West have the means to deal with the changed economic dynamics of the capitalist world over the coming decades, including the growth of the capital markets, OPEC control of oil supplies and prices and greater economic interdependence, but the Federal Republic also had the means to ensure its economic and political advancements. With the move to group *floating in March 1973, the Federal* Republic was granted greater freedom to maintain its *Stabilitätspolitik* and freed from the onslaught of speculative flows due to dollar crises. In addition, because West Germany had entered into a group float with its closest trading partners in Europe, Bonn still enjoyed a substantial degree of trade stability. With the Jamaica Agreement and the creation of the "non-system" of monetary relations, this established framework changed little, as the floating order was legalized. While the Schmidt government's perspective on floating began to wane in the late 1970s, as Washington increasingly pressured Bonn to act as an economic "locomotive," within a few years, when the EC established the European Monetary System (EMS), the overall economic benefits afforded the Federal Republic from the reform of the monetary institutions were substantial. West Germany had both greater flexibility to achieve its *Stabilitätspolitik* and relatively steady trade. Under this system, the Federal Republic had the framework to maintain or even enhance its economic strength, a key component of its political might in the West.

Of all the structural changes, having the greatest impact on the Federal Republic's political position in the Western alliance was the creation and institutionalization of the G-5 as the main forum for coordination of international economic policies at the highest levels. Given its exclusive membership – made up of the economically and politically most powerful Western states – where European states outnumbered non-European ones – and the fading of the IMF's role in the management of international economic relations, Bonn not only had a permanent seat in one of the most influential international economic organizations, but a relatively enhanced one thanks to its economic strength and the larger European contingent. In the informal G-5 discussions, where progress was based greatly on personal relationships, Schmidt's leadership style ensured by-and-large that the Federal Republic was able to seize on the opportunities afforded it. Only when Jimmy Carter became president did Bonn's approach falter, as the personalities of Schmidt and Carter clashed.

Yet, the lasting impact of Bonn's burgeoning leadership during the crises and the advantages offered to the Federal Republic from the institutional changes would have been short-lived had economics not moved to the fore of international political debates. Three factors were catalysts in this process: first, the severity of the macroeconomic difficulties forced Western leaders to take a greater interest in economic issues, rather than leave them to economic ministers and technicians. Second, the interdependence of national economies by the mid-1970s meant that Western states could not hope to overcome economic difficulties without the cooperation of its trading and political partners. Third, once the oil producers took control of oil prices, energy became a matter of economic security and international diplomacy. Schmidt recognized the growing interconnectedness of economics and international politics and encouraged his Western counterparts to be proactive. Solidifying the shift of economics into a matter of high politics and international relations were the continuing economic problems, including the macroeconomic difficulties of the late 1970s and early 1980s, the second oil crisis and the increased trade with the Eastern bloc. Finally, after the Jamaica Agreement, the markets came to play an ever greater role in the international economy: while some Western countries were content to take a more laissez-faire attitude to this development, others were not. Thus, the processes of globalization also became part of the discussions of Western leaders.

The conclusions put forth in this thesis add to the existing literature on both the individual aspects contributing to the shift in the West German political position within the alliance and to the broader understanding of the history of West Germany and the Western alliance. To the analyses on the changing role of American hegemonic economic and political power during this period, this thesis shows that the United States was aware of the precarious nature of its position and sought in particular the assistance of the Federal Republic to maintain it.[7] The Federal Republic replied to this call not just with

[7] Examples are David Calleo, *The Imperious Economy* (Cambridge, MA: Harvard University Press, 1982); Andrew Walter, *World Power and World Money: the Role of Hegemony and International Monetary Order* (London: Harvester Wheatsheaf, 1991); Robert O. Keohane and

economic, but also political support, mediating between Washington and Paris. Among the many works on European integration, the benefits Bonn accrued from the failure of EC efforts in 1973/1974 are rarely noted: yet, through them, an opportunity for greater leadership within the West opened for West Germany, as France's traditional role was undermined.[8] This thesis goes beyond the existing scholarship on the structural changes in the early 1970s too. So far the economic benefits afforded the Federal Republic through the introduction of floating exchange rates have been noted, but the connection to political advancement have not.[9] In emerging scholarship on the G-5, a connection between international diplomacy and the G-5 is recognized, but with a different focus and hence conclusions than offered here.[10] This thesis advances James's claim about the important role the politicalization of economics played in the outcome of the reordering of the monetary system and the 1975 recession, showing specifically its centrality to the Western response to these crises as well as the oil crisis.[11] Finally, my argument supports recent works which stress Schmidt's influence on the economic crises.[12] Indeed, Schmidt's leadership style was peculiarly well-suited to the economic challenges of the period. It is hard to imagine that a similar outcome would have occurred had Brandt – idealistic and more interested in security affairs and East-West relations – remained chancellor.

Yet, Schmidt cannot be given all the credit. Rather, as this thesis has shown, the interplay between Schmidt's savvy political leadership, economic strength and the sheer opportunity for change created by the emergence of economics to the fore and the relative economic and political weakness of America, France and Great Britain led to an enhanced role for the Federal

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Joseph S. Nye, *Power and Interdependence* (Boston: Little, Brown, 1977); Daniel Sargent, "From Internationalism to Globalism: The United States and the Transformation of International Politics in the 1970s," (PhD dissertation, Harvard University, 2009).

[8] Examples are Tsoukalis, Loukas. *The Politics and Economics of European Monetary Integration*. London: George Allen & Unwin, Ltd., 1977; Kaelberer, Matthias. *Money and Power in Europe: The Political Economy of European Monetary Cooperation*. Albany, NY: State University of New York Press, 2001; Möckli.

[9] See Otmar Emminger, *D-Mark, Dollar, Währungskrisen: Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart: Deutsche Verlags-Anstalt, 1986).

[10] Examples are Soell and von Karczewski.

[11] James, 264-66.

[12] Above all Soell's arguments.

Republic in the Western alliance. Contrary to the story put forward in broader works on West German history, this process of political transformation was not restricted to monetary issues and began long before the economic difficulties of the late 1970s or the development of EMS.[13] Indeed, it was intrinsic to it, setting the precedent for a coordinated Western response to economic problems and of strong West German leadership in them and establishing the economic conditions and political relationships which were essential to the creation of EMS. Building on the study undertaken by William Gray in relation to the collapse of Bretton Woods, this thesis also shows the degree to which throughout these crises West Germany was torn between its European and global commitments.[14] Lastly this thesis begins to tell the international political economic dimension of the history of the Western alliance, a history which by-and-large has been overshadowed in the history of the Western alliance by political and defense-orientated studies and is only now beginning to emerge.[15] In it, the actions of the Federal Republic are prominent and Bonn's place within the Western alliance has only continued to increase after 1976.

[13] Wolfram Hanrieder, *Germany, America, Europe: Forty Years of German Foreign Policy* (New Haven: Yale University Press, 1989); Helga Haftendorn, *Coming of Age: West German Foreign Policy since 1945* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 2006).
[14] William G. Gray, "Towards a 'Community of Stability'? The Deutsche Mark between European and Atlantic Priorities, 1968-1973," in *The Strained Alliance*, 145-168.
[15] See ibid.; Hubert Zimmermann, "Unraveling the Ties That Really Bind: The Dissolution of the Transatlantic Monetary Order and European Monetary Cooperation, 1965-1973," in *The Strained Alliance*, 125-144; Gray, "Floating the System."

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