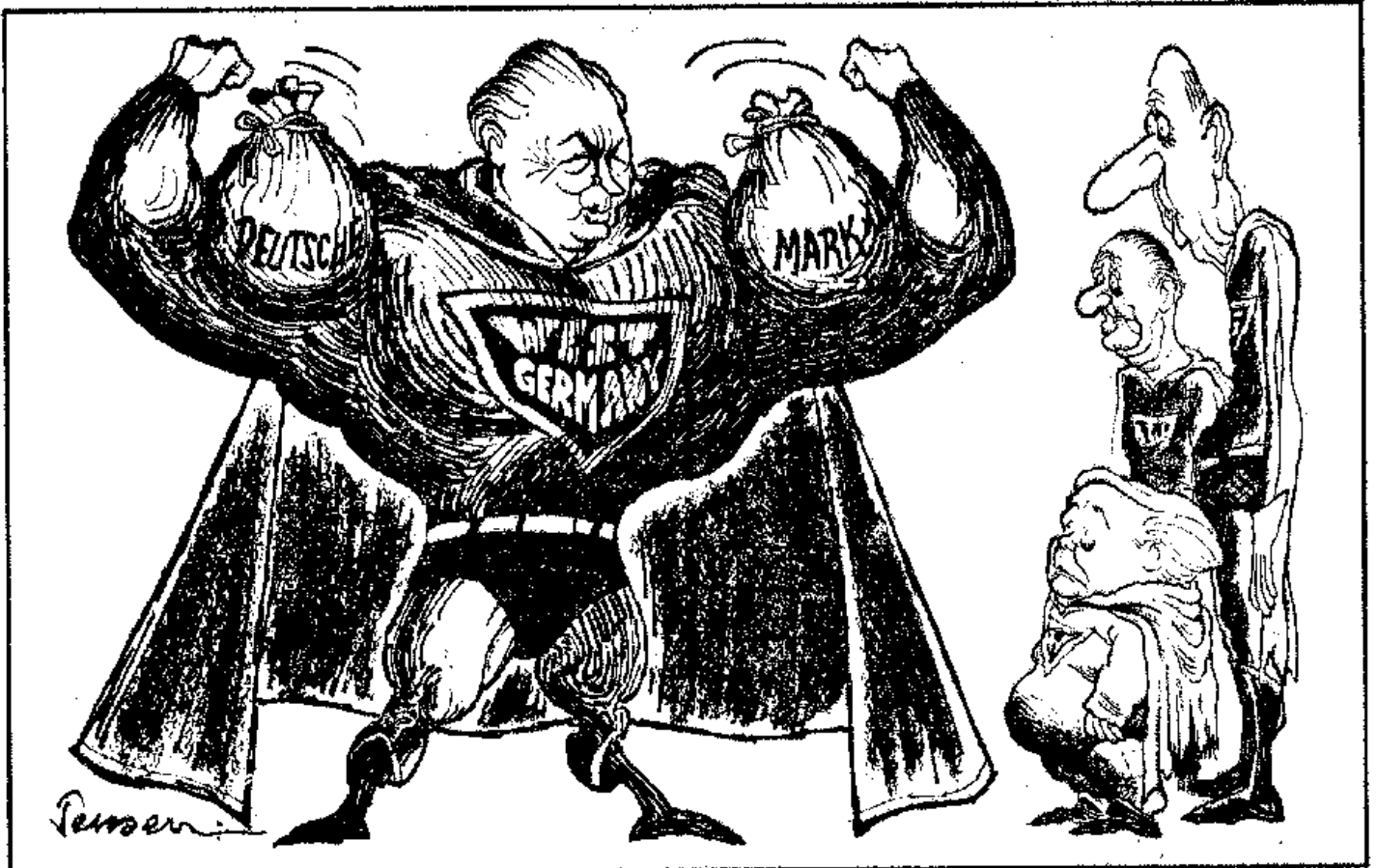


Bonn's choice for Europe

The German initiative towards monetary integration at The Hague summit 1969



Sunday Telegraph

Master thesis

Miriam Westerveld, Student nr. 3378217

Adriaanstraat 28 D, 3851 SG Utrecht

M.L.Westerveld@students.uu.nl

Master 'Internationale betrekkingen in historisch perspectief'

Universiteit Utrecht

Supervisor: Dr. M.L.L. Segers

03-03-2014

Table of contents

1. Introduction	4
1.1 Monetary developments in the Cold War setting	4
1.2 Theories and explanations: problematization of the West-German policy	7
1.3 Research question and approach	11
2. Monetary affairs and the cold war	15
2.1 Bretton Woods and the outflow of dollars: from success to pitfall	15
2.2 First initiatives towards European monetary integration: a cool reception in Bonn	21
3. The emergency conference of Bonn	27
3.1 Credit packages, devaluations and unrest: the prelude to the Bonn conference	27
3.2 The West-German economic Giant	29
3.3 The Bonn conference	32
4. Demise of Bretton Woods: Bonn switches gears	37
4.1 The aftermath of the Bonn conference	37
4.2 The Barre plan	40
4.3 Regime change	44
5. The summit of 'Euro-optimism'	51
5.1 Franco-German preparatory talks	51
5.2 The Hague December 1968: 'reliance européenne'	53
5.3 The aftermath of The Hague	55
6. Conclusion	58
6.1 Bonn's policy shift in 1969	58
6.2 Theoretical analysis	60
Bibliography	64

*'Europe had to choose between a courageous step forward or a crisis. The choice has been made. A decision has been taken at The Hague in favor of the future of Europe. Europe has been given another great chance.'*¹

- Willy Brandt 1969 -

¹ 'European documentation a survey January – March 1970' *European Parliament* 12, 6. Available via: <http://aei.pitt.edu/42003/1/A6237.pdf>
Front cover image: Der spiegel 49 (1968).

Introduction

At The Hague Summit of December 1969, the heads of state of the then six members of the European Economic Community (EEC) announced their intentions to work out 'a *plan in stages...with a view to the creation of an economic and monetary union*'.² The central role in this decision fell to Willy Brandt, the West German Chancellor, elected only a few months earlier. Willy Brandt's initiative is widely seen as the start of what has become the Economic and Monetary Union (EMU).³ As Hubert Zimmerman states: '*The public breakthrough of the idea of European monetary union came at the EC Hague Summit of December 1969.*'⁴ Endorsing European monetary integration was a departure from the Federal Republic's previous monetary policy.⁵ Until only a few months before The Hague summit, the Federal Republic of Germany (FRG) had supported the existing transatlantic monetary order of Bretton Woods.⁶ Previous initiatives toward monetary integration, taken by the French and by Commission action-groups had caused a strong rebuff in Germany by the Bundesbank as well as the finance ministry. The move towards EMU at The Hague, which in fact challenged the existing framework in which post-war monetary relations were managed, thus meant a clear break with the former West German policy.⁷ How then can Bonn's leading role in initiating European Economic and Monetary integration at The Hague summit be explained?

Monetary developments in the Cold War setting

Since the end of World War II, the Bretton Woods system governed monetary relations among the world's major (Western) industrial powers. The system was to assure stable exchange rates. The stability of this system, which was named after a conference held in Bretton Woods in 1944, depended on a stable U.S. domestic economy: exchange rates were tied to the U.S. dollar and the value of the U.S. dollar was expressed in a fixed ratio to gold.⁸ Member countries (except the U.S.) were obliged to maintain the exchange

² Final communiqué of the Hague Summit (2 December 1969), available via http://www.cvce.eu/obj/final_communique_of_the_hague_summit_2_december_1969-en-33078789-8030-49c8-b4e0-15d053834507.html

³ In this thesis Mourlon-Druol's definition of EMU is used: 'An EMU implies a common or single currency; it can mean the inception of some stabilization systems involving important resource transfers, or imply a high degree of financial harmonization and development of a significant common budget. In other words, full EMU implies important transfers of sovereignty to a supranational body, a move that is different from an intergovernmentally managed exchange rate mechanism.' See E. Mourlon-Druol, *A Europe made of money: the emergence of the European Monetary System* (New York 2012), 12.

⁴ H. Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan' in Magnusson, L. and B. Strath (eds), *From the Werner Plan to the EMU: in search of a political Economy for Europe* (Brussels 2001), 50.

⁵ In this thesis the Federal Republic of Germany (FRG) is referred to as either the Federal Republic, West Germany and in some cases Germany. In order to avoid confusion the East German State is always referred to as the German Democratic Republic (GDR). The Federal Republic's government is referred to as 'Bonn', where its headquarters were stationed.

⁶ Considering the scope of this research I will not go into detail on how the system functioned. For an overview of the Bretton Woods system, see H. James, *International Monetary Cooperation since Bretton Woods* (Washington, 1996)

⁷ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 50.

⁸ \$35 per ounce of gold

rates within a margin of 1%. An American promise to exchange dollars to gold on request was to assure that the U.S. currency was dependable, guaranteeing the dollar value.⁹

The strong conviction, that the chaos in international financial markets during the 1930s had a decisive influence on the catastrophic events that followed (the rise of Hitler in Germany), made many politicians and economic experts believe that state interference in monetary affairs was not only preferable, but absolutely necessary.¹⁰ Closer control of market forces by state authorities was promoted, in contrast to the former economic neoclassical idea of 'self-regulation' and unrestrained flexibility of exchange rates. The International Monetary Fund (IMF) was established to enforce the fixed exchange rates, and shield domestic economies from instabilities. Regulation of exchange rates thus took place on a global, not a European, level, and it was the IMF rather than the European Community that naturally provided the primary forum for negotiation. Only in times of need could the exchange rates be adjusted. In practice, the system was directly dependent on the preferences and policies of its most powerful and wealthiest member: the United States.¹¹

Besides governing currency relations among the members, the system was also intended to provide a framework for rebuilding the war-damaged economies of Europe. The capacity of Europe's economies to finance import was small and the United States were indispensable for economic reconstruction.¹² The Marshall Plan, the creation of the Organization for European Economic Cooperation (OEEC) and the European Payment Union (EPU) were all established to provide credit to the West European nations.¹³ Behind all these regulatory bodies stood the U.S. treasury, with the world's largest gold stocks, which provided much of the funding required by the institutions of Bretton Woods.¹⁴ The Bretton Woods system reflected American global monetary hegemony, as the world's 'money manager'.¹⁵ Americanization of European macro-economic governance was a consequence which the West-European states were willing to accept, since they profited from this credit for investments and especially from American military protection.¹⁶

⁹ *Ibidem*, 51.

¹⁰ H. Zimmerman, *Money and security: troops, monetary policy and West-Germany's relations with the U.S. and Britain* (Cambridge 2002), 98.

M.J. Geary, 'The process of European integration from The Hague to Maastricht, 1969-92: An irreversible advance?' *Debater a Europa* 6 (2012), 6-26.

¹¹ H. James, 'The potential of caterpillar: the origins of European Monetary Integration' *Paper for Yale Economic History Seminar* (2011), 15.

¹² S. Hoffmann, 'U.S.-European relations: past and future' *International Affairs* 79.5 (2003), 1029-1032.

¹³ The OEEC was founded to coordinate the Marshall plan. The EPU, a creation of the OEEC, was an intra-European 'clearing system'. Both served U.S. interests, since they committed European economies to greater economic openness, while creating a growth market for American exports within the framework of the Bretton Woods regime. For more detailed information on this topic read A. Schäfer, 'Stabilizing Postwar Europe: aligning Domestic and international goals' *Max Planck Institute working paper* 3 (2003)

¹⁴ W.I. Cohen (eds), *The Cambridge history of American Foreign Relation: America in the age of soviet power 1945-1991 Volume IV* (Cambridge 1993), 5.

¹⁵ <http://www.polsci.ucsb.edu/faculty/cohen/inpress/bretton.html>

¹⁶ Especially in the FRG the American influence is obvious: federal state, federal banking system, anti-cartel policy etc.

Of the West European states, the FRG depended most heavily on U.S. protection and aid. Established in 1949, the Federal Republic had a particularly vulnerable position in international politics, considering that its external role was limited by its semi-sovereign status and its position between the two great powers.¹⁷ Bonn's vital national interests were defined in terms of retaining and strengthening American engagement in Europe, in order to prevent the insecurities of the interbellum and avert the threat from the East.¹⁸

During the 1950's the FRG regained some maneuvering room by embedding itself in Western institutions, promoting European cooperation while maintaining close Atlantic cooperation (the policy of *Westbindung*). The European Coal and Steel Community (ECSC) and subsequent European Economic Community (EEC) provided the West German government with the opportunity to increasingly participate in the international arena. Cooperation within this European setting had to prove that the era of expansionist German nationalism, which twice in half a century had led to the devastation of Europe, belonged to the past. Especially the partnership established with France during the late 1950s was an important cornerstone of West-German policy. From the start, West European integration had been promoted by Washington. A united Europe would be a strong ally, and economic partner against the communist bloc. Thus, Bonn's two major objectives in foreign policy (preserving the Atlantic partnership and furthering European integration), were compatible.¹⁹

Within this setting, the West-German economy flourished. During the 1960s the FRG's economy became the strongest in Europe, with large surpluses on its balance of payment. The Bundesbank's anti-inflationary policy was successful, which held prices low and made German goods attractive for export. Introduced only in 1948, the Deutsche Mark (DM) quickly acquired a reputation of stability and trustworthiness in international currency markets. Due to the strength of its currency, the Federal Republic of Germany became a major player in international monetary policy from the mid-1950s onward.²⁰ The German Bundesbank emerged as the core central bank in post-war Europe, with the Deutsche Mark as one of the most stable and strong currencies worldwide and a source of national pride.²¹ The economic recovery of the war-torn country was referred to as an economic miracle or *Wirtschaftswunder*. However, while the Federal Republic's economy boomed, Bonn's ability to exercise political power remained limited. Henry Kissinger

¹⁷ A. Verdun, *The Euro: European Integration theory and Economic and Monetary Union* (Oxford 2002)

¹⁸ K. Dyson and L. Quaglia (eds.), *European economic governance and policies: commentary on key historical and institutional documents, Volume I: Commentary on key historical and institutional documents* (Oxford 2011), 19-24.

¹⁹ H. Zimmermann, 'The search for autonomy: government, Central Banks, and the formation of monetary preferences' *German Policy Studies* 4, 3 (2008), 37.

Many document show U.S. support for European integration. For instance see 'Memorandum of Conversation between the Department of State and FRG minister Erhard (7 June 1955)' in *FRUS 1955-1957 Vol. IV, Western European Security and Integration*, Document 97.

²⁰ Zimmermann, 'The search for autonomy', 37-39.

²¹ *Ibidem*

described this quite accurately, when he referred to Germany as an 'economic giant but a political dwarf.'²² The FRG's reliance on American military protection gave the U.S. considerable influence in Bonn's policies. Susan Strange, a scholar of international relations, refers to 'a docility and compliance with American wishes which was the more remarkable as German economic strength continued to grow...'.²³

During the mid-1960s doubts about the future of the Bretton Woods system became widespread.²⁴ The dollar was no longer considered strong enough to carry the system and the countries of the European Community feared future exchange rate instabilities would lead to the disintegration of the customs union and the demise of the Common Agricultural Policy (CAP), at this time the central element of cooperation. Within this setting support from Community members grew to create an independent European monetary arrangement.²⁵

Theories and explanations: problematization of the West-German policy

The FRG so far had always taken a secondary role in the international arena, politically as well as financially. But, at The Hague Summit of 1969, the Brandt government unexpectedly took the lead and proposed the EMU project. Until then the FRG had supported the existing monetary system and along with it the Atlantic partnership.²⁶ The FRG's support of the transatlantic monetary system must be seen from a geopolitical viewpoint. Foreign policy objectives and security considerations were major components of the monetary order. Since the Federal Republic relied heavily on U.S. military protection for its safety vis-à-vis the Soviet Union, support of this dollar centered monetary-order was part of Bonn's security policy. When it came to important divergences on monetary questions between the French and the Americans, Germany always sided with the U.S..²⁷ Bonn viewed any moves that could weaken the Atlantic partnership, on which Western Europe's defense rested, with great reluctance.

Furthermore, Bonn did not wish to give up its strong Deutsche Mark, afraid to be crippled by inflation. The finance ministry and the German Bundesbank strongly opposed European monetary integration. It was felt that a common currency would threaten the German policy of price stability, bringing inflation, a deeply feared threat after

²² This statement is extensively cited through out the literature on Post- World War II Germany. Cited from R. Morgan, *The United States and West-Germany, 1945-1973: A study in alliance politics* (London 1974), 166.

²³ S. Strange, *International economic relations of the Western world 1959-1971: International monetary relations Volume 2* (Oxford 1976), 46.

²⁴ I. Maes, 'On the origins of the Franco-German EMU controversies' *European Journal of Law and economics* 17 (2004), 27-29.

²⁵ Murlon-Druol, *A Europe made of money*, 2-7.

²⁶ Zimmerman, 'The search for autonomy', 32.

²⁷ E. Hoffmeyer, 'Decisionmaking for European Economic and Monetary Union' *Group of thirty, occasional paper 62* (2000), 5.

H. Haftendorn, 'The NATO crisis of 1966-1967: Confronting Germany with a conflict of priorities' in H. Haftendorn (ed.), *The strategic triangle: France, Germany and the United States in the shaping of the new Europe* (Portland, 2005), 78-80.

experiencing hyperinflation during the Weimar republic.²⁸ Also, the German public in general was not willing to give up their 'beloved' Deutsche Mark. The fear existed that Bonn would eventually be financing the whole of Europe.²⁹

The German initiative towards monetary cooperation at The Hague summit thus represented quite a turn-around. It was the first time that the West-German government not only showed its willingness, but even took the initiative to enter into negotiations on this matter.³⁰ While first opposed to a European Monetary Union, now Bonn became the driving force behind it.³¹

The dominant explanation for the FRG's switch in policy at The Hague is geopolitical: accordingly Bonn's monetary perspective was driven by security concerns.³² During the late 1960's the Franco-German relationship came under pressure due to the introduction of Willy Brandt's *Ostpolitik*. Brandt wanted to involve Germany more strongly in Europe and, at the same time, promote the acceptance of his *Ostpolitik* (and, ultimately, reunification policy).³³ Some scholars conclude that German foreign policymakers were prepared to go a comparatively long way in meeting French wishes as long as the *Ostpolitik* could be implemented.³⁴ As Ivo Maes, a professor of Economics and expert on European monetary integration states, referring to Brandt's initiative at The Hague: 'Germany wanted to demonstrate its European credentials, also as a way to counterbalance its new *Ostpolitik*'.³⁵ According to Kenneth Dyson, Brandt was attracted to EMU as 'a *flanking measure* to reassure the anxious French and thereby limit potential damage to fast progress with *Ostpolitik*'.³⁶ Dyson points out that Brandt confronted his Economic ministry with a *fait accompli* at The Hague, a solo initiative of Brandt, with a clear foreign policy rationale.³⁷ EMU was in fact peripheral to Brandt's strategic vision rather than a decisive point that had to be won. In this perspective, European monetary union is presented as 'a diplomatic expedient that comes at the cost of national economic

²⁸ K. Kaltenhaler, *Policymaking in the European central bank: the masters of Europe's money* (Plymouth, 2006), 10-16.

²⁹ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 50.

'Aufzeigung de Ministerialdirigenten Berger, betr. Bonner Wahrungskonferenz (Zehnergruppe), Versuch einer außenpolitischen Analyse' in *AAPD* 1968 Vol. II, Document 389, 1513.

³⁰ Hoffmeyer, 'Decisionmaking for European Economic and Monetary Union', 25-26.

³¹ At the Hague Brandt proposed to launch an Economic and Monetary Union in two stages, first harmonizing the objections of the EEC members and second, compose a European reserve fund. As a result a major study was commissioned, producing a report that detailed how EMU could be attained in stages by 1980.

³² Dyson and Featherstone (1999), Dinan (2005) and Tsoukalis (1996) are proponents of the view that German policy on European monetary integration was determined by geopolitical concerns.

³³ More details on this perspective will be given in chapter 4.

³⁴ D. Dinan, *Ever closer union: an introduction to European integration* (London 2005), 60-66.

Desmond Dinan also refers to this when explaining the German steps taken at the Hague: 'Allied and internal Christian Democratic concerned about *Ostpolitik* obliged Brandt to emphasize his support for European integration..he supported the idea of closer monetary policy coordination not least as a means of demonstrating Germany's commitment to the EC in the face of Allied concern about *Ostpolitik*'.

³⁵ Maes, 'On the origins of the Franco-German EMU controversies', 15.

³⁶ Dyson, *European economic governance and policies*, 21.

³⁷ K. Dyson and K. Featherstone, *The road to Maastricht: negotiation Economic and Monetary Union* (Oxford 1999), 290.

interest.³⁸ A similar geopolitical explanation is presented for the German commitment to Monetary Union in 1989. Accordingly, at the EC Strasbourg Summit of 1989, Bonn was compliant to monetary cooperation, in order to make German unification diplomatically acceptable. Pervasive in the literature that echoes this geopolitical explanation, is the assumption that EMU offered Germany few economic benefits beyond the advantages of eliminating cross-border transaction costs and exchange rate instability. Germany in this view gave up the mark in exchange for reunification.³⁹ The geopolitical explanation, in which Brandt's policy is presented as a 'trade off' or divergence for acceptance of Ostpolitik (and later German unification), falls in line with the more general grand bargain theories explaining European integration.⁴⁰

Others have argued that the West German policy relating to monetary integration during the late 1960s, and thereafter, was driven by *domestic economic interests*. This represents a completely opposite perspective. The German policy on monetary integration is not viewed as a result of foreign policy choices, but rather as a result of a domestic political process where those that wield domestic economic power are said to have defined the West German monetary policy, according to their (economic) interests.⁴¹ This explanation fits within the liberal intergovernmentalist approach to European integration. Andrew Moravcsik, a professor of Politics at Princeton University and a prominent proponent of this theory, argues that German foreign policy elites acted to secure the interests of powerful domestic economic players when they decided to further European monetary integration.⁴² 'The Snake and EMS were created to handle new substantive problems occasioned by the decline of Bretton Woods and by macro-economic divergence among European countries.'⁴³

Scholars thus fundamentally disagree about the West German motives in supporting, and even initiating and taking the lead in European monetary integration.⁴⁴ Furthermore, in none of these theories there is consideration for the role of the Atlantic partnership as it

³⁸ E.R. Staal, 'European monetary Union: the German political-Economic trilemma' *Discussion paper Center for European Integration Studies*, Rheinische Friedrich-Wilhelms-Universität (Bonn, 1999), 4. Available via http://aei.pitt.edu/299/1/dp_c45_staal.pdf

³⁹ Such a line of reasoning is identified throughout the literature on EMU and German unification. On the assertion that EMU had little economic benefit for Germany and resulted from unification, see Barry Eichengreen, Jeffrey Frieden and Tsoukalis

⁴⁰ Kaltenhaler, 'German interests in European Monetary Integration', 69.

⁴¹ *Ibidem*, 3.

⁴² Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 24.

⁴³ A. Moravcsik, *The choice for Europe: social purpose and state power from Messina to Maastricht* (Abingdon 2005), 312.

⁴⁴ Other explanations of European integration, as formulated in neo-functionalist theories, present monetary integration as a 'spill-over' from earlier steps taken. The unstable exchange rates of the different currencies within the EEC made implementation of European policy, with the focus on the common market and Common Agricultural Policy (CAP), difficult. Therefore further steps were necessary: monetary integration in this vision is introduced in order to accommodate the increasing interdependence of the EEC economies. L. Tsoukalis refers to this as a *cumulative logic of integration*: the creation of a true common market eventually brings monetary integration as an extension. Pathdependence and unintended consequence are part of the neofunctionalist school. They present European (monetary) integration in a similar way. Since these explanations tend to be rather teleological, with little consideration for other options and considering the scope of this thesis, these specific theories will not be explained any further.

had developed after World War II, nor for the effect which this proposal would have on this partnership and the future of U.S. involvement in Europe. As explained, Bonn had supported the trans-Atlantic monetary framework, and had a vested interest in maintaining close ties with the U.S.⁴⁵ Brandt's initiative at The Hague summit meant a historic break. At this time, it was a question of either-or: What comes first - Atlantic community/partnership or European integration? Embracing the EMU in fact meant a loosening of the bond with the U.S. and a turn towards Europe. As the following citation shows policymakers in Bonn, were apprehensive towards any move that would be detrimental for the security of Germany:

'Angesichts der außerordentlich großen militärischen Machtmittel der Sowjetunion ist dies eine für uns höchst gefährliche Lage. Einem verstärkten Druck der Sowjetunion auf Änderung unserer Deutschland-Politik und Preisgabe der bisherigen Ziele unserer Deutschland-Politik wurden wir voraussichtlich nicht widerstehen können, wenn durch den Abzug der Amerikanischen und Britischen Truppen aus Deutschland die Verteidigungskraft des westlichen Bündnisses ernsthaft geschwächt würde. Wir würden früher oder später genötigt sein, zumindest einen Teil unserer bisherigen Positionen unserer Deutschland-Politik preiszugeben, will das mit ihre Aufrechterhaltung verbundenen Sicherheitsrisiko zu groß werden würde.'⁴⁶

Even though Brandt did not know how the EMU would develop, it was clear that (if implemented) his proposal implied a profound transformation of the international monetary system. In fact, the creation of a rival monetary system meant a challenge to the U.S.-based global order.⁴⁷ The development of EMU would create a new monetary actor which would strengthen Europe's bargaining position vis-à-vis the U.S. and other countries. A, possibly unintended, consequence would be a more independent political course for Europe, on which the U.S. had less influence than before. In turn, this would necessarily affect transatlantic relations and would affect American dominance in monetary affairs.⁴⁸ At The Hague summit Brandt, with his proposal towards European monetary integration, appeared to take the reins towards an independent course. But is this actually the case? And was this a conscious/intended move, away from the U.S. and toward Europe?

Some scholars believe that Bonn did not turn toward European monetary integration until the Americans themselves came to question the existing monetary system, and were

⁴⁵ D. Marsh, *The Euro: the politics of the new global currency* (London 2009), 45.

⁴⁶ 'Aufzeichnung des Staatssekretärs Carstens, betr. Drohende Gefahren für außenpolitische Gesamtsituation' in *AAPD* 1966 Vol. II, Document 312.

⁴⁷ James, 'The potential of caterpillar', 9.

⁴⁸ C. Henning, 'Europe's Monetary Union and the United States' *Foreign Policy* 102 (1996), 83-84.

looking for alternatives.⁴⁹ According to Zimmerman the development of EMU was 'triggered by the Nixon administration's unilateral dismantling of the Bretton Woods system'.⁵⁰ In this light, Bonn's policy is seen as following in step with Washington. It was purely a reactive policy. If true, it casts doubt on how European centered Germany really was and (maybe is). Is German policy only Europe orientated when the U.S. permits/stimulates this?

Other scholars have an opposite outlook. They point out that Bonn's initiative towards European monetary integration at The Hague summit, was part of a larger policy, geared at breaking free from American interference. Brandt's Ostpolitik from the early 1970 onwards is seen as another feature of this same policy, in which Bonn's desire to become more independent in international affairs is evident.⁵¹ Proponents of this explanation view this as a political materializing of the German economic strength. In this view, Brandt's proposal at The Hague is seen as an active monetary policy vis-à-vis the U.S. and therefore a turn away from the Atlantic partnership. Marsh presents a similar explanation of the West German move toward European monetary integration. He argues that America's departure from monetary rectitude provided Europe with a stimulus to improve their own cooperation and reduce dependence on the U.S.. Brandt's initiative at The Hague is seen as a defense: 'All these policies were part of a framework to protect Europe's interests against perceived American indifference or even hostility'.⁵²

Research question and approach

Uncertainty thus exists on the question why the West German government initiated European Monetary integration and how this move fits within the Atlantic framework. Why did Brandt initiate EMU at The Hague? To what extent did Bonn's policy represent a shift in alliance? Was monetary integration in line with U.S. preferences or was the FRG breaking loose of U.S. interference? The central research question is:

How can Bonn's leading role towards EMU at The Hague summit of 1969 be explained?

This thesis has the aim to define a broader international history in which Brandt's move towards economic and monetary integration is seen within the context of both European integration as well as the Atlantic partnership. Since Bonn took the leading role at The Hague, and thereafter in monetary affairs, the primary focus of this research is on the West German policy making process, by the national government. Considering the fact that the course taken by Brandt was in many ways in opposition to the public opinion and, considering that the Bundesbank remained reluctant towards European monetary

⁴⁹ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 61-63.

⁵⁰ B. Schaefer, 'The Atlantic community unraveling? States, protest movements and the transformation of US-European relations, 1969-1983' *GHI Bulletin* 36 (2005), 114-116.

⁵¹ Morgan, *The United States and West-Germany*, 15.

⁵² Marsh, *The Euro: the politics of the new global currency*, 51.

integration, particular attention will be given to the role played by Willy Brandt and the decision-making process within the government.⁵³ The initiative to move toward an economic and monetary union came from political quarters, from the heads of state, not from economic ministers or central banks.⁵⁴ The time period covered by this study runs from 1967 until 1970, focusing on the time period leading up to The Hague summit, when the decisions were made how to deal with the unraveling of Bretton Woods.⁵⁵

The research question will be answered by first defining the context in which the decision process took place. How much maneuvering room did Bonn have? In order to understand the German position towards monetary integration, it is necessary to outline briefly the basic features of the international monetary system, as it evolved during the postwar period.⁵⁶ The Cold War and the dependence on the U.S. are central in this first chapter. The crisis of the monetary system and the response of Bonn will be evaluated in the second chapter. Was Bonn's decision simply a response to the failing Bretton Woods system? The Bonn conference of October 1968 will be evaluated in detail. In the third chapter the time period leading up to The Hague conference is examined. After the Bonn conference the DM was revalued. Commissioner Barre presented a plan for further monetary integration to which Bonn responded positively. How can this shift in policy be explained? The motives of the people central in the decision making process will be discussed and an analysis is given in which 'regime change' is central. In the following chapter, The Hague summit is discussed briefly as well as the collapse of the Bretton Woods system in 1972. Finally, a brief reflection with a general conclusion will be given, placing this research within the framework of existing theories.

The literature and primary sources used in this thesis, are diverse. First of all, German and American historical records have been examined in order to obtain insight into Bonn's position. Of prime importance are the Akten zur Auswärtigen Politik der Bundesrepublik Deutschland (AAPD) and the Foreign Relations of the United States series (FRUS) from 1966-1971, documenting the discussions between policymakers and the communication between states. Also, newspaper articles containing public statements and interviews with the people involved, have been used in order to get an impression of the atmosphere at the time. These newspapers give insight into what was publicly known. In addition to these historical records, a large number of secondary sources has

⁵³ Zimmerman, 'The search for autonomy', 34.

⁵⁴ Hoffmeyer, 'Decisionmaking for European Economic and Monetary Union', 14-16.

⁵⁵ Before 1967 there was very little talk of European monetary integration within the FRG. Therefore this time period will not be studied in detail since it did not reflect a clear shift in the West-German policy.

⁵⁶ When speaking of the international monetary system, Solomons definition is used. He defines the intentional monetary system as the set of arrangements, rules, practices, and institutions under which payments are made and received for transactions carried out across national boundaries. The 'system' is convened not only with the supply of international money but with the relationships among the hundred or so currencies of individual countries and with the pattern of balance of payments relationships. For more technical information on how the Bretton woods system functioned read R. Solomon, *The international Monetary System 1945-1981* (New York 1982), 5.

been used for this study. In order to contribute to a broad and objective information base, the scholarly works of authors with different academic backgrounds and different nationalities have been consulted.

Before turning to the history of the European monetary Union it is important to explain some of the central preconceptions which are at the basis of this thesis. In this thesis behavior in international relations is explained in terms of strategy. Actors (above all the nation states) in this perspective are motivated by definition of vital interests. If this line of thought is followed through, European integration would only happen if it were in the best interest of national governments. This is a realist approach, which will be questioned to some degree in this research. It is part of the problematization: was it in the best interest of the West German government to pursue European monetary integration? If so, which interests were vital? If not, how can the steps taken by Bonn be explained, and what does this tell us about the realist perspective on European integration?⁵⁷

It is important to note that the forming of EMU involves a historical process, which cannot be understood without reference to the developments prior to the Maastricht treaty of 1997. As D.C. Kruse states: *'The 1969 Hague Summit, which formally set EMU as a goal for the Community...has had a lasting influence on the Community: the decisions made there determined the course of European integration for years to come'*.⁵⁸ However, the developments during the late 1960s and early 1970s, regarding monetary integration, should not be seen as the 'starting point' of a set, teleological process towards the Maastricht treaty and current monetary union.⁵⁹ As Zimmerman states very accurately: 'it was an open ended process', in which both EMU and its theoretical underpinning were contested.⁶⁰ I thus distance myself from the neo-functional theories, in which EMU is considered a 'logical', almost, inevitable, next step, already ingrained in the treaty of Rome. This does not mean a disregard of the historical background of EMU. The historical background and process, with all its obstacles and conflicts, does give us a better understanding of what EMU is today.⁶¹

As has become clear in the starting paragraph of this thesis, politics and economics are presented as interwoven.⁶² Monetary integration between the member states of the European community is not viewed as a purely economic process or as a matter of 'low politics': it is both an economic and a political phenomenon.⁶³ As Berry Eichengreen, an American economist, states: 'The decision to create the monetary union, the decision of

⁵⁷ Verdun, *The Euro: European Integration*, 3.

⁵⁸ Kruse, *Monetary integration in Western Europe*, 2.

⁵⁹ In stating this I distance myself from Kruse's statement

⁶⁰ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 24.

⁶¹ Kaltenhaler, *Policymaking in the European central bank*, 69.

Marsh, *The Euro: the politics of the new global currency*, 5-10.

⁶² Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 25.

⁶³ B. Eichengreen and J. Frieden, 'The political economy of European monetary unification: an analytical introduction', 1.

whom to admit, and the decision of whom to appoint to run the ECB are political decisions, taken by political leaders, subject to political constraints, not the social-welfare maximizing decisions of some mythical social planner. They result from a political process of treaty negotiation, parliamentary ratification, and popular referendum.⁶⁴ Considering this, and the fact that invariably the heads of state and government took the initiative (even against advice of financial and economic institutions), the perspective taken is primarily political, focusing on motivation for the initiative, placing the monetary decisions within an historical framework.⁶⁵ This perspective is in line with the theoretical work of Lars Magnusson and Bo Stråth, who speak of a 'political economy'.⁶⁶

In light of the economic and monetary problems facing the EU today, the time period central in this thesis becomes an important focal point to begin an analysis of monetary integration. The core issues discussed during and immediately after The Hague summit continue to preoccupy today's EU. The harmonization of the member states economies is still front page news, illustrating the wide divergences between the northern and southern economies in Europe. Germany has remained at the center of European monetary affairs since 1969, as can be seen clearly during the current financial crisis.⁶⁷ Bundeskanzler Angela Merkel finds herself in the role of 'President of Europe' having to battle financial instabilities. The fear that existed within Germany during the 1960s, that Germany would end up financing Europe's debts is still present. Analysis of the first initiative towards monetary integration might give a different perspective on the current debate on the future of the European Union and its capacity to recover from this crisis. The establishment of a monetary union in Europe marks a major step toward greater integration between the member states of the EU and is as such, without parallel in Europe's history.⁶⁸

⁶⁴ *Ibidem*.

⁶⁵ *Ibidem*, 23-31.

This thesis provides a political assessment of the initiative towards EMU and does not encompass an economic and monetary analysis.

⁶⁶ Magnusson, L. and B. Strath (eds), *From the Werner Plan to the EMU: in search of a political Economy for Europe* (Brussels 2001), 25.

⁶⁷ Kaltenhaler, 'German interests in European Monetary Integration', 69.

Geary, 'The process of European integration from The Hague to Maastricht'

⁶⁸ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan' 23-27.

Monetary affairs and the cold war

'Not all Germans believe in God. But they all believe in the Bundesbank'⁶⁹

- Jacques Delors 1992 -

During the first decade after World War II, little interest in European monetary integration existed within Europe. The treaty of Rome made no reference to monetary integration, although some scholars believe it was implicit in what was stated as the goal (namely, the completion of a common market). Even so, it was certainly not one of the immediate objectives when the ECSC and later EEC were established.⁷⁰ Monetary affairs were regarded in the international/Atlantic setting, as agreed in Bretton Woods, rather than in a European context. Despite the relative stability of this Atlantic system, referred to by the French as the *Trente Glorieuses*, the sustainability of Bretton Woods came into question from the early 1960s onwards.⁷¹ What was the American position during the early years of the 1960s? Which position did Bonn take? And how much maneuvering room did the West-German state have to determine its own policy?

Bretton Woods and the outflow of dollars: from success to pitfall

Monetary relations in the Western World were part of an overall strategy which was to shield western democracies through economic stability and growth from the (perceived) threat of communism.⁷² As Zimmerman states: 'This security partnership was the political core of the post war monetary system.'⁷³ The Bretton Woods system was not only a set of economic/monetary arrangements but a construction based on a common outlook in economic and political affairs and on a common system of values.⁷⁴

However, already from the 1960s on, the international monetary system was in trouble. Huge amounts of dollars had been pumped into Europe in the reconstruction years after World War II. During the 1950s the U.S. profited from the reserve role of the dollar insofar as it allowed the Americans to finance its huge Cold War effort without having to worry about its external balance. In the meantime, Europe acquired credit for the post-war investment needed to re-build its industries. The resulting American balance of payments deficits were no problem as long as the Europeans had an economic interest in accumulating surplus dollars, and did not want to exchange them for gold.⁷⁵ This

⁶⁹ Jacques Delors 1992 (cited from: http://www.bundesbank.de/Redaktion/EN/Standardartikel/Bundesbank/Archives/archives_55_years_different_views_deutsche_bundesbank_academic_and_politicalVoices.html?nsc=true&view=render%5BDruckversion%5D)

⁷⁰ M. Chang, *Monetary integration in the European Union* (Michigan 2009), 15-20.
Kruse, *Monetary integration in Western Europe*, 17.

⁷¹ *Ibidem*, 18.

⁷² H. Zimmerman, 'Ever Challenging the buck? The Euro and the question of power in international monetary governance' in F. Torres et al. (eds.) *Governing EMU* (Florence 2004), 233-248.

⁷³ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 53.

⁷⁴ Hoffmann, 'U.S.-European relations: past and future', 1030.
Zimmerman, *Money and security*, 99-102.

⁷⁵ H. Zimmerman, 'Western Europe and the American challenge: conflict and cooperation in technology and monetary policy 1965-1973' *Journal of European integration history* 6 (2002), 88-91.

situation changed with the recovery of the European economies, and a serious problem emerged. With the recovery of Europe's economies, the need to hold dollars declined, while the U.S. (military) involvement in Europe remained the same, causing a dollar drain out of the U.S.⁷⁶ Due to these long-term capital outflows, pressure on the U.S. Dollar was mounting and U.S. balance-of-payment deficits emerged, throwing the system into crisis: the amount of dollars in circulation worldwide exceeded the gold reserves of the U.S., the backbone of the system – the American dollar gold exchange guarantee.⁷⁷ As a result, the dollar was overpriced causing an unstable exchange rate. Washington failed to adopt adequate domestic measures, namely the increase of taxes (which was an unattractive option for electoral reasons), to prevent the inflationary consequences.⁷⁸

Already early on, in 1959, economist Robert Triffin had signaled this dilemma. He warned that a general shortage of liquidity would surface which would be forestalled by the creation of dollar assets with the risk that dollar claims would be far greater than the gold and other liquid assets the U.S. had to cover them.⁷⁹ This in turn would undermine the confidence in the entire system, since the existence of large dollar holdings undermined the belief in convertibility, resulting in a financial crisis. This problem is referred to as the 'Triffin dilemma'.⁸⁰ Washington's inflationary policies were exported to all the other currencies connected, which had to adjust to the weakness of the dollar, since the exchange rates were fixed.

According to U.S. officials, the large American troop presence in Europe, and especially in the FRG, was one of the main factors contributing to these monetary woes.⁸¹ As explained in the introduction, the U.S. provided Western Europe with financial security as well as military protection. The strains on the American balance of payments were discussed in Bonn in November 1960 by Secretary of the U.S. treasury, R.B. Anderson and under Secretary of State, C.D. Dillon. An agreement was made to (partially) compensate the high costs of maintaining the American military presence in the FRG. Under the terms of this agreement restrictions on import of American farm products

⁷⁶ Solomon, *The international Monetary System*, xi.

O. Emminger, 'Deutsche Geld- und Währungspolitik im Spannungsfeld zwischen innerem und äußerem Gleichgewicht (1948-1975)' in O. Emminger (eds) *Deutsche Bundesbank, Wahrung und Wirtschaft in Deutschland 1876-1975* (Frankfurt 1976), 502-505.

⁷⁷ Zimmerman, *Money and security*, 100-103.

F. Gavin, 'The gold battles within the Cold War: American monetary policy and the defense of Europe, 1960-1963' *Diplomatic history* 26, 1 (2002)

⁷⁸ Dickhaus, 'The international monetary policies of the German Central Bank', 9.

Zimmerman, 'Western Europe and the American challenge', 88.

⁷⁹ R. Triffin, 'The Return to Convertibility 1926-1931 and 1958-? Or Convertibility and the Morning After' *Quarterly Review* 48 (1959), 3-57.

⁸⁰ For more information on U.S. monetary policy read: S. Krasner 'United States Commercial and Monetary policy: unraveling the paradox of external strength and internal weakness' in J. Katzenstein (eds) *Between power and plenty: foreign economic policies of advanced industrial states* (Wisconsin 1977)

⁸¹ According to the American records the maintenance of troops in Germany amounted to over 350 million dollars in gold. According to President Kennedy this constituted approximately one third of the total gold loss and in 1961 constituted one half of the overall gold loss. For debates on cutting back on security commitments abroad see the documents in *FRUS 1961-1963 Vol. IX, Foreign economic policy*, Document 40 and 44.

would be relaxed and the FRG would increase its purchase of military hardware in the U.S..⁸² As stated in a Memorandum from Secretary of the Treasury-Designate Dillon to Secretary of State Rusk in 1961: 'Given our present balance-of-payments position it is important that we get as much help as possible from the Germans, as promptly as possible...'.⁸³

Even though the cost of the American military presence in the FRG was a matter of discussion in Washington, the consensus was to maintain the status quo. It was a political choice: the U.S. were willing to bear the brunt of the costs for the military protection of Europe, even though it put a strain on their own economy and on the monetary system as a whole. America's generous economic aid and military presence in Europe had become fundamental in U.S. foreign policy. The Cold War stimulated this close collaboration, especially with the FRG. West-Germany had to remain locked in a Western alliance (NATO), for fear of a communist takeover of Europe.⁸⁴ Balance-of-payment concerns were subordinate to security concerns.⁸⁵ In a conversation with Bundeskanzler Adenauer in April 1961, President Kennedy stated his 'great concern about the outflow of gold from the country' but emphasized his reluctance to diminish aid efforts in any way or to diminish U.S. troop presence abroad.⁸⁶ According to Kennedy 'that would be very bad for both the security of the United States and the joint security of the Free World.'⁸⁷ Ending the expensive commitments in Europe would have helped to close U.S. payment deficits but it was clear to Kennedy that the political consequences would be enormous.⁸⁸ In a telegram to the Department of State sent September 1966, George McGhee, U.S. Ambassador to the FRG, warned that if the U.S. decided to withdraw its troops 'Germany, which had until now depended almost entirely on the U.S. for its security would be forced to reorient its basic security policy'.⁸⁹ In a memorandum to the president, Rostow summarized the telegram and emphasized that troops withdrawal would cause increased dependence of Bonn on Gaullist France, a 'go it alone' nationalism or efforts to accommodate with the Soviets. Withdrawing troops because of the dollar and gold drain could alter great-power politics in Europe.

⁸² D.D. Eisenhower, 'Statement by the President upon completion of the mission of secretary Anderson and under secretary Dillon to West Germany' *Public papers of the presidents of the united states* (November 28, 1960) 868-869.

⁸³ 'Memorandum From Secretary of the Treasury-Designate Dillon to Secretary of State-Designate Rusk' in *FRUS 1961-1963 Vol. IX, Foreign economic policy*, Document 40.

⁸⁴ F. Gavin, *Gold, dollars, and Power: the politics of International Monetary relations, 1958-1971* (North Carolina 2004), 48.

Zimmerman, 'Ever Challenging the buck?', 3.

⁸⁵ Cohen, *The Cambridge history of American foreign Relation*, 80-181.

⁸⁶ 'Memorandum of Conversation between President Kennedy and Foreign minister Von Brentano (April 13th 1961)' in *FRUS 1961-1963 Vol. IX, Foreign economic policy*, Document 104.

⁸⁷ *Ibidem*.

⁸⁸ Gavin, *Gold, dollars, and Power*, 4.

⁸⁹ 'Text of Telegram from the Embassy in Germany to the Department of State in Washington (September 20th 1966)' in *FRUS 1964-1968 Vol. XV Germany and Berlin*, Document 171.

Rostow emphasized what he believed to be the result of such a policy: 'U.S. force reductions under present circumstances would, because of the cumulative effect of the foregoing, be considered generally as a major shift in U.S. policy. History would record it as the ebb point—the beginning of an American withdrawal from Europe.'⁹⁰ Here it becomes evident how the monetary issues have to be understood within the security context. The problems of Bretton Woods were not merely of a financial character. As Francis Gavin, an academic authority on American foreign affairs, states: '...the dollar and gold problem was central to the most important security questions of the day'.⁹¹

Kennedy and the successive administrations of Johnson and Nixon thus found themselves caught in a dilemma: the balance of payments costs of the U.S. were putting the entire monetary system under pressure, but a return to the pre-World War II isolationism was not seen as an option.⁹² Under Johnson's administration the monetary situation was further complicated due to Washington's interference in the Far East. From the early 1960s onwards Washington became preoccupied with South-East Asia and the balance of payment deficit spiraled further out of control. The war in Vietnam determined U.S. priorities and overshadowed other aspects of American foreign policy.⁹³ In February 1965, President Johnson ordered the bombing of North Vietnam. In July of the same year he decided that an additional contingent of 50.000 men would be sent to South East Asia. The war was Americanized and continued to absorb more and more of the government's attention and resources in the years that followed.⁹⁴ In the meantime, Johnson initiated his 'Great Society', a set of reforms geared at ending poverty and racial injustice within the U.S, through major spending programs addressing education, healthcare and so on. Washington printed more and more dollars in order to pay for its activities overseas and finance this expensive domestic program. This in turn created a confidence problem, since large dollar holdings undermined the belief in convertibility.⁹⁵ Few initiatives were taken to maintain the external balance and to contain the monetary turmoil. Other objectives took precedence.⁹⁶ During these years American balance of payments deficits rose out of all proportion and the U.S. commitment and will to sustain Bretton Woods, was increasingly doubted.⁹⁷

Continued American involvement in Southeast Asia and the signaled change in U.S. foreign policy caused serious concern in Europe. Despite American assurances of

⁹⁰ *Ibidem*.

⁹¹ Gavin, *Gold, dollars, and Power*, 58.

⁹² *Ibidem*, 4-6.

⁹³ Schaefer, 'The Atlantic community unraveling?' 114-116.

Haftendorn, 'The NATO crisis of 1966-1967: Confronting Germany with a conflict of priorities', 78-82.

⁹⁴ Zimmermann, 'Western Europe and the American challenge', 88-91.

⁹⁵ Dickhaus, 'The international monetary policies of the German Central Bank', 9.

Zimmerman, 'Western Europe and the American challenge', 88.

⁹⁶ B. Eichengreen, 'From benign neglect to malignant preoccupation: U.S. balance of payments policy in the 1960s' Working paper University of California (2000), 2.

⁹⁷ Zimmermann, 'Ever Challenging the buck?', 240-245.

maintaining political and military commitments in Western Europe, the West Europeans had become skeptical about Washington's intentions. Furthermore, many Europeans felt very negatively about the U.S. involvement in Vietnam, and complained that they were in fact paying for the war by holding American dollars. Especially the French opposed U.S. policy. In 1965 France, under the leadership of General Charles De Gaulle, initiated an open attack on the Bretton Woods system, adopting a policy of systematically exchanging dollars into gold. This policy was geared to force change in the monetary order, something which fit well within the larger French policy of undermining American power worldwide.⁹⁸ De Gaulle criticized the central position of the American dollar in the international monetary system, which he perceived to be just another feature of 'l'hégémonie Américaine'.⁹⁹ In March 1966 De Gaulle announced the French withdrawal from the military component of NATO. Also, De Gaulle's public critique of the international monetary system became more vocal. According to the French president the system allowed the U.S. to live beyond its means and forced the European surplus countries to finance America's costly 'military adventures' overseas.

The crisis of the Bretton Woods system, with the French policy geared at undermining the American controlled monetary order, brought the disagreements between the U.S. and France to the front and put the FRG in a difficult position. Its two main allies were contenders, rather than partners, putting a strain on the FRG's policy of fostering Atlantic cooperation while furthering European integration. Bonn in fact had to choose whether to support the U.S. or France in an escalating monetary confrontation.¹⁰⁰

While De Gaulle attacked the system by exchanging dollars for gold, Bonn embarked on a very different path, supporting the system by not exchanging dollars for gold and through transferring dollars back to the U.S. by buying American arms (the so called 'offset payments').¹⁰¹ The Bundesbank publicly distanced itself from the French policy. Especially under Erhard's chancellorship (1963-1966), a strongly U.S. orientated policy was followed.

Scholars explain Bonn's willingness to support the U.S. through these offset payments in different ways. Some portray the relationship between the FRG and the U.S. at this time as only good. Bonn stepped up to help its ally by buying its weapons. Others see Bonn's policy as an economic move to counterbalance the German balance of payment surplus: a move to benefit the FRG's own interest.¹⁰² Although both explanations might have some truth to them, the records show a different image. In May 1964, U.S. secretary of

⁹⁸ C. de Gaulle, 'Pour l'effort, Août 1962-Décembre 1965' *Discours et messages* Vol. 4, (Paris 1993)

⁹⁹ *Ibidem*

¹⁰⁰ Marsh, *The Euro: the politics of the new global currency*, 45.

¹⁰¹ For more details on this topic see W.G. Gray, 'Number one in Europe: The emergence of the Deutsch Mark, 1968-1969' *Central European History* 39 (2006)

¹⁰² *Ibidem*, 56-62.

defense, Robert McNamara, warned German minister of defense Kai-Uwe von Hassel, that Washington would reserve the right to reduce its forces in Germany should Bonn's lagging purchases of American arms fail to offset U.S. troop costs. This is also stated in multiple internal memoranda.¹⁰³ Washington thus threatened to bring home troops in order to pressure Bonn into supporting the monetary order, which was economically no longer in line with German preferences.¹⁰⁴ It was a question of overt political pressure: the U.S. linked its continuing military presence to the FRGs reserve management policies.¹⁰⁵ The FRG was pressured to spend surplus dollars, purchasing military equipment made in the U.S.. German reliance on American (nuclear) protection made Bonn more susceptible to American pressures than were other European countries. German policymakers' options were restricted. Bonn could not afford to endanger its security links to the U.S.¹⁰⁶ As H. James states: the German policy was 'a concession that was regarded as part of the deal to secure a continued U.S. defense commitment to central Europe'.¹⁰⁷

Besides security, the continued presence of U.S. troops in Germany was deemed necessary for Bonn's own ultimate goal. Above all, Bonn was concerned about the 'German Question': progress on the unification issue.¹⁰⁸ American involvement was indispensable, because the Federal Republic did not have the right, as a sovereign power, to negotiate a reunification agreement on its own. The western powers could legally block any settlement which provided for the neutralization of Germany and for the withdrawal of their troops.¹⁰⁹ As Zimmerman states: 'There was no way around the Americans, at least as long as reunification remained the centerpiece of German Foreign policy and placed Germany in hostile opposition to the Warsaw Pact.'¹¹⁰ It was the fear, that the Johnson administration would sacrifice core German interests in order to achieve détente, which made Bonn compliant in monetary affairs.¹¹¹ This struggle over the U.S. troop commitment and the nature of U.S. relations with Europe was at the heart of the 'gold battle', as Gavin so strikingly terms it.¹¹²

¹⁰³ For instance see: 'Memorandum from the President's Special Assistant for National Security Affairs (Bundy) to Secretary of State Rusk, Secretary of the Fowler Treasury, and Secretary of Defense McNamara (May 8 1964)' in *FRUS 1964-1968 Vol. VIII, International Monetary and Trade Policy*, Document 6.

¹⁰⁴ Gavin, *Gold, dollars, and Power*, 10-12.

¹⁰⁵ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 54

¹⁰⁶ Haftendorn, 'The NATO crisis of 1966-1967: Confronting Germany with a conflict of priorities' 99

¹⁰⁷ H. James, *Making the European Monetary Union: The role of the Committee of Central Bank Governors and the origins of the European Central Bank* (Cambridge 2012), 64.

¹⁰⁸ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 52-58

¹⁰⁹ For detailed information on the German question see M. Trachtenberg, 'The United States, France, and the Question of German Power, 1945-1960' available via www.sscnet.ucla.edu/polisci/faculty/trachtenberg/cv/MUNICH..doc

¹¹⁰ Zimmerman, 'The search for autonomy', 44.

¹¹¹ Gavin, *Gold, dollars, and Power*, 152.

¹¹² Gavin, 'The gold battles within the Cold War'

In April 1966 the troops issue reached a crisis point and 15.000 U.S. troops were withdrawn from the FRG.¹¹³ McGhee assured the West German officials that the withdrawal was a *Umgruppierung* and not a withdrawal but a hardening of the American attitude towards Europe was becoming more and more evident. Heinrich Knappstein, the FRG ambassador to the US, expressed his concern to Rusk about the *Junktim* that McNamara had established between stationing troops and the offset agreement.¹¹⁴

Even so, at this point in time the allegiance of Bonn to the U.S. was strong. While it became increasingly difficult to reconcile the different interests of the actors, most observers were optimistic that, with some reform measures, the Atlantic monetary system would again be successful. As Zimmerman concludes: 'The working of the system still rested on a basic political understanding among the countries of the transatlantic alliance.'¹¹⁵

In later years, when the costs of the Vietnam war mounted and the balance of payment deficit grew, currency issues began to compete with security concerns, creating a rift between the Western allies. It wasn't until mid 1967 that the threats of troops withdrawal became serious.¹¹⁶

First initiatives towards European monetary integration: a cool reception in Bonn

Despite the re-enforcement of international cooperation, and in particular of the German support of the system, American deficits did not disappear during the late 1960s and problems within the monetary system therefore remained. Within Europe voices calling for a radical reform of the system had become more influential and alternative conceptions of a European monetary order emerged.¹¹⁷

As early as 1957 the need for progress in European monetary integration was recognized by Robert Triffin, who had signaled the problems within the monetary system. He wrote a memorandum in which he suggested to establish a European reserve fund. During the early 1960's there were also several actors in Europe, pushing towards monetary integration on a European level. In 1961 Monnet's action program for the United States of Europe advocated a European reserve system as a first step towards a single currency and a European monetary policy. This initiative was followed by yet another proposal, this time by Robert Marjolin who, as a member of the Commission's action program for the second stage of the Common Market, also suggested a European reserve fund and called for the establishment of a committee of the EEC's Central Bank Governors.¹¹⁸ It was emphasized that the absence of monetary integration would jeopardize '*la cohesion*

¹¹³ Morgan, *The United States and West-Germany*, 146.

¹¹⁴ Gavin, *Gold, dollars, and power*, 146.

¹¹⁵ Zimmerman, 'Western Europe and the American challenge', 89.

¹¹⁶ Gavin, *Gold, dollars, and power*, 176.

¹¹⁷ Zimmerman, 'Ever Challenging the buck?', 238-239

¹¹⁸ Kruse, *Monetary integration in Western Europe*, 16-18.

du Marché Commun'.¹¹⁹ In 1965 the French minister of finance, Giscard d'Estaing, proposed the introduction of a common European currency, beginning with a Franco-German monetary union. According to Zimmerman, these early initiatives were not taken seriously by the transatlantic elite managing monetary affairs.¹²⁰ The completion of the Common Market and the CAP were considered the most important areas of Community activity, rather than monetary integration, and a turn away from Atlantic cooperation was not something which was considered as a serious option.

In the FRG the response to these proposals towards European monetary integration was mostly negative. Otmar Emminger, at this time board member of the Bundesbank, reasoned that there was no need to replace the dollar with another reserve unit, and that if assistance was required, an expansion of the General Arrangements to Borrow (GAB) was the most appropriate mechanism.¹²¹ Blessing, as chairman of the Bundesbank, attacked Marjolin's proposal as a 'pipe dream'. Blessing argued that monetary integration was not possible without prior economic integration and that monetary policies anyway needed to be dealt with at the transatlantic level rather than in a European context, because 'Währungsfragen sind..weltweite Fragen'.¹²² The West German government echoed this position. The political establishment in Bonn was in general deeply suspicious of too close a relationship with France out of concern that it would weaken the transatlantic link.¹²³ Creating a regional monetary bloc, at the expense of Atlantic cooperation was not an option.¹²⁴ Also, with the FRG being a surplus country, a European monetary arrangement would mean that Germany would have to finance at least part of the deficits of the other common market countries.¹²⁵

The monetary issues during the late 1960s put high tension on the Franco-German partnership. These age old enemies had built a strong partnership during the preceding years, but from the mid-1960s onwards the relationship between Bonn and Paris had become somewhat strained. France had seen its economic power fall behind Germany and this new economic reality, with the FRG in a position of strength, changed the political landscape. Bonn was no longer in the underdog position.¹²⁶ The West German economy was booming and large surpluses on the balance of payments increased year

¹¹⁹ Dyson, *The road to Maastricht*, 100-105 and 274.

The Committee of Governors of the Central Banks of the Member States of the EEC was established and would play a significant role in the following years of monetary turmoil during the late 1960's. See page 32. for more information on the CCGB's involvement.

¹²⁰ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 54.

¹²¹ James, 'The potential of caterpillar' 25.

¹²² Deutsche Bundesbank Auszüge aus Presseartikeln 'Ausführungen des Präsidenten der Deutschen Bundesbank Karl Blessing über Währungsfragen im Aktionsprogramm der EWG-Kommission' *Norddeutschen Rundfunk* (Hamburg 1963) Available via: http://www.Bundesbank.de/Redaktion/DE/Downloads/Bundesbank/Wissenswert/blessing_auszuege_aus_presseartikeln.pdf?__blob=publicationFile

¹²³ Haftendorn, 'The NATO crisis of 1966-1967: Confronting Germany with a conflict of priorities', 78-80.

¹²⁴ Dyson, *The road to Maastricht*, 101.

¹²⁵ L. Tsoukalis, *The Politics and Economics of European monetary integration* (Oxford 1977), 57.

¹²⁶ For a background of differing views of France and Germany see Maes, 'On the origins of the Franco-German EMU controversies'.

after year. As Dyson states: 'Faced by repeated economic and balance of payment difficulties, France lacked the power to persuade its key partners, notably Germany, that its proposals were credible alternatives.'¹²⁷

During 1966 Erhard's policy of unstrained support to the U.S. led to his downfall. The Bundeskanzler as a fervent Atlanticist, had failed to cope with the increasing instabilities within the monetary order, leading to a recession in 1965. During the 1966 elections, the Christian Democratic Union (CDU) and Social Democratic Party (SPD) joined forces and made the first 'Grand Coalition', under Bundeskanzler Kurt Kiesinger of the CDU and his vice-chancellor Willy Brandt of the SPD. The Grand Coalition was self-confident about the economic policy, with a stable labor market and low inflation.¹²⁸ The new government took a more independent stance in defining Germany's national interest. In an article of *Foreign Affairs* in 1967, Teo Sommer, considered to be one of Germany's foremost authorities on international relations and strategic issues, stated that the Federal Republic would no longer feel like 'a ward of Washington' and 'will not hesitate to disagree with, and if necessary to deviate from, American-sponsored policies.'¹²⁹ From the available records it becomes clear that also in Bonn, many shared the French concern that the U.S. was reordering its global priorities. Washington's declining fear of war in Western Europe and the preoccupation of the White House with domestic policies and Vietnam came at the expense of Europe.¹³⁰

Within the FRG voices calling for a change of policy, away from the established framework of international monetary cooperation, certainly became more outward than under Erhard's chancellorship.¹³¹ In January 1967 economic minister Karl Schiller even sent Bundeskanzler Kiesinger a letter in which he advised the government to follow the French policy of transferring back dollars to the U.S.¹³² Even though this advice was not followed, it is a clear sign of a changing attitude that such a step was even considered. Schiller's letter has to be understood against the backdrop of economic troubles facing the FRG. From an economic point of view, the American policy had become an obstacle for the West German state, with its prime objective of price stability. The monetary problems abroad were bringing inflation to Germany ('imported inflation') and the international monetary system limited the policy options of the FRG.¹³³ The inflation level of the U.S. was not so much the problem, but rather the inflow of dollars which created

¹²⁷ Dyson, *European economic governance and policies*, 23.

¹²⁸ Gray, 'Number one in Europe', 59.

¹²⁹ T. Sommer, 'Bonn changes course' *Foreign Affairs* 45.3 (1967), 477.

¹³⁰ Morgan, *The United States and West-Germany*, 143.

Cohen, *The Cambridge history of American Foreign Relations*, 180.

¹³¹ Zimmerman, 'The search for autonomy', 32.

¹³² *Ibidem*, 44.

Zimmerman, 'Western Europe and the American challenge', 5.

¹³³ O. Emminger, 'The D-Mark in the conflict between internal and external equilibrium. 1945-75' *Essays In International Finance* 122 (1977)

Dickhaus, 'The international monetary policies of the German Central Bank', 6.

excessive domestic liquidity and undermined the stability of the German economy.¹³⁴ The FRG had entered the international monetary system in 1948 as a deficit country but since its economic recovery, the FRG's trade and current account had had an almost continuous, large, surplus. The DM was thus undervalued.¹³⁵ While the strong German economy called for a further increase of the already high interest rate, the Bretton Woods system demanded either a lower interest rate or a revaluation in order to prevent further inflow of funds from abroad.¹³⁶ With a fixed D-Mark exchange rate, recurrent balance of payments surpluses developed, undermining internal stability.

During Kiesinger's government, and later during Brandt's government, the divergences in policy advice concerning monetary issues are remarkable. Zimmerman presents an insightful explanation for the many different, and often changing, opinions of policymakers, bankers and financial experts. According to Zimmerman, the complex relationship of the German government to its central bank, the Bundesbank, is essential when evaluating the monetary choices of the FRG during the 1960s.¹³⁷ Zimmerman explains that governments, when confronted with monetary questions, accord primary importance to the establishment of economic conditions which are conducive to growth and full employment. Also, foreign policy concerns exert influence on monetary policy (and especially in the FRG as explained). On the other hand, Central Banks are concerned primarily with the stability of the currency, and often follow a restrictive policy in order to keep government expansionary economic policies in tune. In the FRG the interest of the Bundesbank and Bonn collided during the late 1960s, with external international restraints complicating the situation even further.

This dilemma forced the economic policy makers in government and Central Bank to compromise between domestic stability and external considerations.¹³⁸ Achievement of the Bundesbank's primary objective of price stability was more and more difficult.¹³⁹ In November 1960 this problem had already forced the Bundesbank to revalue the DM. In the following years a similar situation developed. Germany still had huge surpluses and German policy-makers saw themselves confronted with the increasing political constraints and economic costs of supporting the monetary system. But a second revaluation was not really considered and instead the allegiance to the U.S. was again confirmed. Germany was not about to take up a Gaullist attitude towards the U.S., and Bonn remained supportive of the U.S. and the Bretton Woods system. The French position towards Bretton Woods and also within NATO was considered harmful with

¹³⁴ H. Ungerer, *A concise history of European monetary integration. From EPU to EMU* (London 1997), 72.

¹³⁵ Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 3-8.

¹³⁶ Dickhaus, 'The international monetary policies of the German Central Bank', 5-6.

¹³⁷ Zimmerman, 'The search for autonomy', 35.

¹³⁸ Ungerer, *A concise history of European monetary integration*, 58.

¹³⁹ Zimmerman, 'The search for autonomy', 41.

respect to the Atlantic cooperation and Bonn was still regarded as an indispensable and reliable partner.¹⁴⁰

Between 1963 and 1967 an elaborate system of new rules and regimes were introduced to help stabilize the system. In April 1967 a trilateral negotiation between the U.S., Great-Britain and the Federal Republic, started out with great divergences, but was concluded 'successfully'.¹⁴¹ Bonn promised to buy more American military equipment to offset U.S. troop commitment. Furthermore, in a letter written by Bundesbank President Karl Blessing to Federal Reserve Chairman William McChesney Martin, the Bundesbank agreed to hold its dollars and not exchange them for gold.¹⁴²

The assurance by the Bundesbank not to convert dollars into gold was far reaching. With this confirmation the gold-dollar-standard de facto changed, for the FRG, into a dollar-standard.¹⁴³ Furthermore, with this confirmation not to exchange dollars into gold, the Bundesbank to a large extent gave up its autonomy with regard to investing the German reserves and its leverage on the U.S.. Lastly, this confirmation made a convergence with the French policy impossible. As Zimmerman states: 'The American version was the clear winner in this contest for the German monetary soul'.¹⁴⁴

Blessing's letter certainly was of symbolic importance, suggesting that the West-German allegiance was with the Americans, not with the French.¹⁴⁵ Later, in an interview in 1970, Blessing stated: 'Ich erkläre Ihnen heute, daß ich mich selber persönlich schuldig fühle auf dem Gebiet. Ich hätte damals rigoroser sein müssen gegenüber Amerika. Die Dollar, die bei uns anfielen, die hätte man einfach rigoros in Gold umtauschen müssen.'¹⁴⁶ He explained that, at the time, he feared foreign policy implications if he refused. Blessing's letter was one of the last examples of such overt German support to the U.S. treasury with the intent to stabilize the Bretton Woods monetary order.

In summary, a change in attitude is to be seen towards the late 1960's. The U.S. involvement in Vietnam made Bonn doubt if Washington still was its prime protector. Economic problems facing the FRG were starting to create doubt within the FRG's government regarding the existing monetary arrangements. The voices calling for a turn away from Atlantic cooperation however were not predominant. Schiller's advice to convert dollars to gold was ignored and it wasn't until the Bonn conference of November

¹⁴⁰ Sommer, 'Bonn changes course', 480-483.

¹⁴¹ For details on the trilateral negotiation read Morgan, *The United States and West-Germany*, 171-174.

¹⁴² 'Der Blessing-Brief' (30 March 1967) in *Deutsche Bundesbank historisches Archive*. Available via: http://www.Bundesbank.de/Redaktion/DE/Downloads/Bundesbank/Wissenswert/schreiben_gold_blessing_brief.pdf?__blob=publicationFile

¹⁴³ Morgan, *The United States and West-Germany*, 173.

¹⁴⁴ Dickhaus, 'The international monetary policies of the German Central Bank', 18.

¹⁴⁵ Marsh, *The Euro: the politics of the new global currency*, 42-43.

¹⁴⁶ Interview with K. Blessing, 'Der Brief gilt leider noch heute' *Der Spiegel* 19 (1971) Available via: <http://www.spiegel.de/spiegel/print/d-43257718.html>

1968 that the German government publicly stood up against its allies in monetary affairs, defending its own interests.

The emergency conference of Bonn

'The primacy of power in western Europe had now moved from Paris to Bonn' ¹⁴⁷

The various financial arrangements between Bonn and Washington proved too little, too late, to alleviate pressure on the dollar and to save the Bretton Woods system.¹⁴⁸ The French policy, directed against any Atlantic initiatives, combined with a reduced U.S. commitment in Europe (due to Vietnam), prevented any serious reform of the transatlantic order. In 1968 the monetary crisis came to a boiling point, forcing the calling of the emergency Bonn conference in November 1968. Choices had to be made: could and should the Atlantic monetary system be saved? Which position did Bonn take? The crucial issue was how pliable Bonn would be to the demands of the Atlantic partners.

Credit packages, devaluations and unrest: the prelude to the Bonn conference

In November 1967 the problems of the Bretton Woods system became painfully evident when a currency crisis hit the UK. The pound sterling functioned as a reserve currency within the Bretton Woods system, and as such was considered the first line of defense for the dollar if in trouble. However, the sterling reserves were inadequate for this purpose and the UK's balance of payment difficulties combined with slow economic growth suggested that the sterling had been overvalued. Already in the early 1960s the UK required large scale international financial support after a series of balance of payment crises. On several occasions the UK had been bailed out by credit packages from the IMF, which proved insufficient to turn the tide. Despite the massive aid (primarily from the U.S.) the sterling remained weak. In November 1967 Harold Wilson's Labour Party cabinet was forced by the IMF to devalue the pound sterling by 14.3 per cent.¹⁴⁹ Following this devaluation, Wilson's cabinet enacted an austerity program intended to stabilize the monetary situation in Great-Britain.¹⁵⁰

Following the devaluation of the sterling, the ability of the U.S. to maintain the Bretton Woods system was seriously questioned. If even the value of the sterling, being a reserve currency, could not be stabilized, how tenable were the other exchange rates? Already in May 1967, Fowler had warned the U.S. president, that 'the financial problem is our Achilles heel, more than any of the specific problems listed in the State Department papers.'¹⁵¹ He continued to state that the mounting crisis is a 'threat to our position in Western Europe and the effectiveness of our foreign policy in dealing with it.' Fowler

¹⁴⁷ 'Aufzeichnung de Ministerialdirigenten Berger, betr. Bonner Wahrungskonferenz (Zehnergruppe), Versuch einer außenpolitischen Analyse' in *AAPD 1968 Vol. II*, Document 389.

¹⁴⁸ Zimmerman, 'Ever Challenging the buck?', 238.

¹⁴⁹ Ungerer, *A concise history of European monetary integration*, 69.

¹⁵⁰ For more details on the currency crises of the UK, see Bordo, M. (et al), 'Sterling in crisis: 1964-1967' *Working paper National Bureau of Economic research Cambridge* (2009)

¹⁵¹ Memorandum from secretary of the treasury Fowler to president Johnson' in *FRUS 1964-1968 Vol. XIII, Western Europe Region*, Document 254

blamed the Common Market countries for this situation stating that these countries were uncooperative. These countries allowed France to follow its destructive policy, undermining the existing order. In the U.S. the call for troop reduction gained more and more support, by both Congress as well as the American public. These considerations were now much more serious than they had been during earlier monetary crises of the early 1960s: the twin financial burdens of Vietnam and the Great Society had become too heavy to bear.¹⁵² Furthermore, at this time the relations between the U.S. and the USSR were heading towards a period of détente, with Washington initiating a conciliatory policy. Troop withdrawal became therefore increasingly attractive, the more so as a Soviet threat was considered greatly reduced.

In an effort to relieve the U.S. dollar, without touching on this controversial subject of troop withdrawal, Washington had proposed the introduction of 'Special drawing rights' (SDR) in June 1967. Talks on the Special Drawing Rights, a new form of reserve currency, had already been initiated in 1965. However these discussions had been stopped due to a conflict between Europe and the U.S. regarding Washington's refusal to accord a veto right to their European counterparts.¹⁵³ The SDR agreement was finally signed in 1968.¹⁵⁴ The Bundesbank approved the SDR plan, stating that 'with this plan it was proved that the important countries were willing to cooperate and act responsibly as far as the International Monetary System was concerned.'¹⁵⁵

In the meantime, following the devaluation of the sterling, a second crisis hit Europe. In May 1968 a massive general strike broke out across France. Starting as a student revolt, the events soon culminated, bringing to the streets eleven million workers (a third of the French population). De Gaulle feared civil war or revolution might be at the doorsteps and called for new parliamentary elections. The violence disappeared surprisingly quickly and workers went back to their jobs. Against expectations, when the elections were held in June 1968, the Gaullist party emerged even stronger than before. However, the protests had left the French economy in shambles. The riots led to a wage explosion in France, which resulted in excess demand and rapid inflation. Consequently, the international competitiveness of the French industry was impaired.¹⁵⁶ This made a sharp deficit in the balance of trade inevitable with speculative outflows of capital in May and June, and again in November 1968.

In order to save France, and the rest of Europe from further monetary instabilities, there was no choice but to support the French economy with financial aid. This support was

¹⁵² Gavin, *Gold, dollars, and Power*, 174.

¹⁵³ Washington feared that a veto would give de Gaulle the ability to Block any American initiatives regarding the monetary system. For more information on the SDR's read C. Wilkie, *Special Drawing Rights (SDRs): the first International Money* (Oxford, 2012)

¹⁵⁴ Zimmerman, 'Western Europe and the American challenge', 5.

¹⁵⁵ Dickhaus, 'The international monetary policies of the German Central Bank', 22.

¹⁵⁶ Ungerer, *A concise history of European monetary integration*, 59-62.

provided by the Committee of Central Bank Governors (CCBG). Initially the CCBG was a forum where the heads of the EEC's central banks consulted each other.¹⁵⁷ In June 1968, France had dropped out of the Gold pool – showing its resistance to the existing international monetary cooperation. French policymakers worried about the political implications of drawing on the IMF. Therefore, the financial support was strictly in European hands.¹⁵⁸

After these crises, the dollar-gold problem became more acute, reaching a climax in March 1969 when the gold market was split into free and 'official gold' transactions, establishing the so called two-tier gold system.¹⁵⁹ In fact, this decoupled the value of the dollar from gold, creating a pure dollar standard.¹⁶⁰

The West-German economic Giant

Throughout these years of financial turmoil, the German mark remained the most solid currency of the Western economic system with the lowest interest rates.¹⁶¹ On paper an ideal situation for the FRG but, in reality, Bonn's emphasis on price stability was having a destabilizing effect upon the international monetary system.

Within the Grand Coalition, which had governed in Bonn since December 1966, Karl Schiller at the ministry of economics and Franz Josef Strauss at the finance ministry, took the lead in economic matters. Both ministers had come to power during West Germany's first major postwar recession in 1966 which had ended Ludwig Erhard's chancellorship. Their foremost interest was the German economy. Together the duo Schiller/Strauss, prepared a series of bills designed to revive Germany's economy. The stability and growth act was their foremost success. With this ambitious economic program, passed by the Bundestag in June 1967, the Grand Coalition was successful in realizing this goal. As Gray states: 'It was a technocrat's dream, a masterpiece of 1960s optimism, and it apparently persuaded many Germans that vigorous economic expansion could be undertaken without endangering price stability.'¹⁶² The student and worker protests of France did not spill over into the FRG and by the summer of 1968 the FRG had recovered from its recession. The German economy was growing, and in contrast to Great-Britain, France and the U.S., this economic growth did not result in inflation.

¹⁵⁷ The CCBG was set up, as part of Marjolin's proposal in 1964. The Committee of Governors initially had a very limited remit but over the years it gradually grew in importance until it ended up at the heart of monetary cooperation between Community members. For the original text, establishing the Committee of Governors, and for more details on its preconditions and policy areas see: http://www.ecb.europa.eu/ecb/history/archive/pdf/released/Presidents_note_on_organisation_CoG_14_12_1964_EN.pdf

¹⁵⁸ James, *International Monetary Cooperation since Bretton Woods*, 59.

¹⁵⁹ The two-tier gold system, established the principle of a separation between the free market in gold on the one hand and the operations in gold among the central banks on the other. For more information read Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 18.

¹⁶⁰ Zimmerman, 'Western Europe and the American challenge', 93.

¹⁶¹ Morgan, *The United States and West-Germany*, 166.

¹⁶² Gray, 'Number one in Europe', 58.

However, this success had its price. The devaluation of the pound, the non-devaluation of the franc and the weakness of the dollar, combined with the strength of the Deutsche Mark were creating an imbalance. During the course of 1968 the inflation gap between West Germany and the other countries of the financial system, was creating a ever-widening gap in price levels, magnifying the problems which already existed. With the fixed exchange rates, the competitive position of the German industry was constantly improving. The DM thus benefited from the weakness of the dollar, and of the franc and pound: in consequence, the strength of the DM created strong pressure on the other currencies.

For the German exporters and industry it seemed an ideal situation. The lower costs in the FRG meant that they could price their goods competitively in foreign markets. So, what was the problem? The success of the German economy led to a continual increase of German reserves, fed by the surpluses of its balance of payments. Such an unstable situation meant that either a means for outflow of the accumulated funds had to be devised or the earnings had to be curtailed. West German firms and banks actually were exporting capital in the form of remittances from 'guest workers' to their homelands and as increased offset payments to the U.S. But this outflow was not sufficient: Germany's balance of payments structure was fundamentally 'out of equilibrium'.¹⁶³ The second option, of curtailing earnings, would require a revaluation of the Mark. In Germany, a revaluation was viewed as a measure which would create price instability, at odds with the prime objective of both government and Bundesbank. Furthermore, within the Bretton Woods system as a whole, both devaluing as revaluing were viewed reluctantly by all members.

The weakness of the franc made the situation even more acute, resulting in a large inflow of Francs into Germany. For that reason, the Council of Economic Advisors, Germany's most prestigious group of independent economists, urged that the D-Mark be set at a higher parity vis-à-vis the dollar and other world currencies. In the late summer of 1968, officials at the Bundesbank in Frankfurt, who had always been opposed to a revaluation, now recommended this course to the cabinet in Bonn.¹⁶⁴ Also the OECD urged Bonn to reduce the impressive balance of payment surplus and implicitly urged the German

¹⁶³ Gray, 'Number one in Europe', 58-63.

¹⁶⁴ For the recommendations of the Bundesbank see: 'Letztes Angebot' *Der Spiegel* 20 (12-05-1969), 27-28. Available via: <http://www.spiegel.de/spiegel/print/d-45741381.html> and the monthly report of the Deutsche Bundesbank (November 1969) Available via: http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1969/1969_11_monthly_report.pdf?__blob=publicationFile
See the interview with Blessing for more details, 'Der brief gilt leider noch heute' for further explanations.

government to revalue the D-Mark.¹⁶⁵ Such a policy would also receive a warm welcome in Washington, since it would benefit American exports to Europe.¹⁶⁶

But Kiesinger, Schiller and Strauss had to consider also the advice of the influential Bundesverband der Deutschen Industrie (BDI), the voice of the industrial leaders in Germany. The BDI naturally was opposed to revaluation, since it would affect German exports negatively. For the government the question was how far a revaluation would lead to a satisfactory solution for Germany. Several different research institutes had declared that a revaluation was unnecessary.¹⁶⁷ In the end, Schiller felt that a decision could be postponed until after the upcoming election. For the time being, any idea of revaluation was rejected.¹⁶⁸ Schiller in the meantime tried to ease the situation by stimulating the import of consumer products and also providing openings for more intensified trade with Eastern Europe.

However, speculators on the financial markets were expecting that sooner or later a revaluation would take place. As a consequence, enormous sums of speculative funds were transferred to the FRG. During the first three weeks of November an equivalent of 9 billion DM in foreign exchange poured into Germany.¹⁶⁹ If the Deutsche Mark were to revalue, financial speculators would gain overnight profits: buying Marks just before the impending revaluation would generate an instant return. Especially holders of Francs had the incentive to move into Marks, in light of the difficult situation in France and rumors of a pending devaluation of the Franc. Any sign that government action was imminent, set of an accelerated flow of currencies into the FRG.

The German government, confronted with the generally anticipated revaluation, persisted in denying any intention to revalue the Mark. Particularly in Paris, the franc being under great strain, a clear move from Bonn was anxiously awaited.¹⁷⁰ French Finance minister François-Xavier Ortoli, pronounced that 'die Deutschen seien an allem schuld' and that he expected a clear move from Bonn concerning the financial stalemate.¹⁷¹ Schiller did not accept the French position, where the blame of the financial turmoil was cast on Bonn and declared 'er wurde nichts unter Druck unternehmen'.¹⁷²

¹⁶⁵ 'Economic Survey: Germany 1967' Organisation for Economic Cooperation and Development (Paris 1967) Available via: http://www.keepeek.com/Digital-Asset-Management/oe.cd/economics/oe.cd-economic-surveys-germany-1967_eco_surveys-deu-1967-en#page1

¹⁶⁶ 'Gespräch des Bundeskanzlers Kiesinger mit dem Staatssekretar im amerikanischen Außenministerium Eugene Rostow' in *AAPD 1968* Vol. I, Document 185.

¹⁶⁷ D. Stolze 'Bonn ist schwächer als die Mark: Atempause im Währungskrieg' *Die Zeit* 48-29 (1968) Available via: <http://www.zeit.de/1968/48/bonn-ist-schwaecher-als-die-mark/seite-2>

¹⁶⁸ Morgan, *The United States and West-Germany*, 176-180.

¹⁶⁹ Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 24.

D. Stolze, 'Heißes Geld' *Die Zeit* 47 (1968) Available via: <http://www.zeit.de/1968/47/heisses-geld>

¹⁷⁰ Gray, 'Number one in Europe', 58-63.

¹⁷¹ 'Aufzeichnung de Ministerialdirigenten Berger, betr. Bonner Währungskonferenz (Zehnergruppe), Versuch einer aussenpolitischen Analyse' in *AAPD 1968* Vol. II, Document 389.

¹⁷² *Ibidem*.

But also in Bonn it was clear that the stalemate had to be broken. For that reason, Bonn offered increased financial help to Paris (about \$500 million to help France's financial sector weather the crisis). Yet, the financial crisis deepened and the Bundesbank privately urged the Bonn government to revalue the Mark. But the Government refused to budge.¹⁷³

The Bonn conference

Against this volatile background, the Bonn emergency monetary conference was called together, largely on the insistence of the U.S. administration. Washington feared that, absent German action, de Gaulle might decide to drastically devalue the franc to solve the French problems. As a consequence, the pound would be further undermined and in turn would put the dollar under further strain.¹⁷⁴

In order to end the crisis the Finance ministers and central bank governors from the world's ten largest capitalist economies (the Group of 10) met in Bonn on November 20–22, 1968. To win time for negotiations, currency markets in all the major West European countries were closed for the rest of the week. The hope was to reach agreement on a combined revaluation of the German mark and devaluation of the French Franc. The conference was held at the German Economics Ministry under the chairmanship of the German minister of Economics Schiller.¹⁷⁵

Of course, Schiller and Strauss knew what to expect from this conference. A day before the meeting in Bonn government and parliamentary leaders had met and decided not to revalue. Rather than give in to a revaluation, Schiller announced a 'pseudo-revaluation', imposing a 4% tax on export and a 4% reduction on import charges.¹⁷⁶ In this construction Germany's consistent surpluses would be diminished as it would stimulate imports and reduce exports. At the same time, German politicians and the Bundesbank alike had the pleasure to take away the profit expected by speculators. An additional advantage was that these measures could be adjusted or reversed if needed.¹⁷⁷

In the course of the negotiations, the German hosts presented this package that had been the subject of intense bargaining within the German coalition government.¹⁷⁸ The Bundesbank had negotiated with the government two days before the conference, and had pushed for a concerted realignment of parities. Blessing states that he tried to argue

¹⁷³ Emminger, 'The D-Mark in the conflict between internal and external equilibrium' 24-25.

'Aufzeichnung des Ministerialdirektors Harkort, betr. Überlegung zu einer Aufwertung der D-Mark' in *AAPD 1968*, Vol. II, Document 381.

¹⁷⁴ Gray, 'Number one in Europe', 9.

'Waiting to pick up the pieces' *The Spectator* (1968) Available via: <http://archive.spectator.co.uk/article/29th-november-1968/2/waiting-to-pick-up-the-pieces>

¹⁷⁵ Emminger, 'The D-Mark in the conflict between internal and external equilibrium' 24-28.

¹⁷⁶ *Ibidem*.

¹⁷⁷ Gray, 'Number one in Europe', 65

¹⁷⁸ For a description of the proceedings of the Bonn conference and the German perspective see 'Telegram from the embassy in Germany to the White House' in *FRUS 1964-1968 Vol. VIII, International monetary and trade policy*, Documents 214-218.

this solution with the government, but to no avail.¹⁷⁹ The Finance Minister, Franz Josef Strauss, of the Bavarian CSU, fiercely opposed a revaluation of the mark as it would be harmful to German export interests. It would represent a competitive setback to German exporters, and mindful of the CDU/CSU's important industrial and agrarian constituencies, Kiesinger and Strauss flatly refused to consider any change in the mark's value.¹⁸⁰

The German government was repeatedly urged to revalue its currency. One foreign leader after another called on the Bonn government to raise the value of the D-Mark, but Kiesinger refused to comply. He stated that the FRG would not help other countries solve their balance of payments problems in this way.¹⁸¹ Strauss was even more blunt: 'Whether there was a majority at this conference of 7 to 3 or 9 to 1 did not impress him. Other countries would not determine what was Germany's business. Revaluation of the Deutsche Mark would not resolve the problems of other countries. It was tried in 1961 and produced very little.'¹⁸² And Schiller remarked that all speakers only mentioned unilateral action by Germany whereas collective action was needed. He continued that in economic theory there was no preference expressed for revaluation against devaluation.¹⁸³

To general astonishment the Bonn government stuck to its stance.¹⁸⁴ The West German representatives stood firm against the united pressure of Britain, France, and the United States and the negotiations broke down. The stance the FRG took at the Bonn meeting left France in an extremely difficult position. After the French finance minister had first given into the pressure by suggesting 11.1% devaluation of the Franc, Charles de Gaulle personally stepped in. He outright refused to devalue the franc perceiving such a move as humiliating for France, stating that Paris would not be pushed around by Bonn.¹⁸⁵ The price for this refusal had to be paid by the people of France, less income and higher taxes.

The failure of the Bonn conference made very clear that the existing monetary system could not cope with the financial situation, as long as the major partners were unwilling

¹⁷⁹ Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 25.

¹⁸⁰ W.G. Gray, 'Floating the system: Germany, the United States, and the breakdown of Bretton Woods, 1969-1973' *Diplomatic history* 31, 2 (2007), 300-301.

B.A. Shepherd, 'A Bonn notebook' *The Spectator* (28-11-1968) Available via:
<http://archive.spectator.co.uk/article/29th-november-1968/5/a-bonn-notebook>

¹⁸¹ 'Waiting to pick up the pieces' *The Spectator* (28-11-1968)

¹⁸² Gray, 'Number one in Europe', 12.

¹⁸³ 'Telegram from the embassy in Germany to the White House (November 1968)' in *FRUS 1964-1968 Vol. VIII, International Monetary and Trade Policy*, Document 214.

¹⁸⁴ Morgan, *The United States and West-Germany*, 166.

¹⁸⁵ Monthly report of the Deutsche Bundesbank (November-December 1968) Available via:
http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1968/1968_11_12_monthly_report.pdf?__blob=publicationFile

- 'Aufzeigung de Ministerialdirigenten Berger, betr. Bonner Wahrungskonferenz (Zehnergruppe), Versuch einer auBenpolitischen Analyse' in *AAPD 1968 Vol. II*, Document 389

- M. Ullmann 'Why the General said 'Non'' *The Spectator* (28-11-1968) Available via:
<http://archive.spectator.co.uk/article/29th-november-1968/4/why-the-general-said-non>

to cooperate.¹⁸⁶ Here, one may note, that for the first time Bonn seemed to operate from a position of strength, in pursuing its national interests. Concerning the Bonn conference Zimmerman states: 'For the first time, Bonn pursued a policy of strict national autonomy, based on the conviction that the DM's strength proved them right and on the perceived necessity for sustained growth and exports.'¹⁸⁷ The conference in Bonn thus represents a turning point: while the previous chapters showed Bonn as the compliant partner, at the Bonn conference, the German government chose its own path, rejecting revaluation. It was after the conference of Bonn that it was stated in an article of the Times that Germany was 'no longer a political dwarf'.¹⁸⁸

But this was certainly not a choice without very serious international consequences.¹⁸⁹ There was great apprehension of Western allies towards this German independence. How would Germany use its new power founded on the strength of the D-Mark?¹⁹⁰ French sources show great reserve on the German policy, speaking of the 'Das Diktat von Bonn'. In an article of the Times it was stated: 'The primacy of power in western Europe had now moved from Paris to Bonn' and that '..Germany's economic, financial, and political leadership of Western Europe had become suddenly apparent..'.¹⁹¹

This image, of the FRG as a strong political actor should however not be over exaggerated. In the newspaper *Der Zeit*, of December 1968, a different image is presented: not of a 'Politik der Stärke', but yet again of the partner, accommodating to the wishes of its allies. Although a revaluation was not enforced, the West German government agreed to take a series of actions to counteract the international payments imbalance, including fiscal changes to encourage imports and discourage exports, and a substantial loan to France. According to several articles in *Der Zeit*, this was a clear example of German compliance even though it was not fair.¹⁹²

Either way, the Bonn summit made clear that the transatlantic financial system was a burden for the FRG. Besides, the summit demonstrated the problem that a pursuit of a monetary policy orientated on purely German objectives would conflict with French objectives and in this sense would harm the government's geopolitical goals.¹⁹³ Zimmermann calls the Bonn conference the 'key event in the dissolution of the transatlantic consensus and its substitution by a European conception in Western

¹⁸⁶ 'Waiting to pick up the pieces' *The Spectator* (1968)

¹⁸⁷ Zimmerman, 'The search for autonomy', 45.

¹⁸⁸ D. Binder, 'West Germany gain political stature in crisis; now is considered to be as big as its Economy' *The New York Times* (November 22, 1968), 73.

¹⁸⁹ Zimmerman, 'The search for autonomy', 45-48.

¹⁹⁰ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 68.

¹⁹¹ 'Aufzeichnung de Ministerialdirigenten Berger, betr. Bonner Währungskonferenz (Zehnergruppe), Versuch einer außenpolitischen Analyse' in *AAPD* 1968 Vol. II, Document 389.

¹⁹² Stolze, 'Bonn ist schwächer als die Mark', 2.

¹⁹³ Zimmerman, 'The search for autonomy', 40-44.

Europe.¹⁹⁴ Certainly, Bonn's disillusion with the transatlantic consensus is very obvious. But, was at this point the door really open for European monetary integration?

In much of the literature relating to this subject, the European solution is presented as the only option. However, at the time this was certainly not the case. For Bonn there were basically three options how to proceed. First, Bonn could have pursued a radical transformation of the international monetary system within a transatlantic framework, central in German policy since World War II ended. Second, Bonn could choose for a policy of autonomy, dictated by national preferences. This was an idea both finance ministers Strauss and Schiller were attracted to.¹⁹⁵ Third, was the option of a purely European solution, the replacement of the Bretton Woods system with EMU. Regarding this, Berger stated shortly after the conference, that a European reserve fund would enable the weaker European countries to continue their 'über-die-Verhältnisse-leben', at the cost of German financial reserves.¹⁹⁶ Transatlantic cooperation, national autonomy, and European integration: those were the three conceptions of monetary order which became the subject of intense debate in the FRG.

At the Bonn conference, the FRG seemed to be heading for an independent political course, choosing national monetary autonomy and ignoring the pressure of its allies.¹⁹⁷ A series of declassified documents from the U.S. department of State show that Washington was aware of a shift in German policy. The report 'Implications of a More independent German Foreign Policy' claimed that many Germans feared deeply that the U.S. would either progressively reduce its forces in Europe and thus make the Germans more vulnerable to Soviet pressure, or strive increasingly for accord with the USSR at the expense of FRG interests, or both. According to these American sources, the underlying mood present in the FRG policies had become suspicious and resentful regarding the direction of U.S. policy.¹⁹⁸ The response of the German public after the Bonn conference confirms this.¹⁹⁹ Protesters marching outside the conference venue carried signs warning 'Wilson: Hands off our D-Mark' and 'Don't interfere'.²⁰⁰ Why would Germany be punished for its economic success? Also between the Europeans the lack of monetary cooperation was very visible. Fowler told the president that the multilateral negotiation had unleashed 'considerable bitterness' among the European.²⁰¹

¹⁹⁴ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 65.

¹⁹⁵ Zimmerman, 'The search for autonomy', 32.

¹⁹⁶ 'Aufzeichnung de Ministerialdirigenten Berger, betr. Bonner Währungskonferenz (Zehnergruppe), Versuch einer außenpolitischen Analyse' in *AAPD 1968 Vol. II*, Document 389

¹⁹⁷ Zimmerman, 'Western Europe and the American challenge', 102.

¹⁹⁸ 'Telegram from the embassy in Germany to the Department of State' in *FRUS 1964-1968, Vol. XV Germany and Berlin*, Document 201.

¹⁹⁹ Gavin, *Gold, dollars, and power*, 176.

²⁰⁰ Shepherd, 'A Bonn notebook'

²⁰¹ 'Memorandum (November 23 1968)' in *FRUS 1964-1968 Vol. VIII, International Monetary and Trade policy*, Document 221.

In summary, the year 1968 brought the monetary problems to the front. Surely, these economic issues, with the increasing economic costs of supporting the monetary system, undermined Bonn's allegiance to the established framework of monetary cooperation. However, this does not explain why Bonn opted for the alternative of monetary integration in a European framework. Several options were at hand, and at this point of time no choice had been made to embark on a path toward monetary integration in a European setting.²⁰²

²⁰² Maes, 'On the origins of the Franco-German EMU controversies', 3.

Demise of Bretton Woods: Bonn switches gears

*'We will be a loyal ally but not a comfortable government. I will not be the Chancellor of a conquered Germany, but of a liberated Germany.'*²⁰³

- Willy Brandt-

For almost three years the Grand Coalition under Kurt Kiesinger held office. The general elections of October 1969 took Brandt (SPD) from the vice-chancellorship to the chancellorship.²⁰⁴ During the September 1969 election time, which resulted in the change of coalition in favor of the Social Democrats, the revaluation of the D-Mark became a central issue. The advent of Brandt's Socialist-led Government presented a decisive political break with the former governments, in which the Christian Democrats had been dominant.²⁰⁵ How did this change of government affect the decision-making process regarding monetary issues and alliance-politics? Which role did the new chancellor play?

The aftermath of the Bonn conference

In the months that followed the Bonn conference, it soon became clear that Emminger's 'substitute revaluation' was not a lasting success. Speculative flows continued and were revived early in 1969, due to the accidental publication of a Bundesbank telex, urging the government to revalue. Within ten days 16 billion DM worth of foreign exchange flowed into the FRG.²⁰⁶

Throughout the spring and summer of 1969, Washington, now under the Presidency of Nixon, initiated bilateral conversations with Bonn and Paris about different measures which could save the Bretton Woods monetary system. Even though Nixon and his National Security advisor Henry Kissinger were preoccupied with international political and strategic policy, they nonetheless understood that domestic and foreign economic developments could have profound effects on their political goals. They thus undertook an intensive re-evaluation of U.S. monetary policy, establishing a permanent working group (the Volcker group) to 'make recommendations on U.S. international monetary policy to the National Security Council (NSC) and to implement policy decisions.'²⁰⁷ From this reappraisal came several foreign economic initiatives and a number of suggestions to restructure the existing international monetary system.²⁰⁸

One of the suggestions made by the Volcker group during 1969 was a unilateral devaluation, through the raising of the dollar price of gold. This option was ruled out by

²⁰³ Cited from, D. Schoonmaker, *German politics* (Heath 1971) 117.

²⁰⁴ Morgan, *The United States and West-Germany*, 163.

²⁰⁵ H. Simonian, *The privileged partnership: Franco-German relations in the European Community, 1969-1984* (New York, 1985), 3.

²⁰⁶ Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 25.

²⁰⁷ This group, chaired by under Secretary of the Treasury for Monetary Affairs Paul Volcker, came to be known as 'the Volcker group'

²⁰⁸ 'Volcker group paper' in *FRUS 1969-1976 Vol. III, Foreign economic policy and international monetary policy 1969-1972*, Document 119.

Nixon's administration: the fear existed that devaluation would discredit the Bretton Woods system, and more importantly the dollar. If Washington could not assure the maintenance of its currency peg, the *raison d'être* of the Bretton Woods system, monetary stability, would be destroyed.²⁰⁹ Another suggestion made by the Volcker group was the introduction of a 'crawling peg'. According to this model, parities would be adjusted in accord with a general formula. In theory this could de-politicize the process of devaluation/revaluation and remove the political and economic drama accompanying these adjustments. Another commonly discussed reform involved limited exchange rate flexibility by permitting IMF members to let their currencies fluctuate around their official parities. German officials welcomed the prospect of 'limited flexibility', with Schiller showing special interest in the 'crawling peg' model.²¹⁰ It is interesting to note, that here the German government seemed interested in reviving the Atlantic system.

In the spring of 1969 the White House renewed its push for revaluation of the DM.²¹¹ In May 1969, British Chancellor of the Exchequer Roy Jenkins, in a conversation with Nixon and Kissinger expressed the view that German revaluation was inevitable, and should be done sooner rather than later. Nixon, in this conversation, asked why Strauss was doing so much talking without coming to any action, to which Kissinger guessed that 'Strauss wants to delay the revaluation as long as possible and accomplish it at his own initiative.' Kissinger's observation was soon proven right.²¹²

During the course of 1969 the mood in Bonn changed and the stubborn refusal to revalue gave way to a more cooperative mood: at least, within the SPD. The governing parties had become deeply divided on the subject of revaluation and Schiller and the SPD parted ways with the CDU/ CSU. According to Gray the SPD's turn around, and especially Schiller's change of heart regarding revaluation, had much to do with the memories of the disastrous Nazi policy of currency control. Schiller now believed a higher D-Mark parity, would neutralize the imported inflation and in the long run would create price stability.²¹³

With parliamentary elections pending in September 1969, the status of the D-mark, and the question of revaluation, emerged as the key theme of the campaign season. The coalition partners campaigned against each other, with the SPD promoting revaluation

²⁰⁹ Eichengreen, 'From benign neglect to malignant preoccupation', 35.

²¹⁰ 'Telegram from the Department of State to the embassy in Germany (June 3, 1969)' in *FRUS 1969-1976 Vol. III, Foreign economic policy and international monetary policy*, Document 128.

²¹¹ 'Action memorandum from the president's assistant for national security affairs (Kissinger) to president Nixon (May 2, 1969)' in *FRUS 1969-1976 Vol. III, Foreign economic policy and international monetary policy*, Document 123.

²¹² 'Memorandum of Conversation (May 1, 1969)' in *FRUS 1969-1976 Vol. III, Foreign economic policy and international monetary policy*, Document 122.

²¹³ Gray, 'Floating the system', 299-301.

'Kanzler Schiller hatte anders entschieden: Spiegel-interview mit Bundeswirtschaftsminister Karl Schiller' *Der Spiegel* 34 (18-08-1969) Available via: <http://www.spiegel.de/spiegel/print/d-45562628.html>

and the CDU/CSU opposing.²¹⁴ At the Bonn Conference Kiesinger had pledged: 'Solange ich an der Spitze der Regierung stehe, wird es keine Aufwertung der Mark geben.'²¹⁵ In contrast, the Bundesbank and the SPD continued to favor the revaluation of the DM. The insecurity of what the outcome of elections would bring again precipitated massive speculation forcing Bonn to suspend foreign exchange markets, closing the currency markets.

The election results were inconclusive. The CDU/CSU remained the largest party in the Bundestag, but the SPD under the leadership of Brandt wished to forge a coalition with the smaller, Free Democratic Party (FDP). Together they would have a small majority. Coalition negotiations dragged on for weeks, while in the meantime the old coalition, under Kiesinger, functioned as a caretaker government. On September 29th, 1969, the government reopened the currency markets but was forced to shut them down again, when huge amounts of dollars poured into Germany. That afternoon the Kiesinger cabinet decided to let the DM float: the government relieved the central bank of its obligation to intervene in currency markets to defend the mark's parity. This was a measure, which was not permanent (unlike a revaluation) and it would deter speculation, because further purchases of marks would make the currency more expensive.²¹⁶

The IMF's response to the floating of the D-Mark was calm, even though this measure went against the rules of the Bretton Woods system. Participants at the IMF annual conference, held days later, in Washington expressed relief that Bonn had finally taken action.²¹⁷ The European Commission's response was quite the opposite: commissioners reacted with alarm, warning that the floating of the D-Mark was incompatible with the Common Agricultural Policy.²¹⁸

On October 23, 1969 the caretaker government finally gave way to the new government: after assembling a parliamentary majority Willy Brandt, the former minister of foreign affairs, became Chancellor. The short period of floating was ended, and Schiller, reappointed as minister of economics in Brandt's new cabinet, pushed for revaluation. Brandt's coalition moved to set a new parity for the D-Mark during the first meeting of the new cabinet on 24 October 1969. The parity was set at DM 3.6 per dollar, 9.3 percent above the previous value.²¹⁹ The franc had already been devaluated in August with 11.1 percent, the amount discussed at the Bonn meeting.

²¹⁴ *Ibidem*.

²¹⁵ Stolze, 'Bonn ist Schwaecher als die Mark', 3.

Monthly report of the Deutsche Bundesbank (October 1969) Available via:

http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1969/1969_10_monthly_report.pdf?__blob=publicationFile

²¹⁶ Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 22-27.

²¹⁷ Monthly report of the Deutsche Bundesbank (October 1969)

²¹⁸ 'Aufzeichnung des Ministerialdirektors Herbst, betr. Haltung der Europäischen Kommission zur Entscheidung der Bundesregierung, den Wechselkurs der DM freizugeben' in *AAPD 1969 Vol. II*, Document 306.

²¹⁹ Emminger, 'The D-Mark in the conflict between internal and external equilibrium', 22-27.

The revaluation of the D-Mark certainly succeeded in doing what it intended - drawing out capital out of Germany. In fact, it succeeded a little too well: speculators sold their hoarded up D-Marks at a higher price, leading to a sudden drain in liquidity. In late November, the Bundesbank actually had to petition the IMF for short-term assistance to compensate for this massive outflow of money.²²⁰ It was clear to Bonn that an autonomous policy in monetary affairs was virtually impossible, risking alienation of its most important allies. This would be the end of any workable financial system, with all its negative economic effects.²²¹

The Barre plan

After the turmoil in the foreign exchange markets, the failure of the G-10 to deal with it and the lack of initiative from the IMF/U.S., the desirability of evolving a European response mechanism became much more evident. Especially the structural differences between the German, export-orientated economy and the French, much less competitive market, were causing serious problems within the common market framework, and in particular for the Common Agricultural Policy (CAP).

Central to the implementation of the CAP was the principle that all Community farmers received a guaranteed price for their products. Considering the different currencies of the member states, an internal Unit of Account was introduced, in order to determine the prices for agricultural products. The value of the Unit of Account was directly linked to the dollar/gold-standard and the fixed exchange rates within the Bretton Woods system. This system had functioned relatively well until 1969 when the D-Mark was revalued and the franc devalued. In order to keep prices fair, the price of German and French goods would have to be reduced or increased by the same percentage as the changes in exchange rate. But such a large change in prices was not an option for both Paris and Bonn, since lower prices would be unacceptable for farmers and higher prices would be inflationary. Instead, both countries applied protectionist measures, introducing subsidies and taxes on import and export. With the unstable exchange rates, the implementation of CAP became nearly impossible.²²² Officials in Washington discussed the situation in Europe and stated: 'The CAP—which many regard as the major impetus toward closer

Monthly report of the Deutsche Bundesbank (October 1969)
Monthly report of the Deutsche Bundesbank (November 1969) 7-35.

²²⁰ Gray, 'Floating the system', 304.

Monthly report of the Deutsche Bundesbank (December 1969), 13. Available via:
http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1969/1969_12_monthly_report.pdf?_blob=publicationFile

²²¹ Zimmerman, 'Western Europe and the American challenge', 10.

²²² 'Gespräch des Bundesministers Scheel mit dem französischen Außenminister Schumann in Paris (9 November 1969) in *AAPD 1969 Vol. II*, Document 352.

H. Etienne and G. Ciavarini-Azzi 'Economic and monetary union policy. The resolution of the Council of Ministers 22 March 1971' in G. Ionescu (ed) *The European alternatives: an inquiry into the policies of the European Community* (Alphen aan den Rijn 1979), 442.

J. Rey, 'Address [financing the CAP, enlargement, the German-French relationship, monetary problems, and political union] to the General Assembly of the Association of European Journalists' (12 September 1969), 10. Available via: <http://aei.pitt.edu/12880/1/12880.pdf>

European integration now that their customs union is completed—is thus suspended for all practical purposes. It is quite unclear how and when the Europeans can put it back together. This raises important questions (and perhaps opportunities) for British entry to the EC, our own agricultural exports, and numerous other international political and economic questions.²²³ In a conversation with the French minister of Foreign Affairs in November 1969, German Foreign minister Walter Scheel commented that the CAP was practically finished, and that the 'Gemeinsame Markt als Folge der Auf- und Abwertung aufgelöst sei'.²²⁴

According to some scholars, the inability for CAP to function was a major element in persuading the Bonn government to enter into negotiation on monetary cooperation in the EEC.²²⁵ In a typical neo functionalist way, the turn towards monetary integration is seen as a spill-over effect: without fixed exchange rates within the EEC the CAP could not survive. But this perspective does not take into account the alternative of accepting the collapse of the system of fixed exchange rates together with the CAP. Note, at that time a European solution seemed just as far away as an Atlantic 'repair' operation of the Bretton Woods system.²²⁶ As Wayne Sandholtz, Professor in International Relations, states, referring to European monetary integration in general: 'Indeed, monetary union would seem to be an unlikely choice. Monetary union requires a far-reaching surrender of sovereignty; monetary policy would be set by a supranational central bank and national currencies could eventually disappear. National leaders could therefore be expected to dismiss the idea out of hand.'²²⁷ In short, the logic to turn towards European monetary union to save the CAP is not obvious.

Within this setting of monetary insecurities and EEC problems, Raymond Barre, Vice-president of the Commission, submitted his report on European monetary integration to the Council of European finance ministers in February 1969. In his memorandum Barre proposed a centralized coordination of the economic and monetary affairs of the EEC member states. The memorandum 'on the coordination of economic policies and monetary cooperation within the Community', contains an analysis of the insecurities in the foreign exchange markets. This report (known as the Barre Plan) concludes in recognizing the need for an alignment of economic policies and monetary cooperation between the Community member states, in order to prevent further monetary

²²³ 'Information memorandum from the president's assistant for National Security Affairs (Kissinger) to President Nixon' in *FRUS 1969-1976 Vol. III, Foreign economic policy and international monetary policy 1969-1972*, Document 140.

²²⁴ 'Gespräch des Bundesministers Scheel mit dem französischen Aussenminister Schumann in Paris (9 November 1969) in *AAPD 1969 Vol. II*, Document 352.

²²⁵ Richard T. Griffiths, 'A dismal decade? European integration in the 1970s', in D. Dinan (ed.), *Origins and evolution of the European Union* (Oxford 2006), 169-190.

²²⁶ However, considering that CAP was such a central issue for Paris, it should not be disregarded completely when viewing Bonn's move towards EMU: Bonn chose to honor their commitment to Paris.

²²⁷ W. Sandholtz, 'Choosing Union: monetary politics and Maastricht' *International organization* 47.1 (1993), 11.

instabilities in the future. Barre suggested setting up a Community mechanism for monetary cooperation, which would offer short-term monetary support and financial assistance.²²⁸ The Barre plan did not incorporate any provisions for a European reserve fund. In the memorandum it was stated clearly that 'the mechanism for Community monetary cooperation will not take the place of the mechanisms for international monetary cooperation but, as envisaged, it can be incorporated into them without difficulty.'²²⁹

The Barre plan was a reaction to the Bonn conference and it reflected the deep concern of the Commission regarding the effects of monetary disunity on the project of European integration. The Council of finance ministers 'recognized the need for fuller alignment of economic policies in the Community and for an examination of the scope for intensifying monetary cooperation'. Most member states responded positively.²³⁰ France in particular welcomed the idea of financial assistance. The new French finance minister, Giscard d'Estaing, who reassumed this post after De Gaulle was succeeded by Georges Pompidou in April 1969, stated that the Barre plan was 'Un premier pas important'.²³¹ The monetary upheaval and eventual devaluation of the franc had convinced most policymakers that the French policy of national autonomy was not feasible. In order to avoid monetary dependence on either the U.S. or on Germany, European cooperation was deemed the only possible solution. Furthermore, saving the CAP was an important short term objective which stimulated the French interest in European monetary integration.

Initially, the German response to the Barre plan was reluctant. German representatives argued that deficit countries should not use Central Bank assistance to deal with their problems.²³² The Commission's proposals were criticized by Germany, with officials stating that 'there was no point in a unilateral monetary approach of this kind.'²³³ At the Bundesbank, the greatest concern was price stability: a commitment to European monetary integration eventually meant the creation of a common currency and the loss of national autonomy in protecting price stability and in countering inflation. But, the character of German reluctance had changed: it was not the idea of European monetary union per se which was a matter of debate, but more the method and format. How would such a union be formed and under what conditions?²³⁴ In the French newspaper, Le

²²⁸ 'Commission Memorandum to the Council on the coordination of economic policies and monetary cooperation within the Community (12 February 1969)' Available via: http://ec.europa.eu/economy_finance/emu_history/documentation/chapter2/19690212en015coordineconpoli.pdf

²²⁹ E.R. Danescu, 'The first and second Barre plans' *Centre Viruel de la Connaissance sur l'Europe* (2013) Available via : http://www.cvce.eu/obj/the_first_and_second_barre_plans-en-a27c0587-77ad-479e-a644-cb56dbaf9c90.html

²³⁰ James, 'The potential of caterpillar', 35-38.

²³¹ Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 66.

²³² P. Fabra, 'Giscard d'Estaing to support Barre's monetary cooperation proposals'

²³³ Danescu, 'The first and second Barre plans'

²³⁴ Tsoukalis, *The Politics and Economics of European monetary integration*, 103-115.

Monde, it was stated that ‘..it remains to be seen whether the German Government, known to be split on monetary issues, will maintain its opposition to the Barre Plan to the end.’²³⁵ As already noted, the previous consensus in Germany on the priority of pursuing international monetary policy in a transatlantic framework, was dissolving, while an autonomous monetary policy had failed, opening the door for monetary integration within Europe.

This careful turn towards Europe, did not go without a ‘fight’. Within the FRG many influential parties remained negative towards such cooperation. For Schiller and also many officials in the Foreign Ministry, the idea of pooling Europe’s monetary resources in a reserve fund was viewed with great apprehension. Policymakers in Bonn worried that Germany would be left repeatedly bailing out community members.²³⁶ The Central Bank Council’s concern was that monetary integration within Europe would politicize decision making and would compromise the autonomy that the Bundesbank held so dearly.²³⁷ The Bundesbank still hoped for a reform of the transatlantic system.²³⁸

The discussion on the Barre plan was intensified by a schism within Germany, but especially between the Common Market countries: two ways of looking at monetary integration, with the so called ‘Economists’ opposing the ‘Monetarists’. The Bundesbank and large parts of the Finance ministry wanted to avoid an EMU that would be inflationary to Germany. The number one rule of the Bundesbank was price stability, thus naturally the idea of a monetary union with countries with different priorities (viewed by Frankfurt as profligate) did not receive much support. Accordingly EMU should only start once the other potential member states had proven their commitment to monetary stability and after the needed supranational political structure with its rules and regulations had been put in place to ensure this. Harmonization of national economic policies was a precondition of Monetary Union. This position is known as the ‘economist’ position.²³⁹ Unlike France, the German ministries of economics and finance as well as the Bundesbank could only conceive of a monetary union within a matching institutional design, coupled to a political union.²⁴⁰ As Brandt stated in a conversation with Belgian foreign minister Harmel: ‘Wir nehmen aktiv teil an den Bemühungen, die umfassende

²³⁵ ‘Giscard d’Estaing to support Barre’s monetary cooperation proposals’ *Le Monde* (July 1969) Available via: http://www.cvce.eu/content/publication/2003/7/8/3cc34f21-30a5-4a48-869b-a2d6f61fe1ef/publishable_en.pdf

²³⁶ ‘Aufzeigung de Ministerialdirigenten Berger, betr. Bonner Wahrungskonferenz (Zehnergruppe), Versuch einer außenpolitischen Analyse’ in *AAPD 1968 Vol. II*, Document 389, 1513.

²³⁷ Gray, ‘Floating the system’

²³⁸ Zimmerman, ‘Western Europe and the American challenge’

²³⁹ Zimmerman, ‘The fall of Bretton Woods and the emergence of the Werner plan’, 67.

²⁴⁰ Kaltenhaler, ‘Policymaking in the European central bank’, 14.

Wirtschafts- und Währungsunion in diesem Jahrzehnt Wirklichkeit werden zu lassen. Unser Ziel bleibt die politische Union.²⁴¹

The French had an opposite position regarding monetary integration, arguing that the important thing was to move towards a common currency and to align currencies first, before dealing with economic consequences. The French figured that economic convergence would naturally follow.²⁴² This position is known as the 'monetarist' position. The countries with weak currencies, with France in the lead, regarded monetary solidarity as fundamental. In this view economic integration was not a preliminary to, but a consequence of, monetary union.

Regime change

Zimmerman refers to the late 1960s and early 1970s as a time period of 'major reshuffling in the relations between the Western countries. The cards were re-mixed and the rules of the game were reformulated.'^{243 244} Relating to monetary issues this certainly was the case. The Barre plan was ratified and months later Willy Brandt took the initiative to embark on a path of European Monetary Union.

On the surface this era took shape during 1969, when the political landscape changed due to the more or less simultaneous changes in leadership. In Germany, the Grand Coalition made place for a new coalition under the leadership of Willy Brandt. In France, De Gaulle was succeeded by Georges Pompidou. Also in the U.S the presidential elections brought a new leader to the front, Richard Nixon.²⁴⁵ In international monetary affairs politicians were confronted with a stalemate. The task to resolve the outstanding issues fell to these newly elected leaders.

In April 1969 Nixon was installed as president of the U.S.. As already stated in this chapter, the Nixon administration was preoccupied with foreign policy matters, especially concerning Vietnam. The nuclear stalemate between the U.S. and the Soviet Union forced Nixon's administration to reorient its foreign policy towards détente and the easing of East-West tensions.²⁴⁶ One of the first successes of this policy was the signing of the

²⁴¹ 'Gespräch des Bundeskanzlers Brandt mit dem belgischen Außenminister Harmel' in AAPD 1970 Vol. III, Document 468.

²⁴² Simonian, *The privileged partnership*, 82.

²⁴³ Zimmerman, 'Western Europe and the American challenge', 3.

²⁴⁴ I refer to these changes as 'regime change' following the theoretical work of S. Krasner. Regime change is seen by some scholars as a term which strictly applies to a change relating to the state/government, the transition from one political regime to another. Krasner defines international regimes as implicit or explicit principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area. For instance the end of the International Monetary System of Bretton Woods and the end of the Cold war are major regime changes. For more information on regime change see S. Krasner (eds), *International Regimes* (New York 1983) and see A. Hasenclever et al. (eds), *Theories of international regimes* (Cambridge 1997)

²⁴⁵ Morgan, *The United States and West-Germany*, 177.

²⁴⁶ K. Schwabe, 'Détente and multipolarity: The Cold War and German-American relations 1968-1990' in D. Junker (eds.) *The United States and Germany in the era of the Cold War, 1968-1999 Vol. II* (New York 2004), 1-10.

Non-proliferation of Nuclear weapons in July 1968. Also, the responses to the Six-Day war and crisis in Czechoslovakia showed that the leaders of both power blocks wanted to prevent any military escalation. Under Nixon's presidency, rapprochement to the Soviet Union and China became a priority. Great power diplomacy came before relations with Europe.²⁴⁷ This was also the case regarding monetary affairs. Nixon had very little attachment to the cooperation established by the Bretton Woods framework. He believed, as did much of the American public, that the monetary system was unfair and damaging to American national interests. A domestic economic policy of higher taxes would have stabilized the external value of the dollar but this was not an option for Nixon's Republican Administration. It saw its domestic autonomy threatened by these demands which were interpreted as a European attempt to free-ride on a monetary system resting on America's already over-burdened shoulders. In economic issues, Europe was increasingly seen as a rival not as a partner. This is clearly stated by Nixon's Secretary of Treasury, John Connally:

'I believe we must realize there is a strong element of thinking within Europe that would take advantage of weakness or clumsiness on our part to promote the Common Market not as a partner but as a rival economic bloc, competing vigorously with the Dollar and reducing or shutting out, as best as it can, US economic influence from a considerable portion of the world'.²⁴⁸

On a personal level Nixon had no interest at all in monetary affairs. This is very clear in many of his policy briefs. As he states in a memorandum: 'I do not want to be bothered with international monetary matters. This, incidentally, Kissinger should note also, and I will not need to see the reports on international monetary matters in the future.'²⁴⁹

Nixon's policy of *benign neglect* surely matches this statement: no initiative was taken to revive the existing monetary order.

Relations between France and the U.S. improved during 1969. Nixon and his national security advisor Henry Kissinger wanted to put America's relationship with France on an entirely new footing. In April, the main adversary of the transatlantic monetary system, De Gaulle, left the stage, making room for the milder Pompidou.²⁵⁰ Pompidou was more relaxed when it came to European matters than his predecessor had been. National independence and sovereignty remained central in French politics, and Pompidou disliked the idea of ceding too much power to 'Brussels'. But in contrast to De Gaulle, Pompidou

²⁴⁷ S.A. Popovich, 'Willy Brandt's Ostpolitik: the changing role in United States-West German relations' Scripps Senior Theses (2012) Available via: http://scholarship.claremont.edu/scripps_theses/80

²⁴⁸ 'Memorandum from secretary of the treasury Connally to president Nixon (June 8, 1971) in *FRUS 1969-1976 Vol. III, foreign economic policy and international monetary policy, 1969-1972*, Document 158

²⁴⁹ 'Memorandum from president Nixon to his assistant Haldeman, his assistant for domestic affairs Ehrlichman, and his assistant for national security affairs, Kissinger (March 2 1970)' in *FRUS 1969-1976 Vol. I, foundations of foreign policy 1969-1972*, Document 61.

²⁵⁰ Trachtenberg, M., 'The French factor in U.S. foreign policy during the Nixon-Pompidou period, 1969-1974' *Journal of Cold War studies* 13.1 (2011) 4-59.

was willing to make certain concessions, if it would help strengthen the French position in the future.²⁵¹

Giscard returned to the Finance Ministry under the new president. As noted in earlier chapters, Giscard was a pronounced pro-European, and advocate of a common European currency. He had suggested monetary integration much earlier, in 1964, and in the years following, EMU had become a central theme in his political stance.²⁵² Under this new government the choice for European monetary integration was seen as advantageous for France. For that reason, as already described, the Barre plan was welcomed, opening the door for full monetary cooperation in a European framework.

Also, in the FRG the change of leadership brought a new vision. Willy Brandt became the Chancellor of the Federal Republic of Germany in October of 1969.²⁵³ As already described, the first Social Democratic chancellor immediately brought changes in the monetary field, with the revaluation of the DM and the support of Barre's plan. The shift in the FRG's foreign affairs was even greater, from a fully Western orientated policy towards a policy of *détente* with the East.²⁵⁴

From 1969 onwards the major priority in foreign policy of Willy Brandt's Socialist government, was the *Neue Ostpolitik*, the normalization of relations of the Federal Republic with East Germany and the Warsaw Pact countries. Before 1969, the FRG had followed the Hallstein Doctrine, refusing diplomatic relations with any state that recognized the East German state, the German Democratic Republic (GDR). The FRG claimed to be the only legitimate, democratically chosen representative of all the German people and therefore did not accept the division of the German nation and the existence of the GDR. Two days after Brandt's inauguration his foreign minister, Walter Scheel, met the Soviet ambassador to discuss a possible treaty. Further bilateral talks were established with Poland and East Germany during the months that followed, with the aim of normalizing relations.

In the early 1960's, Brandt himself was openly against many of the policies that he would later advocate in his *Ostpolitik*.²⁵⁵ The Berlin crisis of 1961 marked a decisive turning

²⁵¹ For instance, British entry to the EC was seen by Pompidou as a smart move, to counterbalance the FRG's strength. Although still wary that British entry would give Washington too much leverage in European affairs, Pompidou was willing to go along with this if this would in the end strengthen the French position.

²⁵² Dyson, *The road to Maastricht*, 102.

²⁵³ In a conversation with President Nixon, Kissinger complained: 'The worst tragedy is that election in '69. If this National Party, had got three-tenths of one percent more, the Christian Democrats would be in office now.' The conversation illustrates frustrations of the Nixon Administration toward relations with the Federal Republic and Willy Brandt. For the full text see 'Conversation between Nixon and Kissinger (15 June 1971)' in *FRUS 1969-1976 Vol. XL, Germany and Berlin 1969-1972*, Document 255 Editorial note.

²⁵⁴ Brandt becoming Bundeskanzler is regarded by different scholars as a 'Machtwechsel', implying regime change, and not just a *Regierungswechsel*. For instance see G. Kwistad, 'Building democracy and changing institutions: the professional civil service and political parties in the Federal Republic of Germany' in J. Brady et al (eds.) *The postwar transformation of Germany: democracy, prosperity, and nationhood* (Michigan 1999) 63-94.

²⁵⁵ Popovich, 'Willy Brandt's *Ostpolitik*', 39.

point in the evolution of Brandt's position towards the U.S.. As stated by Brandt in his memoirs, referring to the events in 1961: 'My political deliberations in the years that followed were substantially influenced by the day's experience, and it was against this background that my so-called *Ostpolitik*—the beginning of détente—took shape.'²⁵⁶ Ultimately, the actions, or lack of actions, of the Western allies signaled to Brandt that the fate of the East Germans had little priority. It underscored the fact that the Western powers were content with the status quo and were not seeking to promote the primary goal of German foreign policy: German reunification. The crisis of 1961 demonstrated that U.S. foreign policy goals and those of West Germany no longer overlapped completely. The paradigm that had bolstered German-American postwar relations, namely America's role as the advocate of West German military and political interests in international diplomacy, in return for the FRG being a loyal ally, no longer applied.²⁵⁷ To Bonn, and especially to Brandt it appeared as though Washington, first under Johnson and then under Nixon, had abandoned Germany's interest in favor of superpower détente. Diplomatically, Brandt had gradually moved further away from the U.S.. He was convinced that Germany's reunification could only be achieved through close cooperation between European states and by developing good relations with the Soviet Union.²⁵⁸ Chancellor Willy Brandt was fully aware that for the Western allies progress toward détente was not a case of German unification. This set the way for Brandt to implement his own détente with the communist bloc in pursuit of German national interests.²⁵⁹

Among the German electorate widely different views on international policies were held. Domestic critics, within Brandt's own party the SPD, within the coalition cabinet and in parliament, accused Brandt that his Ostpolitik implied the recognition of the status quo and with this the de facto indefinite division of Germany. A new phenomenon within the FRG was a radical left movement, opposed to American interference in world affairs. Some merely kept to demonstrating against the Vietnam War while others were fanatically anti-American. These sentiments, geared at marginalizing the American role in Europe were widespread in the ranks of the SPD. Egon Bahr, Brandt's most trusted adviser, went so far to advocate a neutral security system in central Europe instead of NATO.²⁶⁰ Bonn's Westpolitik was less and less anchored on the U.S..

²⁵⁶ Cited from A. Hofmann, *The emergence of Détente in Europe: Brandt, Kennedy and the formation of Ostpolitik* (New York 2011)

²⁵⁷ Later in his memoir, Brandt described how these events were monumental in the way they impacted his political perceptions from that day forward. There were several other events that triggered Brandt to take up an autonomous policy, but given the scope of this thesis and the large amount of literature existing on the origins and implementation of Ostpolitik, I will not go into further detail. For more detailed information on Ostpolitik read W. Lippert, 'Richard Nixon's détente and Willy Brandt's Ostpolitik: The politics and economic diplomacy of engaging the East' *Dissertation Vanderbilt University* (2005)

²⁵⁸ *Ibidem*.

²⁵⁹ Schwabe, 'Détente and multipolarity', 1-10.

²⁶⁰ W. Lippert, 'Richard Nixon's détente and Willy Brandt's Ostpolitik: The politics and economic diplomacy of engaging the East' *Dissertation Vanderbilt University* (2005)

The Brandt-government's engagement with the East was a bold move. It demonstrated the FRG's increased self-confidence and power to negotiate in the foreign policy arena. Brandt aimed for the FRG to be seen as 'more equal than before'.²⁶¹ In Washington and in Paris this provoked uneasiness. Some doubt arose about the reliability of the FRG as a NATO ally.

Initially supportive of a more flexible course of action toward the East, Washington soon came to view the independent German policy as a concern. Already in November 1969, one month after Brandt had been elected chancellor, the American government was telling the Germans that "things are happening too fast" and that there was widespread disquiet in Washington regarding the activities of the new government.²⁶² Throughout the cold war, the FRG was the cornerstone in U.S. security policy vis-à-vis Europe.²⁶³ Washington perceived the new, more forceful and independent political stance as evident in the Ostpolitik, combined with the FRG's growing economic strength, as a challenge to Western unity and their own policy of détente. Furthermore, Brandt's Ostpolitik also entailed the idea of a European security order. This was particularly worrying to Washington, considering that this threatened the NATO alliance. Brandt was not following in step with American lead, which was seen as a movement away from the traditional Atlantic orientation in West German security issues. As Kissinger stated, comparing the FRG's policy with the former French policy: 'the prospect that the Federal Republic might seek a similar nationalistic 'breaking out on its own' could only fill Washington with fear'.²⁶⁴ However, these deep-seated anxieties regarding the German assertiveness remained for a large part covered under the rhetoric of German-American solidarity. U.S. officials were publicly proclaiming U.S. support for Brandt's Ostpolitik policies, while privately expressing significant misgivings. As Lippert states accurately: 'Diplomatic necessity demanded that any crisis between such close allies remained below the surface.'²⁶⁵

Tensions were also sparked within the European Community. At heart of the new policy of openness towards Eastern Europe was the German question. The opening of dialogue with the GDR was ultimately geared to reunite the two German states. Especially the Franco-German relationship was strained by this policy. After two World Wars the French mistrusted German motives. France feared a neutralized Germany, which would be more

²⁶¹ W. Brandt, *Erinnerungen* (Berlin 1989), 189.

²⁶² 'Aufzeichnung des Ministerialdirektors Ruete November 27' in *AAPD 1969 Vol. II*, Document 377.

²⁶³ J.F. Juneau, 'The Limits of Linkage: The Nixon Administration and Willy Brandt's Ostpolitik, 1969-72' *The international history review* 33.2 (2011), 277-297.

Lippert, 'Richard Nixon's détente and Willy Brandt's Ostpolitik'

²⁶⁴ H. Kissinger, *Diplomacy* (New York 1995), 735.

²⁶⁵ Lippert, 'Richard Nixon's détente and Willy Brandt's Ostpolitik', 2.

For instance see: 'Letter from US Ambassador to Germany Kenneth Rush to Assistant Secretary of State, Martin Hillenbrand 17 November 1969' in *FRUS 1969-1976 Vol. XL, Germany and Berlin 1969-1972*, Document 43.

receptive toward Soviet advances; they feared a 'second Rapallo'.²⁶⁶ A dominant thought at that time was that, even if the FRG's motives were sound, the Ostpolitik would create its own dynamic which could not be controlled by Paris. The FRG would become like Finland, which was not in the Soviet sphere of influence but clearly accommodating its powerful neighbor.²⁶⁷ Due to this, Soviet influence was expected to increase in Western Europe. Besides these geopolitical considerations, the growing economic strength of the FRG was also a concern to the French: *Osthandel* had become a central tenant of the West German Ostpolitik, expanding the FRG's market and furthering the FRG's economic growth. Furthermore, although trusting Brandt's motives, Pompidou feared that Ostpolitik might unleash nationalistic tendencies which could not be contained. After two World Wars, any hint of a resurgent Germany was watched with suspicion.²⁶⁸

As noted in the introduction of this thesis, the dominant explanation for the West-German move towards European monetary integration, was the need for a strong Community and active German policy towards Western Europe, to balance the Governments Ostpolitik.²⁶⁹ In this perspective, the EMU project was driven by Brandt's government's desire to secure the FRG's ties to the West, confirming its commitment to the EEC and calming French fears of a possible turn to the 'East'.²⁷⁰ Kissinger stated, referring to this: 'In short, Brandt's opening to the East had the unintended consequence of spurring West European integration. Of the three most important European leaders, two distrusted the tendencies unleashed by the third, and the third needed a gesture by which to assuage these suspicions.'²⁷¹

In his memoirs Brandt confirms that he viewed EMU as an important centerpiece of his strategy to bind Germany to the West, and especially to France. There was the clear intention within Bonn, to forge a 'political union' in Europe. The relationship with France was central. According to Scheel, the Franco-German friendship treaty was the basis of a politically united Europe: 'Sei aber das wirtschaftliche Europa erst einmal geschaffen und unumstößlich, so werde es schon allein durch diese Tatsache ein politisches Europa sein.'^{272 273}

²⁶⁶ W. Link, 'Ostpolitik: Détente German-Style and adapting to America' in D. Junker (eds.) *The United States and Germany in the era of the Cold War, 1968-1999 Vol. II* (New York 2004), 36-37.

²⁶⁷ This was referred to as 'Finlandisation'

²⁶⁸ In Pompidou's memoirs it is clear that he took a distance from De Gaulle's stance on Great-Britain's entry to the EEC in order to counterbalance the German strength.

²⁶⁹ Simonion, *The privileged partnership*, 82.

Zimmerman, 'The fall of Bretton Woods and the emergence of the Werner plan', 68.

²⁷⁰ C. Hiepel, 'In search of the greatest common denominator. Germany and the Hague summit conference 1969' *Journal of European integration history* 9.2 (2003), 72.

²⁷¹ Kissinger, *White House Years Vol. I*

²⁷² 'Gespräch des Bundesministers Scheel mit dem französischen Außenminister Schumann in Paris November 9' in *AAPD 69 Vol. II*, Document 352, 1245.

²⁷³ M. Jungblut, 'Schiller macht sich unbeliebt' in *Die Zeit* (1969) Available via: <http://www.zeit.de/1969/50/schiller-macht-sich-unbeliebt/seite-4>

This explanation alone however, is not enough. Bonn's policy, the choice for European Monetary integration, was a result of multiple factors which came together. As shown in this chapter, several changes occurred on a number of different levels at the same time. In the Cold War time, a weakened Western Europe had found shelter under Washington's security umbrella. The U.S. dictated the rules, militarily, economically and financially. During the 60's this regime slowly started to unravel. The U.S., preoccupied with Vietnam and great power diplomacy, neglected the Atlantic cooperation and retreated towards a more narrow self interested policy. The détente with the Soviet Union made the military involvement in Europe less of a priority. Economically and financially the U.S. gradually moved away from Bretton Woods. Nixon's benign neglect, showed Washington's indifference. In Western Europe these changes were keenly felt, especially in Bonn. A serious mistrust emerged. The reduced American involvement in Europe and lack of interest in maintaining transatlantic monetary system, combined with the German economic growth and decrease in Cold War tensions, gave the FRG space to follow a more autonomous policy. Within this setting the change of leaders resulted in a shift in foreign policy objectives, with the FRG and the U.S. moving further apart. The almost simultaneous coming to power of two rather European minded leaders in France and the FRG created room for more intensive cooperation within Europe. Personalities changed, norms changed and power changed: the synergy of the changes in 'regimes' culminated in Bonn's decision to embark on a path towards EMU. Although arguably, these changes may not have amounted to a full regime change until a decade later, I refer to them as such in order to capture the significance of what occurred: the changes signaled the end of a specific framework of transatlantic partnership based on cooperation and American dominance, replacing it by more equal relations, now based on competition.

The summit of 'Euro-optimism'

'Europe will be created by its own currency or it will not be created at all.'²⁷⁴

- Jacques Rueff, 1950 -

The Summit of The Hague took place on the first two days of December, 1969. This summit brought a new wind of optimism in Europe after several years of stagnation in European integration. This stagnation had become very evident in the different views on enlargement of the community (i.e. the French veto on the entry of Great-Britain and subsequent empty chair crisis) and the troubles with the CAP.²⁷⁵ Against this background the Summit took place. The final communiqué of the summit spoke of a 'turning point in history'.²⁷⁶ According to some scholars, the significance of the summit has been overrated.²⁷⁷ Either way, within the context of this thesis, the summit was vital. It was at The Hague that Willy Brandt boldly took the lead in demonstrating West-Germany's choice for Europe by choosing for monetary integration (and if so needed, sacrificing the Mark!).

Franco-German preparatory talks

In Paris there was a new sense of urgency concerning European integration, with Pompidou as successor of De Gaulle. On July 23, 1969, at a session of the Council of the European Communities Pompidou presented a proposal for 'a conference of Heads of State or Government, with a view to examining the problems arising for the Community, principally in the matter of its completion, its consolidation and its enlargement', by the end of the year in The Hague.²⁷⁸ The French hoped that the summit would be the beginning of regular meetings between the heads of state. According to Bonn the proposal was somewhat unorthodox, with the French pushing for a 'freie umfassende Diskussion ohne Tagesordnung'.²⁷⁹ Brandt welcomed the conference initiative 'in besonders starker Weise'.²⁸⁰

In a meeting of the Council of Ministers the date and place of the summit were set, as well as the topics to be discussed, the so called triptych of 'completion, enlargement and deepening'.²⁸¹ Completion was in reference to the financing of CAP, enlargement to the

²⁷⁴ J. Rueff, *Synthesis* (1950), 267. (Quoted from http://www.bundesbank.de/Redaktion/EN/Reden/2013/2013_08_26_dombret.html?nsc=true&nn=2104&view=render%5Bruckversion%5D)

²⁷⁵ Hiepel, 'In search of the greatest common denominator', 72.

²⁷⁶ Final communiqué of the Hague Summit (2 December 1969)

²⁷⁷ Hiepel, 'In search of the greatest common denominator', 72.

J. van der Harst, 'The 1969 Hague Summit: a new start for Europe?' in *Journal of European integration history* 9.2 (2003), 5-11.

²⁷⁸ 'The Hague Summit' Bulletin of the European Communities 1 (1970)

²⁷⁹ Aufzeichnung des Ministerialdirigenten von Staden, bemerkungen zu der von Frankreich vorgeschlagenen Gipfelkonferenz der Sechs' in *AAPD 1969 Vol. II*, Document 253, 873.

²⁸⁰ *Ibidem*

²⁸¹ Initially the date set for the summit, was at the beginning of November, but it was postponed to 1-2 December 1969.

British entry to the EEC and deepening to the implementation of a European Economic and Monetary Union.

For Brandt it was clear that Germany's future was in a united Europe. With his chancellorship The Hague conference presented therefore the first opportunity to further European integration.²⁸² Active preparatory steps for an exchange of French and German interests at The Hague had already begun at the bilateral level some time before the summit. The very question of holding a conference and the prospects for enlargement were raised during Brandt's visit to Paris in early July 1969. Brandt, at this time still in the capacity of foreign minister, recalled that there was 'very broad agreement on almost all problems.'²⁸³ He made clear that he was ready to pay the price for further integration, in principle even agreeing to the establishment of a reserve fund, as he wrote in a letter to Pompidou on November 27, 1969: 'Ich trage mich mit Ideen darüber, wie wir zur Bildung eines europäischen Reservefonds gelangen können, nachdem eine gewisse Konvergenz der Wirtschaft Politiken erreicht sein wird. Ein solcher Fonds konnte ein wesentlicher Faktor der Solidarität und Stabilisierung im Rahmen der Gemeinschaft werden. Im Haag werde ich über Andeutungen nicht hinausgehen können aber ich hielte anschließende vertrauliche Erörterungen für erwägenswert.'²⁸⁴ Although Brandt seems to be slightly reluctant to discuss the matter of a European reserve fund publicly at The Hague, his intentions are clear.

Brandt also discussed the topic of a European reserve fund with Monet, head of the action program of which Brandt was also a member. During this conversation Brandt showed reserve towards the possibility of creating a reserve fund, in particular because Schiller had rejected these ideas.²⁸⁵ This might also explain why Brandt, in his letter to Pompidou, had stated that he would not discuss the matter at The Hague. Within Germany, the discussion between the Monetarist faction and Economist was very lively, and most policy makers believed any steps towards monetary integration should wait until further economic and political integration had created the desired structures. In his memoirs Brandt states that his plan 'admonished to extreme caution by the technical departments concerned'.²⁸⁶ For this reason Brandt had to move very cautiously in pursuing his vision for a united Europe.

After speaking with the French, Brandt embarked on a tour of Europe to the member states capitals, speaking with the foreign ministers, in order to get a better

²⁸² W. Brandt, *Bundeskanzler Brandt reden und interviews* (Berlin 1971), 11-35.

²⁸³ Times 1969 10 November.

A. Wilkens, 'Westpolitik, Ostpolitik and the Project of the economic and monetary union. Germany's European policy in the Brandt era (1969-1974)' *Journal of European integration history* 5.1 (1999), 80.

²⁸⁴ 'Bundeskanzler Brandt an Staatspräsident Pompidou November 27' in *AAPD 1969 Vol. II*, Document 380, 1346

²⁸⁵ Hiepel, 'In search of the greatest common denominator', 72.
Jungblut, 'Schiller macht sich unbeliebt'

²⁸⁶ Hiepel, 'In search of the greatest common denominator', 72-76.

understanding of the obstacles and of the political visions which could surface at the conference and possibly hinder the successful outcome.

The Hague December 1968: 'reliance européenne'

On the first day of the Summit, the European Commission President Jean Ray, presented the problems which had to be discussed including enlargement of the Community, strengthening of the Parliament and the Barre plan.²⁸⁷ Then the heads of state held their opening speeches.



Most commentators agreed that Willy Brandt's opening speech stole the show, presenting an image of a strong and unified Europe: 'Als Alternative zu immer neuen Krisen bietet sich nur der Weg an, der zum einflußreichsten und wohlhabendsten Gesamtgebilde der Welt führen könnte: die Zusammenfassung der Kräfte des Kontinents.'²⁸⁸ Chancellor Willy Brandt unfolded an ambitious program at the summit. After reaffirming Germany's support of the European customs union and the Common Agricultural Policy, and after pushing for the enlargement, Brandt surprised the assembled group, proposing the development of economic and monetary union by stages.

'Mit der Harmonisierung der Zielvorstellungen muss in einer ersten Stufe einer wirksame Koordinierung der kurzfristigen Wirtschaftspolitik einhergehen. Die Festlegung quantitativer mittelfristiger wirtschaftspolitischer Ziele ist dabei

²⁸⁷ Kaltenhaler, 'German interests in European Monetary Integration', 3.

²⁸⁸ Stolze, 'Bonn ist schwächer als die Mark'

eine wichtige Aufgabe. Wenn es uns so gelingt, eine gemeinsame Wirtschaftspolitik zu entwickeln, werden wir in einer zweiten Stufe die Wirtschafts- und Währungsunion verwirklichen können. Eine solche Entwicklung wird es notwendig machen, einen Europäischen Reservefonds zu schaffen. Auch hierzu biete ich Ihnen den vollen Kooperationswillen der Deutschen Bundesregierung an. Sobald die notwendigen Voraussetzungen gegeben sind, würden wir an der Schaffung des Europäischen Reservefonds und an der Bestimmung seiner Modalitäten mitwirken. Wir werden bereit sein, dann einen bestimmten Teil unserer Währungsreserven in einen solchen Fonds zu überführen zur gemeinsamen Verwaltung mit den Reserven, die unsere Partner nach entsprechendem Anteil darin deponieren wurden.²⁸⁹

To further the monetary union Brandt endorsed the realization of a European reserve fund within the context of a more general development towards EMU, and eventually a single European currency.²⁹⁰ This was quite a step, especially since Brandt had first indicated he would *not* speak of a reserve fund at The Hague. According to some scholars, high ranking officials in Bonn were unpleasantly surprised by the chancellor's initiative at The Hague. Dyson refers to it as a 'solo initiative' and Kaltenhaler states that Brandt's proposal was an 'unpleasant shock' for the finance ministry and Bundesbank.²⁹¹ However the fact that a 'Stufenplan zur Verwirklichung der Wirtschafts- und Währungsunion in der EWG' had already been made up prior to the summit suggests that this was no surprise.²⁹² Also, Dr. Everling of the German Ministry of Economic Affairs stated to the press, that a plan for phased implementation had been approved by the Federal Chancellor and coordinated with the Bundesbank.²⁹³ Maybe it is more accurate to view Brandt's initiative as a public secret.

At The Hague, Brandt and Schiller anticipated a negative reaction from the Bonn establishment by maintaining that monetary union could only proceed in parallel with the harmonization of the EEC member states. Also later, back in Bonn, both Brandt and Scheel continued to emphasize that the FRG would continue to keep the question of stability firmly in mind. The need for harmonization of economic- and of pricing policies within the common market therefore was paramount.²⁹⁴ This could result in a common currency fund 'which would pave the way for currency union. Brandt stated that he did

²⁸⁹ 'Aufzeichnung des Staatssekretars Bahr, Bundeskanzleramt November 28' in *AAPD 1969 Vol. II*, Document 381, 1347.

²⁹⁰ Brandt, *Reden und interview*, 47-55.

²⁹¹ Dyson, *The road to Maastricht*, 290.

Kaltenhaler, *Policymaking in the European central bank*, 14.

²⁹² 'Stufenplan zur Verwirklichung der Wirtschafts- und Währungs union in der EWG' (Oktober 30, 1969)

Available via:

http://ec.europa.eu/economy_finance/emu_history/documentation/chapter3/19691030stufenplanzurverwirklichungderwirtschafts.pdf

²⁹³ 'European documentation a survey January - March 1970', 10.

²⁹⁴ James, *Making the European Monetary Union*, 71.

not want the monetarist/economist schism to become 'locked in a chicken-and-egg discussion.'²⁹⁵

Naturally, with the memories of World War II there was considerable apprehension about the bold and independent stance which Bonn demonstrated, taking the leadership role in Europe (not to mention the Ostpolitik which Brandt pursued). At The Hague, Pompidou confirmed that this was certainly a concern, but that through EMU the FRG would be linked to Western Europe 'in such a way it could no longer cut loose'.²⁹⁶ EMU, and eventually the introduction of a common currency indicated that Germany did not intend to gain economic and political supremacy in Europe.²⁹⁷ As Kaltenhafer states accurately: 'If West Germany were part of an EC monetary union, it would give up a substantial portion of its sovereignty to Western institutions. What better way to prove the German commitment to the integration process and Franco-German reconciliation in particular?'²⁹⁸

The Final Communiqué of the summit spoke of the completion of the Community which as a 'final stage' would lay down a definitive financial arrangement for the Common Agricultural Policy by the end of 1969. At the summit it was agreed to admit Britain, Denmark and Ireland. Regarding EMU, the participants reaffirmed their readiness to 'expedite the further action needed to strengthen the Community and promote its development into economic union'. To this end they agreed that within the Council, on the basis of the Barre memorandum a plan in stages would be worked out during 1970 with a view to the creation of an economic and monetary union.²⁹⁹

The aftermath of The Hague

The Hague Summit's final communiqué reflected the underlying exchange of French and German interests that had taken place. During a visit by the Chancellor to Paris, shortly after the summit, Brandt again emphasized to Pompidou the need for EMU: 'It is absolutely essential for us to achieve a common economic and monetary policy. Mr. Schiller has suggested a phased plan of action and stated that a European reserve fund could play a vital part.'³⁰⁰

Within the FRG the response to the proceedings at The Hague was mostly positive. On December 3, 1969, Brandt gave a federal statement to the Bundestag, giving details on

²⁹⁵ Cited from Dyson, *European economic governance and policies*, 165.

²⁹⁶ Brandt's speech at The Hague confirms that Bonn certainly was aware of French fears concerning the FRG's Ostpolitik and its growing economic power. As Brandt stated: 'I am well aware of these feelings; I discussed this argument myself at The Hague stating that I did not find it convincing.'

'European documentation a survey January - March 1970', 65.

²⁹⁷ A. Harryvan and J. van der Harst, 'Swan Song or Cock Crow?' in *Journal of European integration history* 9.2 (2003), 34-37

²⁹⁸ Kaltefleiter, 'German interest in European monetary integration', 74.

²⁹⁹ *Ibidem*.

³⁰⁰ 'European documentation a survey January - March 1970', 53.

The Hague Summit. Brandt's opening words present a clear image of his strong commitment to Europe:

'Europe had to choose between a courageous step forward or a crisis. The choice has been made. A decision has been taken at The Hague in favor of the future of Europe. Europe has been given another great chance.'³⁰¹

Most attendees agreed that the summit was a success. Also, it was again confirmed that European policy and foreign policy were closely connected and that integration of the Federal Republic within the West was a prerequisite for a new policy towards the Eastern bloc.³⁰² Foreign minister Scheel emphasized again that harmonization of short-term economic policy and of pricing policy should come first, followed by harmonization of monetary policy. This should result in a common currency fund 'which would pave the way for currency union.'³⁰³ Both Scheel and Schiller tried to win over the critics of the Bundesbank, emphasizing price stability and the harmonization of the EC members economies.

During a meeting of the Council of Ministers of the six Member States in Paris on March 6, 1970 an expert group under the direction of the then Prime Minister of Luxembourg, Pierre Werner was appointed to head a working group, which would work out the details of the The Hague agreements, specifically how the European monetary union could be achieved.

In Europe, The Hague conference brought a stimulus for further integration, but in Washington officials were concerned about the implications of further European integration. The EEC customs union began to affect American exports and officials started to worry about Europe competing with the U.S.³⁰⁴ Washington felt that the hegemonic power of the U.S. was in danger of decreasing, and worried about what this change could mean for the future of the Western Alliance. After The Hague summit, the U.S. representative to the European Communities, Ambassador J. Robert Schaetzel, said: 'As the meeting of the EEC in The Hague last December marked a watershed in European developments, it could also mark a critical point in relations between the European Community and the United States.'³⁰⁵ For the first time Atlantic relations had become controversial within government circles. Especially within the U.S financial departments a very negative image existed of the EEC. In a report of the departments of the Treasury, of Commerce and of Agriculture, the EEC was presented as an economic monster, dominating world trade and monetary arrangement. The forthcoming British entry to the

³⁰¹ *Ibidem.*

³⁰² *Ibidem.*

³⁰³ *Ibidem.*

³⁰⁴ 'Memorandum from the deputy Assistant secretary of State for European Affairs (Springsteen) to the Deputy Under Secretary of State for economic affairs (Samuels)' in *FRUS 1969-1976 Vol. III Foreign economic policy, international monetary policy 1969-1972, Document 40*

³⁰⁵ 'European documentation a survey January - March 1970', 101.

EEC increased these apprehensions. Amongst the discussions of a National Security Council meeting in 1970, the NSC looked at the long-term prospects of the European Community and concluded: 'This bloc will account for over half of the world trade, compared with our 15%; it will hold monetary reserves approaching twice our own; and it will even be able to outvote us constantly in the international economic organizations.'³⁰⁶ French politician Lecanuet recalls, that in a conversation between Nixon and Pompidou in early 1970 'certain differences of opinion' affecting relations between Europe and the USA were discussed. Lecanuet concluded: 'It is a fact that relations between the EEC and America are going through a difficult period. The Americans are becoming increasingly concerned about the implications of the Common Market for their own exports. The commercial controversy between the United States and the Community is increasing daily. The American leaders object to the Common Agricultural Policy, which they term 'protectionist'; they also object to the proliferation of preferential agreements between the Community and many non-member countries. They are worried by the possible effects of expansion on commerce'.³⁰⁷ In the spring of 1970, Kissinger even ordered a formal interagency consideration of Atlantic relations.

The move towards monetary union in Europe coincided with the further deterioration of the Bretton Woods system. The death blow for the Transatlantic Monetary System came on August 15, 1971, when Nixon, without any consultation with the European allies 'closed the dollar-gold-window' and imposed a 10% surtax on all U.S. imports. Nixon's move caused growing rifts in the alliance and a rapid loss in the control over financial markets. This was not inevitable: the cause was in the first place due to the absence of the political will in Washington to preserve the Bretton Woods system. Summarizing, the European Community and the U.S. were going their separate ways. Clearly, in reference to Zimmermann's remark, the U.S. was no longer the 'winner in the contest for the German monetary soul'.³⁰⁸

³⁰⁶ Kissinger, *White House Years Vol. I* (Boston 1976), 426.

³⁰⁷ European documentation a survey January – March 1970', 115.

³⁰⁸ Cited in: Dickhaus, 'The international monetary policies of the German Central Bank', 18.

Conclusion

'Der Euro ist unser gemeinsames Schicksal, und Europa ist unsere gemeinsame Zukunft' ³⁰⁹

- Bundeskanzler Angela Merkel 2010 -

At the EEC summit in The Hague at the end of 1969, Willy Brandt took the initiative to embark on a path toward European monetary integration as a crucial step towards a unified Europe. It would take over two decades before the actual European Monetary Union became a fact, and another decade before the common currency was introduced, the Euro. Why did Bonn decide to initiate European monetary integration at The Hague? The central question of this thesis, as presented in the Introduction, is how the shift in policy – from strong supporter of the Atlantic monetary system to initiator of a European order – can be understood. Was this a conscious move, away from the U.S. and towards Europe?

Bonn's policy shift in 1969

When Nixon closed the gold window in August 1971, the Bretton Woods monetary system was finished. Already from the mid-1960's onwards the system had shown cracks and European and American views of monetary affairs diverged increasingly. The French had started their policy of converging dollars for gold, and voices calling for a European monetary order had gained ground. Initially the Germans stood reluctant towards the idea of monetary integration in a European setting. Policymakers and bankers of the esteemed Deutsche Bundesbank worried that deficit countries would profit from German economic prosperity. The German fear was that, eventually, if a reserve fund was established, Germany would be left paying for the deficits of other countries in Europe. But, from the late 1960s onwards the financial problems within the Bretton Woods system became more acute, culminating at the Bonn emergency conference of 1968. The pound had been devalued while De Gaulle refused to devalue the troubled franc. In contrast, the German mark was strong and undervalued causing increasing speculative funds from abroad to pour into Germany. It was clear to the German policy makers that the financial system could not be maintained in the existing form, specifically because it was unable to maintain stable exchange rates, posing a threat to the prime objectives of the FRG: price stability and curtailing of inflation.

Did these financial problems within the Bretton Woods system lead Brandt to seek a European solution? Certainly, Bretton Woods proved no longer adequate and therefore played a motivating role in Bonn, to propose at least a modification of the financial arrangements. Washington's benign neglect in monetary affairs opened the door for alternative monetary arrangements. However, this cannot be considered the sole

³⁰⁹ Angela Merkel
<http://www.sueddeutsche.de/geld/kanzlerin-merkel-regierungserklaerung-allzeit-bereit-fuer-die-rettung-1.1036570>

explanation for Bonn's choice for a European solution. At that time, it was not clear that the choice for Europe would solve the financial problems of the FRG. Furthermore, the geopolitical implications of such a choice have to be considered and possibly played a dominant role.

Bonn had supported the transatlantic monetary order in the years preceding The Hague summit. The U.S. was Germany's prime protector and Germany's allegiance to the U.S. had been a fact since the end of World War II. The cold war and the division of Germany had created the necessity for Bonn to accommodate to the wishes of the U.S., also in monetary affairs, evident in the offset payments and Blessings letter. German support of the monetary order was directly linked to the locked-in geopolitical situation, with Washington threatening to withdraw its military protection from the FRG.

But, during the 1960s the political landscape was changing. In Bonn, the U.S. commitment to Europe, and more in particular to West-Germany, was increasingly doubted. Washington was preoccupied with Vietnam, and policymakers in Bonn worried that their prime objective in foreign policy, reunification, was not a matter of interest for Washington. More in general, policymakers in Germany worried that Washington's interest in Europe was waning due to the diminished Soviet threat as détente was taking shape. Especially under Nixon's presidency, Washington's 'benign neglect' of Europe and the monetary order became evident. The balance of power in the Western world was shifting. In light of the growing German economic power, and the relative decline in U.S. hegemony, the dependence of Bonn on the U.S. was diminished. The relative American decline led to uncertainty in Bonn, as to monetary as well as military stability. On the one hand, the U.S. proved unable / not willing to restore the Bretton Woods order; while on the other hand, the U.S. security guarantee for Europe was less credible. In short, the transatlantic political landscape was changing.

As monetary troubles got out of hand towards the late 1960s it was unclear which direction Bonn would go. At the Bonn emergency conference, Kiesinger refused to revalue. This was a first indication of the new found self-confidence of the West German state, resisting the concerted pressure of the dominant powers of the Western alliance. At first sight it seemed that Bonn decided on an autonomous monetary policy. This autonomy and growing economic power of the FRG was perceived as a threat within Europe, especially by France. From a historic perspective it was a crucial moment. Germany had become a dominant power in Europe (economically), but with the memories of two World Wars, the question was what this would mean for the political balance within the Western alliance: was there a future for the alliance and what would be the role of Germany? The Western world found itself at a crossroad.

During 1969 Bonn's autonomous policy in monetary affairs failed and the intended price stability was not realized. On a political level the price instabilities had caused problems within the EEC. The Common Agricultural Policy had come under huge strain due to the fluctuation in exchange rates threatening the functioning of CAP. The CAP was the centerpiece of EEC cooperation and was basically unable to function, causing a rift in the Franco-German alliance. In summary, for German policy makers it had become clear that the Bretton Woods system had no future and that an autonomous monetary policy was not feasible.

Within this volatile setting Willy Brandt became Bundeskanzler, a man who had developed a very clear vision for the future of Germany. A united Germany within a politically integrated Europe was his goal: 'die Zusammenfassung der Kräfte des Kontinents.'³¹⁰ An immediate change in the FRG's policy is evident. The new government chose to revalue the DM and then agreed to support the Barre plan as a first step towards monetary cooperation in a European setting. Also in foreign policy a clear shift is evident with the new government's opening to the East (Brandt's Ostpolitik). Bonn's shift in foreign policy was a concern to the Western partners, and in particular to France. Combined with the German economic strength, French policy makers feared the German dominance in Europe. German policy makers were very aware of these concerns and embarked on a Westpolitik of European integration: at The Hague summit Brandt emerged as the statesman showing the way forward to a united Europe. Agreement was made on British entry to the EEC, the CAP was revitalized and European monetary integration was set as a goal.

These changes in policy were immense: Brandt had opened the door to a European monetary order, with a common reserve fund. German readiness to give support to European integration in monetary affairs enforced German commitment to the European Community, minimizing French fears of a possible German turn to the East and the fear of a resurgent Germany.

Theoretical analysis

So, how does this presentation fit within the existing theories discussed in the introductory chapter? As explained in the introductory chapter some scholars portray Brandt's initiative as driven by purely economic considerations while others present it as a purely geopolitical decision. These explanations are in conflict with each other, since the geopolitical theory assumes that EMU was economically not beneficial, but just a trade-off for Ostpolitik (and ultimately reunification).

³¹⁰ Stolze, 'Bonn ist schwächer als die Mark'

Clearly, the demise of Bretton Woods, and the lack of initiative to resurrect it or an equivalent system, first opened the door for a European monetary framework. However, the records do not support that Brandt's initiative was economically motivated, geared at improving the German economy. Right up to the The Hague summit, opposition to Brandt's ideas was dominant within the financial establishment in the FRG: policy makers and bankers expected that such a move would leave Germany paying for the debts of its European partners. Also, in this theory, the CAP is wrongfully presented as an economic motive. Economically CAP was unimportant for Bonn, and certainly not a central issue. Bonn's concerns relating to CAP had to do with their foreign policy, being of vital importance for Bonn's relationship with Paris. As such, CAP had geopolitical significance for Bonn.

In the geopolitical explanation, Brandt's initiative towards monetary integration is presented as a trade-off for Ostpolitik. In light of the French concerns, this explanation certainly does more justice to Brandt's initiative. However, it leaves out the broader international implications relating to the Atlantic partnership. The foreign policy and security implications of a turn away from the U.S. are not even considered. Also, the standard explanations for Brandt's initiative towards monetary integration (and more in general, in theories explaining European integration), tend to be misleading in that it downplays the importance of the U.S. and international developments. These explanations overemphasize the 'logic' of integration. It is too easily forgotten how exceptional the experience of the Six was during the decade after World War II. The steps taken with regard to further (monetary) integration were definitely not logical or a matter of course. It was a step into the unknown.

Furthermore, it is evident that geopolitical and economic considerations are intertwined and that these explanations alone fall short in explaining the complexity of historical reality. Economic policy, international developments, defense issues and domestic politics are all linked, impacting European monetary developments. As an example: the German economic recovery had geopolitical consequences, and Bonn's economic choices often had underlying geopolitical motives. Also the troubles with the CAP, being economically related, had a geopolitical dimension for Bonn. A one-dimensional model thus does not do justice to the complexities involved. A similar problem might be noted today where there seems to be sole emphasis on the economic issues in the EU, often with disregard of the political aspects. It is not possible to totally separate economic and geopolitical elements.

To understand Brandt's initiative at The Hague a wider perspective is needed. This thesis has shown that the synergy of a number of developments, at different levels in the international arena came together at a crucial time. The unquestionable leadership of the

U.S. in the Western world was eroding. In Bonn there was serious mistrust of Washington's long term intentions. The reduced American involvement in Europe and lack of interest in maintaining transatlantic monetary system, combined with the German economic growth and decrease in Cold War tensions, gave the FRG space to follow a more autonomous policy. Within this setting the change of leaders resulted in a shift in foreign policy objectives, with the FRG and the U.S. moving further apart. The almost simultaneous coming to power of two rather European minded leaders in France and the FRG created room for more intensive cooperation within Europe. It is clear that at The Hague, Brandt chose for Europe: European, not transatlantic, cooperation was given top priority. The Federal Republic of Germany no longer accepted the role of compliant follower. Concluding: Brandt's initiative at The Hague came at a crucial moment, the 'right man', at the 'right place', at the 'right time'. What is emphasized in this thesis is the importance of 'regime change'. Regime change implies a total shift in relations/institutions. This is a more radical argument, than the standard theoretical explanations for the West-German policy allow. This does not imply that the geopolitical – and economic models don't apply: they do, but they fit within this larger model of regime change.

The step taken by Willy Brandt to embrace monetary integration in Europe had far reaching political consequences. The initiative of Brandt, and the formal acceptance of EMU by the community members, was part of a wider trend towards the affirmation of the EEC as an independent block. In the case of West Germany, it was a step away from the U.S. and towards Europe. As shown in the previous chapters the choice made by Bonn was certainly not in line with U.S. preferences, and not a policy pushed forward by Washington. The American sources show great reserve amongst policymakers in Washington towards the new found independence of Bonn and the prospect of a strong EEC was viewed with apprehension. It is an open question how different developments would have been if the United States had taken their European 'partners' more seriously. Maybe the European Union we know now would not have come into existence if Washington had been more willing to pursue real collaboration with Europe in the 1960s.

In summary, the German support of monetary integration within Europe is too easily seen as a logical step, viewing the past in the context of the now known future. It is a simplification of a highly complex history. More research on this topic, and in particular on the broader context of the Atlantic partnership is necessary to balance this existing retrospective simplification. The scope of this thesis does not leave room for an in depth analysis of the proposed regime change. Further developments, particularly in the 1970s, need to be investigated to give deeper insight into what this regime change entailed. Especially the commercial competition between the EEC and the U.S. and the related

agricultural issues, the changed nature of U.S. military involvements (particularly the shift to a policy of flexible response) and nuclear proliferation, are topics of importance.

Bibliography

Archives:

- Akten zur Auswärtiges Politik der Bundesrepublik Deutschland 1966 Vol. II
- Akten zur Auswärtiges Politik der Bundesrepublik Deutschland 1968 Vol. I & II
- Akten zur Auswärtiges Politik der Bundesrepublik Deutschland 1969 Vol. I & II
- Foreign Relations of the United States 1955-1957 Vol. IV, Western European Security and Integration,
- Foreign Relations of the United States 1961-1963 Vol. IX, Foreign economic policy.
- Foreign Relations of the United States 1964-1968 Vol. VIII, International Monetary and Trade Policy
- Foreign Relations of the United States 1964-1968 Vol. XIII, Western Europe Region
- Foreign Relations of the United States 1964-1968 Vol. XV, Germany and Berlin
- Foreign Relations of the United States 1969-1976 Vol. I, Foundations of foreign policy 1969-1972
- Foreign Relations of the United States 1969-1976 Vol. III, Foreign economic policy and international monetary policy, 1969-1972.
- Foreign Relations of the United States 1969-1976 Vol. XL, Germany and Berlin 1969-1972
- Public Papers of the Presidents of the United States, Dwight D. Eisenhower: 1960-1961, containing the public messages, speeches, and statements of the president.

Primary sources/ historical records:

- Brandt, W., *Erinnerungen* (Berlin 1989)
- Brandt, W. *Bundeskanzler Brandt reden und Interviews* (Berlin 1971)
- 'Commission Memorandum to the Council on the coordination of economic policies and monetary cooperation within the Community' (12 February 1969)
http://ec.europa.eu/economy_finance/emu_history/documentation/chapter2/19690212en015coordinateconpoli.pdf
- 'Der Blessing-Brief' *Deutsche Bundesbank historisches Archiv* (30 March 1967)
http://www.Bundesbank.de/Redaktion/DE/Downloads/Bundesbank/Wissenswert/schreiben_gold_blessing_brief.pdf?__blob=publicationFile
- 'Deutsche Bundesbank Auszüge aus Presseartikeln, Ausführungen des Präsidenten der Deutschen Bundesbank Karl Blessing über Währungsfragen im Aktionsprogramm der EWG-Kommission' *Norddeutschen Rundfunk* (Hamburg January 1963)
http://www.Bundesbank.de/Redaktion/DE/Downloads/Bundesbank/Wissenswert/blessing_auszuege_aus_presseartikeln.pdf?__blob=publicationFile
- 'Economic survey: Germany 1967' *Organization for Economic Cooperation and Development* (Paris 1967)
http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-germany-1967_eco_surveys-deu-1967-en#page1

- 'European documentation a survey January – March 1970' *European Parliament* 12, 6.
<http://aei.pitt.edu/42003/1/A6237.pdf>
- Final communiqué of the Hague Summit (December 1969)
http://www.cvce.eu/obj/final_communique_of_the_hague_summit_2_december_1969-en-33078789-8030-49c8-b4e0-15d053834507.html
- Monthly report of the Deutsche Bundesbank (November-December 1968)
http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1968/1968_11_12_monthly_report.pdf?__blob=publicationFile
- Monthly report of the Deutsche Bundesbank (October 1969)
http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1969/1969_10_monthly_report.pdf?__blob=publicationFile
- Monthly report of the Deutsche Bundesbank (November 1969)
http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1969/1969_11_monthly_report.pdf?__blob=publicationFile
- Monthly report of the Deutsche Bundesbank (December 1969)
http://www.Bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report/1969/1969_12_monthly_report.pdf?__blob=publicationFile
- 'Note by the chairman for the 'Comite des Gouverneurs de la C.E.E.'
http://www.ecb.europa.eu/ecb/history/archive/pdf/released/Presidents_note_on_organisation_CoG_14_12_1964_EN.pdf
- Rey, J., 'Address [financing the CAP, enlargement, the German-French relationship, monetary problems, and political union] to the General Assembly of the Association of European Journalists' (September 12, 1969), 10.
<http://aei.pitt.edu/12880/1/12880.pdf>
- Sommer, T., 'Bonn changes course' *Foreign Affairs* 45.3 (1967), 477.
- 'Stufenplan zur Verwirklichung der Wirtschafts- und Währungs union in der EWG' (Oktober 30, 1969)
http://ec.europa.eu/economy_finance/emu_history/documentation/chapter3/19691030stufenplanzurverwirklichungderwirtschafts.pdf
- 'The Hague Summit' *Bulletin of the European Communities* 1 (1970)

Newspapers articles

- Binder, D., 'West Germany gain political stature in crisis; now is considered to be as big as its Economy' *The New York Times* (November 22, 1968), 73.
<http://select.nytimes.com/gst/abstract.html?res=F30B10F93F59147493C0AB178AD95F4C8685F9>
- Fabra, P., 'Giscard d'Estaing to support Barre's monetary cooperation proposals' *Le Monde* (July 18, 1969)
http://www.cvce.eu/content/publication/2003/7/8/3cc34f21-30a5-4a48-869b-a2d6f61fe1ef/publishable_en.pdf
- Interview with K. Blessing, 'Der Brief gilt leider noch heute' *Der Spiegel* 19 (1971) 85.
<http://www.spiegel.de/spiegel/print/d-43257718.html>
- Jungblut, M. 'Schiller macht sich unbeliebt' in *Die Zeit* (1969)
<http://www.zeit.de/1969/50/schiller-macht-sich-unbeliebt/seite-4>
- 'Letztes Angebot' *Der Spiegel* 20 (1969) 27-28.
<http://www.spiegel.de/spiegel/print/d-45741381.html>
- Shepherd, B.A., 'A Bonn notebook' *The Spectator* (1968)
<http://archive.spectator.co.uk/article/29th-november-1968/5/a-bonn-notebook>

- Stolze, D., 'Bonn ist schwächer als die Mark: atempause im Währungskrieg' *Die Zeit* 48-29 (1968)
<http://www.zeit.de/1968/48/bonn-ist-schwaecher-als-die-mark/seite-2>
- Stolze, D., 'Heißes Geld' *Die Zeit* 47 (1968)
<http://www.zeit.de/1968/47/heisses-geld>
- Ullmann, M. 'Why the General said 'Non'' *The Spectator* (November 28, 1968)
<http://archive.spectator.co.uk/article/29th-november-1968/4/why-the-general-said-non>
- 'Waiting to pick up the pieces' *The Spectator* (November 28, 1968)
<http://archive.spectator.co.uk/article/29th-november-1968/2/waiting-to-pick-up-the-pieces>

Secondary literature:

Bordo, M. (et all), 'Sterling in crisis: 1964-1967' Working paper National Bureau of Economic research Cambridge (2009)

Chang, M., *Monetary integration in the European Union* (Michigan 2009)

Cohen, W.I. (eds), *The Cambridge history of American Foreign Relation: America in the age of soviet power 1945-1991, volume IV* (Cambridge 1993)

Danescu, E.R., 'The first and second Barre plans' *Centre Viruel de la Connaissance sur l'Europe* (2013) Available via: http://www.cvce.eu/obj/the_first_and_second_barre_plans-en-a27c0587-77ad-479e-a644-cb56dbaf9c90.html

Dickhaus, M., 'The international monetary policies of the German Central Bank 1958-1970', *European University Institute working paper* (2001)

Dinan, D., *Ever closer union: an introduction to European integration* (London 2005)

Dyson, K. and K. Featherstone, *The road to Maastricht: negotiation Economic and Monetary Union* (Oxford 1999)

Dyson, K. and L. Quaglia (eds.), *European economic governance and policies: commentary on key historical and institutional documents, Volume I: Commentary on key historical and institutional documents* (Oxford 2011)

Eichengreen, B., 'From benign neglect to malignant preoccupation: U.S. balance of payments policy in the 1960s' Working paper 7630 National Bureau of Economic research (Massachusetts 2000)

Eichengreen, B. and J. Frieden, 'The political economy of European monetary unification: an analytical introduction' in Eichengreen (eds.) *The political economy of European monetary unification* (Boulder 1994) 1-23.

Emminger, O., 'The D-Mark in the conflict between internal and external equilibrium. 1945-75' *Essays in International Finance* 122 (1977)

- Gaulle, C. de, 'Pour l'effort, Août 1962-Décembre 1965' *Discours et messages* vol. 4, (Paris 1993)
- Gavin, F., *Gold, dollars, and Power: the politics of International Monetary relations, 1958-1971* (North Carolina 2004)
- Gavin, F., 'The gold battles within the Cold War: American monetary policy and the defense of Europe, 1960-1963' *Diplomatic history* 26.1 (2002) 61-94.
- Geary, M.J., 'The process of European integration from The Hague to Maastricht, 1969-92: An irreversible advance?' *Debater a Europa* 6 (2012) 6-26.
- Gray, W.G., 'Number one in Europe: The emergence of the Deutsch Mark, 1968-1969' *Central European History* 39 (2006) 56-78.
- Gray, W.G., 'Floating the system: Germany, the United States and the breakdown of Bretton Woods, 1969-1973' *Diplomatic History* 31.2 (2007) 295-323.
- Haftendorn, H. (eds.), *The strategic triangle: France, Germany and the United States in the shaping of the new Europe* (Portland, 2005)
- Harryvan A. and J. van der Harst, 'Swan Song or Cock Crow?' in *Journal of European integration history* 9.2 (2003), 27-40.
- Harst, van der J., 'The 1969 Hague Summit: a new start for Europe?' in *Journal of European integration history* 9.2 (2003), 5-11.
- Hasenclever, A. et al. (eds.), *Theories of international regimes* (Cambridge 1997)
- Henning, C., 'Europe's Monetary Union and the United States' *Foreign Policy* 102 (1996) 83-100.
- Hiepel, C., 'In search of the greatest common denominator. Germany and the Hague summit conference 1969' *Journal of European integration history* 9.2 (2003), 63-82.
- Hoffmann, S., 'U.S.-European relations: past and future' *International Affairs* 79.5 (2003) 1029-1036.
- Hoffmeyer, E., 'Decisionmaking for European Economic and Monetary Union' *Group of thirty occasional paper* 62 (2000)
- Ypersele, J., *Het Europees monetair stelsel: Ontstaan werking en perspectieven, Serie Europese Perspectieven* (Brussel 1983)
- James, H., *International monetary cooperation since Bretton Woods* (Oxford 1996)
- James, H., *Making the European Monetary Union: The role of the Committee of Central Bank Governors and the origins of the European Central Bank* (Cambridge 2012)

James, H., 'The potential of caterpillar: the origins of European Monetary Integration' *Paper for Yale Economic History Seminar* (2011)

Juneau, J.F., 'The Limits of Linkage: The Nixon Administration and Willy Brandt's Ostpolitik, 1969-72' *The international history review* 33.2 (2011) 277-297.

Kaltenhaler, K., 'German interests in European Monetary Integration' *JCMS* 40.1 (2002) 69-87.

Kaltenhaler, K., *Policymaking in the European central bank: the masters of Europe's money* (Plymouth, 2006)

Kissinger, H., *White House Years* (Boston 1976)

Kissinger, H., *Diplomacy* (New York 1995)

Krasner, S., 'United States Commercial and Monetary policy: unraveling the paradox of external strength and internal weakness' in J. Katzenstein (eds.) *Between power and plenty: foreign economic policies of advanced industrial states* (Wisconsin 1977)

Kruse, D.C., *Monetary integration in Western Europe: EMU, EMS and beyond* (California 1980)

Kwistad, G., 'Building democracy and changing institutions: the professional civil service and political parties in the Federal Republic of Germany' in J. Brady et al (eds.) *The postwar transformation of Germany: democracy, prosperity, and nationhood* (Michigan 1999) 63-94.

Lippert, W.D., 'Richard Nixon's detente and Willy Brandt's Ostpolitik: the politics and economic diplomacy of engaging the east' *Dissertation Vanderbilt University* (2005)

Magnusson, L. and B. Strath (eds.), *From the Werner Plan to the EMU: in search of a political Economy for Europe* (Brussels 2001)

Marsh, D., *The Euro: the politics of the new global currency* (London 2009)

Maes, I., 'On the origins of the Franco-German EMU controversies' *European Journal of Law and economics* 17 (2004) 21-39.

Moravcsik, A., *The choice for Europe: social purpose and state power from Messina to Maastricht* (Abingdon 2005)

Morgan, R., *The United States and West-Germany, 1945-1973: A study in alliance politics* (London 1974)

Mourlon-Druol, A *Europe made of money: the emergence of the European Monetary System* (New York 2012)

Popovich, S.A., 'Willy Brandt's Ostpolitik: the changing role in United States-West German relations' Scripps Senior Theses (2012) Available via:

http://scholarship.claremont.edu/scripps_theses/80

Sandholtz, W., 'Choosing Union: monetary politics and Maastricht' *International organization* 47.1 (1993), 11.

Schaefer, B., 'The Atlantic community unraveling? States, protest movements and the transformation of US-European relations, 1969-1983' *GHI Bulletin* 36 (2005) 114-115.

Schwabe, K. 'Détente and multipolarity : The Cold War and German-American relations 1968-1990' in D. Junker (eds.) *The United States and Germany in the era of the Cold War, 1968-1999 Vol. II* (New York 2004) 1-10

Simonian, H., *The privileged partnership: Franco-German relations in the European Community, 1969-1984* (New York, 1985)

Solomon, R., *The international Monetary System 1945-1981* (New York 1982)

Staal, E.R., 'European monetary Union: the German political-Economic trilemma' *Discussion paper Center for European Integration Studies Rheinische Friedrich-Wilhelms-Universität* (Bonn, 1999)

Trachtenberg, M., 'The French factor in U.S. foreign policy during the Nixon-Pompidou period, 1969-1974' *Journal of Cold War studies* 13.1 (2011) 4-59.

Trachtenberg, M., 'The United States, France, and the Question of German Power, 1945-1960' Available via: www.sscnet.ucla.edu/polisci/faculty/trachtenberg/cv/MUNICH..doc

Triffin, R., 'The Return to Convertibility 1926-1931 and 1958-? Or Convertibility and the Morning After' *Quarterly Review* 48 (1959) 3-57.

Tsoukalis, L., *The Politics and Economics of European monetary integration* (Oxford 1977)

Tsoukalis, L., *What kind of Europe?* (Oxford 2003)

Verdun, A., *The Euro: European Integration theory and Economic and Monetary Union* (Oxford 2002)

Ungerer, H., *A concise history of European monetary integration. From EUP to EMU* (London 1997)

Wilkie, C., *Special Drawing Rights (SDRs): the first International Money* (Oxford, 2012)

Wilkins, A. 'Westpolitik, Ostpolitik and the Project of the economic and monetary union. Germany's European policy in the Brandt era (1969-1974)' *Journal of European integration history* 5.1 (1999) 73-102.

Zimmerman, H., 'Ever Challenging the buck? The Euro and the question of power in international monetary governance' in F. Torres et al. (eds.) *Governing EMU* (Florence 2004) 233-248.

Zimmerman, H., *Money and security: troops, monetary policy and West-Germany's relations with the U.S. and Britain* (Cambridge 2002)

Zimmerman, H., 'The search for autonomy: government, Central Banks, and the formation of monetary preferences' *German Policy Studies* 4.3 (2008) 31-58

Zimmerman, H., 'Western Europe and the American challenge: conflict and cooperation in technology and monetary policy 1965-1973' *Journal of European integration history* 6 (2002) 85-110.