Leading Frenchmen say Germany could face a Doppelmark

Former Prime Minister Fabius says if EMU broke up, Germans would face 100% revaluation

by David Marsh

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Several years before the creation of the European single currency in 1999, David Cobbold, a London foreign exchange expert and the son of the illustrious 1960s Governor of the Bank of England Lord Cobbold, put forward a novel suggestion for the name of the new European unit of account. Rather than the euro, Lord Cobbold junior recommended that the new currency should be called the Doppelmark, to be introduced at the rate of 2 D-Marks – with the name reminding Germans and others of the essential link between the new European money and its forebear, the German mark.

Scroll forward a decade and a half, and we see that the idea has come back into vogue again. As part of Franco-German sabre-rattling over the future of economic and monetary union (EMU), senior Frenchmen are saying that, if by some mischance the euro were to unravel, the Germans would be forced to live with a new currency that would be double the value of the present one – a new form of Doppelmark, and one that would be intensely prejudicial to German exports. In other words, some influential voices in Paris are saying that unless the Germans give in to demands for action to shore up the weaker EMU members, they will face the risk of an enormously uncomfortable return to the era of national currencies.

The statements from Paris provide an indication of the kind of constraints that Germany is facing in a war of words designed to force it to take action to calm international financial markets. Pressure will again be on show at the European Union's pre-Christmas summit in Brussels starting today [Thursday 16 December] when Germany will face calls to agree to collective financing for the entire euro area under the so-called Euro bond initiative that would spread Germany's fiscal guarantee across weaker countries.

In an interview with the OMFIF Bulletin, the full text of which will be appear in the January edition, Laurent Fabius, a former French finance minister and prime minister, says a new German currency would be 100% higher than at present. 'Let us assume just for a moment that the euro would explode, and we would go back to the D-Mark. I'm not accepting, of course, that this would happen – it would be disastrous. But if such an occurrence did take place, then the new German currency – the Euro-Mark, if you will – would multiply in value by two compared with the present level. What would happen to German exports in such an eventuality? And how could Germany prosper if the rest of Europe was in fundamental economic difficulty? It is largely the European market that assures the Germans their prosperity.'

Fabius, still a major force within the Opposition Socialist party, is a force to be reckoned with. Although he has moved substantially to the Left in recent years, he represents a significant current of opinion that believes that France has given too much ground in a political and economic power struggle with Germany over EMU. Fabius led the ultimately successful No campaign in the 2005 French referendum on the European constitution, partly because he was worried that the European Central Bank set up at the core of EMU had too much power and was insufficiently reined in by democratic rules.

What is more, his view is echoed by some influential voices close to President Nicolas Sarkozy, who has made clear on numerous occasions over the past three years his dissatisfaction with the operation of EMU. An official very close to Sarkozy last week, accused Germany of 'visceral obstination' over EMU, declaring that the German authorities 'want to make EMU a Mark zone. …. They are seemingly doing everything they can to drive EMU towards an explosion'. He added that such an outcome would give the Germans a new currency that would be 'two or three times as high as it is now'.

In his interview, Fabius said latest events within EMU were 'disagreeable', but they had not been a surprise.

'Countries like Greece and Ireland are in an impossible position if the interest rate remains high. That obliges them to bring in adjustment programmes that kill their growth and with the rate of interest very high, they cannot repay their debt. The advantage given by the euro disappears if you do not have stability of interest rates. That's the root of the problem.'

‘What we have to construct now is a situation where countries in difficulty have to make efforts but can borrow on the financial markets at reasonable rates of interest. Monetary union now faces considerable risks. If a country is under intense pressure, and is close to being throttled, people can have the best of resolutions, but they will get to a point where they will say: “I can no longer go on.” This would be detrimental to Europe and to all European countries.’