

The Bremen accords come of age

EMS implementation speeds ahead, as its foes mount a last-ditch stand

The Sept. 14-15 meeting between West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing at Aachen, West Germany marks the final stage of putting the already operative European Monetary System guidelines into institutional form. It is appropriate that the meeting occurs at the seat of Charlemagne's empire, which turned the European population into a force for world progress.

As the French ambassador to West Germany told the West Berlin Chamber of Commerce Sept. 8, "the rapid implementation of the Bremen and Bonn summit resolutions is on the top of the agenda" at Aachen. Strategically placed French and West German sources said during the week preceding the meeting that Schmidt and Giscard are determined to crush the remaining opposition to the EMS within the European Community (EC), and will "bash heads and wash out ears" as necessary. The day before the Giscard meeting, Schmidt conferred with his central bankers, some of whom have resisted the EMS.

Schmidt sounded the note of urgency in a Sept. 10 press conference following a meeting of his Social Democratic Party's presidium in Frankfurt, calling the consummation of the EMS "the number one priority." Giscard was equally forceful Sept. 12, insisting that resolution of the monetary question is the single most important task at present. Giscard's public personal efforts to draw Spain, Portugal and Greece into the EMS and EC involve a streamlining of EC rules and, not incidentally, weaken the powers of the British-dominated EC Commission in Brussels.

Important support for Italian participation in the EMS was won during the Sept. 8 trip by French central bank governor Bernard Clappier and economics minister René Monory, who met with their Italian counterparts, Giuseppe Baffi and Filippo Pandolfi in Bergamo. Beyond the scope of the EC, Schmidt and Giscard have hastened their diplomatic offensive. And Japan is not only coordinating financial-monetary policy in day-to-day detail with France and Italy, according to Japanese and West German sources, but moving to win U.S. support for nuclear development and the EMS. Finally, both Soviet Premier Kosygin's remarks last week (see below) and evidence from the University of Moscow — a polemic in favor of a gold-backed monetary system which attacks, not the U.S.,

but the International Monetary Fund (IMF) as the obstacle — attest to the extent of Soviet coordination with the EMS. Hence the corresponding blitz by EMS opponents to keep the U.S. from acknowledging much less co-sponsoring the EMS as the essential world development vehicle at hand.

The EMS in outline

As it emerged at the Bremen summit of EC heads of state in July, the EMS is not a "European monetary system" in any ordinary sense, and this is why British spokesmen — who had insinuated the idea of a European bloc with Special Drawing Rights-style dollar reserve replacement — attacked the victorious Franco-German version of the EMS with unaccustomed loudness at Bremen, and continue to do so. The EMS, as a new currency arrangement and a new funding instrument, is one flank of an international deployment. That deployment has been properly called "the Great Design," invoking the efforts of Henry IV's economic counselor Sully to industrialize the 16th-century globe, efforts the British and their allies have aborted ever since.

In military fashion, then, France and West Germany have moved to take control of the European continent, and use it as a fulcrum for pressing the U.S. to join in their high-technology export plans.

Schmidt's repeated emphasis on the need for fixed parities — reiterated once more in his Sept. 10 press conference — has a dual significance. First, fixed rates for the EC are only possible in practice if the weaker countries are assisted to become full members of an expanding advanced sector. Schmidt's finance minister, Hans Matthofer, stated in August that this would occur through EMS Fund credits, as Giscard's strategy for drawing Spain, Portugal and Greece into the EC right away presumes.

Secondly, success in reestablishing European fixed rates is a precondition for the EMS founders' plan to establish a stable parity between the dollar and the other major currencies; in this they have the full cooperation of Japan, expressed more forcibly than ever Sept. 12 by Japanese Prime Minister Takeo Fukuda.

This dollar parity will not be established by fiat. As private discussions, press reports, and elements of the Bremen communiqué attest, the EMS will not merely

stabilize but upvalue the dollar to the three-deutschemerk level through its brilliant potential to use both market and dirigist mechanisms on the dollar's behalf.

The Credit dimension

The creation of a pool of European currencies enables the EMS not only to coordinate foreign exchange interventions on the dollar's behalf, but to fend off speculative attacks against European currencies without selling dollars to bolster those currencies.

A second pool of members' gold and dollar reserves is the key institutional "seed-crystal of a new world monetary system," as a West German official involved in the EMS initiation called it in July.

Should any queasy or ill-willed dollar holder wish to unload dollars, the Fund will take them in exchange for a European Unit of Account asset, backed by gold and EMS industrial strength. If London, Hong Kong, Kuwait, or blackmailed New York commercial banks start selling dollars heavily on the open markets, the EMS can absorb them, adding to its dollar fund.

Why would the EMS wish to expand its dollar holdings? Because, as Japan has already begun to do with a major loan to Mexico, the EMS can then grant dollar credits to the Third World and possibly also Eastern Europe. This provides the EC with an increase in much-needed liquidity to finance trillions of dollars in potential development projects. And this lending mode is counter-inflationary, since it exponentially expands production relative to world money supply and gradually sops up Eurodollars which tend to self-multiply, but unproductively.

Since a large portion of the credits show up in the U.S. at once in the form of export orders for capital goods, agricultural supplies, and so forth, while new markets will proliferate by the end of the 1970s, the EMS is clearly in the best, most urgent interest of the U.S. and the dollar.

IMF retreat

Anyone vaguely familiar with the International Monetary Fund's past and present "conditional" lending policies, and its efforts to substitute SDRs for dollars as the world reserve, will understand why the EMS will replace the IMF. With its far larger financial resources — especially as negotiations proceed on Arab linkups with the EMS — and its expansive commitment, the EMS will hang the IMF by its own rope simply by taking away IMF borrowers and bolstering the dollar.

This month the IMF has already been hoisted toward the gallows. The EC correspondent of the London *Guardian* reported Sept. 11 from Brussels that the SDR plan ceaselessly pushed by British Chancellor of the Exchequer Denis Healy "ran into massive opposition of the member states in the (IMF) Interim Committee, and Healy found himself with the

IMF secretariat virtually alone in arguing the merits of the plan."

At the same time, the "surveillance" question received a timely blow. Jacques de la Rosière, the new IMF managing director, decided Sept. 11 that the upcoming meeting between the IMF and EMS planners to pursue the issue of whether the EMS would exert "surveillance" IMF-style over its members will be deferred until April 1979 at the earliest — effectively choking the subject. And, at the Sept. 8 meeting of the Group of Ten industrial nations in Paris, it was decided, according to the London *Times*, that, contrary to earlier mootings, the U.S. would not seek to draw several billion dollars from its reserves held by the IMF in order to help stabilize the dollar. The group refused to expand the funds in its General Agreement to Borrow kitty, which is administered by the IMF, and which would be practically wiped out by a U.S. drawing.

Another element of the EMS which jeopardizes continued existence of the IMF is its remonetization of gold through the gold component of the European Monetary Fund. In a recent University of Moscow *Bulletin* article, A.I. Stadnichenko identifies the battle between the IMF's SDRs and gold as alternate potential reserves. Stadnichenko reveals the battle is going on in the East bloc, too. He attacks certain Soviet supporters of the SDR as seeking to subject the USSR to IMF sway, and cites both Lenin and de Gaulle on the stabilizing role of gold, concluding that

the immediate future will show just how and in what form the strengthening of gold's monetary functions on a world scale will occur. However, it is a fact that this process is already under way, and all theories about creating an artificial supranational world currency will disappear as fast as they appeared.

Stadnichenko carefully differentiates the SDR from the transferable ruble; the t-ruble is backed by gold and commodities. This is an effective slap at East-West advocates of a convertible ruble, which would hook into the IMF and World Bank, as opposed to the gold-backed t-ruble unit of account, which could mesh with European Currency Units through the gold-backed EMS.

So, contrary to prevailing American perceptions, the role of gold is neither a tangential issue nor an esoteric one. It is bound up with war or peace. The intensity of European sentiment on this subject may be gauged by the fact that Olivier Wormser, honorary Banque de France governor, despite his anti-gold record and association with the unwholesome Royal Dutch Shell group, wrote in *Le Figaro* of Sept. 11 that there must be a new international monetary system with fixed currency rates based on gold. He added that the South African central bank agrees — and indicated that the U.S. must be brought into support of gold remonetization and the EMS.

— Susan Johnson