A 'Bank of Europe' for 1979?

Britain's defeat is the way out for the U.S. economy

A European fund pooling the entirety of its members' reserves is now at the center of ongoing discussions shaping the European Monetary System (EMS). The prospect, which confirms in spades the *Journal of Commerce* prognostication in mid-October that the EMS's emergence as a new central banking institution stacks the odds against the British-run IMF, has driven Britain into what the London *Guardian* called "a consensus of despair."

Meanwhile, however, Europe and Japan have been forced to hang fire on their dollar-support market interventions because of the overwhelming counterweight of U.S. policy failure. But while Americans continue to think of monetary affairs in geological—or, currently, barometric—terms, the EMS is emerging as the most powerful effort since Napoleon's international reorganizations to actively shape history.

West German central bank spokesmen and British press outlets have publicly revealed that a European central fund presiding over the total gold and currency reserves of its members is the near-term goal of the EMS's governmental creators in West Germany and France. Coupled with the EMS's standing offer of associate membership to any nation in the world, the funding goals position the EMS as the new world central bank set to replace the IMF.

Bundesbank president Otmar Emminger, in a Baden-Baden speech Oct. 24, cited the immense weight of the fund being discussed. The West German business daily *Handelsblatt* quoted him: "If every European Community member, including those not now pledged to the EMS, were to join, under present conditions they—not counting the Federal Republic — would have available internal monetary reserves totaling more than $100 billion, assuming the gold reserves were activated at a $180-per-ounce price basis." A second top Bundesbank official confirmed privately Oct. 25 that the West German government intends to bypass the domestic law forbidding such a revaluation and "do it through the EMS."

Another way to put Emminger's estimate: minus the UK and Ireland, but including Germany, if gold were pegged at $180 an ounce, the seven EC members in question would have some $98 billion in gold reserves—and $200 billion in combined gold and currency reserves. $180 is a conservative peg, since no one expects the market price of gold to drop below its current $230-plus level.

The implications of such a fund are staggering even to Emminger, who has grudgingly gotten used to the idea that the full $50-billion EMS pool—a fund of European currencies and an equal $25 billion gold-dollar fund—is being put on track for January and not, as many had predicted, for early 1981 at best. The fundamental principle of the EMS—centralized, gold-backed, long-term credit for global industrialization—is guiding all the "technical" implementation moves. These include the recent Bundesbank measures to draw down the excess liquidity created by dollar-support interventions, and not "dry it up" but reallocate it to refinance trade credits in the form of longer term, open market, fixed interest-rate bonds.

Another move was the dramatic announcement by the senior officers of the Swiss central banks, Messrs. Leutwiler, Languetin and Schulman, that the bank is considering revaluation of its gold reserves. Switzerland, a non-EC member and one of the few nations not belonging to the IMF, has for weeks expressed its resolve to join the EMS. This would add another $15.7 billion to the fund in gold reserves at the $180 price level, and another $25 billion in total reserves!

The probable revaluation was accurately described by a horrified *Neue Zürcher Zeitung*, which carried the announcement in an Oct. 21 interview with the three, as part of a total change in Swiss financial policy. Fritz Leutwiler, the central bank director, had just declared Oct. 19 that Switzerland will stop at nothing to bring the overvalued Swiss franc into line with the deutschemark. This in turn is part of the Schmidt-Giscard commitment to move toward a fixed-rate monetary system by establishing sound, stable parities among the mark, Swiss and French francs—and gold.

Sources at the Bundesbank itself are extraordinarily confident that the EMS will achieve a "gold exchange standard"—whereby gold serves as collateral for a multiple of credits. On both sides of the

Atlantic insiders have said all along that a key question for the EMS would be a joint revaluation of gold; now Emminger and Leutwiler have brought the discussion into the open, with less regard than usual for the U.S. Treasury and its demented efforts to demote gold forever.

Since Japan is now being matter-of-factly referred to, even in Washington, as an "associate member of the EMS on all levels," it is appropriate to recall the past several months' Japanese moves to build up Bank of Japan gold holdings and create a Tokyo gold market, in tandem with Premier Takeo Fukuda's repeated public cosponsorship of a return to fixed currency rates.

The *Daily Telegraph* of London confirmed the "European central bank" initiatives Oct. 23 by laying out two roads to European economic unification. One would be, in plainer words than used by columnist Brian Griffiths, West German reflation as the key to "coordinating economic policies." The other would be a single unified Eurocurrency of the sort EC Commission President Roy Jenkins has been pumping for years to help replace the U.S. dollar as a reserve asset. Griffiths complains that the EMS is neither—it allows nations to keep their own currencies and national sovereignties, but instead of creating "a European Monetary Fund which would be a sort of European IMF," it moves toward the European central bank principle under West German leadership and should be shunned by Britain.

The same day, the London *Guardian* also came out on the "no" side of what has become a bitter, woeful fight within the UK government and policymaking circles. Again, the grounds for Guardian columnist Peter Jenkins's insistence that Britain can't and won't join the EMS is the Franco-German alliance for immediate implementation of the funding powers of the system.

The dashing of the hopes Jenkins expresses that France could be drawn to Britain's side is all the more painful to the UK because of the absurdity of the effort. The concrete crash-program perspective on scientific education and nuclear energy development set forth at the September Aachen meeting as the spirit of the EMS was in a sense, as Jenkins says, the clincher. When Prime Minister Callaghan and Chancellor of the Exchequer Denis Healey sidled into Bonn this month trying to act like negotiators, with demands and conditions on Britain's possible partnership in the EMS, they came home empty-handed....

...Except for their patrons' triumph in coordinating the internal collapse of the dollar (see U.S. REPORT). Europe and Japan now say they have decided that it is impossible to continue their huge market interventions on the dollar's behalf, and also said why: "There is no way the dollar can be corrected from outside...if something doesn't develop from inside, Europe and Japan can't help," concluded a senior Japanese official in Bonn recently. Leutwiler made a public statement to the same effect Oct. 19, while repeating that the dollar is drastically undervalued. A West

'Consensus of despair' in Britain

This week's British press accurately reflected British policymakers' floundering as they attempt to define the UK's posture towards the European Monetary System. What emerged was what one commentator called a "consensus of despair."

DAILY TELEGRAPH, Oct. 21, 1978, editorial

. . . the outcome of the Bonn meeting between Mr Callaghan and Chancellor Schmidt earlier in the week suggests that the likelihood of British participation in the new currency club has once more receded. British Ministers seem to have gone to Bonn clinging to the illusion that the Germans would pay a handsome price for our involvement. They came home sadder and wiser.

THE OBSERVER, Oct. 22, 1978, by William Keegan

The real significance of Giscard's support (for the EMS) is that he shares Schmidt's historic and romantic vision of closer links in Europe. Giscard does not necessarily include Britain in the first rank. For the British, the invitation to join the EMS revives all the post-war and post-Empire problems raised by the agonising decision over whether or not to enter the EEC in the first place.

The domestic political difficulties dominated the Prime Minister's visit to Bonn last week. At one time this was intended to be the great occasion on which Jim Callaghan and Denis Healey paved the way for British entry into the EMS. In the event, the visit was a diplomatic disaster which the leaders did not conceal by devoting the first three-quarters of an hour of their press conference to details of the situation in Namibia. . . .

THE SUNDAY TIMES, Oct. 22, 1978

. . . Britain's Prime Minister made it painfully clear to his German friends at Thursday's summit meeting in Bonn that he no longer expects to join the European monetary system on Jan. 1. The meeting dripped with goodwill and unctuous expressions of mutual sympathy and understanding. In hard facts, the cleavage was plain, so much so that Germany had already reacted to the new situation. . . .

THE GUARDIAN, Oct. 23, 1978, by Peter Jenkins

The Cabinet is yet to make a formal decision but Ministers have

German official confirmed to *EIR*'s Wiesbaden bureau: "There was no way—in the short term—that Europe could stem the (antidollar) tide. Yes, the Buba (Bundesbank) and the Swiss National Bank have pulled away the props from dollar support. We can't do more about it now," he added, referring to the EMS fund's potential to generate a scale of dollar export orders that will turn the situation around. What he did not say is that if the U.S. administration's current determination to force a recessionary collapse to "combat inflation" is allowed to take effect, there will be little American industry left in sufficient shape to enter these new markets.

—*Susan Johnson*

British 'sick man' ready for the undertaker?

British Prime Minister James Callaghan has kept European Community documents relating to the European Monetary System under lock and key, with access granted only to the Exchequer, not to the rest of the Cabinet, including the Trade Ministry. The Oct. 26 cabinet session, *Executive Intelligence Review* has learned, will be the cabinet's first formal discussion of the EMS, following near-fisticuffs between Callaghan and Energy Secretary Anthony Wedgwood-Benn at a joint Oct. 23 session of the Labour Party leadership and the Cabinet over the EMS, which Benn demanded the government repudiate. Peter Jenkins, a London *Guardian* writer with an inside track to Downing Street, has mooted "associate" status for Britain vis à vis the EMS, a proposal to save face without undergoing the rigors of membership. The Labour Party majority is determined to block any EMS link; Callaghan is trying to keep open all such options as he possesses.

Why such discord at this and other levels of the notoriously like-minded British Establishment? Because the price of British entry into the EMS has been established at an appropriate downward adjustment of City of London financial-political hegemony, and the pound sterling with it. Yet, the "sick man of Europe" will fare no better for staying out. A quick review of the particulars shows the monarchy's political and economic future to be perched precariously on the knife's edge.

Britain's looming crisis was temporarily postponed in June, when Chancellor of the Exchequer Denis Healey took drastic measures to impose strict controls on UK banking — the so-called "corset" — and jacked up the minimum lending rate (MLR) by a full 1

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come to regard the EMS as little more than a thinly disguised version of the old German dominated currency snake.

To this end the Government will be trying to preserve the ability to influence—from the outside—any developments by the snake in the direction of a genuine "European" currency system....

This line of argument from London—although there is some logic to it—will be regarded in most European capitals as the acme of hypocrisy—a case of the British posing as more European than the "Europeans" for the purpose of disguising their government's lack of authority to make a potentially historic decision.

In Britain a consensus of despair seems to have formed around this arcane issue. It is too big a question for lame duck governments....

Callaghan and Healey's original lack of enthusiasm for the Schmidt-Giscard design was rooted in a certain conviction but now their position seems to be one of canny political calculation....

LONDON TIMES, Oct. 25, 1978

West Germany would not be sorry to see the proposed European Monetary System operating with some EEC members not taking part, according to Dr. Otmar Emminger, president of the West German Federal Bank. . . . (Emminger's) statements, coming just a few days after the bilateral consultations between the West German and British governments in Bonn suggest that Germany is in no mood to concede points to accommodate the present British ideas on how the EMS should function.

FINANCIAL TIMES, Oct. 25, 1978

The proposed European monetary system is worthless as presently formulated and of no advantage to Britain, according to Lord Armstrong, the chairman of Midland Bank and former head of the Civil Service and of the Treasury.

In what he described as a personal statement, Lord Armstrong said yesterday that he did not think this particular scheme at this particular time was worth a "row of beans."

"I see no advantage in hitching ourselves to a European currency bloc. It does nothing for us against the dollar or yen."