

# Schmidt spokesman on the theory of the EMS

Executive Intelligence Review correspondent Muriel Mirak interviewed Armin Grünewald, the official Economic spokesman of the Chancellor of West Germany, on the European Monetary System, while Mr. Grünewald was accompanying his boss,

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## EXCLUSIVE INTERVIEW

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Chancellor Helmut Schmidt, on a trip to Sienna, Italy, Nov. 1. It was as a result of Schmidt's discussions with Italian Prime Minister Giulio Andreotti in Sienna that Italy announced it would join the European Monetary System.

In frank and forthcoming comments to our correspondent, Grünewald took pains to debunk the claim that the EMS might harm the dollar, and vigorously stressed the benefits the system would yield for the entire world community. And he also discussed in

depth the theory on which the EMS's architects have based the new economic organization.

**EIR:** Mr. Grünewald, let me make my position clear from the outset: the magazine I represent supports the ongoing European Monetary System arrangements in the interest of monetary stability, economic cooperation, and growth. We have dedicated several lead articles to the EMF (European Monetary Fund — ed.). One of our immediate concerns, in fact, is that American businessmen, bankers, and politicians have the facts on the EMF. As you know, one of the major problems facing the EMF is American ignorance or misunderstanding of the effects it will have on the dollar. Yet, at the same time, the measures being taken by the Carter Administration to defend the dollar will have the opposite effect. Deflation, raising the prime rate and so on will not save the dollar. What do you think?

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from the danger of German economic domination would be closed off." These politicians have not only eccentric ideas about economics and economic policies, but evidently have a deranged relationship to the outside world as well. With a certain lessening of their arbitrary control over their economic affairs, they would be spared a good deal of their inflation and unemployment; they would get an external strengthening of their currency, and a body politic would come into being that would enable them to confidently forget about their "welfare state."

... For decades, minus any European responsibility for it, a large-scale, government-primed annihilation of capital has taken place in England. The planned European monetary system is certainly no ideal solution of international problems. It is an effort to occasion greater monetary discipline in countries which have allowed their currencies' values to decline domestically and abroad.

More monetary discipline can generate more exports and more domestic purchasing power. Both mean greater employment, and increased jobs — the opposite of what England has achieved up to now with its frivolous monetary policy and its multiple devaluations. It is naive to think that anybody whatsoever is slated for an economic yoke. The Labour left can tuck away its runny pocket handkerchiefs.

### 'With or without Britain'

What follows are excerpts of an article by Le Figaro's chief economist, Alain Vernay, published Nov. 9 under the title, "The Birth of the European Monetary System, With or Without England."

It seems that the cards have been played and that England will not accept the European Monetary System which will be put in place in the first days of January. . . . So the

conditions will be united for a new crisis of the pound comparable to that of the year 1975 . . . As soon as it has a daily value vis-à-vis the dollar, it is the ECU which will be the butt of speculation. Great Britain will thus try to benefit by being the arbiter of the great monetary disorders, even if it can no longer hope to be the arbiter of the great political disorders which used to result from the division of the continent.

It is estimated in London that to not join France and Germany is to profitably play the devil's advocate by accelerating the formation of a diumvirate which, very quickly, will annoy the other Europeans, even though they today are pleased with the accord between Paris and Bonn. France, it is said on the other side of the Channel, will not be able to take the prolonged discipline which the EMS implies, and will have to secede from a system which more and more resembles a super-snake. . . .

**Grünwald:** The basic error is in the argumentation, both in Europe and in the USA, against the EMS. People imagine that the only alternative posed for economic policy-makers is between deflation and inflation. But these are merely theoretical models, and don't hold up in practice. The examples of the German economy and the Swiss show that economic growth is possible without inflation or deflation.

**EIR:** *You know, of course, that in the USA, however, the main concern which anti-EMF spokesmen have brought forward, is that the EMF will turn out to be an anti-dollar mechanism.*

**Grünwald:** Nothing could be further from the truth. The EMF was not intended by President Giscard and Chancellor Schmidt to bring the dollar down. It would be silly if that were the case. For months, and even years, they have been trying to make clear that the devaluation of the dollar, even though it might appear profitable for economic growth within the USA, is a danger for world trade and for economic development — in the advanced economies, not to mention the developing countries. Now, it would be wholly contradictory if Chancellor Schmidt, who has been trying to make clear to responsible U.S. officials that a devaluating dollar is a danger to the Western World, should invent a system which would perpetuate this dollar devaluation.

**EIR:** *You mentioned the success which Germany has had in maintaining economic growth without inflation or deflation, which has been achieved as a result of capital-intensive investment policies oriented toward increasing production of high-technology goods for export. Don't you agree that the same approach toward the U.S. industrial potential is actually the answer to stabilizing the dollar?*

**Grünwald:** But that is, of course, the traditional American approach, isn't it? The U.S. is, after all, a great industrial power.

**EIR:** *It was in the past, but the commitment to industrial development that is embedded in the American Revolution has been forgotten by the current American administration. Recent legislation put through the Congress has explicitly reversed traditional U.S. policy toward deindustrialization.*

**Grünwald:** What legislation are you referring to?

**EIR:** *The energy bill, the Humphrey-Hawkins bill.*

**Grünwald:** What's that?

**EIR:** *It's a bill providing for labor-intensive jobs creation at the expense of the technological levels and skill levels of the work force. This legislation would deindustrialize the economy and destroy the work force.*

**Grünwald:** The U.S. has problems similar to Germany and other advanced industrial nations.

Competition: competitiveness means better products at lower cost. Now, our countries have seen other industrial areas like Korea, Hong Kong, Singapore, arise on the international markets as competitors with less sophisticated goods. Now, to be able to stand this, the more advanced economies must concentrate on more sophisticated goods. This can be accomplished through two measures. Increasing capital investment, and improving the skill levels of the labor force. This leads to a problem, however. Increased capital investment tends to save labor, and the labor market itself becomes divided into skilled labor, which is bound to be lacking in desired quantities, and unskilled, which is in surplus. The same thing is true for the U.S., but this problem is hidden by the discussion around the rate of unemployment. The unemployment rate cannot be brought down by economic growth only, but by restructuring and professional training of labor to increase its skill level. It is clear that you cannot expand industries which require skilled labor if you don't produce skilled labor. On the other hand, you cannot force people to acquire skills. Some people cannot, or will not, seek high skill levels. Yet, these people cannot be allowed to remain jobless. Thus, some industries capable of using unskilled labor should be induced to hire them.

#### The Carter Administration

**EIR:** *The problem is that the U.S. is not moving in that direction. The U.S. — or rather, the U.S. administration, since the U.S. industrialists obviously have the opposite view — the U.S. administration has been deindustrializing. Look at New York City which has been destroyed as an industrial center. Now the rest of U.S. industry is headed in the same direction because of the anti-industrial commitment of certain layers in the administration. I'm talking about Blumenthal, Miller, Schlesinger, and, though not in the government, Kissinger.*

**Grünwald:** You know what I call them? The "generalists." I've talked to people in the administration, and all I've been able to get is generalities. These generalists talk and talk in broad terms, but they never get down to concretes. It was very enlightening for me to realize this. You know, I have talked to the people in the administration in Washington and heard only generalities. We agreed nearly on nothing. I also had talks with business economists and agreed on nearly everything. There are two different worlds as policies are concerned.

**EIR:** *The problem is that the healthy industrial layers are not represented in government, and have no access to policy-making. Had Ford won the election, or had he fought against the vote fraud he knew to have been organized against him and his victory, the situation in the U.S. would be different today. But Carter, different from Ford, does not have industrial interests behind him. He is, rather, the pawn of anti-industrial interests.*

**Grünewald:** It's not Carter's fault. I am convinced of that. He is surrounded by advisors, and many of them are, as I call it, "generalists."

### **Britain and the EMS**

**EIR:** *Yes. And his advisors are representatives of Anglophile financial interests who are ready to sacrifice U.S. industrial growth to maintain speculative paper values associated with the IMF and the World Bank. This brings me to another question on the EMF, specifically, the strenuous British opposition to the plan. What are you planning to do about this? What would happen if Great Britain refuses entry into the EMF? Will Europe go ahead without the British?*

**Grünewald:** Let me answer by stating a fact, a simple fact. The devaluation of the British pound and the Italian lira has gone on over the past three years without the European Monetary System. The EMS is not intended to bring these currencies further down, but, on the contrary, to stabilize all European currencies, including the pound and the lira. At this moment the pound and the lira are not in the snake and nobody helps them. If they are members of the EMS, they will enjoy the solidarity of the European Community. I frankly do not understand the argument that the EMS could destroy currencies. It's a mutual drive to stabilize them. The British pound and the Italian lira have different values now than three years ago, but that is not the fault of Europe. The basic fault is that many governments and government officials believe in John Maynard Keynes's system, which was designed for a closed economy. They have forgotten that fact, and therefore believe that by devaluing their currencies that country's exports can be enhanced. This is wrong for a wide range of export trade. But devaluation actually increases import prices, as well as internal price levels. The first to see this happen was Great Britain, then Italy followed, and now the U.S.

**EIR:** *But if the British persist in their refusal to enter the EMS?*

**Grünewald:** Then they will find less help and solidarity. If one of the EEC countries does not take on the obligations of the system, it cannot benefit from its rights. We need a quid pro quo — there's a give and a take. The give is the obligation, and the take is the right. But this is Britain's decision. As far as I know, the British government has not yet made an official decision.

**EIR:** *Would British refusal to enter lead to their leaving the European Community? Something to that effect has been mooted in the British press, where de Gaulle's position on the British has been recalled.*

**Grünewald:** No, I don't think so. It would not mean leaving the EEC. De Gaulle, and I know many people in France shared his view, was not wholly right nor wholly wrong about the British. But that's not the way to approach the problem.

**EIR:** *Assuming the U.S. and British problems are solved in one way or another, how will the EMF proceed? I know that in anticipation of EMF implementation, especially those in the Arab world and the Japanese have been increasing their gold purchases, at the same time as Alex Mueller, Emminger and Leutwiller have indicated that there is a lot of talk about revaluing existing gold reserves, both in central bank holdings and the EMS. Does this mean that the EMF will be based on a revalued gold pool, and do Arab and Japanese moves towards gold indicate their intention to set up similar monetary blocs, or utilize existing ones, to institutionalize relations to the EMF?*

**Grünewald:** This question of revaluation has nothing to do with the free gold market. One feature of the EMF will be that nations will bring together some of their currency reserves into a pool. Some have more dollar reserves, and less gold. Some have more gold and fewer dollar reserves. How they evaluate the gold is up to them. It is a central bank decision that determines the balance sheet value of that gold. Some keep gold at the Bretton Woods value, for example the Bundesbank — this is at about \$40 per ounce. Others may choose the free market price. But if we pool our currency reserves and take in say 15 to 20 percent of each country's reserves, obviously the gold should be given a uniform value. That value should be realistic, which does not necessarily mean whatever it sells for on the Zurich market on any one day, but about \$170 or \$180 in our estimation. This uniform valuation would be established to create a currency reserve pool with an element of justice. It has nothing to do with the market price. Most central banks do not engage in buying and selling of gold on the market, so that the split in the gold market is now nearly complete.

**EIR:** *Why then such a rush into gold? Do you mean it is then totally unrelated to the gold and dollar-based EMF?*

**Grünewald:** The EMF is not based on gold or dollars, it is based on the ECU (European Currency Unit — ed.), which is abstract, just as the SDR is abstract. It is not necessary to have gold to be a member or affiliate with the EMF; for example the Swiss and the Austrians, if they want to enter the EMS, shouldn't worry about buying gold, but should exert monetary discipline, which is possible without gold, just as it is possible to have gold and not have any monetary discipline. Gold is being used by the EMF not as gold, but as a currency reserve.

### **The EMS and world development**

**EIR:** *What about the Arab Monetary Fund and the Japanese?*

**Grünewald:** This merely shows that the EMS is not in contradiction to any monetary zones already in existence, like the dollar zone, the sterling zone, the Asia zone, etc. Nor is it contradictory to the IMF, it is a smaller grouping within the IMF.

**EIR:** *But the policies of the EMS seem to be quite opposite to those of the IMF.*

**Grünwald:** Now, we can assume that the IMF is in favor of monetary discipline and stability, can't we? Then the policies are the same.

**EIR:** *What about the differences in policies between the EMS and the IMF towards developing sector credit?*

**Grünwald:** The EMF is not intended for creating credits outside the Common Market. It is not a fund for credits for balance of payments credits except within the Community. There are other institutions for that; the Asian Development Bank and the World Bank, for example, issue credits for developing countries. For Europe we have the European Investment Bank, which has nothing to do with the EMF. These other institutions issue credits both to countries and to single firms. The EMF gives credit only to central banks within the EEC. For European credits to the developing sector, the European Development Fund can be used. The loans by the EMF will be only for balance of payments purposes. This is clear because you cannot create credit merely on the basis of currency reserves. For example, the Bundesbank creates DM credit on the basis of its capacity to create deutschemarks. A central bank can create credit even in the absence of reserves.

**EIR:** *But surely the EMF will have an effect on the creation of developing sector credit and economic growth?*

**Grünwald:** It will have an effect, but not a direct effect. The problem of the developing sector is not the lack of credit in the advanced sector, but there are other problems, like interest rates, willingness to give credits, repayment capacity, and political problems.

**EIR:** *How would you describe the effects of the EMS on world political stability, including East-West detente?*

**Grünwald:** The EMS, by establishing more exchange

rate stability in the EEC, will give national governments the possibility to reach better economic performance — growth and price stability, though not necessarily, or not directly jobs, in fact maybe, maybe not. This greater stability of performance in Europe will of course contribute to world stability, given the importance of the European Community in the world market.

**EIR:** *Looking back now on the American problem that we discussed in the beginning of our conversation, what advice or suggestions would you have for U.S. businessmen or politicians? Suppose you were to address them collectively on the EMS, what would you advise them to do? Here I'm thinking not only of economic questions strictly, but also of foreign policy questions that have divided the U.S. and Europe in the recent period.*

**Grünwald:** Though my job is not to give advice to the U.S., so let me just relate something of my experience. My country has been able to have such a rather good performance because it has based its activity on a broad range of contacts between government, the trade unions, and the business community, in a tri-lateral kind of job. We found that in order to succeed, we must find means of concerted action. An economy should not be managed by government alone, or by the unions or by business. There must be three-way cooperation. Investment decisions must be taken by business, wage decisions must be made through the collective bargaining process, and to avoid a trial and error approach, the government must contribute realistic targets and make available the instruments of economic policy. Only these three components in cooperation will bring solutions to the world's political problems. Political problems are really economic if you go to the bottom of them. Many foreign policy problems are economic. To solve them at home we need concerted action. I would say this is true also of solving the world's problems, and that, in fact, is the philosophy behind the economic summits of Rambouillet, Puerto Rico, London, and Bonn.

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