now deems a "hotbed of international monetary turmoil" — into a source of productive, long-term, low-interest loans. Banking sources report it will work in the following way: Together, the Bank of Japan and the members of the newly formed European Monetary System will have total available reserves of almost $200 billion without even counting expected OPEC participation (assuming, as Otmar Emminger, head of the West German central bank said recently, all upvalue their gold to $180 an ounce). For the Japanese and European central banks, the cost of lending dollars to the private banks of their countries is not the high Eurodollar market rate called LIBOR (London Interbank Rate) at 12 percent but their own domestic interest rates at 5-7 percent. Therefore, participating central banks will lend to their own private banks at a margin above their domestic rates on two conditions: 1) the banks use the funds only for approved capital development or hard commodity trade purposes, not for buying Treasury bills at 10 percent and whatnot; and 2) that the developing country recipients of such cheap loans invest the funds in development projects, and not redeposit them in the Eurodollar market or similar speculative outlets. Up until last month's inauguration of the Export-Import Bank plan, the Bank of Japan had already been lending dollars at less than Euromarket rates, but only at 0.5 or 1.0 percent differential. Now Japan is cutting the rate in half.

The plan cannot work unless the Japanese-German-French central bank complex provides American banks with the same access to cheap dollars as their own banks. The U.S. banks cannot look to the U.S. Federal Reserve which is steadily lifting the U.S. interest rates to the Euromarket level, aiming for a 14 percent prime rate. Nor can they look for succor from the Treasury and the latter's agents in the State Department, since Treasury Undersecretary Anthony Solomon and State Monetary Affairs bureau chief Michael Ely are both committed to preventing the "consolidation plan" from even being aired publicly — to say nothing of their efforts to keep it off the agenda of the OECD meeting. Outside of this news service, no U.S. press has even reported on the "consolidation plan."

Aid for U.S. banks

Japan and the Europeans are already moving to circumvent the London-engineered containment surrounding the U.S. banks. On Oct. 6 the Japan Ministry of Finance asked
include American banks in the consortia in which the Japanese were lending at slightly less than normal margins above LIBOR. According to Japanese banking sources, some Midwest banks as well as Bank of America and Chase Manhattan participate in certain of these syndicates on a case-by-case basis. In contrast, Citibank — under pressure of a Morgan Grenfell-organized scandal — has steadfastly refused to undercut the high interest-rate regime of the Euromarket. A Citibank officer confirmed this policy in an interview with *Executive Intelligence Review*. Realistically, Japan cannot expect much U.S. bank participation in such syndicates unless they provide U.S. banks access to cheap dollars, that is, unless they undercut Fed Chief William Miller.

There are indications that Japan and the Europeans are directly attacking the high-interest rate policy within the U.S. itself. On Nov. 17, Japanese and European purchases of U.S. Treasury bills pushed the interest rate on them down to 7 percent, compared to the previously prevailing 9 percent — indicating massive purchases. Assuming that this level of intervention continues and that its effects spread to general interest rates, this domestic intervention combined with the two-tier system on international loans will amount to the successful takeover of the international monetary system by the forces for development.

— Richard Katz

'Take a courageous initiative'

Ireland's EC Commissioner speaks about the EMS in Chicago

EXCLUSIVE INTERVIEW

In its first official public effort to bring U.S. political and business support behind the emerging new monetary system, the European supporters of the EMS today sent European Community Commissioner Richard Burke of Ireland to address a major business conference in Chicago. Speaking on "The new European Monetary System and the Dollar," Mr. Burke addressed over 80 business and diplomatic representatives Nov. 20 at Chicago's Water Tower Hyatt House, in a meeting sponsored jointly by the Chicago Association of Commerce and Industry and the Belgian-American Chamber of Commerce. Representatives of Chicago's leading banking, industrial and trading firms attended, as did all the major consuls general from European nations, with the notable exception of Great Britain.

Excerpts from his address follow:

It is a pleasure to be here in Chicago, the heart of the Midwest, and to have this opporunity of exchanging views and ideas with its business leaders. Given the subject of my remarks today, I would add that it is a particular pleasure — and I hope an inspiration — to be at the center of the world's most successful experiment in economic and monetary union.

For the great effort which is now underway in Europe is directed towards the eventual achievement of a union on a scale and with a coherence to match your American achievement.

At the moment we are engaged on what may be regarded as a preliminary step towards the achievement of that union, and it is about the details of that step that I wish to talk today.

Before I begin to explain the technical details, I should say that the European Monetary System, or EMS as it is now called, which is now the subject of deep and sometimes difficult discussions between our member states, and which will, I hope, be agreed on at the meeting of the European Council in two weeks' time, is but a preliminary step to the establishment of economic and monetary union in Europe.

Within the last year . . . it became all the more necessary to take a courageous initiative instead of awaiting the verdict of events. The virtual disappearance of the Bretton Woods system which had followed the dollar crisis of August 1971, and the rise and fall of the Smithsonian System, abandoned for a system of floating exchange rates by the end of 1973, made the creation of a successor system all the more pressing.

It would not be true to say that the initial advancement of the EMS was greeted everywhere with acclaim. Indeed, in the early stages, the skeptics probably outnumbered the enthusiasts. But in the space of a few months the idea made its way in the most important circles, and in particular in the thinking of the French and German leaders. . . . The steady decline of the dollar forced the strong currency countries of Europe to look for a new line of security. It is true that the scheme which engages our attention now is but one step. . . . But it would not be right, at the outset of a discussion of the limited system of monetary integration which is now at hand, to understate the importance of the imaginative political contribution made by the President of the European Commission.

Understanding the real nature

Some five months ago, in the German city of Bremen, our nine countries agreed to establish a common monetary system and to bring it into operation by the beginning of the new year. . . . One can view the EMS in isolation, as a mere mechanical framework designed to create a zone of exchange rate stability, and to help to bring about a greater convergence of economic policies in the member states. To do so would, I believe, greatly understate the real nature of those proposals.

The outcome of the Bremen meeting last June was . . . a decision to set up a European Monetary System. The proposals made at Bremen were of great importance. They were to study ways of stabilizing currencies in Europe by creating a system of strict exchange relationships, the establishment of a well-endowed pool of reserves, and the creation of a reserve currency based on the European unit of account.

Strategically, I have no doubt that a strengthening of the European currencies with its consequent dampening of the turbulence of the exchange markets cannot but be beneficial to the dollar. One does not have to underline today the destabilizing effects of monetary speculation on investment and trading conditions. Our system, I believe, will discourage that speculation even if it cannot altogether abolish it.

I would go further indeed in suggesting that the U.S. has every interest in encouraging the emergence of an economically strong and outward-looking community. A prosperous, non-protectionist Europe offers a market of some 250 million consumers for American products and your marketing can only be simplified when it is conducted in a unified and stable monetary system.

I believe you will accept that it has always been in the long-term interest of the United States to be able to depend on the partnership of a strong and stable Europe, and in that spirit I am confident that this bold advance towards monetary cohesion and eventual economic union can only be to the historic benefit of both continents. But I am sure I do not have to labor the theme at a meeting of the Belgian-American Chamber and the Chicago Association of Commerce and Industry.

Later, Executive Intelligence Review *Chicago correspondent Mitchell Hirsch spoke with Commissioner Burke.*

EIR: Mr. Burke, what is your assessment of the ability of the European nations to meet the commitment they agreed upon at last summer's Bremen meeting, to have the EMS in operation by January 1, 1979?

Burke: I am very optimistic. Although our discussions are always proceeding in Europe, we are now dealing primarily with matters that shall effect the technicalities of the more long-term operation of the new system. The only short-term difficulty seems to be the question of whether or not the United Kingdom will join.

EIR: What is your reading on this last point?

Burke: Well, I am not really privy to inside information and I would venture to say that the British Cabinet itself, while they are still debating this matter with great intensity, probably could not answer that question at this time. But it is their decision and we are still awaiting it. . . .

EIR: You are from Ireland, being former Minister of Education of Ireland. I would assume you would have a good reading on the matter of Ireland's joining the EMS?

Burke: Yes, I believe that we have a fairly united view in Ireland that we should join the EMS, and I look forward to seeing Ireland in the new system.

EIR: How do you view the question of British entry into the EMS?

Burke: Well of course the EC Commission hopes that they will join . . . But as I say that is yet to be decided. From Ireland's standpoint I can say that the Irish achieved a partial, a political independence from Great Britain earlier in this century, but to this day we have not achieved the kind of financial and economic independence that you Americans, for example, have achieved. So we look forward to joining the EMS knowing that this shall finally give Ireland its financial independence from Great Britain.

EIR: There has been some serious discussion as you know with regard to the re-monetization of gold as part of the EMS system and the European Monetary Fund. What progress do you foresee on this point?

Burke: I think that this will obviously enlarge greatly the scale of the reserve pool of the new system, but this is part of the strategy that is being worked out for the next two-year period and therefore I do not think that I should discuss these plans here at this time.

EIR: What effects will the EMS have on the American dollar and its trade position?

Burke: Well, as I said, it is going to be a very important factor in strengthening and stabilizing the dollar. In this regard let me say that we see the agreements with the U.S. by the European nations, recently announced by President Carter, for the $27 billion support pool as a very important step towards the eventual coordination between the new EMS and the United States. As regards your trade position, I am certain that this is also very much in your interest, especially as it will stabilize currency relations and, just as important, create new and expanded avenues for U.S. exports.

EIR: What effects will the new system have on the British pound in your view?

Burke: Well I believe that answer may have to await Britain's decision on joining the EMS. But I can confidently say that it will have, whether the British join or not, some very substantial effects on the exchange rate position of sterling and on sterling's role generally.

EIR: What is your current assessment of the U.S. position and on the status of U.S. understanding of the EMS, both among business leaders and the Administration?

Burke: Well, I think that you are much better along here in Chicago and the Midwest in terms of understanding the significance of the EMS and in taking a more positive attitude. I have talked with administration officials and with business leaders here and elsewhere in the U.S. and I unfortunately must say that there is a very serious lack of knowledge. I know that your newspapers and so forth cover these developments very little if at all, and then it seems with little understanding. I can say that very few business leaders in the U.S. seem to be knowledgeable regarding the details of the EMS. It seems that outside of you and your associates there are very few indeed. But that just makes it all the more important that those leaders here who do have an understanding of where we must be going with the new System continue to work very closely with us in Europe. It is very important what you are doing in the U.S., and together I hope that we can ensure growing American support for the EMS and for long-term expansion of cooperation between Europe and the United States. I think that today's meeting is an important step in that direction. Thank you so much and may I wish you the very best of luck.