EMS pushes IMF aside

Coup de main against London's austerity economics

When France and West Germany made the historic announcement March 7 that the European Monetary System (EMS) will go into full official effect by March 12, the timing could hardly have been more acute or deliberate. The announcement coincided with the semi-annual meeting of the International Monetary Fund's Interim Committee meeting in Washington D.C., with public European signals that Britain may be read out of the European Community (EC) for its efforts to derail the EMS, and with Jimmy Carter's departure for the Mideast.

What French President Giscard referred to as the imminent "state-to-state" institutionalization of the EMS is emphatically not a matter of fixing internal currency parities for the system's European members; as the *New York Times* conceded in its lead March 8 article on the EMS, these are already in effect. The overriding tenor of the EMS statements and circumstances is a *coup de main* against the International Monetary Fund's ability to impose self-contraction on the underdeveloped sector. The EMS leaders have attenuated the issues of IMF capital expansion and Special Drawing Right dollar substitution to the point of nullity; they have ended the British government's ability to veto the European industrial development packages for the Mideast and Third World envisaged by the EMS's European Monetary Fund (EMF), and they have delivered a healthy shock — retransmitted by heavy U.S. press coverage — to American bankers and industrialists. The questions now are how far and how fast Washington and U.S. business can be brought into alignment with this policy for world stabilization and growth, and how forcefully the EMS will follow up its shunting aside of the IMF in the Lomé talks and related discussions of North-South economic relations.

IMF adjourns for EMS

The most startling confirmation that the Giscard-Portillo diplomacy on behalf of the EMS design (see INTERNATIONAL) was surrounding the IMF itself was the public statement March 7 by West German Finance Minister Hans Matthöfer that, at the close of the IMF meeting, the EMS finance ministers and central bankers would not wait to return to Europe to formalize the EMS nuts and bolts, but would hold a special session in Lashington that night. Matthöfer said that the EMS could begin to operate as early as March 9 based on this "startup" meeting. He added, "We're going to tie up the exchange rates tonight."

Earlier in the day, Giscard had appeared on French television to announce that France wants to officially begin EMS operations the week of March 11 — when the EC heads of state and government hold their latest summit. Giscard's statement was elaborated by presidential spokesman Pierre Hunt: "the eight countries that have agreed to form the EMS will receive a proposal from France to go ahead with the EMS as a state-to-state institution irrespective of British attitudes to the agricultural program."

By means of this agricultural reference, the Elysée Palace was formalizing what had emerged at the EC farm ministers' meeting March 5-6: a new "Eight" without, and outspokenly opposed to, Britain. Since the EMS was initiated ten months ago by France and West Germany, the deeply anti-EMS British government has played various puerile games within the EC around the farm question in particular, games which were tolerated to the extent that Schmidt and Giscard allowed Anglo-American pressures to decelerate full EMS-EMF operations. Now Britain has been told openly that an agricultural solution has readily been found and it can take or leave the results (see box). Far more, it has been told that its perennial worst fears have finally materialized of a continental alliance, out of London's control and bent on active entente with the Soviets and the post-colonial world. As *Le Monde* put it in a March 8 editorial headed "Realism and Joint Activity" (referring to France and West Germany): this week saw "the loss of England's influence over the old continent."

G-24 and "The Eight" in Washington

What the U.S. press has not called attention to in its unusually full coverage of Matthöfer, Giscard and the EMS is the coordinated deployment at the IMF meeting that spun off Giscard's discussions in Mexico. The director of Mexico's central bank, Romero Kolbeck, declared March 6 that Mexico now will recognize no obligation to give even pro forma attention to the IMF's austerity-deindustrialization formulas, since it has repaid all its obligations to the IMF. In Washington at the IMF's meeting of the Group of 24 developing-nation spokesmen the same day, Mexican Finance Minister David Ibarra Muñoz pressed Mexico's 1978 call for a $15 billion international development banking institution to finance capital goods imports for the Third World. Ibarra stressed the long-term, low-interest, development focus of the proposed fund in caustic contradistinction to the IMF's practices.

The G-24 as a whole proceeded to issue a statement terming Third World indebtedness the main obstacle to the sector's economic growth, and endorsing Ibarra's proposal. It has been the lack of any EMS counter-institution to the IMF that in the past has prevented such initiatives from guiding the actual week-to-week diplomatic behavior of the G-24 and its constituents.

At the Interim Committee meeting itself, the Anglo-American contingent quickly lost hope of forcing some motion toward the IMF's goal of replacing the dollar as the international reserve currency. At the beginning of the sessions, the U.S. Treasury—frank and ardent supporters, under Blumenthal and Under Secretary Anthony Solomon, of using the SDR for that purpose — startled international backbenchers by announcing that, in view of the dollar's stabilization under the Nov. 1 international agreement, Washington no longer favors immediate creation of a $150 billion "substitution account" whereby central banks would trade dollar holdings for SDR's.

All too aware that the substitution account was dead, the IMF secretariat under Jacques de Larosière had prepared other gambits to keep antidollar proposals on the table. (1) It stressed in the meeting and the final communiqué that SDR's can be used as collateral and remittance for central bank credits and pledges. (2) It proposed that central banks queasy about holding dollars could put them into the IMF and receive guarantees against dollar depreciation measured vis-à-vis the SDR, which is a basket of currency values. (3) Alternatively, the U.S. could agree bilaterally with any central bank to make good on losses from dollar depreciation over a certain period of time. (4) At the close of the meeting, de Larosière added another twist: creating assets that "would not be proper SDRs, would not be issued in SDRs, but could be denominated in and

Questions and IMF answers

At the end of the IMF Interim Committee meeting in Washington, D.C., IMF Managing Director Jacques de Larosière and British Chancellor of the Exchequer Denis Healey held a joint press session. A transcript from EIR Washington correspondent Laura Chasen is excerpted here.

Healey: (in opening remarks): Most important, we came to grips with the question of organizing the substitution account, which should be seen as a reinforcement for the SDR as the principal reserve, rather than as a buttress for reserve currencies that are under pressure....There are important technical problems to be solved on this....

Q: *The G-24 made two suggestions for a medium-term facility and for a facility for importing capital goods by developing countries. Why is this not mentioned in the Interim Committee communiqué?*
De Larosière: This question was not examined today. I think the development committee intends to have it studied....

Q: *Was the EMS discussed?*
Healey: No, except that (French Industry Minister René) Monory explained that it would not operate in a way which was either intended to or would jeopardize the operations of the IMF. The role of the European Currency Unit which is purely regional is not in any sense competitive with the SDR....As you know, Giscard withdrew his reservations and a meeting is taking place now to decide the modalities. Another UK delegate is replacing me there because I could not bear not to be with you here.

Q: *Was support for the substitution account unanimous?*
Healey: Yes.

Q: *Why has the U.S. view changed?*
Healey: You should ask them.

Q: *Is the link between the SDR and development finance still active?*
De Larosière: The concept is still around, but some governments have been hostile to it, so there has been no movement.

having the main characteristics of SDRs, with the very important characteristic of the SDR, its liquidity." This addendum appeared to refer to the 1978 IMF proposal for some "basket" that could be used instead of dollars to denominate oil payments in particular, a "basket" that would have a lesser dollar component than the SDR.

Item (1) simply celebrates the inconsequential fact that, under the West German-Swiss-Japanese pact of Nov. 1 whereby the U.S. agreed to take some dollar support measures, the West German Bundesbank received several hundred million SDRs in exchange for providing the Federal Reserve with deutschemarks for foreign exchange market intervention. Item (2) sounds innocuous, insofar as it involves no dollar substitution; but it is actually aimed against the EMS. The EMF was conceived as a way to absorb dollars from spot-market sellers, fearful investors and other dollar divestors, and rechannel them into productive gold-backed loans. The EMF's European Currency Unit (ECU) is the vehicle for accounting and clearing the gold and dollars involved — the antithesis of the SDR. The IMF would sit on those dollars or use them to expand its credit-blackmail powers en route to retiring them for SDRs.

The other two proposals are frankly variations of the hoary substitution account and thus overtly anti-EMS, since the EMS is not only recognized as determined to preserve the dollar as the world "key currency," but has every ability to do so. Both were shelved, with polite comments from the Japanese and others about their inappropriateness at this time, prompting a reporter from the West German business daily *Handelsblatt* to enquire at a press conference why the IMF maintains its Interim Committee meetings when all they ever do is defer matters for study.

West German government sources had already said privately to EIR — and, in the case of deputy finance minister Manfred Lahnstein, publicly to the March 5 *Handelsblatt* — that Bonn would come to Washington prepared to keep the IMF out of the "resource transfer" question, that is, North-South technological investment and trade, and press it later this month at the EC's ministerial talks with the Third World on Lomé trade agreements in Nassau. Secondly, sources have said that in the wake of Chancellor Schmidt's meetings with Turkish finance minister Ziya Müezzinoglu, the dimensions and conditions of aid to Turkey would be a key informal subject at and beyond the Interim Committee meeting. Both these discussions are expected to involve extremely heavy last-ditch deployments by Britain, through all still-available channels in the Third World and U.S. as well as Bonn and Paris, to confine the impact of "The Eight" on world credit flows.

— *Susan Johnson*

Not talking about farmers

Under the conditions of virtually fixed currency rates achieved by the EMS, there is no need for the "monetary compensation" subsidies the EC pays to farmers whose sales have been affected by jagged appreciations in their national currency, especially in West Germany. The French have pushed hardest to abandon these MCAs, and the EC "Eight" agreed March 5-6 to do so over the next two years, with a temporary sop to German farmers, that if the mark appreciates within the EMS their MCAs will not be reduced. A small increase in agricultural prices was also arranged, plus a devaluation of the French and Italian "green" currencies used for intra-EC transactions, which will in principle promote their exports. The compromise is much less interesting and important than the prospect, raised since the July founding of the EMS by Giscard, of turning the EMS farm sector into agribusiness exporters to southern Europe and the Third World. The British hoped to wreck the compromise as a way of perpetuating the EC as a forum for petty wrangles instead of EMS implementation, and, as the following press coverage indicates, the crudity of their latest attempt — to "modify" the compromise with price freezes on surplus commodities, and deletion of the German sop — was used as a pretext to begin to boot the UK out of the Community altogether.

Station One, French television, March 7: The meeting of agricultural ministers agreed on all the proposals, with the exception of the British. There is now some consideration of a joint action of condemnation of Britain as a possible response.

Financial Times of London, March 7: The EEC agricultural ministers arguing here over farm pricing arrangements are **not** talking about farmers (emph. in original — ed.). The objections raised by Mr. Jon Silkin, the UK minister, to the compromise solution proposed by the commission indicate that Britain's concerns at the moment are not primarily agricultural.

Indeed, there is growing speculation in Brussels that the British, while not openly opposing introduction of the European Monetary System which is linked with farm finance, are keen to prolong the delay. It is suggested that while the EMS remains in the air, the British have more leverage for extracting concessions from the other eight on some of their longer-term demands, such as the redistribution of EEC resources in a way more beneficial to Britain....