

# U.S. Only Question Mark For New Monetary System

Final preparations are well under way for the launching of the European Monetary System, despite efforts by Britain and its Dutch and Belgian allies to derail the European Community negotiations. French, West German, and Italian leaders have made a

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## WORLD FINANCE

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redoubled push at the beginning of this month for the EMS.

British commentators' maunderings about the long, tough road of "technicalities" ahead, and their refraction by certain continental outlets, are designed not for local consumption but to further disorient an already largely bemused and laggard American audience. Whether the U.S. will pull itself together toward active co-sponsorship of the EMS is now the main problem for the world economy. The EMS was set into motion at the July summit meeting of EC heads of state precisely for the purpose of upvaluing the dollar on the currency exchanges and, through concerted Euro-Arab-Japanese recycling of offshore dollars into expanded trade and development-priming Third World investment, to magnify the dollar's standing as a prized reserve instrument.

The political architects of the EMS, Chancellor Helmut Schmidt of West Germany and President Valéry Giscard d'Estaing of France, will meet near their border at Aachen, France on Sept. 14-15 to clinch the EMS, according to European reports Sept. 7. The consultations will include Giscard's deputy Bernard Clappier, who is meeting the preceding week with Italian Finance Minister Pandolfi and the perhaps reluctant Italian central bank head Baffi to draw Italy fully into the public consummation of the plan.

The background to Italian participation is threefold. Most immediately, the dominant spokesmen for international economic development in the ruling Christian Democratic Party, strongly supported the EMS at a Sept. 5 meeting of European Christian Democracies in Italy, where a French delegate stressed the EMS as the basis for a European central bank.

The trip to Spain of Italian Premier Giulio Andreotti, secondly, has as an important feature expediting Giscard's plans for building a modern

southern Europe as one indispensable way to apply new EMS credits and technologically transform the entire Mediterranean region. By the same token, the Italian initiative will undercut British attempts to make Spain's planned EC entry an issue to torpedo the EMS. Finally, the stated commitment of Pope John Paul I to his predecessor Paul VI's policy of economic and scientific progress as the vehicle for self-development of the world's population is a significant factor in encouraging Italian participation in EMS implementation.

### *EMS Operations At Work*

France, West Germany, and their Arab associates have already given the lie to British-Dutch claims that the EMS is strictly a European affair which in any case may never materialize. A spokesman for Giscard's Independent Republican party told the Christian Democratic conference that the French government is totally committed to realizing the EMS as an institution "with special relevance for the development of the Third World."

A high-level military source close to Giscard said privately Sept. 6 that "No matter what the British want, the French and West Germans are irrevocably committed to pushing through the Bremen accords. We will not tolerate the destabilization of the Schmidt government. The British can go to hell."

At a two-day confidential briefing session to every member of the French government early this month, Giscard elaborated the EMS as the sole framework of a domestic policy of high-technology, export-g geared economic growth, according to summary French press reports. At the seminar's close, Premier Raymond Barre pointedly told *Le Figaro* that "I hope the Community nations will understand better than in the past that the EMS is not directed against the U.S. nor against the dollar."

In this spirit, a leading Franco-Arab financial group with an estimated \$6 billion in resources, the Union des Banques Arabes et Françaises, announced Sept. 5 that Arab countries are ready to invest in Mexico, the leading sponsor of Grand Design economic policies in the less-developed sector. Led by the Deutsche Bank, West German banks also issued a \$.5 billion credit for Mexico at the same time, and launched it from the Franco-German Euromarket base in Luxembourg rather than from London. The oil and other U.S.-based

multinational corporations who have mooted their intention to "bull the dollar" this autumn say they plan to do so in collaboration with France and Germany, as well as Japan and the Arabs.

Following a Sept. 18 meeting of European Community finance ministers, the French and Germans expect to have the EMS sufficiently in shape to wage a crucial battle at the Sept. 23 annual meeting of the International Monetary Fund. The battle is against the IMF itself — the besieged shell of British policy influence in world monetary affairs; last month West German Finance Minister Hans Matthoefer indicated to the Bonn *General Anzeiger* that his government would not be afraid of a direct clash with EMS opponents there.

European IMF spokesmen have said recently that the IMF will try to insist on its "surveillance" powers over national currencies and economies; as the British press has complained for weeks, the EMS would supersede such powers with its larger funding base and its commitment to real international growth. Meanwhile, French sources report that the Sept. 8 meeting of the Group of Ten finance ministers will discuss the possibility of a giant U.S. drawing on its IMF-held reserves — a grotesque move the EMS architects could follow, however, by refusing to replenish the IMF's cash.

#### *U.S. Allows Anti-EMS Latitude*

But the Europeans and other U.S. allies have been limited in their public postures by a sense of uncertainty about the U.S. business community and especially about Washington, which seems to them to be swooning like Pyramus behind a numbskulled wall. In an interview published Sept. 7 by the West German weekly *Deutsche Zeitung*, former Economics Minister and present spokesman for the Dresdner Bank, Hans Friderichs, a leading advocate of advanced-sector development of the Third World, accurately pointed to Zionist lobby and Brzezinski-Schlesinger obstruction of proper U.S. policies toward Japan and the Arabs, but simultaneously seemed to give up on the potential for positive U.S. political and economic leadership. On Sept. 6, however, signs appeared of healthy pressure on the British-dominated Treasury Department as well as the Federal Reserve governors as the Treasury announced that in meetings with Japanese Vice-Minister of Finance, Takehiro Sagami, Secretary W. Michael Blumenthal had firmly pledged further dollar-support actions by the U.S.; Scott Pardee of the Federal Reserve Bank of New York, which conducts the Treasury's foreign operations, went so far as to foresee a capital inflow into the U.S. that would turn around what he called the "ridiculously undervalued" dollar.

In the absence of concrete export- and energy-expansion measures, however, a spectator spirit prevailed in the U.S. This was typified perhaps by a senior economist for one of the biggest New York commercial banks who predicted a firming dollar on

the basis of Arab support — and also of domestic recession — while foreseeing that the U.S., because of its "big stake" in the International Monetary Fund, would fight to prevent the EMS from replacing the IMF, a goal he accurately attributed to the EMS designers.

In this climate, the first of a half-dozen meetings on the EMS was sabotaged by London operatives working out of Roy Jenkins's European Commission headquarters in Brussels. The Sept. 5 conference of the Commission's monetary committee, a body of middle-level officials under slack control from their governments, turned into a quibbling session over second-level technicalities, just as British spokesmen had purred for two months that the entire negotiations would. This catfight in turn became the pretext for a transatlantic disinformation campaign regarding the EMS (see below). The London *Times* not only claimed that a politically absurd Franco-British alliance had emerged against the West German fixed rate perspective but that the latter had reversed itself into sponsoring an equally improbable micro-IMF arrangement.

The London *Times*' efforts in this direction found their way into ordinarily better-informed French journals, into the mouths of second-rank international-division officials at various multinational corporations and banks, and from their counterparts in various embassies and economics ministries, all of whom depend on British courtesy information networks for their information. U.S. senior management in most cases continues to operate in the dark on EMS-related questions.

— Susan Johnson

## The London Line on EMS: Theme and Variations

*London Times, Sept. 6, "Obstacles in the Path of the New European Monetary System":*

BRUSSELS — The existing snake members, led by Germany, favour an exchange rate system in which the European currency unit would be fixed. This so-called grid parity system would differ little in practical terms from the present system of central rates used in the joint European float. The non-snake countries, championed by France and Britain, have...argued for a weighted basket of currencies that would presumably fluctuate in value....

It was generally thought at the beginning that (the EMF) implied a pooling of reserves to create a European monetary fund....Over the summer the Germans, who have the largest reserve board in the Community, and who would therefore contribute most to such a fund, appear to have backtracked, speaking instead of drawing rights upon the pool of ECU's created from reserves, without necessarily creating a fund under independent management....The

important question of coordinating exchange rate policies against third countries appears to have been relatively neglected ....

*Le Figaro, Alain Vernay, Sept. 6:*

... Britain, for its part, is refraining from outward expression of its hostility to anything that could contribute to the creation of a European unit of account.... London prefers to wait for the moment to negotiate its eventual acquiescence to a watered down version of the plan in exchange for modifications of the Community's agricultural and budget mechanisms.

... Germany apparently prefers that European parities be established vis-à-vis a grid of parities as close as possible to the snake mechanism. The other EEC nations prefer, on the contrary, to calculate based on a basket of currencies, leading toward the creation of a European version of SDRs....

*From an interview with an economic official of the government of the Netherlands, Sept. 7:*

*Q: What is the potential for the European Monetary Fund to extend long-term dollar credits to, for example, the Third World, as the European press suggested at the time of the Bremen summit?*

A: The credits are strictly for use within the

Community — short-term credits for intervention, and medium-term for balance of payments problems.

*Q: What about this fixed-rate concept versus the basket of currencies....*

A: The question is whether there will be a different band of fluctuations for members who were not part of the old snake, and whether the smaller countries will be burdened by the mark's peg to the European Currency Unit, so that its fluctuations make us intervene; there is also the question of valuing the gold component of the EMF so that too much liquidity is not created....

*Q: How does the EMF fit in with the IMF?*

A: There is a necessity to bring it into accordance with the IMF, and avoid competitiveness. I am pessimistic about the possibility of the EMF's surveillance becoming stricter than the IMF's, but in the past the EC at least attached about the same conditions to its loans to Italy, the UK and others as the IMF did. What concerns us is that France wouldn't mind having the present snake abolished.

*Q: What are the potential effects on the dollar?*

A: The goal is primarily stability among EC currencies. Later there may be a common relation to the yen or the dollar, but not necessarily.

## Bank Of England's Deflation Scenario Unfolds

The Bank of England's plans for throwing the U.S. economy into a deflationary tailspin devolve on pushing suggestible Jimmy Carter into an Aug. 15, 1971-style wage-price freeze as a response to the

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### BUSINESS OUTLOOK

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continuing fall of the dollar and the "mounting evidence" of a surge in the U.S. inflation rate. According to one well-informed source, Sept. 18 is the deadline for the formulation of a stringent "anti-inflation" program by the new group designated by Carter at the Aug. 26 meeting of the National Security Council.

The standby authority used by President Nixon in 1971 to impose mandatory wage-price controls has since expired, and Congress is unlikely to pass new legislation, so Carter will have to take a different approach. He is expected to go for "voluntary" wage-price guidelines that will be given teeth by the blackmail capabilities of the various regulatory

agencies — the Environmental Protection Agency, Occupational Safety and Health Administration, etc. For example, steel companies distressed at the failure of Treasury Undersecretary Anthony Solomon's "trigger price" system to limit foreign steel imports, a trade off of protectionist import barriers for "price restraint" would be the blackmail offer.

In his testimony before the Senate Finance Committee Sept. 6, Federal Reserve Chairman G. William Miller carefully avoided any mention of any form of wage-price controls but he called for the implementation of a package of fundamental actions within the next 60 days to "stabilize the dollar." Miller's fundamental actions were passage of Carter's energy bill, postponement of next year's scheduled increases in Social Security taxes and the minimum wage, and cutting the federal deficit: the deflationists' credo.

Miller's statement had the immediate effect of sending jitters through the foreign exchange markets, and causing the dollar to fall against every major currency.

There is of course, widespread aversion in the