

# Cornered Britain moves to join the EMS

*But change of heart was ordered by the crown's top think tank*

For the first time British Prime Minister Callaghan has hinted publicly that Britain will seek membership in the European Monetary System. As reported in an early Dow Jones wire today, Callaghan told Parliament that "a zone of monetary stability" is absolutely necessary and that Britain will play a "constructive role" in developing the European Monetary System.

Callaghan's change of heart is implicit testimony to the unstoppable momentum created by West German Chancellor Helmut Schmidt and French President Giscard d'Estaing's organizing efforts which have swept a large chunk of Western Europe, Scandinavia and Japan into the EMS camp. Over the past two weeks, Greece, Switzerland, and Denmark have expressed their eagerness to join the new monetary system, while the two countries which Britain had hoped to draw into a "united front" of opposition to the EMS — Italy and Ireland — have also been won over by the obvious advantages of the Franco-German plan to their faltering economies. Britain, now completely isolated, has been forced to make an abrupt policy turnaround — at least publicly.

The British have been literally "cornered" by Franco-German diplomatic initiatives which have led right into Britain's own backyard. The Republic of Ireland is quietly being wooed with the promise of "soft," (i.e. low-interest) EMS-style loans by Schmidt and French Finance Minister René Monory who arrived in Dublin Nov. 6. Irish Finance Minister Colley is scheduled to visit Bonn this week to iron out the details of Ireland's EMS membership while Irish Foreign Minister O'Kennedy travels to Japan for talks with his Japanese counterpart, Sunao Sonoda.

Greece (which now has a high-powered delegation in Brussels for discussions on entering the European Economic Community) is also holding simultaneous talks on aligning the drachma with the European currency bloc in preparation for EMS membership. Greek Foreign Minister Rallis announced this week after talks with West German state secretary Dohnyani that Greece is very enthusiastic about joining the European Monetary System.

## Whither the British?

Callaghan's sudden change of heart reflects little more than a repackaging of London's old "wreck the EMS" line, this time with slightly more attractive

wrapping. At bottom, British policy was and is geared toward sucking the European Community into deflationary policies and schemes for "dethroning" the dollar. Callaghan's expression of support for the EMS can be easily explained. It comes within a week of an important meeting of the Royal Institute for International Affairs during which Her Majesty's policy makers put together a new British public relations package on the EMS. Attendees at the meeting — including top financial figures, journalists and government advisors — agreed on a strategy of wrecking the European Monetary System from the inside, but shift-

## Schmidt on the 'Grand Design'

*An article by West German Chancellor Helmut Schmidt, published in the Nov. 9 edition of Le Figaro on the occasion of the 90th birthday of Common Market architect Jean Monnet, included the following comments:*

The European Community corresponds to the economic and political necessities of our times. . . . There is no possible other choice. The states of Western Europe must unite if they want to affirm their identity vis-à-vis the East, the West, the North and the South, and efficiently defend their political, economic and cultural interests. Our first task is to preserve the dynamic of the process begun and keep in mind the 'Grand Design' of European unification. . . . Whenever the Commission of the Council of Ministers of the European Community is not able to reach agreement on definite orientations, the chiefs of state and of government must take the necessary decisions with all the weight of their authority. . . . The mandate of Bremen, in which the indispensable rules of a European Monetary System must be elaborated before December 4 and 5 so that a decision can be made, constitutes a first initiative in the sense of deepening the community. . . .

ing the blame off themselves by appearing to endorse its early implementation.

The strategy is to take advantage of the "dumb giant" United States and especially of London's control over U.S. economic policymaking to wreck the EMS through manipulated dollar crises. The failure of the EMS could then be blamed on the U.S. for contributing to currency instability while refusing to pursue the required deflationary policies. The dollar collapse, on the other hand, could then be pinned on the Europeans who had put together an "antidollar" bloc.

London's new line on the EMS was enunciated for public consumption by Lloyds Bank Chairman Sir Jeremy Morse, a former director of the Bank of England and of the International Monetary Fund. Morse cut through the fog on the EMS issue by asserting "I personally am quite clear that Britain should be involved from the start for our own good and Europe's good." In his speech before the Royal Institute for International Affairs, Sir Jeremy explained that British membership in the EMS would be "good for Europe" because sterling could be "a significant stabilizer in the currency mix." It would be good for Britain because it would reinforce the government's anti-inflation (i.e. austerity) policy and it would benefit the Common Market because Britain

could "work for advantages in other areas of Common Market financial policy and help to rebuild a better base for the world economy." The EMS would also be able to create a major reserve pool for medium term credit and the "embryo European currency unit could one day rank as a world currency alongside the dollar."

Within three days of the RIIA meeting, City of London bankers by the score had changed their views on the EMS. Appearing before the Commons Select Committee which is considering the technical questions of EMS membership, Anthony Tuke (chairman of Barclay's bank) and Robin Leigh Pemberton (chairman of National Westminster Bank) joined Sir Jeremy to extol the new system's virtues.

Britain's moves to steer the monetary system to London's ends will not be permitted by the French and West Germans, however. Schmidt's government took a major step in integrating the U.S. into his program via support for the dollar by having the West German central bank, the Bundesbank, purchase the first-ever issue of U.S. Treasury notes denominated in deutschemarks. The Bundesbank gave deutschemarks in return for the notes, giving the U.S. a war chest to support the dollar.

—Marla Minnicino

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## 'The EMS means growth — the opposite of what Britain's achieved'

*The economics section editorial in the Nov. 6 Frankfurter Allgemeine Zeitung, was titled "They're out to enslave us": How the British view Europe," by Jochen Rudolph:*

Whenever England faces the question of joining an international economic alliance, half her politicians scream bloody murder. This was the case over entry into the European Community — and the lamentations still continue. It is now once more the case, now that a link with the new European Monetary System is up for discussion. The protests are not confined to a single political group, but the spokesmen and a large part of their following come from the left wing of the Labour Party.

They are not prissy about their choice of words. The Germans want to "cripple" their inter-

national competitors with the monetary system, left-socialist energy minister Benn recently charged . . . These days the Fabian Society, so rich in tradition, a group devoted to the peaceable attainment of socialism, has also begged leave to oppose the European monetary plans . . .

In the midst of political debate, nobody with a hide of average thickness would dwell on a couple of harsh, extreme expressions. But in this instance the actual economic state of affairs has already been stood on its head for years, and an entire nation has been deceived . . . Their stubborn insistence (about British autonomy from Europe — ed.) enables them to forget that the free flow of goods, capital, services, and manpower across the borders — something partially achieved and partially

still sought after — has given a powerful impetus for the Community's economic performance, resulting in lower prices for innumerable goods.

### British economy: a "sick dwarf"

They forget a great deal more: for example, that under the influence of Keynes's epigones they have for 30 years conducted . . . incessant rounds of artificial state heating-up and cooling-down of the business cycle. Their legendary "stop-and-go" policy has mutilated their once weighty and admired industrial sector into a sick dwarf . . . Yet they talk about the utmost jeopardy to these "heavenly" conditions if the European Community requires some sacrifice of sovereignty. Suddenly everything looks endangered . . .

If within a European monetary association they were now to lose the privilege of adjusting their currency parities — read: further devaluation of the pound sterling — the "last possible escape route