

Foreign Exchange by Kathy Burdman

Decoupling Europe from the dollar

Kissinger's business partners expand use of ECUs—for political rather than financial reasons?

When Henry Kissinger wrote in *Time* magazine March 5 that the United States might remove its troops from Europe, the financial ground had already been laid for the decoupling of Europe from the U.S. dollar.

The mechanism is the European Currency Unit (ECU—pronounced *ay-koo*), the currency numeraire of the European Community set up in 1978 at the foundation of the European Monetary System (EMS). ECUs are not printed legal tender, but a currency cocktail of the major EMS domestic currencies, originally conceived to promote trade and economic growth in Europe. At its foundation, the EMS and its ECU were hailed by *EIR* and others as a potential vehicle to put Europe back on a gold-and-dollar standard, and bind Europe closely to Washington.

Instead, as Kissinger's private business partner Lord Peter Carrington took over NATO, Carrington and BIS chief Fritz Leutwiler have over the past year promoted the ECU as a currency Europe can use *instead of the dollar*. (See *EIR*, Oct. 25, 1983.)

More than 200 European banks now take accounts denominated in ECUs, and hold as much as 10 billion ECUs in deposits, Yves Le Portez of the European Investment Bank estimates. Interest rates on ECUs are lower than those on U.S. dollars. The ECU is now the third largest currency of world bond syndication after the dollar and the German mark. During 1983, banks, corporations, and international organizations borrowed 2.35 billion ECUs, and since 1981 a total

of 4.35 billion ECU-bonds has been issued.

U.S. negotiators at the GATT talks in Geneva in March were shocked when European Commissioner Viscount Etienne Davignon demanded that trade quotas be set in ECUs, not dollars, an aide to U.S. Special Trade Representative Bill Brock told *EIR*. "They are using the ECU to set U.S. export quotas to Europe, not the dollar, and this will cut U.S. exports. They're using the 1982 dollar-to-ECU rate, which means that since the ECU is worth less now, U.S. exports to Europe will be even smaller than the quotas. But why are they doing it, really?"

The BIS argues that the U.S. dollar is too unstable to finance trade. As one banker said, "The dollar will fall some more, then rise again, and fall later this year.

"They lose both ways with a dollar system. The Europeans were first hit by the rising dollar, when they had to absorb a collapse of their imports and inflation to their import prices. Now they've absorbed that, the dollar is collapsing—which won't help them, because they were just getting to where they could use cheap European currencies to sell more European exports."

New York Federal Reserve President Anthony Solomon threatened in a speech last year that Europe is "tired of being whipsawed by U.S. interest rate and exchange rate fluctuations. They may seek ways to insulate themselves behind various kinds of trade barriers, exchange controls, and capital controls."

In order to impose capital controls

on Europe, "you would have to develop a whole new transaction currency to maintain capital flows within the EMS," a Morgan Guaranty economist told *EIR* at the end of March. "Practically speaking, they would have to use ECUs and totally change the currency flows within Europe."

"ECU transactions, of all types, are already in the billions of dollar ECU equivalent per year," a top source at the Federal Reserve informed me earlier this month. ECUs are being used for trade and intervention.

"The European central banks are already using the ECU and the EMS currencies as the transaction currency, including as currency of intervention, sidestepping the dollar entirely," the Fed man said. The European central banks, especially the smaller ones like Belgium with less dollar reserves, are pushing the ECU market in Europe like crazy. They are doing a lot of exchange intervention in ECUs; they buy French francs for ECU bank balances, and the traders sell the ECU bank balances to the West German central bank, for example, if they want German marks. Nobody prints ECUs, it's unnecessary."

The European central banks are also "pushing the European banks to lend and the companies to finance trade in ECUs," he pointed out. "Companies are using the ECUs to pay their trade regularly. A German company exports to France, the French company pays in an ECU bank balance, and the German company holds the ECU bank balance. They use it later for their foreign purchases. When the German company needs cash to pay their workers, they can go to the central bank and get German marks, but otherwise they just hold ECUs."

Otto Wolff von Amerongen, dean of German banking and industry, wants a parity for the ECU with the Soviets' transferable ruble.