$70 billion EMS is now established

The world is at a strategic conjuncture as EC meets with Asians, Latin Americans

In a speech Nov. 20 before a gathering of Asian countries' foreign ministers in Bonn, West German Foreign Minister Genscher asserted that the European Monetary System was already an established part of the world scene, and that the task henceforward was to integrate the rest of the world into the European seed-crystal operation. That signal from a top European official is a good hint to the United States, which has watched bewildered as the rest of the world moved forward.

The European finance ministers' meeting on the same day put into shape a $33 billion European Monetary System whose actual credit powers work out to double that figure. While they met in Brussels, and the West Germans met the ASEAN countries in Bonn, EC negotiating teams were sitting down with ASEAN's equivalent organizations for Latin America, the SELA, and also with the Comecon.

Last week's crop of developments spinning off the European (and Japanese) initiatives is virtually unprecedented, and represents a type of culmination of the Grand Design put forward at the May meeting of West German Chancellor Schmidt and Soviet President Brezhnev. Apart from the fact of the EMS agreement itself in Brussels — waiting only ratification from the EC chiefs of state at their Dec. 4 summit — other developments include:

(1) The first implementation of Japanese proposals to off-lend dollars accumulated by the central banks in support operations for the U.S. currency through export loans, tied to European and Japanese domestic interest rates — the beginnings of a two-tier credit system on the Eurodollar market and the drying out of the speculative markets.

(2) The virtually unquestioned success of dollar support operations inaugurated two weeks ago.

(3) The first set of invitations — to Midwestern banks in the United States — to join in consortia formed by the Japanese for the low-interest lending format described above.

(4) The first indications, through the mitigating impact on short-term Treasury bill rates of European reinvestment of dollars in the U.S., that the European central banks' sphere of influence could extend to the U.S. credit system itself.

Taken as a group, these events are a European-Japanese coup. Prominently, the British have been excluded from all the important arrangements, to the point of missing out on special incentive credits the EC has granted to the Irish and Italians in the context of their entry into the European Monetary System.

As the *London Times* editorialized Nov. 16, Britain's influence in the U.S. ultimately depends on its ability to present itself as the spokesman here for Western Europe; the rug has been pulled out from under that charade. The Soviets, too, have come up with a good answer to the charges of the British press (e.g., *Daily Telegraph* commentator Robert Moss) that the EMS reflects a secret deal with the Russians against the interests of the United States. In the Soviet government newspaper *Izvestia* of Nov. 17, chief political commentator Matveyev proposed a Schmidt-Brezhnev deal with the United States, based on joint work for the export of nuclear reactors to the developing sector — economic advancement as the basis for world peace and stability.

The world has changed drastically, in the direction that this publication said it would.

— David Goldman

Finalize plans for the EMS development fund

The Nov. 20 meeting of European finance ministers in Brussels made "great progress" toward implementing the European Monetary System, West German finance minister Hans Matthoefer announced on emerging from the meeting last week. The success of that meeting and surrounding diplomatic negotiations have prepared the way for the christening of the EMS Dec. 4-5 when the EC Council of heads of state are scheduled to meet, and the launching on Jan. 1 of a new gold-backed banking institution, capitalized at some $70 billion, with the capability for generating long-term, low interest-rate development loans and completely transforming the international monetary system and global economy.

The Nov. 20 finance ministers' meeting settled on the technicalities of how the EMS currencies will be pegged to the Japanese yen and the U.S. dollar — the latter pegging made possible by U.S. adoption of the European and Japanese-inspired dollar stabilization program earlier this month — and by the larger-than-expected size of the credit fund which is the centerpiece of the EMS.

Further, a major step toward consolidating Italy into the EMS was achieved at the meeting, thus dispelling the hoked-up debate over the entry of the "weaker countries" of Italy and Britain, which was a ploy being used by anti-EMS Britons to derail the EMS. As of Nov. 21, previously critical Italian press, including *Unità*, the daily of the Italian Communist Party (PCI), had quieted their attacks on the EMS, and the president of a major Italian bank told this news service that Italy will definitely join the EMS, with the endorsement of the PCI, barring a collapse of the government.

Britain, on the other hand, came under sharp attack for its transparent delaying tactics. Following the meeting, Matthoefer announced that none of the EC countries has made EMS entry conditional on the EC budget. This remark was a direct rebuff to British Prime Minister Callaghan, who had made the revision of the EC budget and a reorganization of the EC's Common Agricultural Program a precondition for Britain's entry. Responding to Britain's spurious objections, Danish central bank governor Christopherson asked, "How much longer can Britain act against the spirit and principles of the Treaty of Rome (the founding document of the European Community — ed.)?"

While the EC finance meeting was taking place last week, parallel negotiations on expanded trade and economic development were taking place between the EC and the Latin American economic union SELA, the Comecon countries, and ASEAN. Under discussion between the foreign ministers of the EC and ASEAN (the Association of Southeast Asian Nations) in Brussels was the creation of an EC policy committee for fostering "massive investment credits" for the ASEAN area from Europe, according to the West German financial daily *Handelsblatt* Nov. 21. This implies a full linkage of the EMS to ASEAN and to the Tokyo capital market, which is now operating on the basis of a two-tier credit strategy in the Eurodollar market, making available natural resource development and other project loans at half the prevailing Euromarket rates. In the background to the EC-ASEAN treaty, the EC has recently concluded direct commodity marketing arrangements with Malaysia as well as Zambia, thus bypassing the three-century-old London Metals Exchange and nullifying London's capability for commodity price manipulation.

Recycling dollars for development

The crucial feature of the EMS is the centralized pool of currency reserves that will enable 1) swapping of U.S. dollars for European currencies for currency intervention, and 2) absorption of and discounting of excess dollars for relending as development credits. The twofold effect of the fund's operations will be to stabilize currency parities among the EC currencies, the yen, and the dollar and to foster global trade and economic development.

According to press accounts of the finance ministers' meeting, the dollar and gold component of the fund has been set at 25 billion European Currency Units (ECUs) or $33 to $35 billion. This will make for a total fund of upwards of $70 billion, since it has been understood since the start of EMS negotiations that the member countries would match their gold and dollar contributions with an equivalent amount of domestic currency reserves. The EMS will make use of the existing Fund for European Monetary Cooperation (Fecom). Thus, European central banks will deposit 20 percent of their gold and dollar reserves in Fecom, receiving European currencies for intervention purposes in exchange. Fecom will then have the capability to generate gold-backed, dollar-denominated development credits, on the model of the operational Tokyo capital market. Through this new international financial market, the Bank of Japan is making available its excess dollar reserves at low interest rates to Japanese commercial banks, which are in turn relending the dollars for development purposes (see below).

Given the new likelihood that Italy will officially join the EMS at the Dec. 4-5 heads of state meeting, it is probable that the meeting took decisive action on the "transfer of resources" to Italy's underdeveloped Mezzogiorno, thus inaugurating the development activities of the EMS.

The on-schedule implementation of the EMS has been acknowledged by various astute observers on this side of the Atlantic. In a speech before the National Committee for Monetary Reform in early November, Thomas Wolfe, a noted Washington-based bullion consultant who ran the Treasury's gold desk during the Nixon Administration, predicted that the EMS will bring gold back into the world monetary system in a big way and cautioned against further dispersing of the U.S.'s gold reserves by the Blumenthal Treasury. Wolfe said that the EMS will be using substantial gold reserves in the stabilization of exchange rates and settling of debts, and he predicted that the " 'official price' for EMS members will gradually be accepted by governments throughout the world in valuing gold in their reserves and as a standard for transactions between governments." Wolfe interjected ironically that by 1981 the IMF, too, will have had to build up substantial gold reserves, reversing its present policy of gold sales — if it wants to remain competitive with the EMS.

— *Lydia Dittler*