INTERNATIONAL CREDIT

EMS gets the jump on the IMF

The nine finance ministers of the European Community, meeting in Brussels Sept. 17, announced that the European Monetary System is functioning very satisfactorily and needs no "technical modifications." Specifically rejected was the much-ballyhooed realignment of EMS fixed currency rates. "The speed with which the ministers reached this conclusion, after only a few minutes of discussion, surprised observers in Brussels," wrote the London *Financial Times*.

These developments, plus the Nine's agreement to wind up the formal review of the EMS ahead of time, signal that control over the pending Phase II of the system's evolution rests directly at the top, with West German Chancellor Schmidt and French President Giscard d'Estaing, who put the EMS together in July 1978 and activated it this March. Following successful Phase I currency stabilization, the question mark surrounding Phase II is not only the speed of full remonetization of gold, but the extent of efforts to direct Euroliquidity into industrial-development lending.

The Brussels meeting followed by one day a Paris conference of finance ministers representing the "Group of Five": the U.S., West Germany, Japan, France and Britain. The meeting was a preparatory session for the annual International Monetary Fund conference to be held in Belgrade at the start of next month.

The *New York Times*'s Paul Lewis embarrassed himself Sept. 18 by claiming that the Five had "agreed in principle" on creating a dollar substitution account to issue Special Drawing Right assets to central banks presently holding dollars; Lewis flatly lied that the proposal will succeed, something no one else, either pro- or anti-SDR, now believes. According to reports on the Brussels EC talks, even the lip service has faded. While Britain reportedly supported the SDR proposal, other finance ministers "expressed reservations" and confined themselves to a polite pledge to "keep an open mind"—while ripping up the "compromise" proposal of injecting a 20 percent gold component into the SDR.

—*Susan Johnson*

FOREIGN EXCHANGE

Sterling in the dumps

The disintegrating facts of British economic life, coupled with Britain's defeat in its effort to stave off a new role for gold in the world monetary system, account for the continued slide in sterling. When the Common Market finance ministers' meeting in Brussels ended Sept. 17 with no move to reduce Britain's EEC budget contribution or smooth its entry into the gold-based European Monetary System, the pound plunged in a few hours of trading to a low of $2.12. This was more than 12 cents down from the beginning of the previous week and a full 20 cents down from the peak of $2.32 which sterling reached back in July.

Although sterling had zigzagged by mid-week to $2.16, traders predicted that it would continue to erode against the major currencies, suffering especially from the switch into deutschemarks and gold. One Barclay's source commented that the Sept. 20 rise had nothing whatever to do with increased confidence in sterling, but simply reflected the dollar's weakness.

EIR predicted Aug. 7-13 that sterling's vulnerability would become apparent the moment Europe accelerated its moves toward activating a gold-backed monetary arrangement.

The *Financial Times*, for example, was taken aback at the speed with which EEC Finance Ministers decided that the EMS required no technical modifications and was working satisfactorily after its first six months in operation.

British Chancellor of the Exchequer Howe, seeking changes in Britain's net contribution to the EEC budget as a "condition" of Britain's entry into the EMS, was left muttering at the Sept. 17 finance ministers' meeting about "manifest inequity" when the meeting decided to put off indefinitely a discussion of the budget question. Although Howe said that the decision to terminate the EMS review early without realigning exchange rates would not affect his government's plans to examine the possibility of joining, Britain seems to be on the outs.

The U.K. economic outlook, has, if anything, gotten worse. Britain's balance of payments plunged £100 million ($215 million) into the red for the month of August, with a cumulative deficit of £2.4 billion ($4.76 billion) for the first eight months of the year. This is unquestionably disastrous, since the deficit was recorded at a time when Britain was supposedly near self-sufficiency in oil.

—*Marla Minnicino*