International Credit

European Monetary Fund back on the agenda

by David Goldman

A steady stream of official pronouncements and press commentary from Europe demonstrates that the European Monetary Fund, the "seed-crystal of a new world monetary system" projected in July 1978, is back on the international agenda. Although the principal mover in the field, France's President Giscard, has continued to play his cards close to his chest, monetary officials are now maneuvering around the "only trump card" in the game, as the London *Times'* Frank Vogl described the French plan in a March 25 commentary.

In the original scheme of the French and West German leaders, the European Monetary Fund (EMF) was to absorb the gold and currency assets of the present European Monetary System (EMS) and broaden its role to include long- and short-term credit-issuing powers in initially greater volume than the present resources of the International Monetary Fund and World Bank. Formally speaking, the European institutions, now backed by gold worth about $60 billion at market prices, would become the center of the new world monetary system. The American dollar and the Japanese yen would then join the eight currencies of the EMS on a fixed-rate basis. The gold backing and stability of the system would permit—and would in the long run depend on—large scale issuance of low-interest credits to build export markets for high technology capital goods in the developing sector and also the East bloc.

The above plan has been in public circulation for almost two years, but has generally been suppressed by hostile English-language media. Significant, therefore, is the coverage in the March 22 International Banking Survey of the London *Economist* of these matters. The facts presented have appeared many times in *EIR*, but their re-publication by this source is an indication of where matters stand.

1) *The Economist* admits that the IMF's Special Drawing Right plan has failed to compete with gold remonetization (*EIR*, March 4) and includes a chart showing that gold valued at market price now makes up roughly half of all official reserves.

2) The EMS is now more of a power center than the IMF. "Like the elderly SDR, the ecu (Europe's composite currency) has still to make the big leap into public use. It might just do it and get there first ..."

3) *The Economist* prints some details of what France has in mind: "At the Elysee (the French White House), the word is that ... ways must be found to increase stability and to 'mobilize' gold for the defense of rates and the settlement of debts."

However, *the Economist* leaves out the most important feature of the entire process, the low-interest credit-issuing powers of the next phase of the EMS. The European governments are already putting such credit-issuing powers into place through private and existing government channels. The omission appears to be out of spite.

In a press conference March 25, West German finance minister Hans Matthoefer announced 1) that West Germany would sell some DM 10 billion, or about $5 billion, in Treasury securities to OPEC nations; and 2) that the flow of funds through private channels would be much greater than the official flow cited. Senior Saudi Arabian sources affirm that "Saudi policy is to give the Europeans as much money as is necessary to maintain their political independence from the United States."

On the other side of the balance sheet, the inflow of surplus OPEC funds into Europe is the basis for an export drive to the Arab world, the non-oil developing countries, and to some extent the Soviet sector. For example, Fiat's just-announced $2.5 billion deal to build a second "Togliattigrad" motor vehicles plant in the Soviet Union will, indirectly, be financed with Arab funds. However, more important than East-West exchanges is East-West collaboration with regard to the South.

Exemplary is the progress of West German nuclear delivery contracts with Argentina, despite American warnings against the alleged dangers of proliferation of nuclear weapons. The West German-Argentina deal came through while the head of Argentina's nuclear energy commission was in Moscow discussing technical assistance from the Soviet Union.

The total volume of new trade deals either signed or opened since the Giscard trip exceeds a gross volume of $50 billion in sales from Europe to the Arab world. However, the potential for sales is much greater than the figures already announced. The aftermath of the Giscard visit has eliminated barriers to the expansion of Western European exports that have caused stagnation in volume terms during the past year. Not least of these was the Bundesbank's discouraging of bankers from assuming liabilities from the Arabs for trade-financing purposes under former President Otmar Emminger. With Emminger's departure, bankers report, new President Karl-Otto Poehl has given them the green light.