International Credit by Renée Sigerson

EMS at loggerheads with IMF

If Europe gets serious about "recycling" OPEC funds, it will undermine the IMF.

European finance ministers met Sept. 19-20 in the town of Müllerthal, Luxembourg, to approve a plan which increases the resources and powers of the European Monetary System (EMS). The EMS was created in 1979 to expand Europe's financial clout through stable exchange rates and economic stability. Now the EMS guidelines will be revised to allow it to accept multibillion-dollar deposits from OPEC.

The meeting preceded the Sept. 30 annual conference of the International Monetary Fund (IMF), the 35-year-old bastion of Anglo-American domination of world financial policy. Private banking officials and EC spokesmen confirmed in interviews this week that if the EMS now starts to assume a larger role in recycling "petrodollars," which is what the new plan suggests, then the EMS will be moving into a world financial position previously assumed only by the IMF.

This change in the EMS guidelines comes at a time when the IMF has come under increasingly vocal attack from many nations. Last week, 150 countries at the United Nations voted to have the IMF put under day-to-day U.N. control to ensure lending policies more in line with the needs of developing countries. During the U.N. vote, France broke ranks and voted in favor of the resolution and against a U.S.-British-German veto bloc which prevented the passage of the resolution.

Also attacking the IMF is Saudi Arabia, which is demanding a much larger voice in shaping IMF policies in return for loans the IMF in trying to get from OPEC.

Asked about the emerging conflict between the EMS and IMF in an interview on Sept. 23, a French government official emphasized that the IMF must drop its policy of attaching harsh austerity requirements to loans it makes to Third World countries. "The IMF can no longer demand such austerity conditions that the result is to topple governments," he stated bluntly, in an obvious reference to Turkey. Earlier this month the Turkish military seized power in a coup aimed at quelling the social chaos which erupted there because of an IMF austerity program which sliced imports, devalued the lira, and cut industrial output.

The EMS plan just approved at Müllerthal is a first step in the direction of a larger EMS role in solving the Third World debt crisis through programs of economic development essentially financed by OPEC.

The plan calls for the EMS to acquire between $10 and $14 billion in OPEC deposits. These funds will then be reallocated to European countries hit by record deficits in 1980 due to high oil payments and sagging exports. This deficit refinancing program will help free continental European banks to continue private lending to the Third World. (In 1980, world commercial bank lending to LDCs will probably amount to $70 billion.)

During the meeting, in addition, an expanded version of this plan was presented to the ministers by the EC's Monetary Commission. This version called for the EMS to also allocate loans to a select group of about 40 developing countries: Portugal, Spain and Greece (which are associate EC members), and the 36 Asian, African and Caribbean countries which are members of the EC trade pact known as the Lomé treaty.

Many European officials are currently saying that this second, expanded plan will have to wait one to two years to go into effect. An EC official explained, "Since June, the EC has taken an interest in the question of recycling . . . the community could extend credit to nonmembers. . . . My own sentiment is that there is extreme reluctance, based on the fact that we are badly positioned to compete with the IMF."

The major cause of this "reluctance" is reflected in the current national election campaign in Germany, where Chancellor Schmidt is bending to immense pressure not to rally voter support for any policy which could be considered an affront to the United States. The U.S. still considers expansion of the EMS onto the IMF's "turf" an affront, as evidenced by an emergency study commissioned last week by the State Department on the volume of EMS transactions. The State study was requested after officials there realized they were mistaken in an earlier assessment that President Carter had succeeded in scaring off any kind of EMS-OPEC linkup plan during the Venice summit last spring.