Europeans Establish New Monetary System To Support $, Industrial Development

Agreement on establishing a new European monetary system was reached at the pre-Bonn Summit meeting held in Bremen, West Germany July 6. The agreement puts on the Bonn agenda what a high West German official called "the seed crystal for an institution that will replace the World Bank and International Monetary Fund." The new monetary system will also provide support for the U.S. dollar as a currency of hard-commodity export to the developing sector.

The significance of the European agreement, which was organized by West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing, is underlined by the fact that the financial institution it establishes, the European Monetary Fund, will include gold reserves. This fund, which was announced as open to participation of non-European Community members, gives the Europeans the instrument to control and channel surplus dollars into already proposed development projects in Africa, the Mediterranean and Middle East.

Despite the threats of British representatives at Bremen and the Cassandra-like predictions of British-run operatives like Henry Owen in the U.S. government, the fund will immediately strengthen the dollar. It is considered unlikely that the United States will be able to refuse acceptance of high-technology export orders based on the accumulation of dollars by the Europeans, Japanese, and Arabs. President Carter has to do little else but to follow the lead of Schmidt and Giscard at the upcoming July 16-17 summit in Bonn — and offer to fire dollar-wrecker Treasury Secretary Blumenthal — to bring the United States into a period of monetary stability and unprecedented prosperity.

"European Monetary Fund" Announced

Armin Gruenewald, official press spokesman for the government of West German Chancellor Helmut Schmidt, told the press in Bremen, West Germany on July 7 that the Bremen Summit of the European Community (EC) has reached "broad agreement on the new European monetary system . . . (in order to) influence . . . the stability of the U.S. dollar. It was the erratic fluctuations of the dollar during the early months of 1978 which first prompted the Franco-German initiative," he said, according to Dow Jones. Gruenewald "explained that by replacing the current snake with a wider-based new monetary system, speculators would find it harder to center on any one currency" when speculating against the dollar.

West German Chancellor Helmut Schmidt then announced on television the creation of a "European Monetary Fund" with the equivalent of $20 billion in deposits from the EC member central banks. "Anyone who wants to speculate against the dollar is going to have to deal with the European monetary system," Schmidt said, killing rumors that the European plan would be prejudicial to the dollar. The West German Chancellor announced five points:

1) The creation of a "European Monetary System."

2) The European Monetary System will work as strictly as the snake, employing a four percent band of fluctuation for participating currencies around a central point. Currencies will be brought into this relationship over a two-year transition period.

3) Non-EC member countries may join this arrangement (according to press commentary, a reference to the Swiss and Austrians. The Japanese yen has come up in discussion).

4) The central point of the European Monetary System for calculation of currency parities will be the European Unit of Account, a market basket weighting the European currencies. Intervention will be conducted in national currencies.

5) A European Monetary Fund will be created on Jan. 1, 1979, when the French take the rotating chairmanship of the European Community's Council of Ministers. The EMF will pool $20 billion of European currency reserves, including $10 billion from West Germany, $5 billion from France, and $5 billion pro-rated from other EC members.

However, the point of this fund is not merely currency stability. According to French, West German, and other press accounts, and to discussions with ranking West German officials, the institution will also have a direct lending function. Loans will go for technological improvements in European industry, according to the formula proposed earlier this week by West German Foreign Minister Hans-Dietrich Genscher, and for development financing in the Third World and possibly the Comecon.

The $20 billion central bank input can be properly viewed as the equivalent of a bank's shareholders' capital, which may be leveraged many times over. Although details have not been officially announced, various ways of absorbing the "dollar overhang" into the

EMF have been under official discussion. Either by raising dollars directly through currency intervention, or by issuing securities to surplus dollar holders, the EMF will become the agency that transforms much of the almost $400 billion in garbage liquidity in the Eurodollar market into stable, long-term development credits.

For example, the West German daily *Handelsblatt* July 3 reported that the arrangement could only work "if the European Monetary Fund is prepared to take up sums of dollars that cannot be held by other institutions." In other words, the EMF will intervene with the currencies that make up the EUA basket to support the dollar, and absorb virtually unlimited dollars in the process. From Chancellor Schmidt's previous statements, such bonds will be used for technology transfer and comprehensive development and nuclear energy programs for the developing sector. At the same time it was announced in the Japanese paper *Mainichi* that Prime Minister Fukuda will present at the summit a proposal for international collaboration to develop fusion energy.

A full 20 percent of the $20 billion starting sum will be held in dollars and gold, according to Schmidt's official announcement. According to authoritative Italian sources, the French and Italians will make most of their contribution in the form of gold, "in order to obtain equal status with the West Germans in the new Fund," according to one source. That points to the remonetization of gold as a central bank reserve asset.

The British Were Outflanked

The French daily *Le Monde* reported today that the French and West German had "rigged" the summit to prevent a British veto of the plans, which might have led to a rupture with the United States at the Bonn meeting. "President Giscard was puzzled by British obstinacy about the monetary proposal, and came to the conclusion that Britain did not want to end the residual reserve role of the pound sterling," *Le Monde* said. The groundwork was done earlier in the week, when French central bank chief Bernard Clappier and West German Chancellory official Dieter Hiss made the Belgian Prime Minister, Leo Tindemans, an offer he couldn't refuse at a meeting Tuesday in Brussels. According to informed sources, the French and West German officials threatened Tindemans with a Belgian franc crisis if he didn't behave at Bremen.

Remarkably, the West German daily *Die Welt* reported today, Tindemans brought the "Fronde of smaller countries opposing the Franco-German plan" into line. Isolated, Callaghan had to give his assent. Reports on the morning of July 7 in the British press and in the *New York Times* had predicted that Callaghan "would provoke a split in the EC," in the words of the London *Guardian*'s headline. No such thing occurred, and the road is clear for Bonn.

— *David Goldman*

Israel Uses Lebanon Crisis Against Bonn Summit

A crisis in Lebanon that potentially carries with it the seeds of World War III has emerged as the leading threat to the success of the Bonn economic summit.

The civil war in Lebanon, which is a proxy conflict between Israel and key Arab forces, threatens to trigger another Arab-Israeli war in which Israel is expected to bombard Arab oil fields in the Persian Gulf. Because of the extreme urgency of the situation and the immense importance of Middle East stability to the success of the Bonn meeting, West German Chancellor Schmidt and President Giscard d'Estaing of France are working together to convince the United States to convene the Geneva conference on the Middle East. Meanwhile, key Western powers have taken steps to quarantine the Israeli military to prevent a Lebanon explosion.

But as of July 7 the crisis in Lebanon was perched on the brink of general war. Syrian troops in Lebanon were conducting a broad offensive aimed at crushing the political power of the ultrarightist Christian militia led by Camille Chamoun and Pierre Gemayel's Nazi-modeled Falangist Party. Israel, which supplies the fascist militia and lends its political support to Chamoun and Gemayel, immediately issued a series of warnings to Syria, sent its air force thundering across Beirut, and moved troop reinforcements to the Lebanese border and the Golan Heights. The Syrians reportedly responded by alerting their military forces.

The Israelis are well aware of the implications of the Bonn summit preparations. Working closely with British intelligence, the Zionists fear that the current alliance between Iran and Saudi Arabia in the Organization of Petroleum Exporting Countries context may provide a solid foundation for the United States, West Germany, France, and Japan to work closely with OPEC on establishing a new world monetary system.

Speaking privately, a leading American Zionist was explicit on this point. The deteriorating situation in the Middle East, he said, bears a direct relationship to the meeting in Bonn in mid-July. "There is a concentration of currency and oil reserves in that area, an area which