

Britain begs for entry into EMS

Soviets, Japanese pledge support for system's development goals

Great Britain has now been reduced to begging for entry into the new European Monetary System (EMS). Appalled by Japanese-West German affirmations that the EMS is no mere currency scheme but part of a global plan for technological growth, the UK has no choice but to try to join. It otherwise faces complete exclusion from the emerging entente among Western and Eastern Europe, OPEC, and Japan detailed below.

This entente represents a formidable combination—and one seeking U.S. participation in order to turn what has become a lattice of transregional crash-industrialization initiatives into a full-blown international development bank arrangement.

As Schmidt's personal spokesman, Klaus Bölling, phrased it to the Japanese press in Tokyo Oct. 11, they are opening "a continuation of the Bonn summit" — the July conference at which President Carter endorsed the EMS before the Brzezinski-Kissinger cold coup in Washington was mounted to countervail this influence.

The EMS is designed to both upvalue the dollar's key parities and relaunch the U.S. economy through the billions of dollars in export orders that will be generated by EMS absorption of footloose dollars and reissuance as credits for industrialization and energy investment. This poses a terrific challenge to Britain's sway over U.S. policy-makers. But it meanwhile poses a terminal problem for the pound sterling parities and London's control of the Euromarkets.

A map of EMS developments

The following developments should be at the center of any decisionmaker's map of the world:

The Oct. 6-9 Moscow meeting between Soviet President Brezhnev and Italian Communist Party General Secretary Enrico Berlinguer was a victory for the EMS, both broadly and specifically. Although U.S. press reports simply focused on Brezhnev's approval of PCI participation in the Andreotti government, the meeting's Oct. 10 joint communiqué called for the unblocking of the SALT talks; for a "political, global solution" in the Mideast "which fully recognizes the rights" of the Palestinian population; and for collaboration among the industrialized countries "despite their differences" in order to develop the Third World and create a new international economic order.

The Soviets' first strong, open endorsement of a Communist alliance with a Christian Democratic Party was indeed significant, as an expression of Moscow's support for the Vatican humanists' influence on Prime Minister Giulio Andreotti's wing of the Christian Democrats, and for the EMS participation to which Andreotti has pledged Italy.

Andreotti himself will meet with Helmut Schmidt in Siena at the beginning of November, according to an Oct. 7 *Corriere della Sera* article that described the agenda as devising ways for Italy to help pressure Britain to facilitate EMS implementation — and Schmidt's intention to "shed light on the Moro case," that is, the assassination of one of the chief implementors of the Christian Democratic-Communist entente.

The central bankers of the European Community—under whose aegis the EMS was instituted in July, against the protests of Great Britain — met in Brussels on Oct. 10. The task was to work out further details of the interim arrangements to ensure adequate EMS credit facilities, even before all the ratifications involved in formal EMS inception are completed. Contrary to their custom, the central bankers openly announced that this was their purpose. The head of the Danish central bank, Erik Hoffmeier, had told this journal last month in an interview that precisely such de facto allocations were being readied.

Schmidt summarized the EMS goals on the first day of his Oct. 11-13 state visit to Japan:

- (1) ending the floating-rate currency chaos that not only sabotages trade but, via trade-war pressures, international peace;
- (2) concerted upgrading of advanced-sector labor skills;
- (3) deliberate creation of new world markets;
- (4) substantial new kinds of funding mechanisms;
- (5) "maintaining and expanding détente" as "indispensable for world equilibrium and peace."

According to the authoritative Japanese daily *Mainichi*, Schmidt's "number-one item for his trip is German-Japanese cooperation in putting the EMS together."

As this news service has reported, the background to this is half a year of emergency consultations between government officials and businessmen of the

two nations. They agreed that the Carter Administration's weak-dollar policy would have to be reversed from outside, by a *coup de main* that would start foreign-held dollar recycling in the form of development credits, issued by Europe and Japan, stabilize the dollar, and energize the U.S. opposition to Blumenthal and Brzezinski.

Schmidt himself described the aim of the visit to journalists Oct. 2 as "seeking to improve relations with Japan for the purpose of demanding that the United States fulfill its responsibility as the leading economic power of the world," which, he added, requires straightening out U.S.-Soviet relations.

BBC commentary on Schmidt's Tokyo speech was immediate. The Chancellor "omitted crucial

questions on whether the EMS is merely monetary, or as now emerges in discussion, also involves restructuring the national economic policies of the member nations," the British broadcasters complained. If this is behind Schmidt's campaign for the EMS, intoned the BBC, we would only become an adjunct of the West German economy; Britain will not take that road.

Switzerland is ready to join the EMS, however. Swiss Economics Minister Fritz Honneger announced "the Confederation is ready to do everything required to be in a position to associate itself with the (European) Community's undertaking," in a statement reported by *Le Figaro* Oct. 10. French Economics Minister René Monory has gone to Berne to pursue the subject, preceded by European Commission President Roy Jenkins. Jenkins is a clamorous advocate of UK membership in the EMS in order to try to weight the system toward International Monetary Fund principles. He may no longer imagine he can make Swiss gnomes a partner in such an effort, given the UK's manifest weakness on the one hand and on the other the increasing mobilization for Schmidt's version of the EMS by West German businessmen, who have real clout in Switzerland when they care to use it.

The West German banks have lined up behind Schmidt for the first time since July in a really forceful way. The Bundesverband Deutscher Banken (German Banking Association) placed a large advertisement in the Oct. 11 *Frankfurter Allgemeine Zeitung*, headlined "Those who want currency stability will have to gather all the participants under one hat" — with a sketch of Schmidt's famous Hamburg sailor's cap. "Like every import-export firm, industrial nations like the Federal Republic have a stake in stable currency exchange rates. . . . Because we private banks finance 80 percent of German exports, we know the problems caused by divergent rates. We say: whoever wants stable currency rates has to bring economic policy under one hat internationally" — a timely message from an association which in former times strongly opposed the de Gaulle-Adenauer alliance and the formation of the Common Market. Hermann Abs, senior economic statesman and a key Schmidt advisor, was doubtless one of those responsible for the BDB's new stand.

Another financial-industrial leader and Schmidt supporter, Otto Wolff von Amerongen, has made a series of explicit statements on the policies of the EMS. He told the International Chambers of Commerce gathering at Disneyworld in Orlando, Fla. this month that the order of the day is high technology exports — and concessionary interest rates will soon permit a sizeable expansion of East-West trade and the multiplication of large contracts. On Oct. 11, von Amerongen reiterated on a Süddeutsche Rundfunk radio interview that the basic policy of West German industry is technological advances and high-technology exports. This, not "transitory" interests,

The Miyazawa Plan

At the beginning of this month, the Tokyo *Asahi Evening News* explained to its readers that the EMS "is a regional variation of what some people call the Miyazawa Plan; this may explain Finance Minister Murayama's comments welcoming the EMS."

Kiichi Miyazawa is a former foreign minister who supported Secretary of State William Rogers's Mideast development effort during the Nixon Administration and now heads Japan's Economic Planning Agency. Miyazawa has been a consistent advocate of "a return to the old system of fixed exchange rates." It was he who proposed right after the Bonn summit in July that the Japanese central bank deposit its excess dollar holdings with Japanese banks and the Ministry of International Trade and Industry, which has, during 1978 thus far, converted them into over \$7 billion in largely long-term, low-interest development loans abroad, according to the Bank of Tokyo.

Just before the EMS was formed, moreover, the Mitsubishi Research Institute published an impressive proposal (translated in full in the *Executive Intelligence Review*, Vol. V, No. 34) for a \$500 billion dollar development fund for global infrastructure, energy, and industrial projects, on the order of "greening" the world's deserts: It was this bold mentality that Schmidt invoked in his Oct. 11 Tokyo speech — stressing that "the dimension of structural change demands new inventiveness and broad financial outlays." A just-released special report on OPEC by the largest West German bank, the Deutsche Bank, reports that the latter alone holds 7 percent of OPEC reserves as deposits — and specifically foresees the Mitsubishi \$500-billion magnitude of international development projects emerging in the near term.

guides our relations with East bloc nations, he said.

The sensitivity of the BBC and other British spokesmen to these affirmations and demonstrations of the EMS's nature was underscored by reports that UK Prime Minister James Callaghan and his Chancellor of the Exchequer, Denis Healey, are about to beg Schmidt and Giscard to let Britain into the EMS. The British press, and Healey, had been haughtily insisting that they would only join if the EMS becomes a helper of pound sterling and the International Monetary Fund. After violent opposition in recent weeks to the EMS on the part of everyone from neofascist Enoch Powell to the Labour Party delegates at Blackpool to Callaghan himself, it is now admitted that overvalued sterling — and thus a good portion of London's political and economic pretensions — cannot survive outside the EMS.

But as the BBC and the *New York Journal of Commerce* underscored, the rules of the EMS make it impossible to prop up sterling within the new system, either. London policy-makers, although mandating certain strategic capacities on British soil, have scarcely given a damn about British industry for over two centuries — hence the pound's fundamental weakness. By treating the UK itself like one of their colonies, the international networks centered in London have enabled their opponents to finally, and seriously, diminish London's own international weight.

—Susan Johnson

“Britain has failed”

The Observer of London had this doleful report of Britain's position in the EMS fight:

The Observer, “Jim puts £ into Europe,” Oct. 8: The Prime Minister, the Chancellor of the Exchequer, and other senior Ministers are to hold crucial summit meetings in Bonn and Paris this month to pave the way for Britain's entry into the European Monetary System (EMS) on 1 January. . . . Mr Callaghan and Mr Healey have come to the conclusion that Britain, which at first tried to sabotage the scheme, cannot afford to be left isolated from the new arrangement. . . . The vital economic question is whether the pound will have to be devalued before Britain enters the scheme. . . . At the last meeting with the Germans . . . the British aim was to undermine the scheme. . . . When that failed, Britain tried to turn the EMS to its advantage, demanding all sorts of conditions. . . . But in all these attempts Britain has been outflanked. . . . (Britain) will try to persuade the Germans to revalue their strong D-mark to enable the French and the British to join the scheme with a minimum of devaluation. . . . The dangers of isolation and the consequent vulnerability of sterling are thought to be worse evils than the problems of tying the pound to the

mark and other currencies at potentially non-competitive rates. . . .

New York's second leading business daily backed the British position and sought to warn U.S. business away from the EMS:

Journal of Commerce, editorial, “Scampering Toward Monetary Union,” Oct. 10:

. . . There is probably nothing all that wrong about the two countries with the most economic power, Germany and France, fixing up a deal. But the spirit in which their proposals are presented to the other member countries doesn't augur well for third countries like the U.S., Japan, or the developing world.

. . . The third largest country, Britain, has been too lukewarm about the proposal and, accordingly, has lost influence. . . . The U.K. has also urged the creation of a system that wouldn't have a deflationary bias, that would support rather than undermine the International Monetary Fund. . . . But a European fund of the same size as the IMF could hardly help but divert attention from the international body. It might even draw members away. . . . A successful system could mean more dramatic swings in exchange rates between the European bloc and the dollar. . . . There are dangers here and the U.S. should be alert to their implications.

The confidential weekly report of Britain's most influential business magazine posed one way out of Britain's dilemma:

The Economist Financial Report, “New European monetary union,” Oct. 5:

. . . If, say, there were another Middle East oil embargo, then it could be sterling that was right up against the (EMS fluctuation-band) ceiling. . . .

A West German editorialist summed up:

Frankfurter Allgemeine Zeitung, “English Egoism,” Oct. 10:

The latest trade-union congress in Blackpool showed how utterly hostile a large segment of Britons are against the European Community. Apparently this resistance is one basis for the often so-rude conduct of the English negotiators in Brussels. They indulge in both overblown nationalist demands as well as icy disregard of official Community resolutions.

The same egoistic approach has also become manifest in British statements to date on the planned new European monetary system. Immediately after the Bremen summit meeting British spokesmen demanded the weakest possible conditions, especially lengthy repayment terms for intervention credits. And now London can be heard insisting that at the start of the new currency association the D-mark must be heavily upvalued, to keep devaluation of the British pound and French franc as slight as possible. The best thing would be for the British to stay away from the new system.