The new monetary system —it's official!

Following a stormy, two-day session of the Common Market Heads of State in Brussels Dec. 4-5, a new European Monetary System has been officially launched. It will go into effect on Jan. 2, 1979, with a six-member core of the EEC countries participating. Italy and the Republic of Ireland have been given one and two weeks, respectively, to make a final decision on whether to enter. Great Britain, whose strident demands for preferential membership conditions were rejected, has decided not to join.

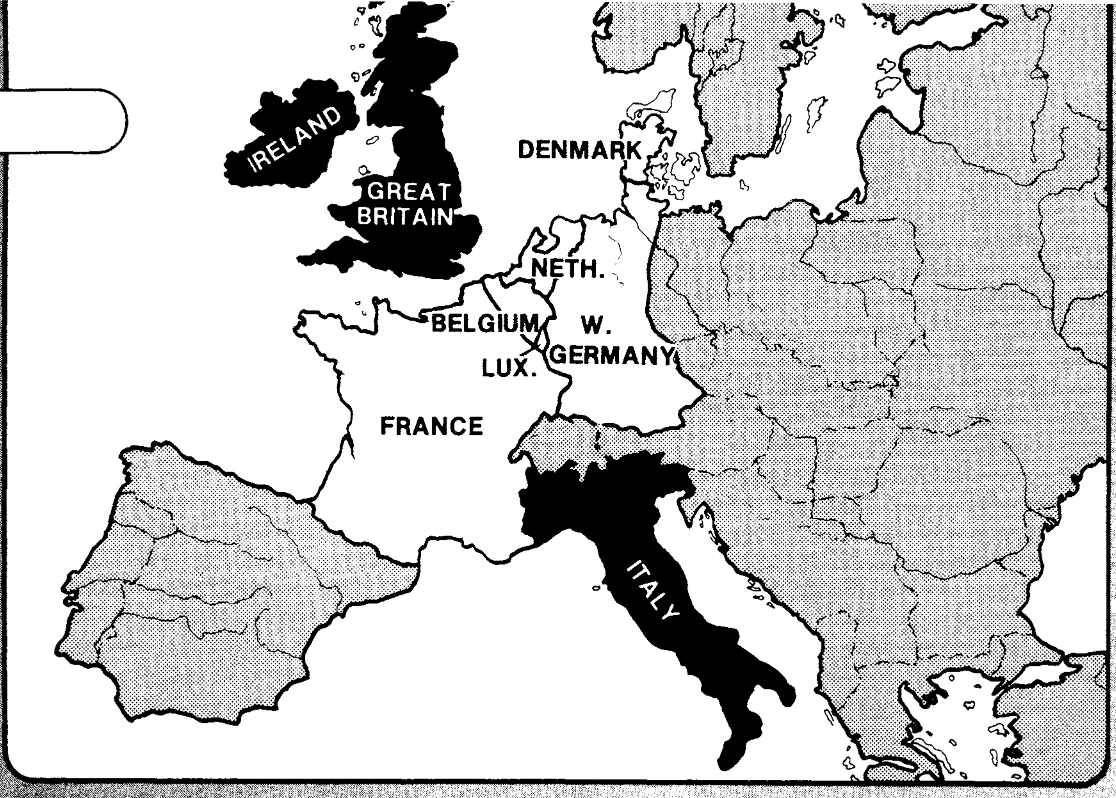
The EMS, as designed by cofounders Helmut Schmidt and French President Giscard d'Estaing, will redirect huge portions of Europe's presently unproductive monetary assets into credits for industrial development, trade and economic expansion, geared toward modernizing the advanced sector countries so that they can, in turn, meet the Third World's need for high-technology growth.

The monetary system will go into effect beginning the new year, when members deposit 20 percent of their gold and dollar reserves in a central pool. This allots the fund over $30 billion off the bat, with an equal amount of national currencies to be pooled as negotiations on the European Monetary Fund proceed. This is not only a formidable weapon to back up stabilizing foreign exchange market interventions — it is the basis of a new world monetary system. Speaking at a businessmen's dinner in Brussels following the heads of state meeting, Schmidt said as much as he declared that the EMS had been made necessary by the collapse of the Bretton Woods System. It is this system — the present international monetary system — which the EMS will replace, the Chancellor continued, emphasizing his point by adding that EMS membership will be open to non-EEC countries.

At a press conference following the summit, French President Giscard d'Estaing declared that the "agreement reached in Brussels is the beginning of a truly European monetary system." He lauded the system as completely "viable," despite the reluctance of Italy, Ireland, and Great Britain to join at the present time, and stressed that from the standpoint of economics and trade, the EMS "already constitutes a very important group inside Europe." Elaborating the broader significance of the EMS, Giscard stated that the new monetary arrangements "will create confidence and with confidence there will be investment and growth."

West German Chancellor Helmut Schmidt, the second principal architect of the new system, stressed in a radio interview that the stabilizing effects of the EMS would go far beyond the confines of the Common Market. Reports in the British press confirm that Schmidt and Giscard intend to use the EMS as a launching pad from which to draw the United States and Japan into a program for global monetary stabilization. Schmidt and his Finance Minister, Hans Matthoefer, will begin this process by briefing U.S. Treasury Secretary Blumenthal and Assistant Secretary Anthony Solomon on the summit results when they visit Bonn this week.

The U.S. has already implicitly recognized the significance of the EMS's creation, although press coverage in the *New York Times* and *Wall Street Journal* belies this fact. A joint State Department-



Treasury communique issued on Dec. 6 welcomed the EMS as "an important step toward the economic integration of Europe," a goal which the U.S. "has long supported . . . (and) which will contribute to sustainable growth in the world economy." Promising U.S. cooperation to maximize the potential of the new system, the statement as released to the press by Hodding Carter, said that the U.S., along with Germany, Switzerland and Japan would "continue to cooperate in a forceful and coordinated way to ensure stability in the exchange markets" and that the Carter Administration looked forward to continued collaboration with its European trading partners as the new monetary arrangements evolve.

Despite reports in the pro-British press here and abroad that the EMS has been established on shaky foundations and is doomed to failure, the summit results make clear that Giscard and Schmidt are on the offensive and are waging the kind of fight not seen since the late General de Gaulle's successful, no-holds-barred battle to keep Britain out of the Common Market. The two flatly refused to compromise with Irish Prime Minister Jack Lynch and Italian Prime Minister Giulio Andreotti when they unexpectedly proclaimed that their two countries were not yet "satisfied" with the arrangements and bogged the summit down in protracted wrangling. Giscard met this challenge publicly and with categorical bluntness in a press conference exhorting them to reconsider. Emphasizing that the EMS "is not a bartering issue, but a political issue" and warning that "selfish financial interest" must not be allowed to cloud the decision of Ireland and Italy to join the system, Giscard gave Andreotti and Lynch two weeks to "reflect" on the long-term implications of the new system for their economies and give a firm "yes" or "no" answer.

British Prime Minister Callaghan removed any lingering doubts about British intentions by announcing that he could not recommend British participation in the system. Callaghan's decision was expected, since Britain had practically been thrown out of the summit for demanding a role in the management of the EMS, without having to face the implications of the system for its weak pound sterling. According to Agence France Presse, Callaghan had angrily stormed out of the meeting, only to return sulkily in the hopes of forging a bloc of "second tier" members.

Whatever the decisions made in Rome and Dublin, the EMS will scarcely be affected as a financial giant with a commitment to rescuing the dollar and the world economy. The West German central bank has already received a mandate to negotiate the associate membership of non-EEC members Switzerland, Austria, Sweden, and Norway. With American cooperation, Japanese backing, and eventual Comecon participation along the lines of the multi-billion dollar economic agreement for peaceful mutual development signed in May by West Germany and the USSR, a new world economic order is coming into being which will enable public and private sector industry to cooperate fully for human development in the advanced sector and the developing world.

—Marla Minnicino