

# A Soviet endorsement for the European Monetary System

by Clifford Gaddy, Stockholm correspondent

According to a recently published Soviet report, the creation of the European Monetary System (EMS) is enabling Western Europe to break with the International Monetary Fund (IMF) and begin building a new gold-based international monetary system. The Soviet analysis describes the EMS as the "direct opposite" of the IMF system, thanks principally to its emphasis on gold and providing of cheap, large-scale credits without IMF conditionalities.

The Soviet report, written by economist A. Dostal, was published in the May issue of the journal *Ekonomicheskiye Naukie* (*Economic Science*). That journal has in the past served as a news-outlet of a very influential faction of Soviet international economic specialists, who have consistently asserted the advantages of a gold-based monetary system, even under conditions of capitalism. By promoting general economic stability and growth, this faction maintains, a gold-based system would serve the cause of peace and global development.

This "pro-gold" faction within the Soviet Union has gained significantly in influence in the party and government, corresponding to the rise of the Siberian development planners to a position of authority over all Soviet domestic development policies. Soviet development can be optimized only through optimal rates of trade expansion with the West, and for that to be achieved, a stable international monetary system is essential. The EMS, with a currency unit backed by gold, represents that stable monetary system.

Although it has been assumed by informed observers that the "pro-gold faction" in the Soviet Union has always given strong behind-the-scenes support to the EMS idea, the Dostal report is the closest thing to a direct endorsement of the EMS yet published by these circles.

The de facto stamp of approval of the EMS comes at a timely point. The article appeared in print only a few days before the Western summit meeting in Venice, and even more significantly, in advance of the visit of West German Chancellor Helmut Schmidt to Moscow. The report in fact places heavy emphasis on West Germany's role in setting up the EMS, stating flatly that "West German ruling circles have shown the greatest interest of all in the creation of the EMS."

Author Dostal describes the initial purpose of the EMS as a defensive one. Chancellor Schmidt and French

President Giscard d'Estaing were compelled to institute the new system out of the necessity of protecting the European economy from the destructive impact of the world monetary crisis. In addition, says Dostal, the two leaders "set themselves the goal of creating the conditions for speeding up economic growth rates, and for improving the situation in the employment area."

However, says Dostal's report, the EMS has evolved into something much more than a defensive measure. He writes: "In concrete form, the EMS has emerged as the direct opposite of the existing monetary system. In contrast to the charter of the International Monetary Fund, the EMS statutes assign priority to stable exchange rates. They recognize the reserve role of gold and preserve a place for it in the monetary system. They foresee large-scale credit possibilities for countries with balance of payments difficulties on cheaper and less binding terms than the credit of the IMF. In other words, the needs of the European countries for IMF assistance and consequently IMF influence on their economic policy, is considerably reduced."

## The role of the U.S.

The Soviet analysis of the EMS also provides valuable insight into Soviet perceptions of U.S. economic policy and future U.S. relations with Europe in most monetary fields. While the creators of the EMS have frequently stressed the desirability and even necessity of American assistance and later direct participation in a new EMS-centered international monetary system, the Soviets appear to have discounted such a prospect. In author Dostal's view, the EMS will rather lead to a decoupling of Europe from the dollar.

Dostal writes: "The realization of the EMS project is, in principle, replete with serious consequences for the U.S. dollar, the removal of its hegemonic role in the international monetary system and the aggravation of its instability. Accordingly, the EMS will contribute to a reordering of the international monetary system."

A successful EMS, the Dostal report continues, will lead to the broader use of the European Currencies Unit (ECU) in international settlements in place of the dollar. But, Dostal concludes, "a reduction of the need for dollars in international payments circulation will lead to an increase of dollars on the lending markets and accordingly to a fall of the price of the dollar."