



The IMF admits strength of EMS

by Renée Sigerson

Ever since July 1978, one of the more bizarre occurrences influencing international financial developments has been the adherence of circles in London and especially New York to a policy of keeping as secret as possible the existence of the European Monetary System (EMS).

This little game, which involved blacking the EMS institution out of U.S. financial newspapers, as well as a great deal of lying at international conferences as to what the EMS is about, is about to be brought to a close.

In its latest annual report, the International Monetary Fund (IMF), the centerpiece of Anglo-American global financial operations, matter of factly reports that the EMS has emerged as a major factor shaping international financial relations. "The EMS," the report says, "represents a major modification of exchange arrangements and international policy coordination." The context is the IMF's estimation that it was the EMS which brought to a screeching halt the IMF's own preferred policy from 1976 to 1979 of "floating exchange rates."

In the same way that the IMF is an asset of London-New York banking circles in shaping the domestic economic policies of governments, the EMS is the creation of French and West German circles, whose goals are strongly backed by industrial and official circles throughout continental Europe.

The EMS was made public in July 1978, then formally instituted in March 1979. In early 1979, high-level West German officials described it as a "seed crystal for a new international monetary system." At its founding, the EMS pooled \$70 billion in currency reserves from eight member nations, including a \$30 billion gold account whose worth has since doubled.

In the IMF annual report to be issued two weeks before the Fund's Sept. 30 annual meeting, it is noted that implementation of the EMS includes "plans for the establishment of a European Monetary Fund" (EMF). In Europe, the EMF is called "Phase II" of the EMS. Its purpose will be to generate government-backed long-

term lending policies for international development projects. Prior to now, the IMF never mentioned "Phase II" in its publication. Were "Phase II" to be successfully implemented, it would supersede the entire 1980s policy of the IMF to subject the Third World to triage in isolation from international trade.

The fact that the IMF cites the EMF as having put to rest the "floating rates" system is no small matter either.

The report states: "A coordinated policy vis-à-vis the U.S. dollar has broadly been followed by the EMS participants. Thus, while there has been an increase in intervention by participants using European currencies to support bilateral rates . . . intervention in U.S. dollars has continued on a large scale, mainly to reduce fluctuations of EMS currencies vis-à-vis the U.S. dollar or to carry out necessary adjustments."

Earlier, in a general summary, the IMF report summarizes: "In the determination of exchange rates, the monetary authorities of a number of industrial countries maintained or increased efforts to influence the course of exchange rate movements. This tendency has manifested itself, *inter alia*, in some increase since 1978, compared with earlier years, of the period of floating exchange rates, in the level of official intervention in foreign exchange markets and in the pursuit of monetary policies tending to stabilize exchange rates. . . . The question arises whether measures by the industrial countries to influence exchange rates, can on balance be expected to assist or hamper the pursuit of their macroeconomic objectives."

The story behind these observations is that in 1976, the IMF was working with then U.S. Treasury Secretary Blumenthal to forcibly ratchet world trade downwards through international currency warfare.

The 1976-78 frequent attacks on the U.S. dollar were repeatedly rigged by British banks, often operating out of Far Eastern foreign exchange markets. The pool of liquidity the British banking system used to dump literally billions of depreciating dollars on European central banks was heavily drawn from offshore deposits of "dirty money."

Blumenthal, who is personally connected to Far East-based British banking, acquiesced to these attacks by refusing to use the resources of the Federal Reserve to support the dollar. European exasperation with Blumenthal was a contributing factor to European determination to found the EMS. When the EMS was formally introduced, Blumenthal was dumped and the U.S. policy of "benign neglect" toward the dollar was soon replaced with the current equally damaging policy of high interest rates. U.S. high interest rates are also being challenged by the EMS members, both in attacks in their press (see Foreign Exchange), as well as in current European policies of lending at slashed interest margins on the Euro-markets.