Schmidt and Giscard push through EMS

Britain is damned if it joins, damned if it doesn't

French President Giscard d'Estaing and West German Chancellor Schmidt stunned their opponents by the speed and ease with which they worked out the specifications for the new European Monetary System at their Sept. 14-15 meeting in Aachen, West Germany. Three days later, over alarmed British objections, the finance ministers of the nine European Community members approved the Schmidt-Giscard proposals.

"There is now no chance of the system being watered down or postponed," a dejected London *Sunday Times* admitted. "The Franco-German partnership has virtually taken over the running of Europe."

What the Nine's finance ministers agreed to at the Brussels meeting was to base the EMS on a fixed-parity system of currency relations and to make short- and medium-term credits of $30 billion available for assisting members to keep parities in line. At the close of the Brussels conference, West German Finance Minister Hans Matthoefer told the press that the ministers firmly expect the European Monetary System to be operational by early 1979. "The majority of EC nations support fixed parities with firmly established intervention points." Officials at the West German Bundesbank confirmed to this journal's West German bureau Sept. 20 that the $30 billion currency-stabilization fund will be in place on Jan. 1, 1979, and the centralized long-term credit fund will emerge over the following 24 months.

The precise status of gold reserves, and their valuation for EMS purposes, is still under discussion, according to the Bundesbank. That gold's role will be large and crucial has been accepted, however, by both the sponsors and antagonists of the EMS since its

London's press: stricken by 'the astonishing news'

The London press, in the wake of Aachen, was finally compelled to acknowledge both the EMS's inauguration and Britain's loss of control over European Community policy.

Financial Times, "A European Monetary System: condemned to succeed," by Guy de Jonquieres and Peter Riddell, Sept. 18:

... The strict timetable laid down by the EEC summit in Bremen last July is now starting to bite... the aim is to have the scheme in operation from the beginning of next year.

... There has been an unseasonable amount of activity in Brussels in the traditionally quiet month of August and a very large amount of work has been done on the details and implications of the proposals by officials in the nine members capitals.... both Chancellor Schmidt and President Giscard d'Estaing have invested substantial political capital in the project. There is no evidence that either can allow it to become bogged down in interminable argument between officials. In that important sense, it is condemned to succeed....

Sunday Times, "Can Jim keep up with Schmidt and Giscard?" by Keith Richardson, Sept. 17:

... British ministers now face a series of critical decisions on whether to go along with the new trends.

Tomorrow the Chancellor of the Exchequer, Denis Healey, flies to Brussels to react to the astonishing news that in Aachen on Friday the French and German governments managed to resolve all their disagreements about the proposed new united European monetary system....

There is now no chance of the system being watered down or postponed. Unenthusiastic countries such as Britain will soon have to choose between joining and staying outside.

The new money system is only one of a series of changes that President Giscard of France now feels confident can be taken almost for granted... (including) the accession (to the European Community) of Greece, Portugal and Spain.

In the light of all this Giscard wrote on Tuesday to eight European prime ministers asking them to agree to appoint three formation was first announced at the July summit of EC heads of state in Bremen, West Germany.

Some of the implications were pointed out Sept. 20 by the Italian business journal *Il Fiorino* in an article titled "EMF versus IMF."

Urging Italy to fully and promptly join the European Monetary System, *Fiorino* writes that Britain is the only country that stands to lose from the new institutions. Rather than enjoying frequent, favorable loans from the International Monetary Fund, *Fiorino* commented, Britain would have to pitch into the EMF "gold it doesn't possess." The *Sunday Times* in London bitterly acknowledged Sept. 17 that British participation on the terms Giscard and Schmidt are imposing would require a devaluation of sterling sufficient to make the overblown currency linkable to gold, and came close to admitting that the EMS as a gold-based monetary system means the end of sterling's international influence. Britain's options aren't good either way, the London *Daily Telegraph* added: if she boycotts the EMS, Britain will be the "odd man out" with a heavy discount for sterling in the markets.

The essence of Aachen

The Schmidt-Giscard meeting in Aachen tightened up the proposed EMS machinery and laid to rest months of British-pumped assurances that "technical problems" would delay EMS implementation long past Jan. 1, if not forever. But the Aachen meeting did much more. In what Giscard called "an entente between our two nations," France and Germany showed the world the scientific, industrial, and energy policy for which the EMS is about to provide the monetary and financial underpinnings. Three Franco-German programs were announced:

A new university to be established for scientific, technical, and economic studies, and located on the border between France and Germany;

A joint undertaking in space exploration;

A series of nuclear fission power plants, the first to be constructed on the Moselle River. This, both leaders said, will epitomize both nations' commitment to nuclear energy.

This is the essence of the EMS policy as Schmidt and Giscard have forcibly shaped it. And this is the meaning of their citations of Charlemagne, whose Aachen-centered empire, under the guidance of humanists like Alcuin of York, successfully battled to proliferate urban civilization against the ancestors of today's British-dominated international zero-growth factions. In clamoring for a world "offensive against Malthusianism," the French press has made explicit the *global* intent of the EMS; to this end, France and West Germany have already spearheaded a web of North-South and East-West trade and investment arrangements.

Although Aachen publicly confirmed that the EMS is in place faster than almost anyone except its

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"wise men" to suggest ways of speeding up the method of taking community decisions.

Any such move would inevitably mean that the views of Britain or any other individual country could be overruled by its partners more easily than today. The difficulty for the Prime Minister, James Callaghan, will be to reconcile this with his own dogged opposition to any kind of European centralization....

But a negative response would only bring an aggravation of anti-British attitudes on the Continent, which can already verge on the hysterical....

But behind all these changes lies an even bigger development, the emergence in the past few months of a Franco-German partnership that has virtually taken over the job of running Europe.... (Giscard and Schmidt) are now so close that they in fact spent much of the summit listening to music and chatting about European history. In their speeches both men romanticized about the influence of Charlemagne....

(The EMS) will also have a stronger bias against inflation than against deflation, the factor which will cause Denis Healey some heartburning tomorrow.

Giscard has in mind "a genuine confederation of Europe." ...In January he takes over from Schmidt the six-month job of president of the Community. It is increasingly clear that he means it to be an epoch-making term of office.

French financial press comment also focused on the British response.

Les Echos, "Franco-German monetary accord into European chopper today," by Françoise Crouigne, Sept. 18:

... More than its technical position, however, it is Britain's political attitude that is awaited with interest today. The press reaction across the Channel is indicative. Astonished, a bit acerbic, it serves as a reminder that the UK government at one time had thought it could weaken, and turn to advantage, a Paris-Bonn axis whose hegemonic tendencies it greatly fears....

In order to preempt Britain's ill-humored reactions, Bonn and Paris have made it known in the past few days that a European monetary system would be put into place more quickly in Britain's absence....

founders and this journal anticipated, this confirmation did not elicit the appropriate open, decisive response in the U.S. The U.S. financial press could have countered the top-level disinformation strategems being funneled through the Atlantic Council. Instead it has mostly been helping it along. The *Journal of Commerce*, for example, ran a "news analysis" Sept. 18 headed "EC Success Could Spell Dollar Woes." George F.W. Telfer saturninely predicted that the EMS

> could embarrass Washington, and even exacerbate the dollar's problems, if the German scenario — reduced inflation and faster growth in Europe — materializes, and U.S. inflation and trade and payments deficits remain high. At worst, although the new scheme is designed to insulate them, the deustchemark and other strong European currencies in the joint currency float would continue to appreciate rapidly against the dollar....Even for next year, the dollar's prospects are none too bright....However, the trade balance in products other than oil could improve because of the recent (dollar) depreciation and the fast growth in other economies as the U.S. slows down.

The next day, the *Journal* and others reported that the so-called "parity grid" exchange-rate plan, Helmut Schmidt's fixed parities, had been accepted by the EC finance ministers. That decision should put an end to the financial press hullaballoo before the Aachen and Brussels meetings, especially from British sources, on behalf of a "basket" plan that would peg currencies, not to each other, but to a weighted average value of all members' currencies. Under that plan the burden of market intervention would supposedly be removed from weaker currencies, since in practice only the currency under strong upward pressure would have to take action. But adjustments within the "basket" vis-à-vis a fluctuating standard would be much less advantageous than the Schmidt program for trade and investment planning and, above all, Schmidt and Giscard are planning the kind of real growth for Europe "from the Atlantic to the Urals" that will enable the weaker countries to jump, rather than inch, ahead.

Buried, if mentioned at all, in the financial press is the fact that the EMS's $30 billion in short- and medium-term credit facilities, on line Jan. 1, equals the size of the International Monetary Fund's total resources, minus the still-unratified "Witteveen" special bailout fund; and the Finance Ministers, with West German approval, are reported to have decided on better-than-IMF credit terms. This is a drastic setback for the IMF's attempted stranglehold on world lending flows.

The day after the Brussels results, accordingly, a new round of assaults burst forth on Schmidt, this time from inside West Germany itself. A certain Thankmar von Münchausen, who works with the Milton Friedman Mont Pelerin group which at present has the upper hand at the *Frankfurter Allgemeine Zeitung* newspaper, tried once more to paint the EMS as a French trick countenanced by Schmidt "despite justified criticisms from domestic (West German) banks and industry." Helmut Geiger, the head of the national savings bank association, a bastion of the Friedman mind-set instilled by the postwar occupation, loudly opposed the planned increase in the EC's European Investment Bank to $12 billion — which will be another blow to the IMF — while warning that Bundesbank control over domestic money supply is in jeopardy. Geiger was especially appalled, he said, by Schmidt's recent statements that "action may bear risks, but nonaction can bear more risks."

— Susan Johnson