

# Soviets view Schmidt's key EMS role

*But this Novosti commentary reflects Soviet policy dilemma*

Since the new European Monetary System was first formulated last summer, the Soviet Union has maintained two, opposite public policies toward the new institution. The following article was provided to this newsservice by the Soviet news agency Novosti on the eve of the Brussels summit's final session, and is as far as we know the first official Soviet statement on the EMS's formal establishment. Moreover, the Novosti article is the first Soviet commentary to depict the EMS as the central world political issue it is — yet at the same time it exemplifies the Soviet dilemma by reflecting both contradictory Soviet policies.

Reviewing the clashes surrounding the formation of the EMS,

commentator Alexander Tankov recognizes that the push behind the EMS comes from West German Chancellor Schmidt and French President Giscard d'Estaing, the Western heads of state with which the USSR has the best relations. For the first time ever in Soviet coverage, Tankov points to Schmidt's repeated statements that the EMS is *not* anti-dollar — and he contrasts this to the spurious claim of anti-EMS England to be the dollar's chief supporter.

As Tankov accurately notes, the opponents of the EMS in the United States do not want to see the dollar stabilized, and fear that the EMS will undermine the power of the International Monetary Fund — an institution whose austerity policies

come under frequent attack in Soviet publications.

But Tankov concludes — interestingly enough, in a series of passages introduced by the phrase, "in my opinion" — that the EMS is doomed to failure because of the "sharpening contradictions" between the Western powers, and in any case it will only mean austerity for the population of Europe. Ignoring the logic of his own argument, he denies that global economic expansion in a context of detente is the purpose of the new system — and thus relegates the USSR to the status of "outsider" in a situation which in fact it did much to help create!

Here is Tankov's commentary in full.

Even up to a year ago, people were rejecting as quixotic the idea that the European Economic Community could take an independent initiative in monetary affairs. And this was due not least to the conduct of the Federal Republic of Germany, whose government considered close coordination of the domestic economic, monetary, credit and financial policies of EEC members as the indispensable precondition for any step on the road to a monetary union. It was precisely a year ago that the Federal Republic of Germany delegation to the EEC finance ministers' conference blocked new initiatives which had as their purpose the pooling of part of the gold and currency reserves of the Nine and the creation of a European currency.

The devaluation of the American currency, which, since the beginning of 1978, has occurred to a degree never before known in post war history, has permitted Chancellor Helmut Schmidt to become the main advocate of the idea of an EEC monetary union. The President of France, Valery Giscard d'Estaing,

agreed on the plan for the European Monetary System.

The USA's cautious position toward the project of the creation of the EMS can be totally traced back to its deep fear, which in my opinion, can be explained as coming from three principal sources. First, the creation of a "zone of currency stability" in Europe can essentially restrict the USA's ability to manipulate the rate of exchange. In order to reassure the USA, Helmut Schmidt has repeated again and again, publicly, that a unified European monetary front would protect the value of the dollar from decreasing. But does the USA want this itself? Carter's Administration would rather be certain that such protection would not prevent an increase in value in those currencies that have a tendency towards revaluation, for example the deutschemark.

Secondly, the USA fears that greater independence by Western European countries in monetary affairs would have the consequence of weakening the control held over them by the International Monetary Fund, in which the USA occupies the key position. Third, the

perspective that has obviously created unhappiness in the Carter Administration is that a common credit fund will be created from a portion of the gold reserves of the EEC countries that will serve as the backing for issuance of the European Currency Unit — the ECU. This unit will probably replace the dollar as the medium that will be used most frequently in the official settlement of accounts among the EEC countries.

### The British role

The period since the Bremen summit conference has clearly shown that there exist deep-seated disagreements concerning the goals and the mechanism of the EMS, with the front line of this fight running between West Germany and France on one side, and England on the other side.

England's conduct, which Valery Giscard d'Estaing diplomatically described as "discussion, but not membership" can be explained above all by the interest in maintaining the conditions that encourage the devaluation of the British pound. For this leads to strengthening the competitiveness of British industry and stops, to a certain extent, the further increase in the number of unemployed.

But at the same time, the British government, which fears the prospect of isolation in the Common Market, attempted to maneuver in the last couple of months and, on the advice of experts and finance ministers, to negotiate concessions in exchange for entry into the EMS. These efforts were discredited toward getting the largest possible amount of the credits from the program for the transfer of resources to the most backward regions of the Common Market as well as bringing about a connection between the establishment of the EMS and the revision of the EEC's agricultural policy, which is forcing England to transfer considerable sums to the EEC's Agricultural Fund.

The English representatives even attempted to represent themselves as the main defenders of the interests of the USA and the dollar in Europe, obviously in the hope of getting certain political dividends. It cannot be overlooked that England's position has certain definite points of contact with that of France. As the discussions in the last couple of months have shown, a number of English arguments have been supported by Italy and Ireland.

The disagreement among the EEC countries has been the greatest in fixing the ceiling for the rate of exchange fluctuations. The documents from Bremen specify that "respecting the fixing of the rate of exchange, the EMS will not be softer than the 'snake'."

The BRD is sticking to this firmly. Of course, it is provided for that in the initial period, the values of a couple of the "weak" currencies will be allowed to fluctuate widely. But, as experience has shown from the fluctuation of the "snake," the countries with the weak currencies ultimately have to come up with a greater share of the money spent to support the rate of

exchange on the market. They were forced to exhaust their reserves of hard currencies and to accept large credits from the countries with the "stronger" currencies, above all from the BRD, in order to have their index of inflation and their balance of payments "catch up" with the BRD's condition, and they have very often had to pay for this by decreasing their rate of economic growth and by increasing the number of unemployed.

It appears to me that the projected mechanism of the EMS will be unable to change this situation essentially. In the event that their economic situation worsens, the participating countries will be forced to carry out a policy of "economic discipline" according to the BRD's formula and this will require victims, above all from the working class and from other layers of the working population.

During the negotiations, England, Italy and France tried to place the obligation of providing the largest amount of the money used to fix the exchange rate onto the "strong" currencies (those of the BRD and Holland).

At the Finance Ministers' conference of Sept. 18, a proposal by Belgium was accepted as a compromise which nevertheless, in my opinion, allows the BRD and Holland to bear an insignificant portion of the cost. Therefore it is no accident that the differences between France and the Federal Republic have come to a head on the question of the practical implementation of the Belgium scheme.

England has altogether rejected this scheme. This is understandable, too, for behind every disputed detail, which on first glance appears to play a purely technical role, there are millions of francs, marks and pounds in EMS expenditures, as well as the attempt to safeguard one's own interests at the cost of one's partner.

In the absence of any precise indications of obligations respecting the coordination of the member countries' domestic monetary, credit and financial policies, or the execution of collective measures against inflation, or the realization of steps leading to the goal of overcoming the deep-seated discrepancy between the most important economic indicators, the prospects for the EMS appear to be quite doubtful.

There are already sharp disagreements in connection with the question of which countries have to bear the main burden of the EMS's "stability policy." There is also a confrontation among the "Nine" in working out the conditions through which the common credit fund's medium-term credits will be granted.

The political unification of the West European countries threatens to become a house with no firm economic foundation.

The results of the last couple of years have confirmed that the integration of Western countries does not diminish the discrepancy in the economic development of its participants. On the contrary, the differences are increasing, and the contradictions are becoming sharper.