EIR Special Report

Western Europe's new mobilization against Thatcher

by Criton Zoakos, Editor-in-Chief

Sometime between now and the scheduled July 1981 "economic summit" among the top five industrialized Western nations (U.S.A., Japan, France, the Federal Republic of Germany, and Great Britain), President Reagan will have to make a clear-cut choice whose immediate consequences will fully determine the future of his administration in both domestic and foreign policy. The choice: line up with the body of broad policies represented by the alliance between France and West Germany, or with the totally opposite policies represented by Mrs. Margaret Thatcher's Great Britain.

The Franco-German alliance at this time represents a fairly clear and consistent policy perspective centered around the concept of *industrial development.* Great Britain, on the other hand, represents an equally clear and consistent perspective centered around the effort to *reduce world population* by approximately three billion people by the end of this century. President Reagan will recognize that this British policy is identical to the *Agenda '80s* report which informed every one of the disastrous policies of his predecessor Carter administration. President Reagan will also recognize that the British *Global 2000* perspective is shared by such members of his own administration as Secretary of State Alexander M. Haig and Defense Secretary Caspar Weinberger. Not accidentally, both Haig and Weinberger are currently engaged in intense efforts to influence the President in favor of Mrs. Thatcher's Britain and against Chancellor Helmut Schmidt of the Federal Republic of Germany and his friend, President Giscard d'Estaing of France.

So, amid the arcane power struggles going on in Washington these days, the underlying, really important question is: will the White House succeed in breaking through the Haig-Weinberger et al. screen (including submarines in the Kitchen Cabinet) and abandon Thatcherism in favor of the Franco-German option, or will the President unwisely squander the electorate's good will and, following Thatcherism, be Hooverized by the summer?

Which way this question will be answered will depend primarily on the following factors: first, the thoughtfulness that the White House and its allies, and potential allies in Congress, will display. Second, the energy and

Schmidt, Giscard, and Thatcher at their first European summit on April 27, 1980 in Luxembourg. Giscard called Thatcher's obstructions "a contemptible spectacle," and the Franco-German directorate of continental policy grew tougher.

determination with which the Franco-German alliance will pursue its aims. Third, how well the American society and economy will be able to resist the effects of Thatcherist economics already rampant in the Reagan administration.

What the stakes are that hang upon resolution of this question: *if President Reagan goes with Mrs. Thatcher,* he will be locked into the type of no-win military posture embedded in Secretary Weinberger's defense budget, thus further weakening this country's strategic position vis-à-vis any potential adversary. The foreign policy implications of Thatcher's monetarism will translate into rapid expansion of destabilizations, upheavals and shooting wars throughout Latin America, western Africa, southern Africa, the entire littoral of the Indian Ocean and Southeast Asia. The domestic implications of Thatcher's monetarism for the U.S.A. will be similar to that lady's impact on the British economy: mass unemployment, shrunken tax base, greater budget deficits, higher inflation rate, collapse of industrial production, shrinkage of industrial capacity, and long-term erosion of the country's ability to put up a credible, science and technology-based strategic long-term defense effort. *If President Reagan goes with the Franco-German option,* he will essentially adopt the international economic policy of the European Monetary System, involving the long-term world industrial-development perspective initially elaborated during the 1975-77 period by Mr. Lyndon LaRouche, the chairman and founder of the *EIR*.

This would mean some type of reorganization of the trillion dollar-plus Eurodollar market, dumping of all the World Bank-IMF genocide policies and the launching of a $200 billion-plus annual export drive from the United States; a concomitant massive industrial and technological expansion of the domestic U.S. economy; and a challenge to the Soviet Union to compete with us on who will better develop and industrialize the Third World.

President Reagan's choice is between becoming a great President or ending up like Herbert Hoover sometime during this year.

For reasons we are not completely privy to, both Chancellor Helmut Schmidt and President Giscard d'Estaing decided to mobilize all resources at their disposal against Mrs. Thatcher immediately after the prime minister completed her visit to the United States two weeks ago. In a March 10 nationally televised interview, President Giscard branded Mrs. Thatcher's policies as "extraordinarily dangerous from a social standpoint." "These policies which are called monetarist policies," he continued, "accept a slowdown of economic activity, and I can tell you that next year the British economy will again decline, that there will be another drop in production in Great Britain." Two days later, Mr. Giscard's treasury secretary, Jean-Yves Haberer, reiterated once more the alternative to Thatcherism: "The European Monetary Fund has protected continental Western Europe from the monetarist epidemic that has spread elsewhere."

The most important observation to be made about the political struggle in Europe is that France and West Germany have no choice in the immediate future but to redouble their energies and efforts on behalf of their current policies, so long as their present governments remain in power. The reasons are primarily military-strategic reasons of national security; the leadership circles in both France and the Federal Republic of Germany, especially over the past disastrous four years of the Carter administration, have conducted an in-depth study of the causes underlying the erratic and disastrous course of United States policies at home and abroad. It was a study which was significantly assisted by the publishing and other activities of the *EIR* and its founder, Mr. LaRouche. The conclusion that any cultured person had to reach upon completion of such a study was that what ails America is not the erratic and inadequate personality of a Jimmy Carter per se, but rather the underlying policies of the Eastern Establishment's long-term policy elite, the policies of Global 2000, Agenda '80s, Project 1980s, and associated neo-Malthusian policy commitments of the New York Council on Foreign Relations, Trilateral Commission, Heritage Foundation, Ditchley Foundation, the Carnegie Foundation, the Ford Foundation, and others.

According to the French and German leaders' estimations, these neo-Malthusian commitments of the Eastern Establishment elite, commitments which are associated with both the "liberal" and "conservative" guises of Thatcherite monetarism, are locking the United States into a full-scale march backward into the "post-industrial" dark ages, with the medieval banners of the Mont Pelerin Society and the Heritage Foundation unfurled against the tempest of growing world crises and destabilizations. The rub for the Europeans is this: Thatcherite monetarism must dictate to the United States a military policy very much like Secretary Weinberger's defense budget: not one penny for advanced military R&D and improvement of strategic forces, while at the same time massive increases in colonial-type conventional forces assigned to engage in every conceivable type of combat throughout the Third World. The Europeans, to their horror, see Washington invite them to join this mad, shallow, in-width deployment while they see the Soviet Union continuing to meticulously improve its science and technology-based strategic forces. The Europeans reason thusly: the Soviets already have undisputed superiority in conventional military forces and it would be stupid for the United States to match conventional Soviet strength. If you want to pick a fight at least be smart enough to pick it when you have the advantage, dummy. Second, while the U.S.A. is trying to match the U.S.S.R. in an area where the U.S.S.R. will continue to retain decisive superiority, the U.S.A. is also totally neglecting any efforts to qualitatively improve its long-term strategic capabilities at a time when the U.S.S.R. is moving forward all the industrial and scientific capabilities required for such an effort.

If continental Western Europe, European leaders reason, sides with a continuously weakening U.S.A. in provocations against a continuously improving Soviet Union, what are we to do in the event one of those Third World conflicts escalates into a superpower confrontation with thermonuclear implications?

Under such circumstances, continental Western Europe will either side with the U.S.A. and be incinerated, or will part its ways with the U.S.A. and become a captive pawn of the U.S.S.R. Neither of these two alternatives is appealing to sovereign nations. Therefore, the forces of the European Monetary System have no option available to them but continue to strive to defeat Thatcherism's influence over the Reagan administration and assist President Reagan to appreciate the enormous benefits this country's economy, industry, and technological power would derive by dumping monetarism and, along with the European Monetary System, going into a massive program of technology transfers into and general industrialization of the Third World.

President Giscard blasts monetarism

On March 10, French President Giscard delivered a blast against Britain's monetarist policies in a nationally televised interview to the French nation. EIR *excerpts his statement. Giscard began his attack by describing the two economic policies that destroyed Britain's industry.*

The first . . . is a statist policy. That is to say "let's recruit functionaries, let's nationalize different sectors." This is what the Labour government did in Great Britain, and you have seen the state of the British industry as a result. There are 2 or 2½ million unemployed, despite considerable oil resources. Entire portions of British industry have disappeared. They may have nationalized the auto industry, but now it is being bought up by the Japanese. And the steel industry is having much greater difficulties than ours. In France our industries are struggling with some difficulty, but they are struggling to maintain their activity and jobs.

So the solution that consists of creating nonproductive jobs is a solution that is guaranteed to fail after two or three years, and this failure has a very simple name: bankruptcy. . . .

Then there's the other solution: here we have Mrs. Thatcher's or Mr. Reagan's name being brought up. These are policies which, if implemented in France, would be extraordinarily dangerous from the social standpoint. Because these are policies which accept a slowdown of economic activity—and I can tell you that, for example, next year the British economy will again decline, that there will be another drop in production in Great Britain.

These policies, which consist of unleashing certain forces of the economy—which [otherwise] is healthy when pushed to the limit—result in employment and conjunctural situations that are totally unacceptable, and which are accompanied by interest rates of 20 percent, since as soon as you create large deficits, they are financed by borrowing, and these loans are at 19 percent interest rates in the U.S. and 22 percent in Great Britain.

Can you imagine French farmers with 22 percent interest rates? Can you imagine the construction industry in France with 20 percent interest rates? I am quite sure there would be a revolt within a few months! These policies, which are called monetarist policies . . . would mean accepting interest rates which, in my opinion, the French people—and I understand them completely—have absolutely no intention of accepting.

French Treasury Secretary Jean-Yves Haberer, Paris colloquium in honor of economist Jacques Rueff, March 12, 1981.

The European Monetary System has protected continental Western Europe from the monetarist epidemic that has spread elsewhere.

French Economics Minister René Monory, interview, French national television, prior to departure for United States.

Current U.S. interest rates are a handicap for European countries. It is unreasonable for them to be maintained for any length of time.

European leaders castigate Volcker

West German Chancellor Helmut Schmidt, interview, French Les Echos *financial daily, Feb. 25, 1981.*

I consider the interest rates in America and in other parts of the world to be destructive, and in the long run to be absolutely unacceptable if we do not want to abandon our goal of full employment. . . . The unpredictable character of American monetary policy in the past few years was one of the reasons that the European currencies, in particular the franc and the mark, detached themselves from the dollar, which then led to the creation of the European Monetary System.

West German Chancellory Defense spokesman Lothar Ruehl, Munich conference of the Wehrkunde defense discussion group, Feb. 22, 1981.

If current high interest rates persist, the Americans will have to face up to the fact that the deutschemark and the Swiss franc will suffer a currency collapse in which the currency flight will turn into a capital flight. The West European economies will then lack the resources necessary for recovery.

West German Finance Minister Hans Matthöfer, statement referred to by West German Handelsblatt *business daily in a Feb. 13-14 article, "Matthöfer Pleads for a World Interest-Rate-Lowering Round," which reads in part:*

Federal Finance Minister Hans Matthöfer warned at the *Wirtschaftswoche* [weekly economic magazine] money-market forum of a "tendency for a kind of currency revaluation race" on the basis of international interest-rate policy. This theme should become the subject of international consultations. "A kind of government deficit-financing race or interest-rate raising race, which no longer leads to improved chances for growth and therefore leads instead to a worldwide contraction of markets and decreasing employment opportunities, would certainly not be sensible strategy."

The data for unemployment and inflation in the high-interest countries should, according to Matthöfer, give pause for thought. . . . An internationally coordinated move to lower interest rates would therefore be in the interests of not only the German national economy.

Dr. Eberhard Dettweiler, Bank für Gemeinwirtschaft chief economist, EIR *interview, Feb. 24, 1981.*

Will [Volcker] increase interest rates even more; will he kill off, from the bottom up, the small and middle-sized industries, and move on to the big ones? I don't know a businessman in the world who can keep his shop running on 25 percent interest rates. I see no reason at all why Volcker's resignation would bring the dollar down. . . . If Volcker's resignation had any effect at all, this would be very slight. Reagan's basic program for economic growth, investment, and productivity, is exactly what is needed to give Americans back their sense of confidence in themselves. That is what is good, and on that basis, there is no danger of the dollar's collapsing.

Get the interest rates down! That is what the American economy needs, and that is what we need.

Dr. Andreas von Becker, chairman, Industriebank A.G.-Deutsche Industriebank of Düsseldorf, EIR *interview, Feb. 24, 1981.*

The idea of convening an international conference for interest-rate disarmament with the Big Four countries is a very good one. Our sentiment is indeed that interest rates are too high. . . .

Therefore, it would be very good to have a worldwide cut in interest rates, and it would be very good for the United States, too. This is a question we also ask ourselves: How long can U.S. industry go on with such interest rates?. . . . If Volcker resigns, I do not see any reason why the dollar should go crashing down. Why should it? If the dollar went down slightly, it would do no harm to the U.S. economy. . . .

It is not true that Mr. Volcker enjoys the support of the international banking community. Even if we feel that we should not intervene into American affairs—what is good for West Germany is not necessarily good for the U.S.A.—even if it is not our job to criticize what our American friends are doing, still, this does not mean that Mr. Volcker has our support, not at all!

Let us have lower interest rates. Let the U.S. population tackle their problems and find their own way of doing that. . . .

Finance Ministers of the European Community, meeting in Brussels, as reported in a Feb. 17 New York Times *article which read in part:*

The ministers urged the United States to help reduce the broad gap between interest rates in America and Europe. They said that the substantially higher rates in the United States were the major reason for the dollar's recent steep climb against European currencies.

The ministers agreed to ask French Finance Minister René Monory to explain the European position to American officials later this week at a meeting of the International Monetary Fund's Interim Committee in Washington.

The EC's decision to seek a narrowing between European and American interest rates is understood to be the result of an effort by West Germany, which is seeking support from its Western trading partners, including the United States, for a coordinated reduction in interest rates.

Phase Two of the EMS looks to Third World development

by Dana Sloan

French President Giscard's dramatic denunciation of monetarism has set in motion a powerfully coordinated international combination. According to sources extremely close to Giscard, the French president intends to make the issue of credit contraction—the foundation of monetarist economics—especially with respect to the less-developed countries, the first agenda item for all future contact with the Reagan administration, including the summit of Western industrialized nations scheduled for early this summer in Ottawa, Canada.

Ironically, the high interest rates have had one effect quite the opposite of what their originators had in mind. Giscard and Schmidt, the two initiators of the European Monetary System (EMS), have put implementation of EMS policy on the front burner. The second phase of the EMS, the European Monetary Fund (EMF), would institute a new credit-generating mechanism that would rapidly outdistance the monetarist-dominated International Monetary Fund.

Speaking at last week's Paris conference to commemorate the late Jacques Rueff, who was Charles de Gaulle's brilliant monetary adviser, French Treasury Secretary Jean-Yves Haberer described the European Monetary System as the only thing that has protected Europe "from the monetarist epidemic that has spread elsewhere." Haberer asserted that Phase Two of the EMS would not come about as the result of "technical" measures, but was rather a question of exerting "political will." Within a matter of days, Finance Minister Matthöfer asserted that Phase Two of the EMS should not be delayed much longer, and attributed previous delays to difficulties with the dollar.

France, which maintains historically close political relations with Third World countries, is also closely coordinating its interventions into the U.S. situation with Mexican President José López Portillo. French Economics Minister René Monory visited Mexico a few weeks ago, immediately prior to his official mission to Washington. Following his talks with the Mexican president, Monory told the French daily *Le Monde* that both France and Mexico were extremely concerned with the U.S. decision to cut back its development aid to the Third World.

French policy toward the LDCs is the paradigm of what Mexican-U.S. relations could become. Giscard's "trialogue" proposal was publicly defined at a Paris conference by an economics ministry official recently as a new concept to unite the capabilities and needs of the oil-producing nations, the European countries, and the non-oil-producing Third World around economic development projects in Africa. Under Giscard, France has also pioneered the oil-for-technology, and particularly oil-for-nuclear agreements that Mexico seeks from the United States.

Giscard has signed nuclear cooperation agreements with Iraq, Egypt, and South Korea, among others. Under the "trialogue" proposal, France is arranging for the financial resources of the oil-producing countries to be channeled into capital-intensive development projects in Africa using Western technology, equipment and know how. The EMS/EMF would serve as the mediating institution for these exchanges, and is open to a "hook-up" with the U.S. dollar.