The EMS and the Ottawa summit are under the gun

by Kathy Burdman

The most important short-term implication of the May 10 victory in France by François Mitterrand, candidate of the Socialist International, is that the European Monetary System may have only a few weeks to live. Since its founding in July 1978 by French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt, the EMS has been the island of stability in the chaos of the international monetary system. With it stands or falls much of the growth potential of the world economy.

As capital streamed out of France this week in the wake of the Mitterrand victory and the franc collapsed, word circulated on the foreign-exchange market that Mitterrand "intends to let the franc fall right out of the EMS snake," as Bankers Trust in New York put it. If France does withdraw, "things look grim for the EMS," commented a source at West Germany's Dresdner Bank. "It might easily come apart."

The possibility that the EMS might disintegrate was heightened by the results of the West Berlin election May 10, where the SPD lost. This has in turn undermined West German Chancellor Helmut Schmidt's SPD majority coalition government.

The broader implication is that the end of the EMS would culminate in the inability of sovereign national governments generally to control the monetary system. "The EMS is lost," stated Citibank senior international economist Harold van Buren Cleveland this week. "But what is lost with the EMS is not stability in the markets, but the hope of stability.

"The International Monetary Fund can try to exercise some kind of currency surveillance now, but what can the IMF do, really? The IMF is merely a bunch of governments, and governments have no power whatsoever over these sorts of volatile markets."

Summit gameplan

Further, the July Ottawa heads of state economic summit, originally intended to set the tone for all 1981 world economic development strategy, now stands in danger of paralysis by Mitterrand's election. Negotiations for the summit are already hardening into a classic "left-right" split, in which Socialists Mitterrand and Prime Minister Pierre Trudeau of Canada will promote "left-Keynesian" programs, while Britain's Margaret Thatcher will promote free-market "supply-side economics," hoping to draw in President Reagan.

The Ottawa summit will thus be stripped of all deliberative power over the real economic issues: world interest rates, currencies, and world trade. "We expect no discussion" of these major topics, said a U.S. Treasury source favorable to the Thatcher viewpoint.

In short, the Mitterrand victory has neatly shifted the world balance of economic power away from the nation-states, and into the hands of those who will be left by default in control over monetary affairs. These are the central banks, led by their policy center, the Swiss-based Bank for International Settlements, and the oligarchical ruling families of Venice, Genoa, London, and Geneva behind the BIS.

Chancellor Schmidt with Ronald Reagan before the President's inauguration. Can international partnership for progress be revived?

The European Monetary System was wracked this week as the French franc fell to the floor of the European snake against the West German mark and other currencies. The franc, which had already collapsed by 2.3 percent against the dollar in the week before the election from FFr 5.22 to FFr 5.34, plummeted another 3.4 percent days after the election to a ten-year low of FFr 5.53. The fall in the franc was stemmed not by central bank intervention, which appeared useless in view of the magnitude of capital flight, but by a sharp rise in the Banque de France's discount rate from 13.5 percent to 16 percent, an all-time high.

The collapse of the franc is deliberate Mitterrand policy.

The Mitterrand election will mean ongoing "monetary chaos," said a source at the White House, appalled at the Socialist victory. "Mitterrand is simply not going to worry about the exchange rate of the franc at all, the way Giscard did. He's going to let it go. Not only does he not care how far it goes, but he will probably talk it down, to try to get some kind of reflation program going and to artificially boost exports.

"This will not work. It will be totally chaotic, and cause tremendous inflation in France. Mitterrand plans to then deal with this by imposing wage/price controls." The prediction that France would soon be forced into some sort of currency control was widely echoed by foreign-exchange traders.

"Soon, Mitterrand will have to make a decision about the EMS," the official continued. His inclination will be to let the franc just fall out." If the franc falls below its current parity vis-à-vis the German mark and other snake currencies, France will soon be forced under the EMS articles of agreement to either officially devalue the franc within the snake, or pull it out altogether.

The powerlessness of national governments to save the EMS was emphasized by Geoffrey Bell, chief economist and senior partner at Britain's Schroeder Bank, in an interview this week. "The pressure will remain on both the franc and the German mark," said Bell, executive director of the IMF's Group of 30 and foreign-exchange adviser to major governments. "But I don't think that the French or the Germans can intervene in this situation. If they try to defend their currencies, they are simply chucking good money after bad. The only thing that could stabilize the franc is exchange controls."

Ottawa headed for the rocks

Similarly, the prospect for the July Ottawa economic summit is now that debate on real economic issues may be ruled off the agenda there, if a scenario now circulating at the U.S. Treasury is borne out.

Socialist Mitterrand, together with Canada's Trudeau, plans to lead a Socialist International front to stir up the summit with demands that the West move to implement the Brandt Commission report, which calls for a mass redistribution of resources from the industrial nations into the Third World, Treasury officials say. According to the scenario, this socialist plan is to be loudly opposed by British Prime Minister Thatcher, to whose side President Ronald Reagan will be forced in his antipathy to the Socialist International.

"The result could be a potential fistfight between the U.S. and the U.K., and the rest of Europe," said the Treasury official, who sympathized with Thatcher.

Mitterrand and Trudeau, according to the Treasury official, who has responsibility for organizing Treasury input into the summit, will try to make the Brandt Commission report "the center of the summit. Trudeau is going to make a big international power play, and argue for focusing the summit, rather than on the economic problems of the West, on the need for increased North-South assistance."

No one would argue that Third World development is not an urgent topic for Ottawa, but the Socialist International/Brandt Commission's proposals, as *EIR* has documented, have nothing to do with development. Rather, the report demands a cutback in living standards in the West, within the Global 2000 framework of "limits to growth," and the transfer of financial resources into the LDCs for labor-intensive projects. That is, the transferred financial resources would be used not to industrially develop the Third World, but to pay off debts and impose low-technology programs.

"Trudeau will argue for, and Mitterrand especially will support, new transfer of aid to the LDCs, and labor-intensive energy development projects in the Third World, such as the World Bank Energy Affiliate," said the official. The Bank's proposed Energy Affiliate would spend $25 billion in government funds, and a total of $92.3 billion by 1985 to set up "soft" energy projects like gasohol, solar, and cow-dung recycling. Its goal is to cut off oil imports into the LDCs.

"The German delegation, given that the report was produced by Mr. Brandt of the ruling Social Democratic Party, will find it very hard to disagree," the Treasury official said, "and in fact West German Finance Minister Hans Matthöfer and the German Development Ministry have been pushing the approach."

Socialist International leader Willy Brandt himself has already begun to challenge the United States on the issue, in an interview this week in which he called President Reagan's recent rejection of the World Bank Energy Affiliate "regrettable." "This negative attitude should be challenged by the partners of the U.S.," the SPD chairman said.

Mitterrand will also call for a "Global Davignon Plan," modeled on the European Commission program of Count Etienne Davignon that over the last few years has rationalized and shut down more than 10 percent of European steel capacity on the excuse of "apportioning markets." Mitterrand's industrial adviser, Jacques Ortoli, helped write the Davignon Plan, said a source at Britain's Royal Institute for International Affairs this week, but thinks "it can't be done by Europe alone. Mitterrand rejects the nationalism of Reagan and Thatcher, and now believes that the U.S., Japan, and the Newly Industrialized Countries (NICs) must be brought into a global framework. This should reorganize and rationalize world steel and other industries, such as automobile production and chemicals." The idea is to shut down a good part of Western production of these goods, he said, "and give it to the NICs."

Britain and the U.S. are profiled to react with outrage. Thatcher has already sent a formal proposal to the White House, which this source claims has been accepted under Treasury advice. The U.S. and Britain are to demand that the summit focus on free-market "supply-side economics" in the *domestic* programs of the West. Third World development and East-West security matters "must be subordinate to domestic needs," he said. "Budget constraints in the West mean that less can be spent on LDC aid and on subsidies for East-West trade. If domestic considerations come first, then the world economy will right itself.

"This means that Reagan and Thatcher will promote supply-side economics for the LDCs," said the source, "and stress less aid for the LDCs, more reliance on private investment. They will encourage the LDCs to remove their artificial domestic price-subsidy systems for energy and food, which cost too much. They will downgrade the World Bank and oppose the Energy Affiliate, arguing that if LDCs decontrol their energy prices, they'll produce more."

At this point, the summit is to break down in chaos; there will be no discussion of pressing economic issues. "We expect no discussion of interest rates or the international monetary system," said the Treasury official smugly. "While Chancellor Schmidt has complained about our interest rates, we have made it clear that we won't budge on this, and the Germans have not even tried to raise the issue in summit pre-meetings.

"So the German mark is weak, and the French franc is falling. This is a problem of their own making. The EMS is in trouble—that's their problem, we're not a member. With our attitude as it is, what is there to dialogue about?"

The socialists will return to their countries, and the supply-siders to theirs, if the scenario holds, and implement their respective policies—which have the identical outcome. As *EIR* has documented, the application of supply-side free-marketeering in the Third World will implement the Global 2000 doctrine of population reduction just as efficiently as the Brandt Commission. By removing vital life-support systems such as food and energy subsidies and import credits, millions not yet at the starvation level will be forced below the minimum standards necessary for life. Meanwhile, the Bank for International Settlements controls the monetary system.