

London tries to wreck German union

by William Engdahl

A wild new form of economic warfare has been unleashed by Anglo-American financial circles: a frantic attempt to derail the emerging economic developments centered around Germany, East and West. We think it's worth a closer look. Just as West German Chancellor Helmut Kohl was announcing an imminent monetary union with East Germany, linking the strong deutschemark to East Germany's ostmark, large international banks started a deliberate "panic selloff" in German bond futures, forcing interest rates in Frankfurt bonds to rise by an alarming 1% in little more than one week, to a level of more than 8.5%.

The British bankers' ploy is simple, if utterly mad: The British financial press, led by the influential London *Financial Times*, launched a fear campaign, insisting that German-German monetary union will sink the West German central bank (Bundesbank) and government into a quagmire of huge budget deficits, creating a flood of new state bond debt to finance the economic reconstruction of the East. The campaign has forced the market price of the "Bunds," as the bonds are called, to plunge 14% since last August. London's initial claim was that the German-German monetary union would add to inflation in West Germany. But by Feb. 14, the *Financial Times* had escalated: "It starts to look as if the West Germans' real bogeyman is not currency union so much as anxiety about what comes after this year's two elections" in East and West Germany.

A Feb. 15 article in the West German daily *Bild Zeitung* correctly, if somewhat simplistically, identified the nature of the new warfare: "Germany's new enemy lies not in the East. . . . Our new enemy marches under the red-white-blue St. George's Cross of the British Empire." *Bild* warned that the immediate impact of rising German interest rates caused by the London financial warfare can soon threaten West German economic stability: "Automatically, with the fall in bond prices, interest rates are forced to rise. Homebuilders must pay more for mortgage loans, and our automobile boom is threatened."

According to City of London bond expert Stephen Lewis, "The selling of German bonds is all originating in London from the large U.K. and U.S. banks in the London LIFFE futures market. They can still do a lot of damage," he warned, adding that he expects they will continue to exert speculative pressure on German bonds and try to pull down the deutschemark itself in an effort to force domestic German austerity

through higher interest rates in a sensitive German election year. In the process, they hope to improve the prospects of pro-communist Social Democrat Oskar Lafontaine in West Germany's parliamentary elections, currently scheduled for December.

The issue: Adam Smith vs. Friedrich List

The battle is not new, and has nothing to do with ostensible conflicts of British and German "national character." It goes back at least to the era of the 1815 Congress of Vienna, where Great Britain, seething with hatred of the American Revolution and committed to crushing the last vestige of republicanism on continental Europe, emerged from the Napoleonic Wars as Europe's dominant financial and naval power. That financial power of the City of London merged with the Wall Street families in the United States, especially following the 1879 passage of the Specie Resumption Act, which enabled London to arrogate control of U.S. national finances. These circles have an instinctual hatred of anything having to do with the "American System" of economics, as typified by the work of the German-American Friedrich List.

The issue of German-German monetary union is sensitive and complex, to be sure. But, as Bundesbank President Karl-Otto Poehl stated in a Bonn press conference Feb. 9, when asked of the inflationary impact of German-German monetary union, "There exists no reasonable grounds whereby the established monetary policy of the Bundesbank and the established economic stabilization policy of West Germany will not continue in the future. The scope, especially for the capital markets [of German-German economic union] is manageable. Poehl went on to note that East Germany, which has about 16 million inhabitants compared with West Germany's 62 million, "is a comparatively small country. East Germany has the economic weight of the West German state of Hesse," one of ten states in West Germany. "In my opinion, the financial problem is totally solvable." Those familiar with the conservative West German central bank chief, know that he is not a man to make off-the-cuff statements.

Wall Street economist David Hale signaled exactly this when he warned in a private client advisory Jan. 29, about Wall Street's "complacency about the potential consequences of Eastern European economic developments for the global financial equilibrium which permitted America to borrow \$1 trillion externally during the 1980s. . . . The destruction of the Berlin Wall symbolized an upheaval which could ultimately divert hundreds of billions of dollars capital" into Eastern Europe. Hale added. "The biggest investor in the U.S. since 1987 has been Britain, and the British could not have undertaken such large investments without access to surplus German savings."

Hale termed German-German monetary unification, "the fiscal equivalent of war." The problem for London and Wall Street, however, is that they may soon run out of funds to finance this "war."