Eurosummit mandates lower interest rates

by David Goldman

Except for a buried report in the *New York Times* March 23, no leading American paper took notice of a unified call by the heads of government of the European Community (except for Mrs. Thatcher) for a reduction in American interest rates. The summit at Maastricht in the Netherlands on March 23 supported, with only British dissent, President Giscard's statement to the press, "It is urgent that we work together with the United States to achieve a progressive lowering of interest rates."

The American media's apparent lack of interest is an index of how powerful the effect of this European call will be in Washington. On several counts, the results of the summit invalidate the usual criteria by which the economic policy debate in Washington is normally judged. The French and German leaders prepared the summit with a demonstrative meeting the week earlier, with the well-crafted intention of offering an alternative to an American White House that knows it cannot rule if the U.S. economy collapses.

Despite the lack of interest in the press, the European viewpoint is a principal topic of debate in Washington at the important policy levels. This began a month ago when Senate Armed Services Committee Chairman John Tower of Texas returned from Europe, after listening to German defense experts tell that country's most prestigious military conference that high interest rates had become a national security issue. A big contingent from the administration heard *EIR* founder Lyndon LaRouche speak on "Europe's Challenge to Volcker" at a well-attended Washington meeting March 20 (see National).

To the extent that the February economic data warned President Reagan that the Federal Reserve has led him into a monetary trap, he and his leading advisers have begun to look for a way through the closed ring of monetarist advisers. The President will find no answers to the hard questions he is asking at the Treasury, Office of Management and Budget, or Council of Economic Advisers (see interview in this section). But he has a way out through the European initiative.

What Europe has proposed formally is a set of initiatives that *EIR* has covered over the past few weeks, as they emerged in their initial proposal form. First, the finance ministers have free room to negotiate with the American monetary authorities on currency matters. This is to say that the heads of government gave approval to a plan, mooted several days earlier at the meeting of European finance ministers and central bankers, for a powerful currency stability deal with the United States. The finance ministers proposed to centralize all European currency-support agreements with the Federal Reserve into a single superfund with the European Monetary System. This is an apparent prelude to bringing the dollar into a fixed-parity relationship with the European Monetary System, which would create the technical basis for the general reduction of interest rates Europe desires.

Second, the Europeans have suggested an initial phase of interest-rate reductions within Europe as an incentive to the United States to join. If it were true that relative interest rates were the principal cause of currency fluctuations, Europe would fear to do this, because the European currencies would drop against the dollar. But the foreign-exchange markets have responded much more to changes in underlying confidence concerning different economies' actual performance.

Third—as the Swiss-based daily *Neue Zürcher Zeitung* reported from Maastricht—Chancellor Helmut Schmidt of West Germany asked for a broad-ranging set of contacts with the OPEC countries, in order to ensure oil price stability, a question just as pertinent in Schmidt's view to European economic performance as the interest problem as such.

Decline of British influence

Importantly, the summit marked the absolute nadir of British influence in Europe since its 1973 entry into the EEC. Division between Britain, France, and Germany almost led to the postponement of the summit. At the last minute, the British indicated that they could accept compromise formulations on a range of outstanding economic issues, including fishing policy, steel subsidies, and farm prices. However, Thatcher stubbornly refused to compromise on any of these issues.

At a March 23 press conference, Schmidt declared himself to be "deeply disappointed" in Margaret Thatcher. In return for a promised solution of the fishing dispute, Schmidt had agreed to lower British EC contributions, sought by Thatcher after Britain's public finances began to dissolve earlier this year. Thatcher threw out the compromise at the last minute. "We made that compromise," the chancellor said, "because we believed that there was trust and loyalty among members of this community. I tell you that I feel personally deceived by Mrs. Thatcher, who promised me to agree to a solution on the fishery dispute." Bonn's willingness to bail out the failing British in the future is now "definitely exhausted," he added.

The public assault on Mrs. Thatcher contrasts strongly with the warm reception she received in February in Washington. But Reagan is aware that the Federal Reserve is producing the same consequences in the United States that Thatcher's own monetarism brought about in the United Kingdom.

The strategic context

Europe's proposed monetary program must be understood in the light of Europe's decision to provide an aid package to Poland in excess of $10 billion—an absolute commitment to maintaining stability on the border with the Warsaw Pact. The Franco-German strategic perspective is still the same one that Helmut Schmidt announced in his July 1978 summit meeting with Soviet leader Brezhnev, namely, that the Soviet leadership can be persuaded to suppress more adventurous elements in favor of an environment for long-term economic cooperation with the West.

An important signal from Moscow came indirectly through the most recent report of the Geneva-based Economic Commission for Europe (ECE), an agency of the United Nations composed of both Eastern and Western European representatives. In a break from precedent, the ECE's current report, the *Economic Survey of Europe in 1980,* attacks the "monetarist strategy" of the United States and British monetary authorities for provoking a recession inside Europe. The ECE bluntly disputes the notion that a relentless policy of monetary and fiscal restrictions will ultimately reduce inflation and prepare the way for balanced economic growth. In particular, the report singles out for criticism the "high interest policy of the United States."

Normally, ECE reports are the bland product of whatever consensus might emerge from a discussion between Western European and Soviet economic experts. The fact that the Russians joined the Europeans in denouncing monetarism is a public signal that Moscow wants to see economic growth in the West.

What most American commentators either have not grasped or do not want to admit is that a key player on the world scene is the new Franco-German superpower, whose activity makes nonsense out of what Secretary Haig and Federal Reserve Chairman Volcker are telling the White House. The British-centered Eastern foreign policy establishment, which includes Haig, has a hard time swallowing the fact that Britain counts for very little in Europe now.

In a front-page editorial on the Giscard-Schmidt "pre-summit" to prepare the EC summit, the Swiss *Neue Zürcher Zeitung* commented March 18, "The meeting between the two heads of government did not merely serve to permit discussion of some specific technical questions. Had that been the case, a telephone conversation would have sufficed. The meeting had a certain quality of being a public demonstration. Schmidt and Giscard wanted to make sure that it was understood that a special 'Paris-Bonn axis' continues to exist within the Western alliance, and that nothing has troubled their close personal relationship, in contrast to rumors that have been circulating during the past several weeks."

Washington is still full of rumors, most of them mutually contradictory, to the effect that Schmidt cannot rule; that Giscard will lose the May national election; that Germany is the "odd man out" in the alliance in contrast to Giscard's close ties to the Reagan White House; and so forth. The atmosphere of misinformation, promoted first of all by the State Department, may have had some effects on the President's ability to deal effectively with this new, allied superpower.

The most striking result of the summit is that the wrong perceptions of Europe in Washington no longer have any basis in reality. France and Germany are the potential rescuers of Reagan's economic policy; Mrs. Thatcher is an untrustworthy ally and misleading counselor, and will start to be perceived as such.