

2. Britain's 'grand delusion' shattered

One of the clearest outcomes of the Dec. 4-5 Common Market summit was the rejection of Britain's pleas for "special status," i.e., that she be recognized as a founding member of the European Monetary System, participating in the "management team," without having to bear the consequences or responsibilities of membership. When this "half-way house" status was rejected by Britain's European partners, British Prime Minister Callaghan picked up his papers and almost walked out of the meeting, according to Agence France Presse.

The shattering of Britain's illusions has not been lost on the London press, as the following excerpts show:

Guardian, Dec. 5, "Joining the Poker Game Without Any Cards," by Peter Jenkins:

The great error of the Chinese in the 19th century was to believe themselves to live at the center of the world. . . . There is a touch of similar unreality about the present British attitude towards Europe. What may seem eminently reasonable to us, as no doubt it did to the Chinese, strikes our partners as a grand or even pathetic delusion.

. . . (London is attempting) to persuade the world that Britain is ready and eager to join the EMS in every regard but one small detail; namely, that she will not participate in its currency stabilization mechanism. That is a bit like saying we are ready to join the poker game except we don't want any cards or chips at this stage.

Who do we think we are fooling?

The idea that the British have uniquely perceived the fatal flaws of the EMS, are uniquely qualified to play the pivotal role between the United States and Europe or are uniquely unable to take a step apparently within the capacity of the Italians or the Irish strikes the continental observer as scarcely less ludicrous than the ethnocentric delusions of the 19th century Chinese.

. . . I have the impression that for once our European partners do not feel quite the same sense of urgency about the "British question." They are thoroughly sick of the "British question." . . .

Guardian, Dec. 4, "Britain in the Dock," by John Palmer: Although no one in Brussels would dream of admitting it, Britain will go on trial at the summit meeting of the Common Market leaders. . . . There will be no formal charges brought against the defendants, the Prime Minister, James Callaghan, and the Foreign Secretary, Dr. Owen. But if there was one, it would be likely to read: "The accused are charged with behavior over many months and years such as to call

into question their government's sincere desire to be a disciplined and cooperative member of the European Community."

. . . Nothing short of a clear and unqualified declaration of British support for the objectives of EEC policy will do, above all in the monetary area.

. . . The "trial" of the U.K. in Brussels is likely to be inconclusive. The defendant will be let out on bail on the promise of future good behavior. But in the view of some EEC diplomats, this will only postpone the day of reckoning between the Community and its obstreperous offshore island partner.

The Sunday Telegraph, Dec. 3, "This other Eden," by Economics Editor Patrick Hutter:

Anthony Eden's unforgiveable mistake was not the Suez campaign. . . . It was his attitude to Europe, his complete underestimating of the political will of the original Six, and his refusal to join the Treaty of Rome negotiations, which he could, if he had chosen, have dominated. . . .

This week in Brussels, we will see James Callaghan . . . repeat Eden's tragic mistake. . . .

And so one can see the whole tragic, humiliating process unfold itself. Britain will stand back with certain sections of the Treasury waiting for the EMS to fail. . . . Our position in Europe will be immensely weakened; the French will secretly rejoice; and Irish nationalism will be given a fillip. . . . Then after a greater or lesser length of time, we will have to crawl along and ask to be taken in, on terms, I fear, far less favourable than we could get this week.

The irony is that just as Eden was the supposed expert in foreign affairs, it is in international finance that Callaghan's especial expertise is reputed to reside.

Kissinger, Friedman: EMS means war

Two prominent spokesmen for the pro-British "free enterprise" viewpoint in the U.S., the Mont Pelerin Society's Milton Friedman and Henry Kissinger, just happened to be in Europe coincident with the Brussels summit, and both, while not expressing themselves on the EMS directly, made statements touching on the basic issues raised by the new system. While Friedman, on Swedish television, threatened trade war with Japan, and cited drug-infested Hong Kong as the world's most dynamic "free market" economy, Henry Kissinger appeared at the "Perspectives '79" confer-

ence held by the Aspen Institute in West Berlin Dec. 2-3 to state that industrial development would neither help the Third World nor head off East-West confrontation. Some excerpts:

Friedman:

. . . Before World War II, Japan embarked on building a greater East Asia coprosperity sphere. It sought to build that sphere by force, by military power. The result was disastrous, for Japan and this whole part of the world — and for the rest of the world as well. I might say, what is most fascinating is that you can now see the outlines of a new greater East Asia coprosperity sphere emerging . . . through trade. . . .

To get to my point, if Japan continues along its present lines of government intervention into foreign and domestic trade, then these signs of emergence of a greater East Asia coprosperity sphere will once again lead to trouble. They will once again lead to political conflict and confusion. . . .

The most remarkable performance that has been achieved in the whole Far East, I think, has been by Hong Kong. Hong Kong is the freest market in the world. It has no tariffs, it has no quotas, it has no central bank, it has no government direction of industry, it has one of the lowest ratios of government taxes to income in the world . . . Hong Kong has the second highest average income throughout Asia, exceeded only by Japan. What is even more surprising: the average income in Hong Kong is beginning to approach the average income in Great Britain and other countries . . . Taiwan and Japan have been growing *despite* their government plan and not *because* of it. The result is that they haven't been growing as fast as Hong Kong.

Kissinger:

Do not think that a confrontation between East and West can be avoided by setting up collaboration between the West and Comecon countries on development of Third World countries or by furthering of the North-South dialogue. . . .

The Soviets are committed to confrontation with the West, and if you try to cooperate with them in particular sectors of the world, they will use that to blackmail the West. . . .

Before, one used to say that economic development leads to political stability: this is no longer the case, and now it leads to political instability, as the case of Iran demonstrates. What is important now is not just economic advancement as such, but also its political legitimacy — the best basis for economic development is the free market economy. . . .

Take the example of Iran — there economic development has had the effect of destroying the old political and economic institutions. In such a situation the U.S. has a political obligation to deal with the political dislocations caused by economic success which it has itself set in motion.

3. Italy: from the pan

The extraordinary political difficulties and internal pressures behind Italian Prime Minister Giulio Andreotti's unexpected Dec. 5 repudiation of the highly favorable terms for Italian EMS membership to which he had earlier agreed are well-known and understood. But the consensus among informed observers is that Andreotti's last-minute Brussels "balk" in response to those pressures has removed him from the political frying pan into the fire. In the judgment of one high-level Vatican observer, whose views are not unique, if Italy does not join the EMS, she faces an alternative of internal chaos and possible civil war.

All indications leading up to the Brussels summit, including repeated public statements of Andreotti himself, pointed to a firm decision already made by the Italian government in favor of Italian participation in the new monetary system. Two days before the summit started, Economics Minister Pandolfi published a long article in the Milan daily *Corriere della Sera* explaining the system in detail and pointing out that the economic results of Italian entry, in terms of the Italian economy, were in fact the same preconditions laid out in his (Pandolfi's) three-year plan for cleaning up the Italian economy: controlling the rates of inflation and unemployment.

Instead of following through on this commitment, however, Andreotti at the last minute raised a new set of unacceptable "conditions" for Italian membership at the Brussels summit. Upon their rejection, he returned home proclaiming that the decision on Italian EMS membership was too important for him to make alone, and that broader consultations and consensus were required. Giscard has given Italy a week to make up her mind.

Immediately behind Andreotti's sudden failure of will is a nasty situation in the Italian Communist Party, whose support is the basis for Andreotti's Christian Democratic government, and without which the Andreotti government would fall. Giorgio Amendola, the ancient leader of the party's right wing, has suddenly re-emerged from several years of enforced semiretirement. This coincides with the failure to publicly endorse the EMS by party secretary Enrico Berlinguer, which facilitated the virtual takeover of economic policy making by the party's "economics bureau" led by Amendola's ally, PCI chief economist Luciano Barca. Barca and other PCI economic experts are now dominating the party's press with an anti-EMS line which bears a close resemblance to the British version: the weak countries must stick together, the EMS will mean West German hegemony over Europe, and the conditions of Italian adherence must include "resources transfer" and the reform of the EEC's agricultural policy.