

over the past three years. It was also expressed in the EMS nations' defiance of Carter's ban on technology exports to the developing sector. Giscard was notorious in this regard, defying Kissinger and NATO to send nuclear technology to Iraq, India, and Mexico.

Yet the pull of ideological left-right conflict is very strong. Giscard understood that Western strength vis-à-vis the Soviets depended first and foremost on technological growth. From the vantage point of possessing one of the most advanced nuclear programs in the West, it was easy to justify discussions, including disarmament programs with the Soviets, and bargain toughly but not provocatively on issues like Afghanistan.

But if Schmidt is forced to abandon the economic growth perspective toward the Third World and the Soviets, his relations with the East will rapidly deteriorate. Already the Volcker measures are feeding the Willy Brandt/Socialist International push for unilateral dismantling of both armaments and high-technology industry. The left wing is a significant challenge precisely because the British-dominated NATO and the central bankers are denying Schmidt the basis for healthy economic growth, including that of the military.

The instability in Europe has given a free rein to the zero-growth Malthusians within the Soviet camp, who are now attacking Schmidt in favor of peacenik Willy Brandt and the left. The danger of Schmidt either being ousted, or forced into opposing Reagan and breaking with NATO, is growing daily.

We review below the state of instability in three major European nations—Germany, Italy, and France. Important setbacks have been delivered to Britain's allies in Italy and Germany, but the overall thrust toward economic chaos and East-West confrontation cannot be abated by such tactical victories.

The thinking of the British-allied oligarchs who are creating this instability was directly expressed to National Democratic Policy Committee Chairman Warren Hamerman when he was in Europe two weeks before Giscard's defeat:

"Unfortunately, our populations do not understand the depth of the world economic crisis. They are unprepared for the sacrifices necessary for the long-term good. Therefore, we have decided to bring the Socialist International to power for some months or a year. They will aggravate the crisis even further. Then, we can blame them for causing the breakdown, by which time the population will be ready to voluntarily accept the necessary drastic solutions."

That was the gist of their message as they cautioned him not to be surprised by a Mitterrand victory.

If Reagan does not move to dump Volcker and Britain's other allies in destabilization, then no one should be surprised if we lose not only the Western alliance, but any civilization worthy of the name.

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## BONN

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# Schmidt moves to rescue economy

by Susan Welsh

West German Chancellor Helmut Schmidt threw a West Berlin meeting of the North-South Commission into consternation May 31 when he declared that the interest-rate policy of the U.S. Federal Reserve is the main source of the economic crisis of the deeply indebted Third World.

The Brandt Commission had invited Schmidt to attend its meeting in hopes of recruiting the chancellor to its strategy of population control and "appropriate technologies" for the Third World. The World Bank, which controls the commission, expects to induce Schmidt to argue this perspective at the Ottawa summit of Western industrial nations in July.

Schmidt's blunt emphasis on the strangulation U.S. interest rates have inflicted on world trade and production outraged the commissioners, who felt they were being lectured to like lowly members of Schmidt's Social Democratic Party at a regional party conference, according to the Munich daily *Süddeutsche Zeitung* June 1. Socialist International chief Brandt was particularly enraged, exclaiming that he doubts if his commission's report was ever read by anyone at the chancellery. "In this country most people did not understand a thing about this," he said. "German politics is backward and the intelligentsia even more so, politically as well as economically."

Schmidt had placed the issue of U.S. interest rates at the center of his discussions with President Ronald Reagan in Washington on May 20-23, and indicated to the press that he is hopeful that Reagan will take some concrete steps to lower rates before the Ottawa summit.

### The German budget debate

When the West German parliament, the Bundestag, began its debate on the 1982 federal budget June 2, Schmidt insisted that no final decisions can be made until after the Ottawa summit, since the Bonn government cannot make its own financial plans until the

interest-rate question is settled. Clearly, Schmidt is hoping for a shift in U.S. policy as the one thing that can save both his country's economy, the European Monetary System, and his own political future.

According to a report issued May 31 by the Munich IFO Economic Research Institute, one of West Germany's leading economic think tanks, German interest rates can only come down if there is either a marked shift in U.S. policy or a fundamental improvement in Germany's high borrowing requirements and its onerous balance of payments deficit.

Last month Schmidt and the Saudi Arabians worked out a loan package designed to help finance French and German industries at subsidized interest rates until a U.S. shift away from the Volcker policies could be engineered. This was the first-ever OPEC loan jointly to France and West Germany. Immediately after the election of François Mitterrand as president, the French government pulled out, and rumors began to spread that the Saudis were going to tell West Germany to "forget the whole thing." The sources of these rumors included the economics minister, Count Otto von Lambsdorff, a Free Democratic Party free-marketeer who had opposed the loan from the beginning, and FDP'er Rudolf Augstein, the publisher of *Der Spiegel* magazine. *Der Spiegel* claimed that the Saudis were dissatisfied because the interest rates were too low, and because West Germany has not agreed to a hoped-for weapons deal.

But on June 2, Finance Minister Hans Matthöfer announced that talks had in fact begun with Saudi leaders on *extending* the credit line from 8 billion deutschemarks in 1980 (\$3.5 billion) to 11 billion deutschemarks in 1981.

In the June 2 Bundestag debate on the budget, Matthöfer further indicated that West Germany will continue to support the French franc in an effort to keep the European Monetary System intact. (The EMS links the currencies of its members in a "snake" of relatively fixed parities.) But the record interest rates in the United States have created drastic capital flights out of European currencies and into the dollar, bringing the European currencies to 10-year lows over the past month and severely straining the EMS. When French President Valéry Giscard d'Estaing was defeated in the May 10 national elections, the franc went through the floor. Giscard, with Schmidt, founded the EMS in 1978-79, and intended to use it as a vehicle for generating credit for Third World development and European industrialization—a policy that was never fully pursued.

In a three-and-a-half-hour meeting with President Mitterrand in Paris on May 24, Schmidt extracted from the new French leader a promise to try to stick with the EMS. But unless a transformation of American policy is effected quickly, there is no reason to expect that the

promise will necessarily be kept.

Instead, the German economy will head for deeper disaster. As things stand now, it will be considered an achievement if the economy attains zero growth for 1981, with most experts predicting a decline in growth overall. Collapsing export markets and rising oil prices have created a huge trade deficit, rising from \$5 billion in 1979—the first year of deficit in more than a decade—to \$14 billion in 1980. The deficit is expected to top \$20 billion this year. Although West Germany managed to post a \$1.4 billion trade surplus in April, this is not expected to be maintained.

Between October 1980 and February 1981, the German mark collapsed by 20 percent, and the German central bank was forced to jack up interest rates to 14 percent in order to check capital flows into the dollar. Restriction of credit to industry led to a 10 percent fall in auto production during the first quarter of 1981. Overall industrial production collapsed by 4.5 percent during March and another 3.5 percent during April.

The decline in domestic orders for capital goods accelerated. Consumer goods-producing industries ordered 7 percent fewer capital goods this March than last; capital goods producers invested 7.5 percent less.

The fall in production is creating a socially explosive rise in unemployment. The April report of the "Five Wise Men," the heads of West Germany's five leading economic research institutes, predicts a rise from 3.8 percent unemployment in 1980 to a full 5.5 percent this year—1.4 million jobless workers, higher than the level at the height of the two oil-price crunches.

### **Strains in the Bonn coalition**

All this fuels the nasty strains in Bonn's ruling coalition between Schmidt's Social Democrats and the Free Democratic Party. Foreign Minister Hans-Dietrich Genscher, the head of the FDP, declared May 29 at a convention of his party that cuts in social services are now unavoidable. Other FDP spokesmen demand sweeping budget cuts along the lines of those implemented in the United States by budget director David Stockman and his Friedmanite mentors.

This sets the FDP against both the traditional trade-union base of the Social Democratic Party and the left-wingers who are out to grab any issue to destabilize the Schmidt government. SPD General Manager Peter Glotz, a leading pro-Brandt leftist, has declared, for example, that the budget issue would now be the true "test" of the coalition.

In the Bundestag budget debate, the opposition Christian Democrats and Christian Social Union predicted economic disaster, and the right wing of the party around Franz-Josef Strauss demanded that Schmidt declare the state officially bankrupt, resign, and call new elections.