

## Who lost at the summit: Schmidt . . . and Reagan

by Vivian Zoakos, European Editor

By deciding to "stand firm" in defense of the U.S. Federal Reserve's high interest-rate policy, President Ronald Reagan set himself up into having to make an important concession at the July 20-21 Ottawa summit of the seven largest industrialized countries. The concession, heralded as a major victory by "one-worldist" Canadian Prime Minister Pierre Elliott Trudeau, involved Reagan's acceptance of the principle of "global negotiations" on various issues.

Trudeau, among others, is viewing this as a foot in the door to supranationalism and the erosion of the principle of national sovereignty.

At the same time, by refusing to budge on the interest rates question, President Reagan put his one real ally, West German Chancellor Helmut Schmidt, into a difficult economic position that will substantially weaken him politically. Schmidt is now being forced to implement precisely those "Brüning-style" austerity measures which he has been warning against for the past two weeks, and which could presage his political demise. Control of Germany would then pass into the hands of one or another representative of the "one-worldist" crowd allied to the Canadian Trudeau.

At the concluding press conference July 21, Helmut Schmidt announced that "we have decided that the state should take a step back as a public borrower to give the central bank more leeway in dealing with interest rates." He indicated later over German radio that the cuts in the German budget would have to be deeper than had been expected before Ottawa.

Prior to the start of the summit, Schmidt had been insisting that failure to bring down U.S. interest rates would mean the need to adopt "Brüning-style" austerity in West Germany. To any responsible German a Brüning economic policy represents nothing short of a nightmare. It was the deep austerity of 1930-1932 imposed by Brüning that prepared the way for the rise of Hitler in that country. Schmidt has been warning that American economic policy, if not reversed, would force him into a Brüning posture—followed by results parallel to what occurred in Weimar Germany after 1932.

This is what President Reagan put into motion through his much praised "success" in defending the Federal Reserve's interest rates policy. At the same time he approved what the London *Financial Times* gloated July 22 was a "vital change in position by the U.S.": acceptance of the principle of global negotiations to deal with central North-South and economic matters.

To gain this concession had been the prime stated aim of Canadian Premier Trudeau. He had stated this in his address to the Canadian Parliament June 15, where he identified global negotiations with the Brandt Commission report on North-South relations.

The final communiqué at Ottawa included support for various of the positions endorsed by the Brandt Commission report. Among these are condemnation of population growth ("We implications of world population growth"), support for the strengthening of supranational institutions ("We welcome the recently expanded role of the IMF"), dein-

dustrialization in the advanced sector together with veiled union busting ("We discuss about growth and earnings, change . . . labor relations and practices, change the pattern of industry, change the direction and scale of investment"), and of course the principle of global negotiations, the linchpin of the Brandt Commission report ("We participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress").

As the *New York Times* noted the following day, "The Canadians, in particular, greeted this as a major concession by the Reagan administration after it had expressed little interest in and some puzzlement about global negotiations."

The essence of the Brandt Commission report, as the above indicates, is to call for the deindustrialization of the advanced sector under the guise of providing aid to the developing sector. This is based on an "equal distribution of wealth" schema that would impoverish the developed countries while leaving the Third World at starvation levels through forbidding the transfer of any but the most primitive technologies to these countries.

Intrinsic to the implementation of this program is the weakening of the national sovereignty of the advanced sector nations. Otherwise, enlightened national self-interest would tend to prevent the substantial industrial dismantling of the industrialized nations.

As a first step in the implementation of such a program, Canadian Prime Minister Trudeau was able to announce at the end of the summit that a permanent economic consultative mechanism had been established. This "mechanism" essentially institutionalized the yearly economic summit as an ongoing body with responsibilities for immediate crisis management in the expected cataclysms that will be hitting the international monetary system.

However much the "language" of the summit communiqué is interpreted as mere rhetoric, or symbology, let no one deceive himself. The heads of state at Ottawa took an important step in abdicating the traditional responsibilities of national leaders to control their own economies in favor of supranational institutions, whether they be already in existence like the IMF or be some newly formed organization like the New International Bank proposed last month by Sir Harold Lever of Britain.

### **Focus on East-West relations**

The stated purpose of the meeting in Ottawa was, as with those that have been held over the last seven years, to discuss and formulate economic policy. In fact one of the major foci of attention—aided by Israeli Prime Minister Begin's daily blitzkrieg raids into Lebanon—was East-West relations. This became a point of significant conflict, with West German Chancellor Schmidt

and Japanese Prime Minister Zenko Suzuki the focus of dissent.

In response to pressure from the U.S., Canada, Britain, and France, who argued against trade with the Soviet Union involving significant technologies, Schmidt and Suzuki refused to buckle. Schmidt declared that the Soviets are a natural trading partner with West Germany, and he refused to consider renegeing on the gas pipeline deal that has been under negotiation between the two nations.

In fact, the day after the summit, Salzgitter steel, a government-owned corporation, signed a large contract with the Soviets. The explanation of Schmidt's spokesmen was that trade with the East bloc has been a lifeline to the German economy in the midst of the major recession in the West. Diplomatically, he did not mention the fact that under a new confrontationist stance in the West, West Germany would be the first to be sacrificed to Soviet tanks and hence the Germans are determined to do nothing to disrupt what remains of détente.

For his part, Premier Suzuki's government loudly announced a new sizeable deal with the Soviets the day after the summit concluded. A consortium of five Japanese steel companies signed a deal with Moscow to sell them 750,000 tons of steel pipeline to be used in the construction of the natural gas pipeline being negotiated with Germany and France. The initial dollar figure for this deal is \$400 million, with an option to expand the tonnage shipped.

Nonetheless, despite the minority opposition from Germany and Japan, the majority were able to include in the final communiqué a clause calling for consultations and coordination "to ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives. We will undertake to consult to improve the present system of controls on trade in strategic goods and related technology with the U.S.S.R."

Trudeau announced at his concluding press conference that the East-West strategic trade issue covered in the communiqué will be taken up at a meeting of the Atlantic Alliance's strategic trade coordinating committee, CoCom, this fall.

Despite the smile of comradeship, the summit was correctly summarized by West Germany's largest newspaper *Bild Zeitung* as "harmonious disharmony." Despite standing firm, however, Suzuki and particularly Schmidt will be coming under increasing pressure over the coming year on both the economic and strategic front, as the summit results indicate. Unless the decisions taken at Ottawa are reversed, it can only be counted as a turning point toward world fascist dictatorships warned of by Schmidt in his repeated references to Brüning.