

EIR Special Report

Schmidt rejects a Brüning policy

by David Goldman, Economics Editor

No one is more acutely aware of what catastrophic consequences followed the rule of German Chancellor Hermann Brüning, which terminated exactly 50 years ago in favor of the dictatorship of Hjalmar Schacht and, after him, Adolf Hitler, than West German Chancellor Helmut Schmidt. When Schmidt insists that his nation will never again adopt "Brüning measures," he bears in mind a depth of understanding that is entirely lost on Americans, specifically, that the brutal austerity associated with Brüning was not a "German policy," but was imposed upon Germany from the outside, by the same irresponsible maniacs who devised the Versailles reparations disaster.

Indeed, the Bank for International Settlements, the "central bank for central banks" that has arrogated for itself the role of enforcer for the Thatcher-Volcker brand of monetarism, put itself on the strategic map in 1931, months after its founding, by forcing Germany into receivership and installing Hjalmar Schacht as its vice-regent. Now that the Reagan administration has shut its eyes and pointed its nose into a monetary disaster comparable to 1931, the similarities are too striking to be missed. One of the great differences, and possibly the most important for future generations, is that West Germany has thus far refused to take a second turn as victim.

As of the July 21 Ottawa summit conference of leading Western heads of government, Helmut Schmidt emerged by default as the only leader qualified in the remotest sense to speak for the fundamental interest of the West, a role he regards with profound consternation. Apart from non-NATO member Japan, the West German government is alone in the West to represent a competent alternative to monetary overkill and the "aura of power" substitute for Western military strategy.

Schmidt's government took the lead last March in proposing "interest-rate disarmament" among the major powers, with French support; the initiative continued through the Ottawa summit, where Schmidt characterized the Federal Reserve's interest-rate program as "intolerable."



The Führer with his sponsor and economics minister, Hjalmar Schacht.

The week after Ottawa, Schmidt took decisive action on his own, to the utter hysteria of the Departments of State and Treasury, provoking a cranky outburst from a mis-briefed President Reagan that the Germans appeared to be "soft on the Russians." What might be termed the "Voleker faction" in West Germany, the five economic research institutes, demanded that the federal government adopt a budget-cutting policy similar to that of U.S. budget chief David Stockman, targeting social expenditures and living standards generally, as well as eliminating the government subsidies that are currently fending off collapse among the Ruhr steel producers.

Schmidt, instead, proposed German social programs—whose elimination would have called the existence of his government into immediate question among his trade-union political base—and instead allowed defense spending to fall in after-inflation terms, as well as appropriating the extraordinary profits of the Bundesbank (which derived from the devaluation of the German mark on foreign exchange markets). With strong support from trade unionists like Ruhr trade-union federation chief Siegfried Bleicher, who blasted the Bundesbank's "independence" and demanded that it be called to account in parliament, Schmidt managed to simultaneously cover his left flank, i.e., the Willy Brandt wing of the Social Democratic Party, and put the Bundesbank in its place.

When the U.S. administration announced produc-

tion of the so-called neutron bomb in mid-August, German reaction was so pronounced that the rumored plan to replace Schmidt with a conservative Free Democratic/Christian Democratic coalition removed itself to the back burner.

Every informed circle in West Germany is aware that the weapon is only usable under the Defense Department's fantasy-scenario of limited tactical nuclear exchange.

For the Germans this is doubly insane; even if the presumption of the Defense Department that such an exchange would not immediately lead to full-scale nuclear exchange were true, which it is not, the mooted tactical exchange would principally hit West Germany and exterminate virtually the entire German population. Schmidt's blunt statement that Bonn would not permit the deployment of the neutron weapon on its soil was the only slap in the face that the tactical nuclear war policy has received from any of America's allies, for which future generations of Americans, if there are any, may well be grateful.

The fail-safe measure of America's capacity to reorient its policy course in time, therefore, is how well Schmidt's voice is heard here. Present readings are dismal. After some weeks' tour of the United States, a leading West German trade unionist complained to a reporter that he could find virtually no one in the United States, either in the leadership of the political parties or among his trade-union colleagues, with the

breadth of attention to come to terms with West Germany's message.

What Schmidt knows

Schmidt took office by using the scandalous discovery of an East German spy in former Chancellor Willy Brandt's office to stage a coup against Brandt, today his still most hated political opponent. He acceded to the chancellery in April 1974, during the same week in which the European finance ministers proposed for the first time since the U.S. Treasury demonetized gold in August 1971 to re-introduce the metal into exchange transactions among European central banks: the emergence of the plan that later became the European Monetary System, and was to have become the European Monetary Fund.

As Schmidt's spokesman Manfred Lahnstein emphasized in an Aug. 17 declaration, Germany proceeds from a unified economic and strategic conception: the basis of the EMS plan was to create the type of economic stability through long-term gold-backed productive investment in the West and in the West's trading partners in the developing world which would, in turn, make negotiations possible with the Soviet Union on real criteria of self-interest.

View the world, for a moment, from the vantage point of the German chancellery.

The American Defense Department has denounced the German cabinet's most recent budget proposals, which include a reduction in the inflation-adjusted rate of defense spending, even though the darling of the Reagan administration, British Prime Minister Thatcher, has cut several times deeper, and the Reagan administration may scale back its own defense expenditures in view of the out-of-control federal budget deficit.

Additionally, the administration sought before and during the Ottawa summit to pressure the West Germans to cancel the in-progress natural gas pipeline project with the Soviet Union, on the grounds that it might lead to German dependency on Soviet energy supplies, at the same time that the United States is sending F-16 fighter jets to Israel that might be used to destroy West Germany's Persian Gulf sources of petroleum.

Yet, according to the American media, West Germany, under pressure from the leftist Brandt wing of Helmut Schmidt's Social Democratic Party, is moving toward appeasement, weaseling out of its commitments to the Atlantic Alliance.

Chancellor Schmidt knows perfectly well, however, that Secretary of State Alexander Haig is collaborating in a barely concealed fashion with Brandt and the Socialist International generally. This does not conflict with Haig's other aims; on the contrary, it purports to solve the basic contradiction in NATO policy, namely,

how to contain a militarily superior Soviet Union while eroding the basic economic infrastructure on which NATO economic strength ultimately depends. This explains the strange remarks of the U.S. ambassador to Bonn, former Federal Reserve Chairman Arthur F. Burns, last month to the effect that the issue of German reunification should be put back on the agenda. For that matter, the Joint Chiefs of Staff long-term forecasting arm, the Long Range Planning Group J-5, is circulating a scenario in which West Germany becomes neutralized, possibly re-unified with East Germany, and leaves NATO; according to J-5 consultant Dr. Marvin Cetron, the desirability of such a development lies in the fact that the NATO central front is ultimately indefensible against Soviet tank assault in any event. Apart from the Bonn embassy and the Joint Chiefs, top civilian planners have mooted a benign breakup of NATO, in which an economically ruined and politically enervated West Germany is abandoned to the embrace of the Russians.

The State Department has two alternative scenarios in mind for Schmidt's early departure from the chancellery, both premised on weakening the Chancellor through combined interest-rate pressure and "psychological warfare" aimed at German sensitivity to charges concerning softness on Communism. By insisting on a strategic position that is deadly to American interests and utterly insane from a German vantage point, the State Department hopes either to force Schmidt's resignation in favor of his more pliable foreign minister, Hans-Dietrich Genscher, who would then join the American policy of strategic bluff; or to provoke such a reaction that the supposed "peace faction" of Willy Brandt undermines Schmidt from the left, and offers itself to the Warsaw Pact. In either case, Germany becomes a writeoff for NATO, either in a tactical nuclear exchange, or in a black comedy of global negotiations with the Soviets. Whether such a farfetched scenario is even possible, Schmidt's continued presence in the ranks of Western leaders makes it inoperable.

What Bonn could do

No such scenario is likely to transpire, because the Schmidt government has determined to defend the basic interests of the West against Haig and Volcker, not to mention Thatcher and Carrington, even if this means playing really dirty on behalf of Germany's own national interests. That much was announced unambiguously by Schmidt's spokesman Manfred Lahnstein in an interview in the Aug. 17 edition of *Der Spiegel*, the most public available slot for such declarations.

"Germany will remain sovereign in both economic and military affairs," Lahnstein said, referring to the differences over interest-rate policy of the Ottawa summit. He added that the Germans would seek to sharpen



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rather than bury such differences, "because West Germany must represent its own fundamental interests." He also added that the United States could produce all the neutron bombs it wished, but deploy none of them on West German soil.

Suddenly, the same ultrasophisticated crisis-managers who envisioned quieting the appetite of the Russian bear by handing it either the enervated or nuclear-blasted hulk of West Germany are in a wild, staring panic over Bonn's intransigence.

To start with, West Germany is about to torpedo the structure of European monetary affairs it built, letting France's Mitterrand and Italy's Spadolini twist slowly in the wind. An economic disaster in France might well shoo the French social democrats out of office well before Mitterrand's statutory seven-year term is up, and Schmidt has no motive to delay such a process, particularly not at the expense of the strong mark. As Bundesbank President Karl-Otto Poehl explained in a lengthy interview Aug. 17 with the leading business daily *Handelsblatt*, were the mark not linked to inflation-ridden currencies like the French franc (which carries the burden of 13 percent inflation, or double the West German level), the mark would have held firmer

against the dollar than it had, following a pattern more like that of the Swiss franc or Japanese yen.

Since both the Bundesbank, as the local arm of the Bank for International Settlements, and the trade unions, who reacted to the Bundesbank's claim that the EMS could only be defended through a brutal interest-rate policy at home, had mooted the end of the EMS for some months prior to the May electoral defeat of French President Giscard, the German chancellor is in the catbird seat where the EMS is concerned; he could merely let his domestic political opponents, principally the "independent" Bundesbank, take the blame for wrecking the EMS, probably by ceasing to intervene on behalf of the French franc, while at the same time basking in the gratitude of his trade-union political base.

Paul Volcker's Federal Reserve is, correspondingly, so taken aback by this turn of events that the Fed's foreign exchange desk in New York is now conducting more intervention on behalf of the weakening French currency than the Bundesbank itself (see Foreign Exchange).

West Germany's likely course of action is to remonetize the Bundesbank's immense gold hoard and cut loose from European Monetary System members who decline to do the same, turning the longstanding Anglo-Belgian proposal for a European currency bloc into a real form of monetary power, perhaps in cooperation with the Japanese.

All that is clear is that West Germany has decided to become a wild card *against* the sort of world political devolution to which it contributed so much 50 years ago. In the absence of the least glimmer of a positive American response, Schmidt will adopt a course of maneuver and intrigue to maintain his own ship afloat. When the German chancellor says he will avoid the path of Brüning, one is tempted to ask him what he thinks of the 1932 Chancellor von Schleicher, the army man who wanted to take Germany out of the depression through a fundamental economic deal with the Soviet Union, and who was brutally murdered along with his wife during the Nazis' 1934 Night of the Long Knives.

Germany's great weakness, since Scharnhorst's officer corps let Wellington and the Holy Alliance rob them of the republican fruits of their victory against Napoleon, has been to fall between two warring sides, neither of which represents Germany's interests, or their own fundamental interests, for that matter. That historical burden must weigh heavily on the German chancellor as he considers how his own low-keyed efforts of the past seven years on behalf of world economic and military stability have been frustrated. His "seed crystal" of rational policy must grow in the United States if this generation is to be spared the consequences of his own predecessors' failure.

Bonn spokesman: 'no' to zero growth

Manfred Lahnstein, the head of the Bonn Chancellor's Office, insisted on German sovereignty in economic and foreign policy decisions in an interview in Der Spiegel magazine published Aug. 17. Lahnstein was state secretary in the finance ministry from 1977 to 1980, where he served as one of the architects of the European Monetary System (EMS). Excerpts from Lahnstein's interview follow:

Spiegel: Do you mean that there is a silent majority in the SPD [Social Democratic Party] that stands behind the chancellor?

Lahnstein: I see with joy that what you have termed the silent majority has become more articulate during recent months. Take for example the whole discussion in the Ruhr region, a very fruitful discussion between the government and an important part of the party, with clearcut agendas and concrete results.

Spiegel: The SPD in the Ruhr region wants billions for the steel industry from Bonn.

Lahnstein: In Germany concrete results mostly have to do with money. . . .

It is not the task of a federal government to accommodate to zero growth, but rather to overcome zero growth. It cannot be our government's task to distribute the poverty, but rather to get rid of it. Poverty can only be eliminated by means of growth. . . .

Spiegel: The neutron weapon only makes sense if it is stationed in the Federal Republic and other European countries.

Lahnstein: Unfortunately all of these developments are particularly explosive for us in the Federal Republic. But this is nothing new. For decades we have had to live with the fact that we are the battlefield in many, many scenarios. That is why our government insists on an arms control policy. . . .

The decision on production of the neutron weapons lies exclusively within American competence; they do not have to consult with us for that. The chancellor emphasized that back on April 13, 1979. They have to consult with us if they want to station the neutron weapon on our territory. . . .

If I remember correctly the world economic summit in Ottawa, the areas of dispute between Europeans—and particularly Germans—and their biggest ally became quite apparent.

Spiegel: Do you mean the German criticism of the American interest rates and Schmidt's insistence on the natural gas deal with the U.S.S.R.?

Lahnstein: We [Bonn and Washington] are certainly not a seamless cloak on all points. What can we do? The Federal Republic has to uphold its own interests.

'Intolerable interference'

The executive committee of the West German Social Democratic Party in the state of Hesse issued the following declaration in response to the U.S. decision to produce the "neutron bomb" without prior consultation with the European allies. The party is headed by state governor Holger Börner, one of Chancellor Helmut Schmidt's closest allies. Börner's personal reaction, reported in Der Spiegel magazine Aug. 17, was less diplomatic. "Both my sons are reserve officers," he said. "They have served for two years. That cannot be said about Reagan's and Weinberger's sons." On West Germany's status in the alliance, he added: "We are not Nicaragua."

The decision of U.S. President Reagan and Defense Secretary Weinberger to produce the neutron bomb shows a notable lack of regard for the interests of the allies in Europe.

The Hesse Social Democrats, who since they first took over the state government have actively promoted German-American friendship, feel obliged to warn against a wrong decision in the alliance. The fact that a large proportion of U.S. troops has been stationed on Hesse's soil since the Second World War gives this state and its leading political forces a special responsibility. It must be recalled that NATO, unlike other military pacts, was founded as a political alliance, proceeding from the fundamental political accord of equal partners.

We view with alarm the fact that a unilateral decision could be made to produce the neutron bomb, without prior consultations, yet affecting the foundations of the alliance.

The Hesse Social Democrats support, therefore, the policy of the federal government under federal Chancellor Helmut Schmidt, of decreasing the risk of a nuclear war through persistent disarmament negotiations. The unilateral U.S. decision in favor of the neutron weapon impedes the work of all those striving to realize the vital interest of European states in less armaments in both East and West.

The Hesse Social Democrats appeal to the other democratic parties to support these European and national interests in the discussion of disarmament. Interference in the internal political affairs of the Federal Republic of Germany, such as that of American Defense Secretary Weinberger with regard to the 1982 state consultations, should not be tolerated by any party.

'A paper American army'

From a Frankfurter Allgemeine Zeitung commentary on Aug. 18 by military analyst Adalbert Weinstein:

There is no military equilibrium, however, in conventional armaments [between the United States and Soviet Union]. The Soviets could not only reinforce the Central European front in a short time from dozens of nearby divisions. They also have the capability to send fully equipped units into the oil region by both air and land. The Americans are not in a position to do that. Their "Rapid Deployment Force" [RDF] is a paper army. The Pentagon has no real concept of the mission of these troops. The command structure is unclear. But what the RDF particularly lacks is soldiers. Without the universal draft, this instrument remains mere wishful thinking. . . .

The American navy needs reorganization besides. More than 20,000 specialists are lacking. The deficit will be even greater once the shipbuilding program gets underway. The empty places can only be filled by the universal draft. Those responsible for an American strategic "comeback" cannot just orient themselves to technical details. The Americans must submit to their allies a credible strategic concept for the future.

'Irreconcilable conflicts'

From a Süddeutsche Zeitung article on Aug. 18 by Herbert von Borch:

President Reagan's confidence in the revitalization of American capitalism through his economic program, newly triumphant in the parliamentary arena, is so strong that he simply ignores the greatest danger to the success of his supply-side economics policy for America. Washington wants an incredibly expensive arms program, which amounts to self-sabotage of the plans for a regeneration of economic performance. . . .

Ronald Reagan wants to spend for defense in peacetime many times more than the overall cost of [the Vietnam war], while massively lowering taxes. One

hundred and fifty billion dollars in budget cuts over three years, mostly out of programs for the poor, will provide for only a fraction of the total. The only conclusion to be drawn is that the circle of economic advisers around Reagan believes in the outright magical power of supply-side economics, a growth of the social product on the scale required to conjure up the miracle that the increasing arms costs could be borne without greatly increasing inflation. . . .

Thus, unavoidably, the Reagan administration finds itself in a deep contradiction: a laissez-faire economy and permanent rearmament by a centralized state power are irreconcilable.

'The skilled labor gap'

From an Aug. 18 article by Jens Eckhardt in the business daily Handelsblatt titled "A Lot of Sand in the Defense Industry's Gears."

American arms producers . . . faded away since the end of the Vietnam War, as sentiment in Washington turned more toward butter than guns, and Congress, under the influence of détente signals, conducted a stop-and-go armaments policy. The consequences: only the largest arms manufacturers were able to keep themselves above water with civilian orders, and were still unable to modernize their production facilities. Prime contractors and subcontractors went bankrupt, skilled labor left, new talent stayed away.

Today the defense sector is lacking in every respect. Specialists estimate that an increment of 30,000 engineers and 250,000 skilled workers is needed in order to carry out the Reagan program. The air force, which tries especially hard to train its own technicians, already has 1,300 engineering jobs vacant. . . .

[In shipbuilding] a fourth of the prime contractors with military competence have closed their doors in recent years for lack of orders. The situation is similar in the highly sought-after aircraft sector. Since 1967, the number of defense contractors has dropped by roughly 6,000 to only 3,500. . . . Currently about 60 percent of the metalworking machines in the aircraft industry are 20 years old or more.

An additional problem: the production experts and Pentagon generals like to make things with the motto: "The Russians have the mass, we have the finesse." Highly complicated weapons systems . . . have proven useless under battle conditions; currently produced systems are constantly undergoing innovations and thus higher costs. . . . Weinberger wants to build simpler but more effective and reliable weapons. Despite good intentions, businessmen nevertheless see no shortcut to modernizing the defense industry.