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Germany seeks 'island of stability'

But the dangers that prompted establishment of the European Monetary System now require its expansion.

EIR conducted an informal poll this week of the Group of 30, the body assembled last year by the International Monetary Fund and financed by the Rockefeller Foundation to oversee world monetary reform. Members expressed in strong terms the likelihood of a new dollar crisis, in comments ranging from "The [U.S.] economy is falling away beneath us, and reserve diversification into deutschemarks will speed up," to "When the Europeans really think about a Reagan presidency, the dollar will go."

Publicly, however, the line is that the dollar has stabilized and it will strengthen as the U.S. economic collapse reduces imports and eventually cuts inflation. The American and British financial press have been full of such judgments, though the sources don't believe them and moreover are still committed to phasing out the dollar's reserve role.

Why the deception? It reflects a specific stage in the ongoing "aversive conditioning" process against Western Europe. Hammered over the past months with unworkable and undesirable schemes for expanding the reserve role of the IMF's Special Drawing Right, France and West Germany are at present being induced to imagine they have won a victory by shelving such proposals, and can "muddle through" the U.S. economic crisis without fundamental initiatives on their own.

West Germany and, above all, France launched the European Monetary System two years ago as a strategic solution to the credit starvation of the Third World, and the East-West war threat fueled by Third World "hot spots." Lesser policymakers were drawn by Schmidt and Giscard into the perspective because the Carter administration had triggered an inescapable dollar crisis.

The EMS contribution to dollar stabilization has been a large, successful one, but the Phase II plan for absorbing petrodollars and other Euromarket deposits into a European Monetary Fund, then relending them with backing from pooled gold reserves in the form of long-term Third World development credits, has been stalled. At this point, private European banks are not even functioning as the "safety net" that sustained Third World lending last year.

A highly placed Frankfurt banker told *EIR* May 14: "The problem is that we're not lending anything on the Euromarkets. Our exposure, the country limits, are stretched to the last pfennig. Now we are pressuring the government to help us. There is no way, the banks can handle the recycling alone; we need government guarantees And the goddamned Arabs should do more direct lending.

"This is a dangerous problem, very much so, this controlling of the Euromarkets. We are pressed harder and harder by the [central bank and supervisory] authorities. We'll fight on the ratios [an effort to limit lending in proporton to bank capital] but we're on the losing side of things. It will endanger the recycling process."

West Germany, along with France and Japan, has not only experienced an influx of petrodollars but will undoubtedly see the flow increase. But the deposits are not being lent to the developing sector, as this Big Three banker defensively complained. Europe and Japan are financing their own current accounts deficits and priming domestic investment, while much of whatever German Eurolending persisted in the past four months has gone to U.S. corporations strapped by the Federal Reserve's credit corset!

The resort to high interest rates to induce capital inflows, cut import costs through currency appreciation, and hold down consumption—the "island of stability" concept expressed by Bundesbank chief Karl-Otto Poehl and emulated by Japan's Ohira government—is not a workable one either for Europe and Japan, or for their Arab associates. There is the danger of dollar turmoil renewing interest-rate escalation on the U.S. side later in the year, or the possibility of Penn Central-style financial panics and the potential for the U.S. to exports its "recession" Most pressingly—as the Group of 30 economists themselves said this week with sincere horror—the Third World economic situation will engender "terrific instabilities." The factors that prompted the European Monetary Fund conception are therefore still there in spades.

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