Report from Bonn by Rainer Apel

Lafontaine's unserious proposal

The Franco-German push for capital controls won't change much, but it has monetarists worried.

Ever since the election results on Sept. 27 confirmed that the new government would be led by the Social Democrats, economic media commentators have been beside themselves about the prospect of "leftists" taking power in Bonn. In particular, remarks by incoming Finance Minister Oskar Lafontaine, prior to a surprise meeting with French Finance Minister Dominique Strauss-Kahn in Saarbrücken on Oct. 22, caused monetarists' tempers to boil over.

There, Lafontaine announced a new Franco-German initiative for capital controls. He explained that what he and Strauss-Kahn were thinking about would definitely not be something on the level of the old Bretton Woods system, with fixed exchange rates and other regulations. Lafontaine said that times have changed, that globalization and the free flow of capital internationally would not make a new Bretton Woods system meaningful. But, most economic analysts did not pay attention to what he said. Instead, they showed signs of becoming unhinged over his design for limited capital controls, as if it would shatter the existing financial system—which it wouldn't.

Lafontaine proposed a three-point program: 1) impose efficient transparency and controls on banks that are operating on a global scale, and on hedge funds, particularly derivatives deals; 2) establish an arrangement for stable, but not fixed exchange rates between the dollar, the euro, and the yen, which would be allowed to fluctuate within a certain band; 3) review and modify the tight monetary and budget criteria of the European Monetary Union (EMU), in order to gain some freedom for labor market incentives.

Calling for capital controls is nothing spectacular anymore, as such calls are coming from all corners of the economic community, as Lafontaine has emphasized repeatedly. The first big flaw in Lafontaine's design is that he and the Social Democrats (those who have the say in Germany, at least—there are others who have different ideas) all start from the principle that the EMU criteria and the European Union single currency union, with its "euro," are unalterable. When talking about a "new global financial architecture," the German Social Democrats view the EMU as sound, well-designed, and strong enough to deter any shocks from the global financial crisis. As long as the EMU is stable, even if the rest of the world is not, one would not have to worry, is what the Social Democrats believe. And, none of the other nominally "leftist" parties in European governments believe anything different.

But, the EMU is not sound; it is not a safe haven from global turbulence. Any turbulent day on the European stock markets (and there have been quite a lot of such days recently) shows that Europe is not insulated from the rest of the world. Even if the EMU, which enters its final phase on Jan. 1, 1999, removes intra-European ups and downs of national currencies, the EMU as such is faced with developments on the global markets to which it has to respond, for example with exchange rate changes of the euro upwards or downwards. Built along a monetarist design, the European Central Bank, the reserve bank of the EMU, will use monetarist instruments to attract or deter foreign capital by changes in the all-EMU interest rate—which will make investments, prices, and debt payments in the "domestic" EMU economy incalculable over longer periods of time.

Among the better-informed experts, it is no secret that the EMU's monetarist design will leave it vulnerable to all those factors that have uprooted the present global financial system over the last year. Only a non-monetarist design, a return to some kind of national economic approach which would encourage productive investments and create heavy penalties on speculation and other unproductive financial deals, could make Europe safe against the virus of monetarism.

But this alternate design is exactly what Lafontaine and his ilk do not want. All he has ever talked about, have been designs cooked up in the kitchen of Paul Volcker's so-called "Bretton Woods Commission." None of this challenges the system; rather, it is a desperate effort to save the sinking ship by installing some windows—for "increased transparency."

None of Europe's monetarists are threatened by Lafontaine's plans for capital controls, but there is a reason for their hysteria. The reason is located not in Germany or Europe, but in Asia, particularly in China, Malaysia, and Russia. The real momentum for global capital controls and a new, non-monetarist financial system, is coming from there, and it has to do with ongoing Asian and Russian debates about Lyndon LaRouche's Eight-Point Program ("What Each Among All Nations Must Do Now"). That program has been prominently covered in Denmark's *Jyllandsposten* daily, in a breakthrough in Europe's media. But certain German and European elites prefer the wrong "L," Lafontaine, rather than LaRouche.