The Prospects After Bonn

Where both sides of the Grand Design fight are going next

As we go to press, the precise outcome of the Bonn Summit remains to be seen. But it is already certain that the Grand Design perspective of Third World industrialization and expanded high-technology trade, will be the thrust of continued efforts by the West German, French, and Japanese political leaders who determined the Bonn agenda, and of their allies in the Soviet and developing sectors.

The July 16-17 meeting in the capital of West Germany continues a series of meetings bringing together the heads of government of the seven leading industrialized noncommunist nations, to discuss pressing economic and political issues with the purpose of coordinating policy—wherever possible. The participating nations include the United States, Great Britain, West Germany, France, Italy, Japan, and Canada.

At the preliminary Bremen meeting July 6 of the European Economic Community members taking part in the Bonn Summit, a new European Monetary System was proposed for implementation in January 1979. As this survey shows, the implications of the EMS, and of the rest of the policies announced at Bremen, are now being drawn by the participants not just for Bonn, but for the months ahead.

1. Schmidt Helps Firm A Franco-German Alliance For Development

Both the planning that went into the Bremen summit and the conference coordination that produced European Economic Community approval for the Franco-German European Monetary System, was a triumph of economic, political, and press cooperation between France and West Germany. Seldom before have the two industrial leaders of the EEC mobilized their specific strengths for a common goal so thoroughly.

Moreover, Chancellor Schmidt's recent statements make it clear that the two nations are committed to a long-term economic organizing drive, that will last long beyond the Bonn Summit.

The division of labor that was worked out between French President Valery Giscard d'Estaing and West German Chancellor Helmut Schmidt before the Bremen premeeting sent Schmidt and his spokesmen to concentrate on explaining the economic aspects of the Bremen summit, while Giscard and his spokesmen concentrated on attacking any country that tried to sabotage the European Monetary System. This new system will use a noninflationary, tightly controlled European currency snake to stop the inflation of national currencies, and even before the conference, the British delegation, headed by Prime Minister James Callaghan, vigorously objected to this restraint on the City of London's right to manipulate and inflate currencies for its own speculative profit. But at the Bremen meeting itself, Britain, although threatening to leave the EEC, finally had to acquiesce to the EEC majority behind Giscard and Schmidt.

Chancellor Schmidt, using the attention centered on him as the conference's host, seized the initiative on the first day of the meeting, July 6, by issuing the definitive statement on the European Monetary System:

> It will be at least as strict as the current European snake, and will intervene only in national (European) currencies. We will pool our central bank reserves; of these, 20 percent will be in gold and dollars, and corresponding amounts will be from various national currencies. Anyone who wishes to speculate against the dollar from now on, is going to have to deal with the new European Monetary Fund.

Schmidt also revealed after the Bremen summit ended that he had spoken to President Carter twice about the new system, both before and during the meeting, and on both occasions Carter had approved the plan because he understood that the $50 billion EMS fund would have sufficient reserves to smash any speculator who tried to drive the dollar down by bidding European currencies up. Armin Gruenewald, the Chancellor's press spokesman, detailed Schmidt's plan to protect the value of the dollar at a press conference on April 6:

> The EEC has reached broad agreement on the new European monetary system in order to. . .influence the stability of the U.S. dollar. It was the erratic fluctuations of the dollar during the early months of 1978 which first prompted the Franco-German initiative, and by replacing the current snake with a wider-based new monetary system, speculators would find it harder to center on any one currency, when speculating against the dollar.

The Chancellor elaborated his succinct definition of the

European Monetary System in a July 11 interview with the *Financial Times*, again stressing that the Bremen decisions would create monetary stability that could only aid the dollar:

> The lack of such stability has been a main factor in the structural upheaval of the world's economy since the early 1970s. I think domestic monetary stability and international currency stability are two absolutely necessary conditions for continuous growth. . .the heavier the weight of a basket of currencies vis-à-vis the dollar, the less rewarding does it become to speculate against the dollar.

In the same interview, the Chancellor was also more specific than he has ever been about how the new monetary fund he is creating will be invested: "We have to look for new products, new inventions, new goods, new capacity, and, above all, new markets."

While the West Germans were explaining the summit, the French initiated a coordinated campaign against the "British resistance" the summit was facing, with President Giscard's spokesman, M. Hunt, beginning the campaign with the charge: "the persistent obstruction from Britain is not going to make the summit talks easy."

On July 6, the French government's domestic radio station, *France Inter*, stated:

> The choice for Britain is between U.S. Secretary of the Treasury Blumenthal or Helmut Schmidt. The dollar has been floating since 1971, and this disturbs everything. This should be unacceptable to Europe. If we can have an additional 1 percent growth in Bremen, then 1 million unemployed can have jobs again....In the Federal Republic of Germany, people are skeptical only because of British resistance.

Predict a French and German Victory Over the British

The French daily Le Monde *made this confident assessment of the Franco-German cooperation efforts, and sharply assailed Britain's "footdragging," in a July 9-10 editorial. Here, excerpts:*

Europe is moving forward. . .Despite Britain's irritating obstruction there is every reason to believe that the European Economic Community next year will have a common monetary system involving "strict" parity relations. . .Chancellor Schmidt, supported by Giscard d'Estaing, has been the driving force behind the current upswing (in European cooperation). . .

The British, maybe because they have never made the choice for Europe, are surprised and dislike this new determination. Many are tired of British footdragging and rationalizations, and their skillfulness is unlikely to be sufficient to thwart the Schmidt-Giscard initiative. The British will have to resign themselves, after the Bremen Summit, either to join up or else to keep themselves aloof from their partners. . .

West German Saboteurs

This French radio report ascribing West German skepticism to British influence is a clear reference to the fifth column role played by the West German Free Democrats (FDP) and FDP Economics Minister, Count Otto von Lambsdorff during the Bremen summit. Both the FDP and Lambsdorff have modeled themselves after the near-defunct British Liberal Party, posing reflation and tax revolts as the cure for the present depression.

Several weeks before the summit, Lambsdorff tried to torpedo the strict anti-inflation bias of the EMS by telling the *Washington Post* that the Schmidt government planned a tax reduction, an inflationary move against the mark. Spokesman Gruenewald immediately issued a statement in Bonn claiming "this was not the opinion of the government, but only Minister Lambsdorff's personal opinion." But this did not deter Lambsdorff from convincing the FDP, the minority party in Schmidt's coalition government, and CDU-CSU opposition leader Franz Josef Strauss, that a tax cut, not the development and trade policies of the Bremen summit, was the key economic issue.

In turn, Strauss offered Lambsdorff, Schmidt's own Economics Minister, a chance to join the opposition by attacking Schmidt's role at Bremen in an interview with the *Frankfurter Allgemeine Zeitung* July 7:

> I call upon the Bundesbank and Economics Minister Count Otto von Lambsdorff to fulfill their duties as watchmen, to guard price stability, and to join with the Christian Democratic Union-Christian Social Union to prevent Helmut Schmidt from implementing the Bremen resolutions. The Bremen resolutions violate fundamental German interests.

More typical of West German reaction was the public support given to Schmidt by Otto Wolff von Amerongen, the president of the German Chamber of Commerce and Industry, who assured the Chancellor of industrial support at a labor-industry roundtable meeting with Schmidt July 6. The West German Conference of Cities, which was meeting at the height of Lambsdorff's and Strauss's call for tax reduction, blasted their proposals as intended "to ruin the economic life of the cities."

2. Giscard's Post-Bonn Agenda Includes Human Rights For Portugal

The dying Portuguese economy is a prime example of an IMF dictatorship in action — not in some remote Third World country, but right in the belly of Europe. However, the visit of French President Valery Giscard d'Estaing to Portugal on July 18, immediately following the Bonn summit, carries the promise that the IMF's violation of the rights of the Portuguese will be ended through the implementation of "Grand Design" policies. The European Monetary Fund can provide Portugal with the long-term credits that can free Portugal from the IMF and unleash the country's labor power and technological potential.

A few weeks ago, in the framework of the "Grand Design" deployment toward the Bonn Summit, the French President was discussing with the Saudis the use of petrodollars to revive southern Europe's industries to the "take-off point." "Economic Prosperity for us Frenchmen depends on the way in which Northern Europe will commit itself to the development of Southern Europe," said the well-informed French weekly *Paris Match* on July 7. "It is there at our doors, in Spain, Portugal, Greece, and Turkey, that there lie the markets most susceptible of getting our factories to run and our unemployed back to work."

The IMF's Role In Portugal Condemned

L'Expansion, *addressed to the French business community, included in its June issue an article by Maria de la Cal, "A New Government in Lisbon: the IMF," excerpted here:*

By devaluating the escudo by about 15 percent (6.1 percent May 5th, 1.25 percent per month to the end of the year), the social-centrist government of Mario Soares has simply accepted the conditions made by the IMF for a $750 million loan....Already guarantees to the IMF have been provided, initially, with the early April Assembly adoption of a budget and a middle-term plan (1978-80) which provoked alarm in the population as well as among businessmen, the latter fearing a loss of competitiveness, the former a loss in buying power.

This move ends the quarrel of the distinguished "Lusitanologists" wondering about the political coloration of the new governmental coalition: it is neither the right nor the left which rules in Lisbon, it is the IMF. The negotiations of Portugal with the IMF have been lengthy and stormy. They have been broken off more than once, with Victor Constancio, Minister of Finance and of the Plan, threatening repeatedly to reach agreement directly with the creditor countries. But the announcement of the balance of payments deficit for 1977 — $1.5 billion, the value of four months' imports — sped things up. Two other litigious points should be dealt with soon: the level of the discount rate (the IMF proposes 9 percent; Portugal does not want to go over 7 percent) and the limitation of credit to industry.

Deep down Mr. Soares is, however, convinced that a policy of rigor is indispensable...

Inflation is harsh on the population — the cost of imports of food products has been multiplied by six since 1970, and Basilio Horta, the Commerce Minister, doesn't reject the possibility of rationing should this tendency persist.

Breaking the British Profile

The following are excerpts of "Appeal to the English," a July 11 article by Alain Vernay, chief economic editor of the French daily Le Figaro*:*

Everything indicates that Great Britain is committing itself to a delaying tactic to block the formation of a European monetary system, endowed with its own resources of $50 billion and implying very tight exchange and trade relations between the participating countries.

This tactic seems destined to fail, to the extent that the two States with whom England affirms it has special relations, Germany and the United States, are, on the one hand the enthusiastic promoter of the project, and the other — unless there is an about-face by the White House — intent on demonstrating well-meaning neutrality towards it.

Why, after having been for so long an enemy of the Coal-Steel Treaty, and for so long hostile to the Rome treaty, is Great Britain trying for the third time to oppose the relaunching of a Europe which is seeking more stability and élan in front of the girations of the dollar?

Those who have always rejected (and we are among them) the inept concept of "Perfidious Albion," without being discouraged, will try to understand....

Does the systematic opposition of the (British) Prime Minister come from political considerations, since it is electorally profitable in England to be hostile to the Community several months from the elections . . . ? This factor necessarily came into play....

British spokesmen are embarrassed. They can no longer say that England is being the defender of its cousin, the United States, against some kind of a European conjuration, when President Carter has given his agreement in principle to Chancellor Schmidt and the French President. For the moment, in this affair, it does not seem like London is working for Washington.

The English are also embarrassed in affirming that a new, more stable, Euuropean monetary system would only be the triumph of German hegemony....

One shouldn't attach exaggerated importance to the old sayings according to which the "gnomes of the City" would want to maintain monetary disorder, because their *savoir-faire* permits the English to profit from it.

Giscard: The Socialist Countries Must Play A Part

In an interview oriented around the perspectives of the Bonn economic summit, French President Giscard d'Estaing told Le Monde *July 13 that the socialist countries must be brought into the new economic system being developed, and into development aid to the Third World — which he compared to the Marshall Plan for Europe:*

We must now transfer resources to the underdeveloped countries to give them autonomous means of production and development . . . We must create a system of additional aid for development, conceived both in relation to the needs of development, and in terms of the creation of additional economic demand which will contribute to getting out of the present deflationary situation . . . It is indispensable that the socialist countries play their part . . . They must consider themselves full-fledged partners in the world economy. . .What counts is the networks of economic and monetary relations as a whole.

There remains the idea that England is seeking a certain isolation and total independence in its movements, because it feels richer than the other members of the Community because of its oil resources.

It seems to us, on the contrary, that England underestimates its forces whereas France possibly presumes its own. The profound motivation of Downing Street is undoubtedly — let's say the word — a certain defeatism, the sentiment that a united Europe would impose a discipline and a deflation too heavy for England...

Each on his own level must launch an appeal to his English friends by asking them not to play as though they are, from now on, placing themselves — wrongly — in the "second division" of Europe, alongside the countries with the least developed economies and not integrated in the EEC, like Spain, Greece and Turkey...

An opportunity is passing...And more than the oil of the North Sea, it is also a chance for England. Jim Callaghan will only have a name in history if he renounces breaking this new European élan, so fragile and so promising.

Bremen: 'A Historic Event?'

"And what if Bremen was a historic event?" headlined a July 10 Les Echos *article by Jacques Esperandieu, quoted below:*

The Bremen summit is a landmark event for two reasons: it gave birth to a European monetary system....and — what is a less fortunate development — Bremen saw a new escalation in the disturbing evolution of Britain's policy toward the EEC, with its unmistakeable reticence for the new monetary system, its obstructionist attitudes in energy matters, and its strictures on the evils of the Common Agricultural Policy — everything was there!

...Is it that the British want to preserve the status of the City of London as the world's major financial market?...

3. Japan Will Pursue Development With Or Without The U.S.

There is now an unprecedented consensus within Japanese business and officialdom for Japan to launch a political offensive for international development, at the Bonn summit and afterwards. According to banking and government sources, Japan is abandoning its 30-year practice of following the U.S. lead in international policy forums.

"Premier Fukuda will push these development policies at Bonn. If the U.S. does not agree, he will take a bold attitude toward the U.S.," one banker told this news service. Agreeing with many of his colleagues, he confirmed that Japan's approach will correspond to that taken by the Europeans at Bremen. Japanese diplomatic sources in Europe say that at Bonn, Fukuda will propose a new international monetary system compatible with the new European Monetary System. Evidence of the backing for Fukuda's plan is the fact that prior to his departure for Bonn, Toshio Doko, the head of Japan's leading business federation, Keidanren, publicly endorsed the $500 billion Third World development program drawn up by Mitsubishi Research Institute, which is the economic backbone to any monetary reform proposal.

The view dominating Japanese thinking is perhaps best represented by top economic advisor Miyazawa's frank remarks to the *New York Times*. "At the Bonn summit," he warned the U.S. Administration, "if we stopped rowing the boat, then the boat would not stay still in the river. It would stand a real chance of going backward, back to a waterfall of protectionism."

Japan's Global Energy Policy

Here is the text of an article appearing in the July 2 issue of the Japanese daily Mainichi *on Japan's energy policy for the Bonn Summit:*

Japan will again propose at the Bonn summit to launch a Japanese-United States cooperative effort to develop a process to harness fusion power and other alternative energy sources, officials said. They quoted Prime Minister Fukuda as instructing his Cabinet minister earlier in the day to prepare plans to be presented to President Carter.

At a summit meeting in May, Carter reportedly agreed in principle on the Fukuda advocated plan for a joint R and D program. But subsequent working-level talks on plans to harness energy generated by nuclear fusion, solar energy, and other alternative energy sources have made little progress.

In response to Fukuda's call the government will next week set up a taskforce of experts from the Foreign Ministry, MITI, the Ministry of Finance and the Science and Technology Agency.

The team will be charged with the task of working out financial plans for a joint fund for the proposed committee and to promote contacts of scientists between the two countries.

Chief Cabinet Secretary Shintaro Abe told reporters that the plan stands a good chance of winning support from other government leaders taking part in the Bonn summit and leading to an international cooperative effort.

Miyazawa: The U.S. Has Failed To Give Leadership

Japan's Economic Planning Minister Kiichi Miyazawa strongly criticized the "all talk, no give" approach of the Carter Administration to the ongoing trade talks in Geneva and the upcoming Bonn economic summit, in an exclusive interview July 9 with the New York Times. *Although the* Times *interpreted Miyazawa's remarks to be a Japanese endorsement for the Carter Administration's low-growth energy program, the Minister's main argument is that the United States has the international responsibility to defend the dollar from harmful fluctuations in value. Miyazawa is well known in Japan as an exponent of the belief that the primary cause of the dollar's weakness is not the large U.S. oil import bill, but rather the steady decline in recent years of the* *ratio of high-technology manufactured goods to total U.S. exports.*

What follows are excerpts from the New York Times *account of the interview:*

The head of Japan's Economic Planning Agency says that this country has been disappointed with American leadership preceding a major seven-nation economic conference to be held next week in Bonn.

The Planning chief, Kiichi Miyazawa, who is generally regarded here as the man who runs the economy for Prime Minister Takeo Fukuda, also said during an interview that he regrets the failure of Congress to enact energy legislation and is fearful of a protectionist trend in the United States after elections in the fall.

In unusually severe remarks in advance of the July 16-17 session in West Germany, Mr. Miyazawa expressed "great disappointment that President Carter seems to be going to Bonn empty-handed."

Mr. Carter and his trade negotiator, Robert S. Strauss, "are really unfortunate, they don't have anything to give, it's all take."

"We would certainly hope that the President will tell the Bonn meeting that by a certain date the U.S. will have its own comprehensive energy program," Miyazawa said, stressing the words "by a certain date."

"Not only does your government have the energy bill to complete, but you have a big budget deficit of the order of $60 billion..." Mr. Miyazawa had few kind words for the United States, but he did try to avoid direct criticism of President Carter.

Repeatedly, Mr. Miyazawa came back to the topic of the Bonn meeting and the danger of protectionism.

"At the Bonn summit, if we stopped rowing the boat, then the boat would not stay still in the river, it would stand a real chance of going backward, back to a waterfall of protectionism."

The Japanese Coalition with Europe

Prime Minister Takeo Fukuda called in several Western journalists to his office July 10 for an extensive discussion of his plans for the Bonn summit. Of particular note in Fukuda's comments were his references to Japan's close relations with West Germany, and his country's plans to expand the Tokyo money market. Many Japanese government and business officials have been holding discussions with their American and European counterparts, especially the Bank of America and Deutsche Bank, on using the Tokyo money market to fund capital-intensive development projects in Southeast Asia.

What follows is a summary of the Prime Minister's remarks compiled from the West German dailies Die Welt, Handelsblatt, *and* Frankfurt Rundschau, *and the* Financial Times *of London.*

Fukuda emphasized that he enjoys meeting with West German Chancellor Helmut Schmidt, saying that in their three previous meetings the Chancellor has shown a considerable understanding of Japan's problems. Moreover, he said, of all the countries attending the Bonn summit, Germany is the only one that Japan has had consistently good relations with, going back even before World War II. "In Japan there is a saying: 'Learn from the Germans.' Our nation has long been an admirer of Germany," he said.

Fukuda vehemently denied charges that Japan is responsible for the instability of the world economy, which U.S. Treasury Secretary Blumenthal and British Finance Minister Healey have often claimed is a result of Japan's large

international relations, Japan is willing to discuss at Bonn increasing its imports and reducing its export growth. He stressed Japan will not be indiscriminate in increasing imports, just to reduce the trade surplus; instead, the products must be useful for Japan, such as uranium, oil, and aircraft. A further measure to deal with Japan's surplus will be the expansion of the Tokyo money market, Fukuda said, which will help circulate Japan's accumulated dollars. This will be combined with a full doubling over the next three years of Japan's aid to the developing countries, and greater Japanese participation in international development projects.

Overall, Fukuda said, the main topic at Bonn will be what measures the United States will take to control inflation and reduce its trade deficit, adding that Japan will not be alone in putting these questions before President Carter.

'Europe and Japan Must Take Leadership in Bonn'

Following are extracts of a five-page advertisement inserted into the West German daily Frankfurter Allgemeine Zeitung *by the Bank of Tokyo. Titled "The Role of the Federal Republic of Germany and Japan in the World Economy," its aim is to create an international climate which obliges President Carter to join the Grand Design at the Bonn Summit.*

German-Japanese relations have entered a new era . . . . Over the last 100 years Japan has learned much from Germany in military matters, medicine, science and art . . . . Even now, in the face of a strong revaluation of the yen, the Japanese are very enthusiastic about learning from Germany how they have overcome the problems caused over a number of years by the revaluation of the D-mark . . . .

In the eyes of the Japanese the Germans are good examples to imitate and are an object of admiration . . . . Japan and Germany have many things in common, in spite of the differences in their economic structures and geographical situations. Their peoples are industrious, and they are famed for their strong sense of ethics; they have few natural resources. Both are very dependent on international trade; both were conquered in the Second World War and after the war experienced an "economic miracle." Both countries' roles in the world will be even more important in the future . . . . Your role is often like that of a ship's captain.

The mid-July Summit meeting in Bonn will provide an important opportunity to hold discussions on the measures which can be taken by Japan and Germany towards stabilizing the world economy . . . . As Japan's Ambassador in Bonn, Yoshino, has said: "In order to ensure the conference's success, for us there is only one possibility: Japan and Germany must take over the leadership." . . .

In this way, Japan and Germany have initiated the emergence of a big new power. Both countries should have a joint strategy for collaboration with the United States, in order to expedite the reconstruction of the world economy . . . .

The days are over when each country could limit itself to its own exclusive circle . . . . The areas in which both countries have to cooperate in a horizontal division of labor are constantly expanding. In order to intensify in a harmonious fashion trade relations between both countries, both must strengthen their efforts to adjust to the changing requirements of the world market.

4. 'Britain Misjudged Badly' And Now Revises Its Options

The British, totally unprepared for the economic coup Chancellor Schmidt and President Giscard pulled off in setting up the European Monetary Fund, have been decisively isolated from their European partners.

"I am ready to do anything that will strengthen our own currency and give it greater reserves, provided our British interests are satisfied," intoned British Prime Minister James Callaghan amid cries of "hear, hear" from his parliamentary peers during the House of Commons debate on the outcome of the Bremen summit. Callaghan's calm, assured tones to the British nation that there had been "substantial" agreement on the need for growth and economic development between the European Community leaders could not disguise the obvious truth about the meeting's outcome.

All of Britain's factions are now running for political cover. As the July 9 *Sunday Telegraph* warned: ". . .the choice for Britain may be brutally simple: to align her economy with those of her richer European neighbors, or to stay out on the wings, perhaps with Greece, Portugal, and Spain, in a kind of poor man's club." On July 10th the *Guardian* concluded, "The British misjudged badly."

Two definite, and a third as yet merely potential, policy options emerged from the chaos of the post-Bremen British political scene:

1. **The "Callaghan" option**—Hold out from joining the Europeans for as long as possible. Callaghan and the left-wing of the Labour party charge that the inability to use the floating exchange rate to keep British exports "competitive" will destroy the British economy, and therefore West Germany and other strong nations will have to provide for "resource transfers" to Europe's poorer nations (e.g., Britain).

2. **The "Tory" option**—Support the Schmidt-Giscard plan as a way of imposing "Friedmanite controls" on Europe's more profligate nations. In particular, use the European Monetary Fund as a regional International Monetary Fund to destroy any possibility of dirigist government investment in European industry, and slash public expenditure by looting Europe, Third World style.

3. **A trade union-industry approach**—Under pressure from their European counterparts, will a critical section of Britain's population back the European Grand Design as the only solution to Britain's economic decay?

Callaghan's Demise

Only days before the Bremen meeting, Callaghan was still angling behind the scenes to bust up the Franco-German axis in an attempt to salvage what remained of his great international initiative, the five-point program for world monetary reflation and domestic fiscal austerity. Callaghan reportedly dictated the infamous *Guardian* article which charged that Callaghan was set to "split" the EEC to keep the Schmidt-Giscard grand design from being implemented. Despite frantic threats from Callaghan that Britain would be forced to "renegotiate" its terms of entry into the EEC, and perhaps withdraw its NATO troops from West Germany if no financial support for them was forthcoming, the EMF was instituted. Callaghan came back to Britain with his tail between his legs.

Upon Callaghan's return, his strategy—in reality worked out jointly by the architects of Britain's capitulation to the IMF strategy in 1976, Denis Healey, Bank of England head Gordon Richardson, and Labour "business" expert Harold Lever — was viciously attacked by the Tories, who before the summit were giving tacit support to the government's approach.

How dare Britain, home of economic decay, give West Germany, Europe's postwar economic miracle, lessons in economic management! the Tory press self-righteously fumed. Tory leader Maggie Thatcher declared in Parliament, "We are more likely to get out of the problem of world recession by cooperating with our partners than by standing aside from the scheme they have put up."

Significantly, the Tory party, allegedly in preparation for the expected fall General Election, underwent a major shake-up during the past week in the wake of the Bremen meeting. Former Prime Minister Ted Heath, affectionately known as "Mr. Europe" to the British press for his role in bringing Britain into the EEC in 1973, announced that the long-standing feud between himself and Mrs. Thatcher was ended and that his services were now fully at the disposal of an "envigorated" Conservative party. All the celebration and rejoicing which followed this announcement did not hide the obvious, however. Thatcher, an outspoken critic of the Soviet Union and detente, and friend of the Chinese, was no longer "credible" as a national leader, suggested the prestigious *Sunday Observer's* editorial. Heath would raise the "right questions" within the party to put it back onto a center-moderate track.

How the Options Surfaced in Britain's Press

The Guardian, London, Op Ed, July 10:

For whatever reason, the British misjudged badly. They had expected to continue with studies of various schemes for stabilising European currencies without entering into any kind of commitment at Bremen. Instead, they found themselves obliged to address a specific draft scheme presented by the Germans and the French. They were unable to prevent its publication. No fudging of the communiqué could disguise the fact that it was a scheme along these lines which the Community leaders were determined to agree at their next summit, with or without the British. . .

Daily Telegraph, London, editorial, July 10:
If Suez marked for Britain the point of relgation from the First Division to the Second, last week's Common Market summit at Bremen may be seen in retrospect as the point of relegation to the Third Division. . .that is the harsh reality.

Sunday Telegraph, London, July 9:
What does seem certain is that the rest of the EEC —especially W. Germany and France—will not allow Britain to ruin the scheme; if necessary, they will press ahead without her. . .So the choice for Britain may be brutally simple: to align her economy with those of her richer European neighbors, or to stay out on the wings, perhaps with Greece, Portugal, and Spain, in a kind of poor man's club.

Sunday Telegraph, London, July 9:
It (the Bremen Summit) seems to have produced one dramatic development, which has both upstaged Mr. Callaghan, and to some extent turned the tables on him. The German Chancellor, Helmut Schmidt, has taken the initiative together with President Giscard d'Estaing and put forward
currencies and lead towards European monetary union. If Britain wants concessions from the Germans, if indeed she wants any influence at all, this is the price she will have to pay... Whatever promises we make to study the proposal, our answer will be no.

The Observer, London, July 9:
The special relationship between Mr. Callaghan and Chancellor Schmidt. . .is now in serious disarray. Senior Ministers are deeply worried about apparent isolation from France and West Germany, after Mr. Callaghan's refusal at last week's Bremen summit to endorse the Schmidt-Giscard stabilisation plan for European currencies. The initiative in isolating Mr. Callaghan appears to have come from the French and was at least partly based on suspicions about Britain's reliability as a European partner.

The Times, London, July 11:
If eventually a plan based on the Franco-German proposals at the Bremen summit is brought into operation it will be bound to fail (and fail sooner rather than later) unless simultaneously there is an equally clear and very strong commitment by the participating countries to putting their monetary policies on a converging course. . .the Prime Minister's attitude of scepticism. . .seems to have been realistic. . .

The Guardian, July 11:
(The Schmidt-Giscard plan) is inspired by the economic philosophy of Professor Milton Friedman. . .in other words, national
will not be free—because of the rules of the new system—to allow a rate of growth of the money supply significantly higher than that in the stronger economies even if this was justified to promote the fastest optimum national rate of economic
industries are going to need all the advantage they can get from a competitive exchange rate. Unless sterling is given this freedom Britain seems bound to lose markets—and therefore jobs—to more competitive economies such as West Germany. . .

The Daily Telegraph, July 11:
(Observers) are dubious about this British Government's ability, or indeed any British Government's ability, to enforce quickly the discipline which will be necessary to keep sterling steady against the mark, and about the problems which would be involved in managing a steadily depreciating pound once inside a European monetary sytem . . .

5. Italy Isn't Taking Orders From The British Press

Britain is relying on the Keynesian wing of the Italian Communist Party to substantiate press lies that Italy's Prime Minister Giulio Andreotti is joining the British campaign to halt the economic programs coming out of the Bremen and Bonn summits. a pla

In reality, Andreotti was openly critical of the British "Jenkins Plan" at the Bremen summit, contending it would force Italy to channel 70 percent of government spending into labor-intensive agriculture.

In an interview released to the current issue of *L'Espresso*, Andreotti announced full support for the Bremen communiqué. "Bremen has been very important for Italy," he said. "Italy must not exclude herself from Europe." Further, he added, it is "decisive" for Italy's future to participate in the "monetary snake proposed by Schmidt."

Informed sources in the Vatican have privately stated that Andreotti "will go to Bonn to support Chancellor Schmidt."

British Communists

After a Rome visit by the Socialist International's Willy Brandt, the Communist agent wing led by Giorgio Napolitano and Giorgio Amendola launched attacks on the government's high-technology agricultural policy — also under fire from the EEC Jenkins plan, which calls for cutbacks in agricultural output.

While Prime Minister Andreotti was making his commitment to Bremen and Bonn public, Communist Party economist Barca was demanding that menial jobs, labor-intensive agriculture, and low-technology energy be given priority over industrial development — precisely the British demand.

Even the coverage of the Bremen meeting in the Communist daily *L'Unita* has remarkable similiarities to the disinformation campaign conducted by major British dailies and echoed in the *Washington Post* and *New York Times*. Writes *L'Unita*:

> **One step forward over the terrain of monetary stability, two steps backward over that of economic solidarity: the conclusions of the European Council of heads of state just concluding in Bremen could be summarized that way . . . . The agreement is not certain, nor unanimous or definitive. The two days of discussions did nothing to lessen British opposition and Italian worries. Both Andreotti and Callaghan accepted the principle of participating in the elaboration of the (monetary) mechanism only on the condition that the Bremen document be an "open" one, that is, susceptible to profound modifications that take into account — said Andreotti — "the conditions of those countries which have different development and inflation rates" . . . .**