

Did BRD bankers resurrect London?

Backdown on EMS commitment to development lending

West Germany's leading financiers almost tripped over each other in retreat from their longstanding positions on the development policies tied to the new European Monetary System, at last week's annual conference of the Federal Association of German Banks in Bonn (see the Deutsche Bank's response to *Executive Intelligence Review's* questions at end of article). What emerged at this leading public forum — and through private channels in Western Europe — is that Western European leaders have spiked short-term plans to use the EMS to assemble a large-scale pool of development credits, and bowed before the authority of the International Monetary Fund.

The emergence of a new monetary system to replace the International Monetary Fund defined the most important world financial developments of the past six months. With the resolve of the Western Europeans snapped, for the moment, dramatic swings have begun in various markets. The major changes in the works include:

- Escalating efforts by the World Bank to bring off an investment program resembling the old Kissinger "International Resources Bank," in anticipation of a dramatic rise in commodities prices (see *Commodities*);
- A major shift of credit market activity from the so-called hard-currency-denominated Eurobond markets into London (see *International Credit Markets*);
- A reflow of funds back to the United States from newly-unsettled portions of the hard-currency market (see *Domestic Credit Markets*);
- All-out banking warfare in Western Europe centered on the Italian central bank (see *Banking*);
- A major push by Great Britain and the European Commission to cartelize yet another European industry, namely electronics (see *Corporate Strategy*);
- Predictions of another downward ratchet in international trade at a Lloyds-of-London shipping seminar in New York City; and
- A renewed blush in the international gold price (see *Gold*).

However, the impetus for the entire flurry of developments started at the highest level of Atlantic Alliance politics. American and British officials put it bluntly to the West Germans, starting at the end-February Interim Committee meeting of the Inter-

national Monetary Fund, that an attack on the IMF would be considered treason against the North Atlantic Treaty Organization. Certainly — as we reported in a previous issue's cover story — it would run at cross purposes to the Anglo-American view of what NATO and the IMF should be.

What Britain and the United States found intolerable was the credit feature of the European Monetary System, including proposals to accelerate the coming on-line of the European Monetary Fund from two years hence to a few months, and French President Giscard's proposal to directly involve non-European countries such as Mexico. The EMS was intended to assimilate a multi-hundred-billion dollar pool of credits through the issuance of gold-backed, low-interest rate securities — a proposal that the West German Bundesbank had in an advanced stage of preparation six weeks ago, according to senior Bundesbank sources. The use of this credit pool for grand-scale development efforts in the Third World rested on what Giscard dubbed a political "Grand Design," an interlocking set of political agreements with the developing sector, the Arab world, and the Soviets.

Word has gotten out, however, through the international banking community that the Europeans agreed to freeze the timetable on replacing the IMF — a freeze variously described as lasting through the next three months, according to a West German Development Ministry official, and two years, according to Deutsche Bank board spokesman Friedrich Christians.

The backdown on the credit-issuing side of the EMS is part of a political package that Western Europe appears to have swallowed whole. The other leading ingredients of this package include the European Community's waffling endorsement of the Egypt-Israel treaty under American pressure, despite the almost universal view in European official circles that the document is more a war treaty than a peace initiative; and the sudden postponement of French President Giscard's well-publicized and long-prepared visit to Moscow this month.

Judging from the West German conference results, West German central bank governor Otmar Emminger has accepted a set of economic parameters in which the export takeoff implied by the EMS "Grand Design" will

not happen. That underscores his concern about domestic inflation rates in France, where export orders have been flagging, and where the Barre government economic program has failed in its effort to generate capital investment in an austerity environment (*Executive Intelligence Review* will publish a survey of the French economy in April).

The Royal Institute of International Affairs circuit, the London *Economist*, and the U.S. National Security Council have all spelled out predictions of government turnovers in France and West Germany before summer. In the West German case, Emminger's austerity strategy begins, on the political end, with the ascension to power of Britain's Tory opposition leader Margaret Thatcher, according to sources close to the central bank governor. An aide said, "We are all waiting for Thatcher." Right-wing leaders of West Germany's Christian Democratic Union identify Thatcher as "the leader of our movement."

Often, British predictions of European government crises are wishful thinking. In this case they are probably accurate, presuming that the current policy drift continues. France, already suffering significant internal political disturbance after major steel layoffs in Lorraine, cannot afford politically to have a major round of layoffs in the heavy industry sector, and cannot afford economically to avoid it.

Thatcher's election to 10 Downing Street, apparently ensured by the March 28 vote of no confidence in Prime Minister James Callaghan's Labour Government, could become emblematic of a European-wide wave of austerity. The March 29 meeting of the Bundesbank's central bank council is expected to announce a tightening of monetary policy in West Germany. Emminger himself more or less predicted this in a March 27

article in the Düsseldorf financial daily *Handelsblatt* (see page 9).

Thatcher's game, from the British side, has already been announced in the London financial press: the key to her financial strategy is the removal of exchange controls that now prevent domestic holders of sterling assets from investing directly in foreign securities. Currently, they must pay a 40 percent premium to buy dollars from a restricted investment pool. Thatcher intends to open up a flood of British investments into cheap — but strategically placed — American banking equity. Since the Bank of England will intervene to maintain a fairly stable rate for sterling despite the outflow, it will convert a significant portion of its exchange reserves — some analysts believe up to \$10 billion — into sterling to permit sterling holders to make major dollar investments.

First on the list of such investments is American commercial banks, judging from the tenor of discussion at a conference on Banking in America held in London last week. The conference, sponsored jointly by the Washington-based Government Research Corporation and the City of London Business School, featured, among others, House Banking and Currency Committee Chairman Henry Reuss and Controller of the Currency John Heimann. Reuss said simply, "If we want to attract dollars back into the United States, we must give foreigners something to buy," referring to American commercial banks. A poll by *EIR* of state banking associations in the United States shows that many regional banking groups are suppressing their hostility to a wave of foreign takeovers for the simple reason that many of their members want to sell out to British buyers.

— David Goldman
Economics Editor

German economist warns of coup in Saudi Arabia

This report has been sent to Executive Intelligence Review by Mr. E. R. Schmidt of the Federal Association of Economic Advisors (Bundesverband der Wirtschaftsberater) of Bavaria, West Germany. We publish it without comment:

From a professional source which cannot be identified, I learned recently that certain requests for collateralization have been brought up by financial institutions, clarifying without doubt a certain momentary fear which I can also confirm from my activity as economic advisor and business manager of the Federal Association of Economic Advisors for Bavaria. In the cases of loan bookings with only limited credit reliability, the

major German banks have even expressed a demand for additional collateralization, citing explicitly political circumstances.

I personally take the standpoint that through these credit policy measures, the danger which is addressed in consideration of a coup in Saudi Arabia — however great the danger may be — may only be aggravated. If the western world wants to avoid an oil crisis — completely unpredictable in its consequences — and wants to aid Saudi Arabia, certainly a proven valuable ally in the past, then the West must, everywhere and with full clarity, declare its support for the presently governing administration. Otherwise, without question, the growth of power by the coup-backers will be unstoppable.

It is not decided whether the development will be promoted by the interests of the dueling parties behind the battle around the monetary system; without doubt, each will use the situation for his own goals.