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A cold wind from Central Europe

West German central bank's monthly report denounces "Too Much International Liquidity."

In its monthly report issued on Sept. 20, West Germany's central bank explained why its governor, Karl-Otto Poehl, shot down a proposed European central bank loan to the International Monetary Fund. The message from Frankfurt, as well as the other Central European capitals, is brutal: no more deficits, no more IMF financing, no more Third World imports. The West German central bank, like its Swiss sister institution, has adopted this stance in full knowledge that it implies a global monetary crash.

While the arguments are stated in monetary terms, the sentiment underlying the West German statement on the eve of the International Monetary Fund's annual meeting ties into monetary considerations only tangentially. The unstated thought is a verdict of pessimism concerning the United States and the Western alliance in general. The West Germans know that the various refinancing schemes in circulation at the IMF are nonsense; they also know that their "ohne mich" ("Count me out") stance will bring the breaking-point of Western institutions closer.

"The federal government and the Bundesbank have always spoken out against potentially destabilizing, massive, and uncoordinated liquidity creation, which would be of no use to the world economy, while influencing national monetary policy negatively," the central bank writes.

"Therefore the Federal Republic defends itself against problematic refinancing approaches at the IMF and the multilateral development banks [such as] the recourse of the IMF to the private capital markets," i.e., the IMF's last means to obtain operating funds after both the U. S. Congress and the European central banks have turned it down.

"Big international payments deficits cannot be financed without limit," the Bundesbank says. "They must, on the contrary, be reduced to manageable proportions as soon as possible. . . . A further accumulation of huge balance of payments deficits and, along with them, assumption of new credits, cannot be supported for long by either the debtor countries nor the creditors and the international capital markets. This is all the less supportable because international debts are burdened with considerable positive real interest rates as the consequence of lower inflation rates and relatively high nominal interest rates."

This is not merely rhetoric: the Bundesbank's demand for a global credit squeeze corresponds to what the Bank for International Settlements central banks, including the Federal Reserve, are now doing.

For the first time since the Federal Reserve undertook a manic round of reflation four quarters ago, all the major central banks and Treasuries are engaged in a simultaneous austerity crunch against both credit growth and government expenditures.

On the European side, parallel developments include:

1) The Bundesbank's decision to raise interest rates following several weeks of a deutschemark collapse on the foreign exchange markets, as of last Thursday; however, the official half-point raising of the Lombard rate only reflected a general tightening of money conditions that had already occurred in the German money markets.

2) The Bonn government released its austerity budget last week, with a cut in spending in real terms.

3) The new Delors budget in France raised taxes on higher incomes, and reduced the rate of growth of expenditure. With an increase of only 6.3 percent, spending will be flat or down in real terms.

4) Major reductions were announced in the Italian budget under direction of Venetian Finance Minister Vizentini, who announced earlier this month 100,000 layoffs in Italian state industries as a cost-cutting measure.

There are no illusions in Central Europe as to the implications of a global crunch in fiscal and monetary policy at this point in time. "Considering the international financial situation, I can only say that the Apocalypse is on our minds," stated a senior official at the Swiss National Bank Sept. 19. "We're studying contingency plans. If a number of big banks run into liquidity problems, if the system collapses, disintegrates, derails, we can do three things: safeguard debtors and banks, which means printing money; save only the banks and tell debtors to go fishing; or save only the system and tell the banks to hang themselves alongside the debtors. We must do for the financial system what we do for typhoons: chart them, analyze them, and know when they will strike.

"If [the Brazilians] declare a moratorium, well, we'll have to choose whether we want to save the system alone or the banks too. It might be that a bunch of banks do fall out the window."

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