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City of London by Stephen Lewis

Banks set post-election attack on U.S.

The central bankers favor Dukakis, but do not see Bush as a particular obstacle to their plans for austerity.

A bankers' symposium in Lugano, Switzerland, October 19-21, threw light on the Bank for International Settlements' (BIS) blueprint for the post-U.S. election period.

Speakers, drawn from the central banks and finance ministries of Western Europe and the United States, confirmed that an attack will be launched on the United States economy through the financial markets as soon as the elections have been completed.

There is even a chance that the assault will come before the elections, if these policy-making circles judge that the election outcome will make much difference to their success in imposing restrictive credit and budgetary policies on the United States.

The Bank for International Settlements central bank grouping has, if anything, tended to favor Democratic presidential nominee Gov. Michael Dukakis in the presidential campaign.

This is because Mr. Dukakis is seen as the candidate more likely to withdraw U.S. support from Western Europe. With U.S. influence out of Europe, the way would be clear for rapid progress toward the 1992 pan-European system, including close links between Western and Eastern Europe, which many European policy-makers now favor.

Nevertheless, Republican presidential candidate George Bush is not regarded as so serious an obstacle in the way of the 1992 plans as to justify taking major risks to ensure Mr. Dukakis's success.

The BIS central banks, including the United States Federal Reserve, are likely to pursue three objectives after the November 8 election.

First, they will be seeking to eliminate inflation, even at the cost of sacrificing economic growth.

Secondly, they will aim to avoid monetizing public sector budget deficits. The simplest way of achieving this objective is to pressure governments, and especially the incoming U.S. administration, into cutting the size of the budget deficits through spending cuts and higher taxes.

Thirdly, the central banks will be determined to keep control of the international financial markets, because it is through these markets that they can most directly exert pressure on governments.

These policy aims were endorsed by the participants in the Lugano symposium.

The most senior of them was Mr. Paye, secretary general of the Paris-based Organization for Economic Cooperation and Development (OECD).

He underlined the point that there had to be fiscal response, that is, gouging of public spending programs, in those countries now running deficits on the current account of the balance of payments.

These remarks were understood to be directed against the United States and the United Kingdom, the latter in an attempt to embarrass the government of Prime Minister Margaret Thatcher, which is opposed to the "Europe 1992" plans.

Mr. Pieske, a leading official of the West German Finance Ministry, went into more detail. Those countries with balance of payments deficits would not only have to cut budgetary expenditures, but also abolish tax breaks for interest on consumer credit and mortgages.

He looked forward to the development of the European internal market and of common European monetary institutions.

The latter point was also taken up by Mr. Boyer, once Spanish finance minister and now a member of the European Community's Delors Committee, which is planning for European monetary union.

He discussed the issue in a speech to bankers on the Royal Yacht *Britannia* during Queen Elizabeth's state visit to Spain in mid-October.

Mr. Boyer said that he believed the future lay with central banks, independently constituted and not accountable to elected governments. These central banks could cooperate effectively to impose the non-inflationary conditions which would pave the way for monetary union in Europe.

That these ideas are now being expressed openly, shows that the Bank for International Settlements central bank grouping is confident that it can achieve its objectives.

The first step will probably be a controlled but precipitate fall in the U.S. dollar before the end of this year.

This would be designed to take the U.S. currency down to levels which would "justify" a Federal Reserve Board tightening on anti-inflation grounds.

It would also, the central bankers hope, frighten U.S. legislators into hasty action to slash the budget deficit.

The author is a senior economist from the City of London, who contributes this occasional commentary to EIR *and to the European EIR Strategic Alert service. For information on obtaining the Alert service in Europe, see back cover of this issue.*

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