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Talk of capital controls mounts in Europe

by Laurent Murawiec, European Economics Editor

The failure of Ronald Reagan to understand the fundamental economic and strategic argument repeatedly brought to his attention by especially West German Chancellor Helmut Schmidt, that high interest rates are not only causal in an economic depression but also in strategic military weakness, is now forcing drastic reassessments of policy on the European side of the Atlantic.

Europe as a whole is up in arms—and down in the trough of recession. There is shared anger at the wicked policy of Paul Volcker and the blindness of the President of the United States. "Europeans have made it a habit to charge the Americans with everything that goes wrong; but this time, they're right," said one of the deans of European central banking this week.

As leading Europeans perceive that the U.S. economy has now crossed the threshold into depression, and threatens to draw the rest of the world with it, elementary notions of self-defense are invoked: contingency plans must be drawn up immediately, and their implementation accelerated. The European Community already counts more than 10 million unemployed. A further rise in U.S. interest rates, or the necessity to increase European rates to prevent massive, speculative capital outflows crossing the Atlantic in search of quick, dollar-denominated paper profit, could be the last straw for Europe's stability.

Consensus in summit meetings

The final communiqué of the Schmidt-Mitterrand summit meeting launched one more pressing appeal to Ronald Reagan: "In this severe crisis of the world economy, it is necessary for our governments to intensify their consultations on economic policy matters. Our two governments consider *the revival of international cooperation to be a most urgent task,* especially in view of the growing unemployment. . . . The extremely high level of American interest rates has severe consequences for the West European economies. The French and the West German government will try to win the support of other partner countries in the European Community in order to master these problems" (emphasis added).

What European relations could do in case they failed to make a dent on official American views was being leaked "from German delegation sources," the press reported: The EC countries would, in any form or shape, impose *exchange and capital controls* to protect themselves.

This received confirmation when Mitterrand flew to Rome for a state visit. In the press conference held jointly with Italy's Premier Spadolini, the French President stated "our three countries [including Germany—L.M.] would allow us to escape the consequences of high U.S. interest rates: cut our interest rates and take the guarantees that we could resist possible outflows of capital."

The European Commission's monetary committee has been instructed to draft proposals to that effect, which will be presented on March 15 to the EC's finance ministers, passed on for approval to the Community's heads of state and government at their March 29

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Edward Heath

summit meeting.

That the principled "free-traders" of Europe should even consider the notion of exchange and capital controls is a striking description of the desperate mood that prevails here concerning U.S. economic, monetary, and financial developments. That West Germany's Chancellor Schmidt would entertain such thoughts is a measure of the gravity of the situation, and the hopelessly low level of his confidence in Ronald Reagan. To a large extent, at present, *Europe has no other alternative.*

Enter Her Majesty's men

"Europe must act to insulate itself from the next shocks to world trade from a collapse of the dollar. . . . In the United States, the unprecedented overvaluation of the dollar caused by high interest rates and a loose fiscal policy is bound to damage growth and bring instabilities to the world's currencies. The determination of the U.S. authorities to avoid intervening on the markets to control the value of the dollar will make things worse. The European Community should insulate itself by selective use of exchange controls and greater supervision of the Eurocurrency markets," said Edward Heath, former British Prime Minister and *éminence grise* of the so-called Brandt Commission, in a major speech delivered at the annual Fulton, Missouri Lecture at Westminster College.

Edward Heath, in the circumstances of Britain in the last few years, would hardly utter half a sentence without the prior agreement of Foreign and Commonwealth Secretary Lord Carrington, whose political asset he has been ever since the assumption of power by Margaret Thatcher.

The Carrington grouping, which runs Britain's foreign and international economic policy, has thus powerfully stepped into the total international vacuum created by Reagan's inability to respond to Schmidt's call. It is London which is now claiming that monetary-policy leadership which has fallen from the hands of the United States.

Carrington, who just paid a much-noticed visit to Schmidt's home town, Hamburg, and addressed the prestigious club of the local patricians, the Uebersee-Club, profusely praised the German Chancellor, who reciprocated in kind.

It is in that sense that one of Edward Heath's closest associates was justified in telling *EIR* that "the U.S. government has managed to bring Europe into a remarkable coalition of interests."

What is remarkable about it is that Schmidt, who always totally rejected any notion of Europe as an anti-American "Third Force," is now being driven by sheer "realism" into the said coalition of interests.

What would happen otherwise was graphically described by EC sources: The German government is undermined by recession, which weakens the coalition. . . . In France, Mitterrand must deliver on his promises, or else. . . . In Italy, the economic crisis is such that the very manageability of the country is at stake."

Schmidt himself told a meeting of his party that high unemployment throughout the West was directly caused by U.S. interest rates, as well as the whole downturn of the world economy, and that, at the upcoming July Paris summit of the "Big Seven" Western nations, the European leaders would try to force a reduction of world interest rates.

The battle will be severe on this continent between the likes of Schmidt, who still will try to bring Reagan on board for a policy of recovery starting with the laying off of Paul Volcker, and the "third force" advocates of an "independent Europe" who are already trying to impose their old project of a "European currency" challenging the dollar as a response to the crisis. The Sprinkels and Weidenbaums of Washington, who pour scorn on America's best allies and thus add insult to injury, are worsening the situation.

"Reagan's budget is extravagant—and Volcker's policy is suicidal. Interest rates must come down or else there is neither change to stop a blowout of the international credit markets, nor a depression spreading from the U.S. to the rest of the world," the already-cited senior central banking veteran said. There is indeed very little time left to do that, and avert the strategic disaster that a Euro-American split would represent.