

THE TRAGIC JOY OF LAUSANNE AND THE GEOPOLITICS OF INFLATION

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It is a hot summer, very hot. Glaciers melt and rivers take in neurotic amounts of water. But, more frequently, they suffer the effects of drought humiliating powerful river arteries, forced almost to shrink into modest streams. Is this the obvious and disconcerting effect of global warming? While nature asserts its rights, a war continues undaunted in Ukraine. There it is the merciless roar of bombs that reminds us that relations between men and states also demand new balances. Against this backdrop, millions of vacationers have decided to brave queues and prices to reclaim the joy of fun at major seaside resorts at any cost. It is a matter of regaining those playful deprivations stolen in the past two years by the coronavirus. Today the fun, then in September, we will see. Whatever it takes, letting loose a vague feeling of Belle Époque. Even the stock markets seem to have decided to go along with this desire for frivolous levity. The U.S. S&P in July recovered almost all of its major June losses, a 9 percent rebound. The Eurostoxx50 put up +7.5 percent, the

Swiss (SMI) +3.5 percent, while the world index, MSCI World, rose for the first time in five months, by nearly 7 percent. And this occurred catching many by surprise, despite aggressive central bank policies, still-rising inflation, energy supply problems in Europe, and new signs of a real estate crisis in China, just as lockdowns come to a halt. The magic of finance sometimes manages to find the good in the bad. The U.S. experienced a slowdown in the first half of 2022: this is great because it allowed the Federal Reserve to raise rates by 0.75 percent and not 1 percent, as some economists feared, and to rely on market data for its next decisions at its September 20-21 meeting. The prospect of a global economic slowdown, and the return of Libya to the market, has also pushed oil prices down. The stage is set for a slowdown in inflation without an excessive burden on employment, at least in the United States, legitimizing hopes for a soft landing. Quarterly reports also supported the rally starting with the most important ones from Apple, Google, Microsoft and Amazon.

The market, between lights and shadows (Walmart) has partly underestimated its inherent strength that still benefits from the savings accumulated during the pandemic and related supports. And it is thus becoming convinced that the peak of inflation has perhaps already been reached. Manufacturing bottlenecks, with China reopening, should also help normalization.

In this summer heat, the coolness of mountain vacations opens up images that have become fixed in the mind and remain anchored in time. They are experiences that filter the present and the future. It is November 10, 1989. In Lausanne, where the *Fondation Jean Monnet pour l'Europe* is based, the members of its Council meet. It is an annual meeting set around the date of birth of the father of the European Union, Jean Monnet (Cognac, Nov. 9, 1888; Bazoches-sur-Guyonne, March 16, 1979). That evening is special. Television shows the fall of the Berlin Wall, marking the end of the Cold War and the coming collapse of the Soviet Union. The archives of Jean Monnet's human and political adventure are kept in the Vaud capital. Nine quintals of documents supporting the need to unite Europe to avoid new wars,

world wars. It is precisely in Switzerland, an "extra-community" country, as it was called a few years ago, that there is the historical heritage of the genesis of the European Union. Jean Monnet had in fact established in Canton Vaud, at the home of Professor Henri Rieben, in the commune of Epalinges, the administrative headquarters of the Action Committee for the United States of Europe, which, gathering the European political elite, had the task of supporting the ratification of the Treaties of Rome. Those personalities later flowed into the Foundation expressly desired by Monnet. Only the friendship of Valéry Giscard d'Estaing (then president of France) and trust in Rieben allowed that delicate material to cross the border and come to Switzerland.

On November 10, 1989, Monnet's peacemaking design seemed to be fulfilled. One of his closest collaborators, who was in charge of the Continent's first supranational institutions, wanted to speak in the atmosphere of joy and euphoria that was prevailing. "This," he said, "is truly a historic day. Germany comes together, Europe comes together, in peace, without firing a single shot. Jean Monnet's design is realized this evening." But in that

moment of extreme complacency Rieben's powerful, acidic voice rose, chilling the spirits: "Remember, today more than ever, that history in its essence is tragic." No one in the room felt like interpreting those words. Even though his students and friends knew that the tragic vision of the professor, a friend and collaborator of Jean Monnet, could be diluted by the great man's ability that, when history faces important turning points, he can influence its direction. Taming this ability, however, takes clarity of purpose and perseverance, tenacity bordering on stubbornness: it takes statesmen.

The memory comes back strongly thirty-three years after that evening. The war in Ukraine is systemic. It is also the result of an unfinished European integration process that trivialized its peacemaking success and turned it into a threat to peace. Rieben taught his students that the Soviet Union had attempted to encircle Europe by approaching the control points of oil (Soviet war in Afghanistan) and gold flows, including through Angola, where his former student Jonas Savimbi headed the anti-Soviet forces. Raw materials, gold and oil, were the "financial" tools to defeat the United States. But Ronald Reagan

knew that the Soviet Union's situation was delicate. Civil society was paying too high a price for Marxist-Leninist hegemonic ambitions. Some of this information had also come to him through meetings between the world's leading physicists, held in Erice, Sicily, where American and Soviet scientists spoke almost freely to each other. The star shield project was the tool to force the Soviets to the extreme. The United States could rely on a dollar-based financial system that would allow it to go into debt without compromising the living standards of its people. The Soviet Union did not. It would not have been able to sustain the challenge.

In that victory lurks today's crisis and the tragic nature identified by the old by the old professor professor. The United States won the Cold War and liberalism became the paradigm of reference. The idea that if a state espouses the liberal model it automatically gets dragged toward democracy seemed almost a truism. In reality, over the past 30 years, political liberalism has prostrated itself to economic liberalism. Having set aside the political dimension of globalization, many realities, with China at the center, have benefited from the power of the market, but riding it

according to their own specificities, which are not necessarily democratic. On the contrary, the wealth given by globalization has allowed the rebirth of realities that seemed forgotten: Turkey has buried Atatürk to rediscover with Erdogan the dream of the Ottoman Empire; Russia with Putin has rediscovered its Czar; Xi Jinping is no longer content with the hegemonic role of the party, he wants to embody and surpass Mao Tse-Tung. The United States has remained itself. But as time has gone on, from being an absolute power, it has found itself to be a relative power, with an unbalanced division of wealth within it. The European Union, on the other hand, has seen its potential fade: member states have tried to turn in on themselves. Germany, in particular, first forced its partners into austerity, just as weak domestic demand languished; in parallel, it went looking for other markets, particularly the Chinese and American markets, where it could sell its products. From an energy perspective, the country of Helmut Kohl and Angela Merkel chose to depend almost entirely on Russia. In this strategy, however, it was imitated by states and entrepreneurs in other countries of the European Union. This globalization had

focused on supply, seeking all means to contain costs and increase revenues.

The European Union, in world balances, was first a brake on growth, because it was fighting inflation that was not there. Then a danger to peace, because of the political vacuum that replaced the high hopes of the Maastricht Treaty in the 1990s. Putin took advantage of this context for which he had been preparing for some time. Controlling Ukraine is a way to control all of Europe, but also the way to undermine *Pax Americana*. Once again Russia is geopolitically banking on raw materials. The transition to a new green and globalized economy could be financed by the extremely expansive policies of central banks. But this is only possible if there is no inflation. Putin has succeeded, for now, in his design. However, the European vacuum is now occupied by NATO. There is no alternative to negotiation: this war will have no winners. And there are great dangers that should be reduced and not exacerbated (see Nancy Pelosi's trip to Taiwan).

This hot summer will set the stage for the autumn. Inflation trends will determine global financial stability. It is unwise to say that the peak of price increases has been

reached. Certainly, markets are becoming more fluid again, attempting to archive the post-pandemic. But globalization is now seriously scaled back, and with it one of the deflationary elements of the past three decades. Stock markets in the coming weeks are likely to remain anchored in a trading range (S&P between 4'020 and 3'600) and the U.S. 10-year between 2.6 percent and 3 percent, although some spike cannot be ruled out. Diplomacies will have to clarify over the summer how long they intend to wait before opening serious peace negotiations. Putin is likely to give a partial summer reprieve to gas supplies to Europe. But as autumn approaches it will put pressure on Old Continent public opinion returning from summer carefree times. The risks to European markets are great. China will be attractive because of the expansionist monetary policy it will be forced to operate: it will still face the threat of being boycotted by U.S. investors. But it is the position of the United States that has to define itself. We may find a new equilibrium if at least three messages from Henri Kissinger, an old (99 years old) and heard sage of American foreign policy, are

acted upon. This is how Limes magazine summed them up: "The war in Ukraine must not become a war on Russia; let us not risk slipping into a direct confrontation dragged down by events and our overly bold proclamations. Second, Moscow should not be isolated but reintegrated into a future European system so as not to give it away to Beijing. Third, we must come to an understanding with China, without making Taiwan the main issue between us, otherwise it will be war and devastation for humanity." ¹

Translated with www.DeepL.com/Translator/CSM

¹ Federico Petroni, "La lezione di Kissinger", *La Guerra Russo Americana*, Limes, 6/2022, p.92.