

ence held by the Aspen Institute in West Berlin Dec. 2-3 to state that industrial development would neither help the Third World nor head off East-West confrontation. Some excerpts:

Friedman:

. . . Before World War II, Japan embarked on building a greater East Asia coprosperity sphere. It sought to build that sphere by force, by military power. The result was disastrous, for Japan and this whole part of the world — and for the rest of the world as well. I might say, what is most fascinating is that you can now see the outlines of a new greater East Asia coprosperity sphere emerging . . . through trade. . . .

To get to my point, if Japan continues along its present lines of government intervention into foreign and domestic trade, then these signs of emergence of a greater East Asia coprosperity sphere will once again lead to trouble. They will once again lead to political conflict and confusion. . . .

The most remarkable performance that has been achieved in the whole Far East, I think, has been by Hong Kong. Hong Kong is the freest market in the world. It has no tariffs, it has no quotas, it has no central bank, it has no government direction of industry, it has one of the lowest ratios of government taxes to income in the world . . . Hong Kong has the second highest average income throughout Asia, exceeded only by Japan. What is even more surprising: the average income in Hong Kong is beginning to approach the average income in Great Britain and other countries . . . Taiwan and Japan have been growing *despite* their government plan and not *because* of it. The result is that they haven't been growing as fast as Hong Kong.

Kissinger:

Do not think that a confrontation between East and West can be avoided by setting up collaboration between the West and Comecon countries on development of Third World countries or by furthering of the North-South dialogue. . . .

The Soviets are committed to confrontation with the West, and if you try to cooperate with them in particular sectors of the world, they will use that to blackmail the West. . . .

Before, one used to say that economic development leads to political stability: this is no longer the case, and now it leads to political instability, as the case of Iran demonstrates. What is important now is not just economic advancement as such, but also its political legitimacy — the best basis for economic development is the free market economy. . . .

Take the example of Iran — there economic development has had the effect of destroying the old political and economic institutions. In such a situation the U.S. has a political obligation to deal with the political dislocations caused by economic success which it has itself set in motion.

3. Italy: from the pan

The extraordinary political difficulties and internal pressures behind Italian Prime Minister Giulio Andreotti's unexpected Dec. 5 repudiation of the highly favorable terms for Italian EMS membership to which he had earlier agreed are well-known and understood. But the consensus among informed observers is that Andreotti's last-minute Brussels "balk" in response to those pressures has removed him from the political frying pan into the fire. In the judgment of one high-level Vatican observer, whose views are not unique, if Italy does not join the EMS, she faces an alternative of internal chaos and possible civil war.

All indications leading up to the Brussels summit, including repeated public statements of Andreotti himself, pointed to a firm decision already made by the Italian government in favor of Italian participation in the new monetary system. Two days before the summit started, Economics Minister Pandolfi published a long article in the Milan daily *Corriere della Sera* explaining the system in detail and pointing out that the economic results of Italian entry, in terms of the Italian economy, were in fact the same preconditions laid out in his (Pandolfi's) three-year plan for cleaning up the Italian economy: controlling the rates of inflation and unemployment.

Instead of following through on this commitment, however, Andreotti at the last minute raised a new set of unacceptable "conditions" for Italian membership at the Brussels summit. Upon their rejection, he returned home proclaiming that the decision on Italian EMS membership was too important for him to make alone, and that broader consultations and consensus were required. Giscard has given Italy a week to make up her mind.

Immediately behind Andreotti's sudden failure of will is a nasty situation in the Italian Communist Party, whose support is the basis for Andreotti's Christian Democratic government, and without which the Andreotti government would fall. Giorgio Amendola, the ancient leader of the party's right wing, has suddenly re-emerged from several years of enforced semiretirement. This coincides with the failure to publicly endorse the EMS by party secretary Enrico Berlinguer, which facilitated the virtual takeover of economic policy making by the party's "economics bureau" led by Amendola's ally, PCI chief economist Luciano Barca. Barca and other PCI economic experts are now dominating the party's press with an anti-EMS line which bears a close resemblance to the British version: the weak countries must stick together, the EMS will mean West German hegemony over Europe, and the conditions of Italian adherence must include "resources transfer" and the reform of the EEC's agricultural policy.

into the fire

Berlinguer has failed to formulate a clear and firm answer to this misinformation. He has in recent weeks given some good indications that he knows what the potential of the EMS is: in a speech to agricultural workers in Rome on Dec. 2, Berlinguer spoke of the need to vastly expand agricultural production and employment, on the basis of improved technological inputs, and indicated the EMS should play a part in this. In an interview on Nov. 24 in the party newspaper *L'Unità*, Berlinguer demanded a new world economic order that would involve the development of the African continent on the basis of economic cooperation with Western Europe; he did not, however, explain the role of the EMS in this.

Amendola, a British agent of documented pedigree going back to his parents, has moved in to fill this leadership vacuum. He appears to have completely dominated the latest PCI Central Committee meeting with a speech on the elections for the European Parliament next June. While not openly pushing the British line against the EMS, he did dwell on the zero-growth concept of resource transfer, and devoted most of his time to a demagogic discussion of the supranational European working class taking power away from dirigist heads of state: an approach which is the opposite of the philosophy behind the EMS. Amendola's comments on the EMS itself were cautious but nonetheless revealing: "We hope that prudence will guide the work of the Italian delegation at Brussels, as appears to be the case from Andreotti's first declarations. It is not necessary to say yes or no immediately, but to examine the conclusions of the meeting without preconceptions..."

PCI favors Great Britain's position

Italian Communist Party economist Luciano Barca called on Italy to bloc with Great Britain in opposition to the European Monetary System in a Dec. 3 article in the PCI paper L'Unità, titled, "The 'Snake' is not Europe and Must be Negotiated." The key excerpts:

...The central fact is that in the last years... West Germany, Holland, Belgium and Luxembourg have seen the profits of their export

industries diminish because of the revaluations imposed on their respective currencies by the dollar; in the same period, on the other hand, Italy, the United Kingdom and France have seen their firms' margins of profit grow because of devaluations to the advantage of exports.

When France modified its own economic policy, adopting with the Barre plan a policy of deflation, the conditions were created for breaking the front of the countries outside the snake and attempting to link them all up to the mark, putting an end to the situation that gave privileges to some (the more

It is not from the PCI itself, however, that the dangers of internal breakdown or civil war emanate. Amendola, who in effect is threatening to bring down the Andreotti government if Italy does enter the EMS, is closely connected to the Socialist Party of Bettino Craxi. It is Craxi who controls the left-wing terrorists infesting Italy. At the same time, Ugo La Malfa, the aging leader of the right-wing Republican Party, a bitter foe of Andreotti whose links to both British intelligence and his "political opponent" Amendola date back to at least World War II, is using his leverage within layers of the Christian Democratic Party to threaten a government collapse if Italy does not enter the EMS. These layers are typified by such figures as Senator Massimo De Carolis, who like La Malfa is well connected to terrorist networks. In a recent interview with *Executive Intelligence Review* (see Vol. V, No. 46, Nov. 28-Dec. 4, 1978), De Carolis hinted that a left-right crisis in Italy could trigger a civil war scenario similar to the crisis in Iran. The networks around Craxi and La Malfa are capable of this, given the political opportunity, and *L'Espresso*, a leading monetarist linked paper, has already published a scenario of crisis followed by terrorism, special elections, and finally a coup d'état.

It may be, as several Italian sources report, that Andreotti is moving to deal with these pressures through Byzantine, "Machiavellian" maneuverings. The fact remains that his best course of action was and is to move decisively and publicly in support of the EMS, with a view to rallying the slumbering Berlinguer forces in the PCI, and thus isolating Amendola and his allies such as La Malfa.

—Mary Sonnenblick

weak, in fact), and hurt others. From this, the relaunching of the snake.

...The position taken by Great Britain has created favorable conditions for reopening a real negotiation and has made it evident that the alternatives are not simply two: to join or remain outside. There are also two other possibilities: The first is to convince the other countries — always free, obviously, to adhere to the snake — to put off for some months the definition of a "general accord," in order to find technical and political solutions capable of starting up a really European sys-

tem, an expression of common choices and commitments of all the countries of the EEC to common objectives for growth. This would undoubtedly be the best solution.

The second is that of postponing Italy's entry together with Great Britain, continuing to negotiate on the basis of a unilateral or plurilateral political commitment, whichever would carry out the conditions laid out by the government so many times before Parliament, which could bring together the entire (Italian government) majority and perhaps strengthen it in the face of difficult tasks that await it....

Pandolfi: We can't miss the EEC boat

Italian Finance Minister Filippo Maria Pandolfi declared that Italy adhered "in principle" to the EMS,

in a Dec. 3 article in the daily Corriere della Sera, entitled "We Can't Miss the EEC Boat."

...The Italian position in the course of the (EMS) negotiations is oriented towards a configuration of the new monetary system to reflect the following fundamental requisites: to result, above all, in a realistic and long-lasting system, in as much as its failure would have serious repercussions on the functioning of the international monetary system, on the future and on the possibility of advancing with the economic construction of Europe and on the conditions in the individual countries; to include all the EEC currencies, in order to avoid accentuating the differences in the working of the various economies;... to be supported, finally, by financial accords that are broad enough to create a real European Monetary Fund...

We must remember that the last condition for Italy's successful participation in the European monetary integration is the same condition that holds for reaching the internal objective of stable growth. If we don't improve the conditions of our economy, we will not reduce the difference in increase of prices and the cost of labor between us and the other EEC countries — conditions on which we can reach a greater strictness of exchange.

The European appointment raises the stakes in this challenge. If we fail in our internal objectives, we add to inflation and unemployment the economic, political and cultural injury of relations with Europe that are precarious to the point of disappearing. If, on the other hand, we are successful, our position will be reinforced and ultimately guaranteed.

4. How the EMS was built

For regular readers of Executive Intelligence Review, the European Monetary System was well understood long before its formal establishment on Dec. 5. Over the past six months, our coverage of the EMS has been the most comprehensive in the world, with our regular news coverage and press surveys backed by exclusive interviews with leaders in the formation of the new system and regular analyses by Lyndon H. LaRouche, Jr., whose 1975 International Development Bank proposal is widely credited with helping inspire the EMS.

In the following we present a summary recap of the evolution of the EMS, as we documented the process, that will be a useful refresher and reference for regular readers, and an invaluable eye-opener to all those who just got the news.

MAY 6: THE BONN-MOSCOW PACT 'The Deal of the Century'

The cornerstone of the initiative, and the first major benchmark in its realization was the historic set of

agreements signed May 6 by Chancellor Schmidt and Soviet President Brezhnev.

The 25-year treaty between West Germany and the Soviet Union provides for cooperation between the two countries in industry, mining, science and technology, and nuclear power and energy research and development of an unprecedented scale and depth, including the highly significant stipulation for joint cooperation in all these areas in third countries. The huge scope of the accords implies the necessity of participation of Western Europe, Japan and the U.S. in carrying out the provisions. The commitment to long-term state credits for trade at Most Favored Nation status between the two nations makes the pact a springboard for a broad effort of the industrialized nations as a whole to undertake massive technology transfers to the Third World, and move to fashion a new monetary system based on that commitment.

The strategic significance of the pact and its importance as the key foundation-stone for the EMS and broader "Grand Design" effort is its explicit premise that economic and scientific cooperation and growth is the only serious war-avoidance policy. Chancellor Schmidt and President Brezhnev both emphasized in