

# EIR

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Deflationary policy urged on Reagan  
Kirkland, O'Neill plan Democratic split  
Europe, Jordan make Mideast offer to U.S.

## **Eurosocialists launch takeover of the Democratic Party**



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# EIR

## From the Editor

Social democrats have been the last things on Americans' minds in the wake of the thrashing administered to ultraliberal candidates in the November elections. But America is very much on the international Social Democracy's mind, as our Special Report on the Dec. 5-7 Eurosocialist conference demonstrates. The conference—the first of its kind held in the United States—was surrounded by a maze of private meetings among the policy controllers of these radical rabble-rousers, including Henry Kissinger, Willy Brandt, and Georgi Arbatov of the U.S.S.R.

A group of *EIR* correspondents, headed by Scott Thompson, Luba George, and Laura Chasen, attended conference sessions, press conferences, and informal meetings; our U.S. and European intelligence desks, under the direction of Konstantin George and Vivian Zoakos, put together the strategic picture of a planned Jacobin upsurge against the incoming Reagan administration. While the left-wing social democrats in the union leadership and the Democratic Party are angling for "class war," the right-wing social democrats, like the AFL-CIO's Lane Kirkland, are preparing to obstruct the kind of legislative bipartisan economic initiatives that could end both the U.S. downslide and the potential for social chaos.

Our National section fills out the Democratic Party situation—including the unfortunate fact that "When Kirkland talks, [House Speaker] O'Neill walks." Our reading is, however, that the conservative/moderate groups within the party are not about to roll over and relinquish the party.

The need for immediate action on the economic front is quite dramatically drawn out in an interview provided to *EIR* with a Volcker partisan in the Treasury Department, who says in very plain language (language every banker should read) just what the future of thrift institutions and the housing industry will be if current policy continues.



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Olof Palme (l), Willy Brandt (c), and François Mitterrand (r) at this month's social-democratic conference. Photo: Stuart Lewis/NSIPS

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## Deflationary policy urged on Reagan

by David Goldman

Even when the likelihood of an international credit-market disaster has been publicly announced by some of the world's most influential banking spokesmen, there is absolutely no need for such events to take place. There is nonetheless a strong possibility that the Volcker Federal Reserve, with help from a number of financial centers, will succeed in bringing about a paralyzing crash in both the domestic and Eurodollar markets before Ronald Reagan takes office on Jan. 20. The more than 90-point drop in the Dow-Jones index of the New York Stock Exchange during the past 10 trading days is sufficient evidence that most market participants are running for such cover as they can get.

But it must be understood—and especially among the Reagan transition team—that the origins of the threatened catastrophe are political, not monetary.

The financial scavengers who have set the events in motion that might lead to a depression worse than that of the 1930s want to confront the new administration with a set of ineluctable policy directions due to the gravity of market conditions. And, for the record, we name their names: the Mont Pelerin Society and its public relations man Paul Fabra of *Le Monde*; David Montagu and John Craven of S. G. Warburg's and now Merrill Lynch London; the "Siena Group" of economists, including Robert Triffin, Eugene Birnbaum, Robert Mundell, and Nicola Krul; and the so-called Group of 30 chaired by former IMF Managing Director Johannes Witteveen.

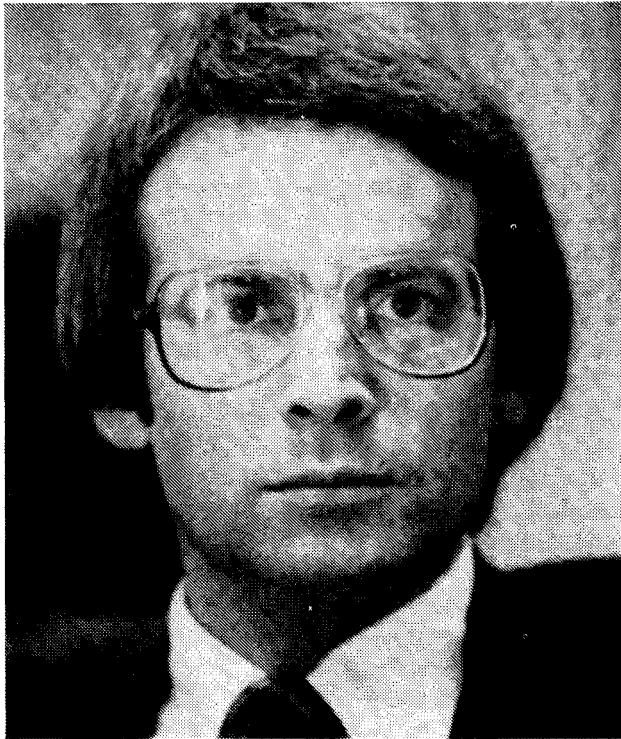
Two months ago, *EIR* reported the deliberations of

the Group of 30, known more formally as the Consultative Group on Economic and Monetary Affairs, at a Virginia gathering following the annual meeting of the International Monetary Fund. The gathered discussed "shock treatment" for the Western economies, disingenuously ignoring the effects of monetary "shock treatment" on the fragile, overextended international lending markets. At a conference in Amsterdam last week, the Group's Executive Director, Robert Pringle, remedied that omission.

Pringle warned that the new monetary policies pursued by central banks (strangling credit growth without regard to its consequences) led to "volatility of interest rates" and "frequent and deep recessions." These, in turn, created the conditions for a general crisis on the international lending markets.

To avert such a crisis Pringle proposed that the central banks create an "international safety net" whose mere announcement would calm the fears of market participants. Since no such safety net is likely to emerge, the content of the Pringle announcement is to give the weight of the Group of 30 to rumors and fears of international markets crisis. He is pouring gasoline on the fire.

In brief, the real situation is the following: the world's poorest countries collectively owe about \$400 billion in debts tied to the 6-month Eurodollar rate. If that rate stays above 20 percent for any significant period of time (it is now above 21 percent) the interest charges on that debt alone will exceed \$80 billion, and the total debt



OMB designee David Stockman.

service \$120 billion. That means that the International Monetary Fund's estimate of an \$80 billion current account deficit for the developing sector during 1981 may miss the boat by *half*. Even that deficit was considered barely financeable by financiers interviewed at the last annual meeting of the IMF. One hundred twenty billion dollars and up is an amount the public institutions and the international banks cannot possibly raise.

On top of this, the credit demand of the American economy has been artificially lifted by the rise in interest rates. At a 20 percent prime, the interest charges on current liabilities are sufficient in and of themselves to compel a rate of corporate borrowing several times in excess of what the Federal Reserve has said it will tolerate.

The implication is that corporations will have to withdraw *working balances* from the Eurodollar market to meet their obligations at home. Since the Eurodollar market is a \$1 trillion pyramid built out of an initial monetary base of less than \$200 billion in actual deposits, the withdrawal of these balances alone is sufficient to spark a general crisis on the Eurodollar markets, with or without the added pressure of developing-sector debt refinancing.

When the West German Herstatt Bank went under in July 1974, the pyramid nearly came down. Interbank transactions in the Eurodollar market temporarily stopped, and about 30 percent of Eurocurrency balances were repatriated to the relative safety of home markets. At that time, the volume of total third world debt was

less than one-third what it is now. The Eurocurrency markets today could not tolerate a single bankruptcy in the order of Herstatt.

The above information does not represent a unique insight: Mr. Robert Pringle is aware that this is the case, because it was the subject of an interview with *EIR* two months ago. Fed Chairman Paul Volcker knows it is the case, as do virtually all the players in the game.

This brings us to the unpleasant case of M. Paul Fabra, financial columnist for *Le Monde*, a Dominican monastery that presents itself as a Parisian daily newspaper. Fabra recommended the virtual shutdown of all credit extension (except at a penalty discount rate) in a Dec. 10 op-ed in the *Wall Street Journal* under the headline, "Why Monetarism is Failing." He wrote, "The only way out of inflation is to curb the discretionary power of the central bank to create money, as well as the central bank's efforts to set the level of interest rates through its open market operations. These discretionary powers are the origin of probably the greatest anomaly and dysfunction of the capitalist system—namely, in the market where money is created, prices are permanently distorted."

Although Fabra—whose views were seconded by the *Wall Street Journal's* own editorial in the same issue—masquerades as a disciple of the great French economist Jacques Rueff, these views stem from Friedrich von Hayek, the Viennese economist who hoped to bring about zero growth through the elimination of the credit function in the economy altogether. This "doctrinal" point is significant for only one reason: Fabra's views have been conduited into the Reagan administration as a supposed alternative to the monetary policies of Milton Friedman.

Some of the same Reagan advisers who have warned most emphatically against "Thatcherization" through the adoption of Friedman's policies, and have protested that the Friedman austerity doctrine is inflation-causing, are nonetheless promoting Fabra's version of the same program. Prominent in this particular woodpile is one Louis Lehrman, "everybody's choice for the number-two spot at Treasury," who rose to public prominence courtesy of the *Wall Street Journal* earlier this year with a version of the Fabra proposal: elimination of all open market operations of the central bank, and the provision of funds only at a penalty discount rate.

Lehrman's plan, according to Lehrman Institute fellow and Salomon Brothers Vice President Benjamin Rowlands, "would of course mean massive bankruptcies and a huge crash of the economy." Nonetheless, Rep. Jack Kemp, the most prominent voice in the Reagan camp attacking "root canal economics," incorporated the Lehrman plan into a memorandum he co-authored with OMB director-designate David Stockman.

Featured in a lengthy report in the Dec. 11 *New York*

*Times* by Leonard Silk, the Kemp-Stockman paper warns of an "economic Dunkirk" if Reagan does not take "emergency action" as soon as he takes office. As far as this goes, it is good advice. But the final portion of the draft recommends that the Federal Reserve ignore money supply, interest rates, the housing market, and all other economic variables in favor of restricting the rate of growth of Federal Reserve credit, period.

The "supply-siders" have gone most of the way down the garden path. While Representative Kemp and economists like Arthur Laffer and Jude Wanniski have kicked up a storm over the implications of Milton Friedman's monetary recommendations, and helped prevent the appointment of Friedmanites like William Simon and George Shultz, they have made a deal with something potentially as bad, with raving monetarists like Louis Lehrman and David Stockman. They bought the same product under a different brand name.

To understand somewhat better how the setup worked: Lehrman used excellent contacts with the Warburg banking family (he was a protégé of the Warburg family's lawyer Maxwell Rabb in New York) to get access to the great French economist Jacques Rueff, immediately after Rueff's great collaborator, General de Gaulle, had been driven from power in France.

Lehrman presented himself as a disciple, and persuaded Rueff to give his Lehrman Institute the English-language rights to Rueff's collected works, now in publication.

In fact, the Lehrman Institute was the New York stopping-place for the strain of economics known as the Siena Club, an institution founded by the financial scavengers of the Italian nobility. Along with Mont Pelerin Society operative Fabra, Lehrman misappropriated the mantle of Jacques Rueff, who died in 1978 and hence could not protest.

Lehrman et al. therefore developed sufficient credibility to present themselves as an "alternative" to Friedman monetary doctrine.

Acting in its own best interests, the Reagan administration would find its way to an agreement with the French government of Valéry Giscard d'Estaing and the German government of Helmut Schmidt. The agreement would link the American dollar at a gold parity to the European Monetary System, preferably through a new gold-backed rediscount agency for international trade credits, and provide the credit base for the biggest expansion of international trade since the last war. This monetary agreement, which has been Giscard's object since the European Monetary System was formed two years ago, would make possible the final cleaning up of the Eurocurrency mess that has made the dollar a "suspect currency" (in the phrase of Lord David Montagu of Merrill Lynch London) for the past ten years.

At the same time, it would wipe out the power of the

Eurodollar operators in London, the European continent, and New York, which depends on the ability to conduct unregulated (and reserve-free transactions) in a market which provides a haven to the world's black money.

Ultimately, the political question at issue is whether sovereign governments like those of the United States, France and West Germany will pursue policies in their national interests, or accept dictation of terms by "the market," as shaped by the likes of Paul Volcker and the other individuals noted above. The present level of interest rates and inflation is the result of—not the motivation for—the Federal Reserve's spiked-club monetary policy, as Democratic Majority leader Jim Wright pointed out in the House of Representatives two weeks ago. Therefore Paul Volcker's actions must be interpreted as an attempt to force a coup on the new administration, which came into power on a tide of popular anti-Volcker rage.

The Dec. 11 selection of Merrill Lynch chairman Donald Regan as treasury secretary is a matter of concern in this context. Regan's major concentration during the past five years has been the expansion of Merrill Lynch's international operations. To build up his London office, Regan brought on board the two men who had earlier built up S. G. Warburg to world status, David Montagu and John Craven. It may not reflect Regan's personal outlook, but it is still significant that Montagu and Craven were among the first to signal publicly the scenario depicted above.

Speaking next to former British Prime Minister Edward Heath at an International Herald Tribune conference in New York City at the end of November, Montagu warned of a general crisis of the "suspect currency," the dollar. And at the same conference in Amsterdam where Robert Pringle issued the warning of a general crisis, John Craven of Merrill Lynch announced the coming of a general structural transformation of the Eurodollar market as a result of the shift towards monetarism by central banks. "Many institutions will not survive," Craven stated.

Of course, the battle is not over, no matter who becomes secretary of the Treasury. The President-elect is more aware than anyone of why he was elected. A virtual lynch climate is evident in state legislatures and in the Democratic-controlled House of Representatives against Paul Volcker and interest rates in excess of 20 percent. Under the correct combination of measures from the new administration, the crisis atmosphere could be dispelled before any real damage is done.

The danger is that Reagan and the European leaders will treat the crisis as a self-evident phenomenon and order their priorities according to the demands of "crisis-management." If that occurs, the greatest opportunity for the advancement of the United States and the world economy to come by in two decades will have been lost.



# Treasury: Too many thrifts, too much housing, too little dereg

*A fear is sweeping the top levels of the Washington regulatory agency bureaucracy who are responsible for the deregulation of the U.S. banking system. The American population, they say, has rejected banking deregulation because it means the planned shrinkage of the U.S. economy and living standards.*

*EIR obtained an interview this week with John Mingot, Deputy Secretary for Financial Institutions to Assistant Treasury Secretary Roger Altman.*

**Q:** What are the prospects for banking deregulation in the Reagan administration?

**A:** I believe there will simply be no new major banking deregulation legislation during the next six months to a year, at least, if then. We're going to be dead in the water for a good, long time. What should, of course, happen is that we've had the deregulation act and gotten rid of Regulation Q limiting interest rates, we should go on and deal with the other two major banking areas. Get rid of the McFadden Act, Douglas Amendment, and other regulations prohibiting interstate banking, and break down the Glass-Steagal Act and all barriers to banks' doing brokerage business and vice versa. This should all be done, but it can't be, there will be too much to clean up. Instead of moving ahead, we're going to be bogged down fighting what I see as a tremendous move toward backsliding against deregulation. Not only are we not going to be able to introduce any new bills, but we will be forced to spend most of our energy fending off attacks on what has already been accomplished and fighting the dinosaurs.

First, we're not home free on even the deregulation act and its effect on savings and loans, which is the one area, Reg Q and so on, where people imagine deregulation is well under way. Jake Garn is taking over the Senate Banking Committee and he's against it, period. We won't have new legislation, but there will be a series of bills instead going the wrong way. Garn will introduce the bill [S. 2927] written by Senator Morgan (D-N.C.) and Garn to repeal the Depository Institutions Deregulation

Committee [DIDC]. This could even go through, no more DIDC, a real blow to the deregulation act. Then Garn will be pushing his bill prohibiting commercial banks from taking over S&Ls [H.R. 5625], another regressive bill. I even expect a series of bills or hearings against floating mortgages; the hearings held by Comptroller of the Currency John Heimann yesterday on alternative mortgage instruments were a disaster, a circus. Congressman Rosenthal [D-N.Y.] attacked variable-rate mortgages as a rip-off. Let me give you another horror story. Garn says he's going to "look into money-market funds." I expect him or someone to propose that we have ceilings on MMFs instead. This would be completely regressive. Money-market funds have been a great force for reality, they've attracted 54 percent of U.S. consumer savings, from zero percent in 1978, out of the S&Ls and the banks where the deposit rates were regulated by a stupid 8 percent ceiling, and into the free market. Slap Reg Q on MMFs and it will cause a massive reversal of savings funds right back out of MMFs and into the S&Ls, a massive reversal of funds out from the large banks back into the small banks. When people realize they can't make more interest in MMFs, they'll put their money right back in the savings bank where it's slightly safer, and we'll be right back where we were twenty years ago, where these stupid S&L executives are able to charge less for deposits, a lousy 5 percent, so that they can price their mortgage loans lower.

**Q:** Garn has been accusing the regulatory agencies of usurping Congress.

**A:** My God, somebody's got to usurp Congress, they're totally regressive on this. Somebody's got to do the work of reforming the banking system, they're holding everything up.

**Q:** You mean the administration, even if weighted in favor of deregulation, won't get this past Congress at all? Who else besides Garn is there?

**A:** It's not a question of who is in Congress, I don't

know or care who else is in Congress—it's a question of what the population wants. Jake Garn is doing this plain and simple because he knows what the population wants, and he has to do what his constituency wants, they're wrong, but they have said loud and clear what they want, and unless Garn and the rest of Congress want to be ridden out of town, like Jimmy Carter, they'll do what the voters want. Look at the savings and loan issue which has people all excited. There's no law that says there have to be five thousand S&Ls and fifteen thousand commercial banks; it's inefficient, expensive, and uneconomic. A lot of these thrifts have no idea either how to make money or how to make mortgages, and some of them should be allowed to fail; the S&L industry should be consolidated, the bigger ones should soak up a lot of the smaller. These rich little S&L executives sit in their nice small-town oak-paneled offices and enjoy terribly being president of the First Federal S&L of East Podunk—they don't know how to run a bank and they know it; they're afraid. They should all be branch managers. These CEOs should all be out of a job, if the market were rational, or should be taken over and turned into the branch manager of the Podunk branch of a major S&L.

Colorado—there was a ballot proposition for statewide branch banking and they voted it down two to one, because people were afraid that the big banks would come into their towns and kick the shit out of the little ones, and take over, and stop making loans to them. The Independent Bankers put out advertising saying just that everywhere and they did their job, they scared people.

Arkansas—Arkansas has a 10 percent usury ceiling on consumer loans made in Arkansas for over six thousand years. There was a proposition put up to deregulate usury ceilings on consumer loans, and they voted it down overwhelmingly, because high interest rates are bad, right? Okay, so now you can have the privilege of applying for all the consumer loans you want in Arkansas at 10 percent, and they can't afford to make them. This is supposed to be better than at least letting some people have the choice, if they wish, of applying for a loan at 20 percent and actually getting one for a change. . . .

The Depository Institutions Deregulation Act is under attack because the population doesn't understand that the savings banks are simply inefficient. . . .

This is wrong, of course, but these people have political power, these congressmen. They are the worst offenders, these congressmen who continue to have the misconception that we should continue to have the Reg Q differential to protect the thrifts—one, because they think Reg Q will protect the thrifts, which it won't; two, because they think we should protect the thrifts, because the thrifts finance housing, which is not true; and three, because they think we need more housing in the first place, which is wrong—we already have much too much housing.

First of all, Reg Q does not protect the thrifts because the reality is that money-market funds pay higher rates to depositors and take all their deposits. Then the S&Ls won't be able to make any loans. Period.

Second, we shouldn't protect the thrifts, because they don't promote housing finance in any rational way. I expect a lot of thrifts to be failing, and that's good. If anything, having thrifts too specialized, doing almost only housing as they are, hurts housing in the first place; because the government has caused them to be so specialized, they depend tremendously on housing, and when rates are high, they can't make loans, because people can't afford them, and they start going under. They can't afford to make mortgages at fixed rates, because their costs of funds go up, and they can't make them at variable rates, because people can't afford those. So, in order to stabilize any flow of funds into housing, these institutions have to be diversified, able to earn

## The obstacles to interstate banking

**The McFadden Act** of 1927 establishes state lines as the boundary within which banks may expand *branches*. It allows both state and nationally chartered banks to expand locally to encourage the financing of industry and agriculture. However, it forbids banks, notably the large nationally chartered banks such as Citibank and Chase Manhattan, from branching across state lines and taking over the business of local smaller banks through cutthroat competition. It thus protects local banking.

**The Douglas Amendment** to the 1956 Bank Holding Company Act establishes similar rules to McFadden for the purposes of bank *subsidiaries*, and has the effect of prohibiting large banks from buying up smaller banks as wholly owned subsidiaries across state lines.

**Regulation Q** of the Federal Reserve Board is the power vested in the Fed Governors by the Federal Reserve Act of 1913 to maintain or remove interest rate usury ceilings. It also, prior to the repeal of this provision by the Depository Institutions Deregulation Act of 1980, gave savings institutions a legal percent "differential," allowing them to pay depositors an extra percent more than commercial banks could pay, to attract savings for housing finance.

income in other areas, so when housing slumps, they can survive. Congressmen object that this means they will do less net financing for housing. That's true, so what? There will have to be fewer, and more expensive mortgages. . . .

So Reg Q doesn't protect the thrifts, and the thrifts are not efficient for financing housing. But in any case—might we not have *too much housing*? . . .

We got into this idea of building a lot of housing because mortgages were too cheap, and were financed by an indirect tax on the savings depositors. Ten years ago, when depositors were very, very dumb, and were willing to get a lousy 5 percent on their deposits, they in effect subsidized the mortgage market. The great unwashed masses of depositors got 5 percent, and so the S&Ls could afford to make mortgage loans at 5 or 7 percent tax on the poor to subsidize housing for the rich.

Mortgages were underpriced, period. These small-town, fat S&L executives believed they had some kind of religious duty to keep making home mortgages at affordable rates, beyond all economic reason. They made them at fairy-tale prices.

But then the money-market funds and other floating-rate instruments came in, and the dumb depositors wised up, took their money, and went elsewhere. The game is over, and the S&Ls can't get away with it anymore, and they've got all those mortgages on the books at fixed rates, which are losing them money. So, we had to pass the deregulation act to raise mortgage prices. Mortgage rates have been raised, and they should be even higher than they are. Thrifts should be forced to price them, not on their actual 8 percent costs of deposit, but on the interest rates they are foregoing by not investing in Treasury bonds at 12 percent, and investing in mortgages.

This is good, because the fact is, *we have too much housing in this country*. Ten years ago, we went on a home-building spree. We built houses all over the country, contractors were humming, the building trades were working, everyone had a grand time. Gee, wasn't that fun, Ma? But now, we have too many houses, and scarce resources, especially scarce capital. We can't afford capital for housing.

I think it's outrageous that the typical college graduate today expects automatically to be able to live in a three-bedroom house with one and a half baths. He thinks it's the American dream—who says he's right? If he wants it, he's going to have to pay more, a lot more, and then he'll see that he's going to have to be satisfied with a smaller, more efficient apartment. Variable-rate mortgages, renegotiable-rate mortgages, these are a godsend to us. They make housing simply too expensive, and unplannable to boot.

But, it's too bad, now we won't be able to get any more legislation anytime soon.

## West German Steel

# The Ruhr decides to fight the recession

by George Gregory

A week and a half after a two-hour demonstration by the entire city of Dortmund, including 15,000 steelworkers from the Hoesch steel plant, the Hoesch board of directors announced that it will reverse its previous cancellation of modernization plans.

A new state-of-the-art oxygen blast furnace will be built as originally scheduled. The new 550 million DM plant will replace a number of obsolete Siemens-Martin facilities in the Westphalian foundry complex.

The Hoesch management had previously argued that the output ceilings established by the European Commission of the European Community (EC) under Count Etienne Davignon precluded not only expansion of present Ruhr capacities, but also modernization investments, because modernization would not be profitable under the new regimen of reduced output.

### An export crunch

Hoesch's decision could be the first in a chain reaction at the European-wide and regional levels—a concerted fight to reverse the “American-style” recession, as it is known here, predicted for Europe through next year and beyond.

The Davignon plan imposes on all European producers 18 percent cuts in the last quarter of 1980 and 25 percent cuts in the first quarter of 1981, relative to Oct. 1, 1980 production levels. The plan had compounded the frustration among German steel producers.

With unusual frankness concerning the political dimensions of their predicament, a spokesman for the Iron and Steel Association conceded to *EIR* that “Carter ruined Iran for us—we were shipping nearly a million tons of steel there, not to mention plant, equipment, and machinery, before Khomeini took over. Then Carter ruined Turkey, which used to be a significant customer of ours. It is difficult to calculate whether we lost more to the [U.S.] antidumping suits or to U.S. super-interest rates, which killed the market for us, though of course it killed the market for American producers too. We lost 58 percent of our U.S. exports, in any case.”

While the industry and its associations are not willing to provide detailed figures at this time, they say

the Davignon Plan, which descended on top of this blight, is gutting their export markets under the pretext of managing an "overproduction crisis" on the European markets. The production-cut quotas imposed on German producers and watched over by a corps of European Commission "gendarmes" in the factories, prohibit them from producing enough steel to meet their export contract deliveries!

The German producers have been obliged to try to convince the customers with whom they already have contracts to move delivery dates forward by two to three and a half months. This roughly corresponds to the mandatory cuts in capacity utilization. If some customers cannot wait that long, the German companies will have to *import* steel, at prices tending to catch up with the 10 to 15 percent price hikes the quota system is supposed to provide.

Because of this grotesque situation, and because of the resulting tendency to worsen the German balance-of-payments deficit, steel companies are holding back on acceptance of additional export contracts, for fear that they may have to pay out more to meet the delivery terms of foreign customers by purchasing foreign steel.

### **The démontage principle**

For the German steel sector, which exports 35 percent of its total output, this is a disaster. The new oxygen steel furnace at Hoesch was to have been the first big sacrifice to this disaster. Hoesch is the most vulnerable of German producers, having moved into near-black figures only in the past two years.

The city of Dortmund is practically identical with the Hoesch steelworks there. Policy-makers for the other German steel giants are following the situation closely. They say that industrial shrinkage in Dortmund—the mayor of Dortmund, Günter Samtlebe, calls it *démontage*, the term for British postwar dismantling of German industry, which Dortmunders fought quite effectively—would be followed by a ghost-town phenomenon throughout the Ruhr, beginning with Duisberg and Essen.

A special Ruhr Conference has now been called by Mayor Samtlebe for Dec. 18, to be attended by industrial and trade-union leaders, regional politicians, and representatives of the federal government in Bonn. The meeting is expected to draw up a package of economic development plans for expansion of the heavy industrial heartland of the eastern Ruhr.

This in itself signals a broader fight. Krupp Steel, for example, has its legal department working on a court battle against the Davignon production cuts, in what could be a flagship effort on behalf of the industry as a whole. When added to the legal actions at the European Court already initiated by the aggressively modernizing northern Italian steel producers in Brescia,

the Davignon policy may be forced into a retreat.

The domestic battle here in Germany will be no less dramatic. Half the DM 550 million (about \$235 million) credit already promised for the new Hoesch plant will come from the state government of North Rhine-Westphalia and the Bonn government, at a subsidized interest rate. The Ruhr Conference intends to tackle the fact that the difference between going rates of interest and subsidized rates is just enough to balance out the increased costs of energy of about a year and a half, at present levels of energy-price inflation.

The Ruhr, the most densely population industrial region of Europe, derives *not a single kilowatt-hour* of electricity from nuclear reactors, and the steel industry, concentrated in the Ruhr, accounts for 10 percent of total energy consumption here.

In attempting to make Bonn face up to this situation, the Ruhr Conference will press to unfreeze some DM 60 billion in blocked investments for power-plant construction in the Federal Republic, 80 percent of which is for nuclear power construction.

The overall planning to install nuclear facilities could be completed very quickly. Years-old blueprints for projects exemplified by an industrial park driven by high-temperature reactors in the former coal-mining area north of Dortmund merely have to be liberated from the files.

As the Association of Industrial Power Facilities stated pointblank in its 1979/1980 report: "We can only forego nuclear power if we are willing to forego the industries without which no industrial country has any long-term chance to exist." Dr. Detlev Rohwedder of the Hoesch board of directors has estimated that Hoesch alone would save DM 60 million annually with even a significant, but not predominant, component of nuclear power in the energy mix.

The second major item in the overall Ruhr package will be the construction of a new, expanded lock and sluice system at Heinrichsburg, near Dortmund. The present elevator system, which lifts a huge bathtub with 90-meter motorized freight ships, is incapable of handling the quad barges needed to transport the expected freight volume for the 1990s—about 5 million tons in iron ore alone.

When it looked as if the Hoesch management would decide to shelve its oxygen furnace modernization plans, environmentalist factions in the Bonn Transportation Ministry began fiddling with cost/benefit studies that argued as follows: the expanded canal freight facilities would not be profitable if the new plant were not built, i.e., if Dortmund underwent "deindustrialization." The expanded locks, according to engineers waiting to go to work, would cost about DM 120 million; but the increased freight capacity would save an estimated DM 20 to 30 million each year.

# Rebuilding Italy's economy with the 'heavy lira' program

by Graham Lowry

Forty industrial, financial, and political representatives attended a conference in Rome Dec. 4 to consider a policy proposal that could dramatically reshape Italy's economic future. That policy centers on the creation of a new "heavy lira" to dry up the speculative and black market economy and assure a stable flow of productive investment.

Sponsored by the Fusion Energy Foundation and the *Executive Intelligence Review*, the conference was attended by representatives of major Italian banks, a senior member of the Banca d'Italia, a representative of the Italian Banking Association, executives from the Italian power company ENEL, the Italian Traders Federation, the Federation of Italian Small Industrialists, leading members of the Rome Christian Democracy, the Soviet Commercial Office, and the Bulgarian Embassy.

The heavy lira, or *lira pesante*, was put forward by leading economist Lyndon LaRouche, former Democratic candidate for the U.S. presidency. His proposal, and the LaRouche-Riemann model, which defines the method of its application to ensure the productive expansion of the Italian economy, were the focal points of discussion at the Rome conference. But as the speakers made clear, the same principle of drying up the speculative market of national credit and fiscal policy that acts to dry up the speculative market and foster industry must be applied immediately in every advanced sector, especially in the United States.

In Italy, the urgency is heightened by the devastating earthquake in the Mezzogiorno region. Italy's political and business leaders are now facing the fact that only a major development and reconstruction effort can revive the poverty-ridden and disaster-stricken south of the country.

## The basis of policy

EIR editor-in-chief Criton Zoakos, in his keynote presentation, explained that the LaRouche-Riemann model is the only econometric system that is based on the fundamental distinction between the production of tangible goods, and the nonproductive areas of the economy, including necessary social services, real-estate speculation, and other forms of nonproductive specula-

tion. The LaRouche-Riemann model takes as its *primary parameter* the rate of technological progress and is able to calculate the rate necessary for optimal rates of increasing the real wealth an economy produces. As such, it gives economic planners the tools to calculate the effects of different investment policies.

The key problem for Italy in pursuing a development policy is that the nation has no real control over its economy as a coherent national economy, Zoakos explained.

## Black market economy

The northern industrial economy coexists, perilously, with the long-ruined economy of the southern Mezzogiorno and the relatively massive and uncontrolled black market economy, which cycles huge amounts of illegitimate revenues, especially from drug trafficking, into real estate and other speculation.

The "heavy lira" proposal would replace existing currency with a new lira worth 1,000 of the old. In converting old lira holdings to the new heavy lira, the slosh of black market holdings would come under government scrutiny and taxation policies for the first time in a systematic way.

The heavy lira, as Paolo Raimondi of the EIR explained in his address to the conference, has two important historical precedents. In the period 1943 to 1947, the Italian "national unity" government tried unsuccessfully to implement such a reform, drawing on the joint effort of leading Communist economic expert Scoccimarro and Italian industrialist Enrico Mattei.

In France, a similar proposal by Gaullist economic adviser Jacques Rueff was realized in the "heavy franc" reform pushed through by President Charles de Gaulle. Within a year, the inflation-ridden French economy was back on its feet.

## Tax and credit policies

Calling upon progrowth Italian Communists and industrialists to ally behind the heavy lira proposal, Raimondi emphasized that its adoption would mean the death knell for the drug-linked black market economy.

To ensure that, Raimondi declared, the heavy lira

would have to be linked to a taxation policy of punitive rates on nonproductive investments and tax breaks for productive ones. That kind of tax policy, by which government steers private capital into productive enterprises and away from speculation, was precisely the sort attempted in postwar Italy by Mattei's chief economic adviser, Christian Democratic economist Vanoni.

To deal with the additional dimension of economic crisis imposed by the earthquake in the southern provinces, Raimondi also proposed a government-backed loan and fiscal measures to force nonproductive capital to move into the Mezzogiorno for productive uses.

But implementing this policy, Raimondi added, would require nationalizing the Banca d'Italia, whose "wild monetarist policies" better entitled it to be called "the Bank of England." Economic reconstruction requires centralized issuance of cheap credit, generated in the form of gold-backed bonds.

The historic antagonism between the British system of economy and the political economy of nation building was then elaborated in a presentation of the American system of economics by Webster Tarpley, European representative of the National Democratic Policy Committee, the U.S.-based organization whose advisory board is chaired by Lyndon LaRouche.

### **Shift U.S. policy**

Detailing the banking and credit policies which set the course for America to become the wealthiest nation in the world, Tarpley called for a new American policy toward Italy. Jimmy Carter and U.S. ambassador to Rome Richard Gardner have steadily pushed for Italian Socialist Party leader Bettino Craxi to become the new strongman for Italy as the perfect tool for NATO and International Monetary Fund policy. The Italian Socialists are known throughout Italy as the leading party behind drugs and terrorism in the country.

Tarpley outlined the efforts by the NDPC in the United States to wield the election mandate against Carter to force the new Reagan administration into support for the economic growth policies of the European Monetary System, and for "those European forces, like France's Giscard, West German Chancellor Helmut Schmidt, and Italian Christian Democrat Giulio Andreotti, who made the European Monetary System possible."

Italy's adoption of the heavy lira would enable it to become a productive partner of France and West Germany in securing a greater economic development role for Europe.

Italy's lack of that role now, and its ongoing subjugation to high rates of inflation and uncontrolled speculation, are coherent with its being used as a major operational center of international drug trafficking.

That was the subject of the presentation by Nora

Hamerman, editor-in-chief of the U.S. Anti-Drug Coalition monthly, *War on Drugs*. Hamerman also related a historical precedent for the kind of cooperation between Italy and America proposed by Webster Tarpley. The devastated Calabria region was also struck by an earthquake in 1783, prompting the networks of Benjamin Franklin in southern Italy to help mobilize the reconstruction effort. "The result of this cooperation was the rebuilding of a small city, which was named Filadelfia as an act of friendship with Franklin. A similar cooperation between Italy and the United States has to be launched once more."

### **Develop nuclear energy**

The conference also focused attention on a critical requirement for the success of any reconstruction effort today—the development of nuclear power. Mario Silvestri of Milan University, a leading Italian scientist, directly attacked the neo-Malthusian policies of the Club of Rome and painted a stark picture of Italy's nuclear energy situation. "Italy is the only country where the pronuclear forces have been defeated," said Dr. Silvestri. "The building of new nuclear plants has in fact been halted since 1964."

Stressing humanity's moral obligation to provide for its posterity, Dr. Silvestri attacked those who believed that it is cheaper to save energy than to produce new energy, and explained that the introduction of new technologies decreases the cost per unit of manufactured goods. Pointing out that the Carter administration "was able to raise the time needed to construct a nuclear plant from four-and-a-half to ten years," Dr. Silvestri insisted on the need to construct them more rapidly and to "make sure there is a growing ratio of nuclear produced energy to all the other kinds of energies."

The conference's concluding presentation, by Dr. Giuseppe Filippini, executive director of the Italian Fusion Energy Foundation, summarized the current Italian economic situation and the scope of measures needed to deal with it. "We have now reached a situation," Dr. Filippini began, "in which the only convenient investment in Italy is the drug market, where with little risk it is possible to increase one's money a thousand fold."

The heavy lira, Dr. Filippini noted, "will re-establish a reality principle for the Italian economy."

Dr. Filippini emphasized that a competent economic program is not to simply give aid to the Mezzogiorno, but to determine a development policy "not only for the South but for the whole of Italy. This is a political problem, because we need then a government capable of implementing these policies. Jacques Rueff believed that no one was capable of realizing the new franc, but then de Gaulle did it. We have to replicate exactly the same thing for Italy."

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## Book Review

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# A Triffinite in Rueff's clothing

by Alice Roth

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### *Quest for World Monetary Order: The Gold-Dollar System and Its Aftermath* by Milton Gilbert

A Twentieth Century Fund Study  
John Wiley & Sons/Wiley Interscience: New York, 1980.  
255 pages, \$19.95.

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*Quest for World Order* purports to be an insider's view of the breakdown of the Bretton Woods monetary system and a theoretical analysis of how a gold revaluation might have saved it. Milton Gilbert, an American, served as senior economic adviser at the Basel-based Bank for International Settlements (BIS) between 1960 and 1975, after having been director of statistics and director of economics for the OECD in Paris from 1950 to 1960.

According to Gilbert, he repeatedly warned top American policy makers during the 1960s that they would have to accept a sharp revaluation of the official gold price in order to salvage the dollar's pre-eminent position in the world monetary system. Gilbert took his arguments to Robert Roosa, undersecretary of the treasury for monetary affairs under Kennedy; William McChesney Martin, Jr., Federal Reserve chairman under several presidents; and Henry Fowler, treasury secretary under Johnson. In each case, he ran into a stone wall which he attributes vaguely to "political difficulties." "You know, they [American officialdom] came to treat me not only as wrong, but as a kind of a half-traitor, lined up with Rueff and de Gaulle," Gilbert declared at a farewell dinner in his honor at the BIS in 1975.

Thus, Gilbert and his editors portray him (and by implication the BIS) as a kind of thorn in the side of the American liberal financial establishment—a "modern-day Cassandra," in the words of the book jacket. Yet Gilbert's book shows a deep-rooted intellectual inconsistency. His solution to the 1960s dollar crisis is at least formally identical with that of Jacques Rueff, economic adviser to French President Charles de Gaulle, but he rejects a Rueffian solution for the dollar in the 1970s and 1980s. His argument: since the fatal decoupling of gold

and the dollar on Aug. 15, 1971 and the subsequent outbreak of global inflation, it is no longer possible to put Humpty Dumpty back together again.

Gilbert also denies the possibility that gold's role can be revived through the European Monetary System (EMS), founded in July 1978. Yet Rueff himself stated in an interview shortly before his death that he thought the EMS was well on the way to realizing his original vision of a gold-based world monetary system.

Gilbert contends that the dollar can only be kept alive in the 1980s through a policy of high interest rates, wage restraint, and stringent foreign-exchange controls, including controls on capital outflows, and import restraints. Rueff would have pilloried such controls as a revival of the policies of Hjalmar Schacht, who headed the German central bank during the 1920s and 1930s, and was condemned in Rueff's own writings as having paved the way for Nazism.

Gilbert's prescriptions for the 1980s are interesting in light of recent proposals by British and European financial circles to substantially increase the powers of the BIS as part of a larger "fallback" scenario circulated by Belgian economist Robert Triffin and others associated with the Siena Group as early as 1977. The scenario calls for a major financial shakeout, in which much of the \$350 billion debt owed by the less-developed countries is called into question, and the credibility of both the U.S. dollar and the IMF is utterly shattered. Under these circumstances, the U.S. government would supposedly have no choice but to erect a system of exchange controls and sever the links between American banks and their offshore Eurodollar branches.

The world would tend to evolve toward a new system of rival, autarchic currency and trading blocs, with the BIS the only remaining source of international cohesion. Established in 1928 to supervise German reparations payments, the BIS has had plenty of experience along these lines, having presided over the currency chaos of the 1930s.

Gilbert's book, a Twentieth Century Fund study, was published in 1980 to help shape the election-year debate on international economic policy. (Although Gilbert died in September 1979 with the manuscript unfinished, the published version was quickly whipped into shape by Peter Oppenheimer, an Oxford University economist, and Michael Dealtry, a BIS staff member.) The book is dedicated to Twentieth Century Fund director Murray J. Rossant, who has been lobbying on behalf of the U.S. Federal Reserve's plan for International Banking Facilities, on the grounds that they would encourage the repatriation of Eurodollars to the United States and their redeployment into urban real-estate investment and related areas. The IBF plan fits in with Gilbert's proposal for exchange controls, since it would permit the big money-center banks to walk away from their foreign

branches in the event of a Euromarket blowout while retaining political control over remaining dollar flows from their base in "Fortress America."

Of course, Gilbert was never a Rueff adherent in any real sense. The book references de Gaulle's famous February 1965 speech, in which he called for a return to the gold standard and announced that France was prepared to join international negotiations to reform the system and establish the necessary international credit facilities for the transition period. This implied a major increase in the gold price which would have bolstered the dollar by upgrading the value of America's still-massive gold reserves and putting a temporary halt to the loss of these reserves due to speculation on a price hike. Gold revaluation would have given the U.S. some breathing room in which to gear up its lagging industrial base and put its balance of payments in order by increasing exports. As Gilbert admits, "France advocated a policy that gave the U.S. an escape route."

But Gilbert attacks de Gaulle and Rueff for going public with the gold issue and making it "political," claiming that this made it impossible for U.S. officials to respond positively. This is sheer nonsense, as Gilbert must have known. De Gaulle had no choice but to address the matter politically. The source of America's monetary problems, as well as its foreign-policy predicament, was its "special relationship" with Britain, manifested in U.S. toleration of an overvalued pound sterling and the maintenance of a secondary reserve-currency status for the bankrupt British currency.

Virtually every run on the dollar in the 1960s began with speculation against the pound sterling, and it was British opposition that deterred the United States from reaching for the obvious solutions.

The most telling point against Gilbert, however, is his adamant denial that anything can be done *now* to restore gold backing to the dollar:

Gold has no well-defined monetary role at present. For it to regain such a role, monetary authorities would have, as a minimum, to buy and sell gold to one another. It would be a major innovation for the authorities to attempt this without first repegging their currencies to gold, or at least without reasonable assurance that the world price of gold would remain stable over a prolonged period. No such assurance is conceivable with an economic climate of continuing rapid inflation in many countries, and with a gold market dominated by speculation and price volatility. The United States, of course, has had no intention anyhow of reverting to a fixed gold parity for the dollar; but even had it wished to do so, the idea of such a "return to gold" could, in the circumstances of recent years, be no more than a fantasy. . . .

This, of course, is untrue: the idea was welcomed by Ronald Reagan in statements on the campaign trail, and incorporated in diluted form into the Republican Party platform. The American President could, with the close cooperation of the European Monetary System, break the speculative cycle against the dollar much more quickly than most people realize. Some sophisticated poker-playing would be required, about which we need not go into detail here. But the general nature of the solution is evident.

The issuance of low-interest, gold-backed bonds by the U.S. Treasury, Eximbank, or similar government body would allow the United States to refinance the volatile Eurodollar overhang and place it on a sound basis, by channeling funds into high-technology exports to the developing sector. Once the U.S. balance-of-payments position was bolstered through such an export policy, it would be a relatively easy matter to defend a fixed dollar-gold parity.

Not only does Gilbert refuse to recognize the existing solutions to the dollar crisis, he never fully identifies the origins of the mess. He shares the "dollar shortage" thesis advanced by Triffin in 1960 in his book *Gold and the Dollar Crisis: The Future of Convertibility*.

According to Triffin, the dual dollar-gold reserve system forced the United States to run a balance of payments deficit in order to meet other countries' demands for increased reserves to finance expanding world trade. A shortage of monetary gold prevented gold from playing this role.

While Triffin proposed that the dollar be replaced by a supranational currency under the control of the International Monetary Fund, Gilbert claimed that the shortage could be resolved by simply marking up the value of existing gold reserves against all currencies. This solution was no longer possible after 1971, he argues, because America's "easy-money" policies created a glut of dollars on world markets far beyond the world's requirements for new liquidity.

But the problem has never been simply "too much" or "too little" liquidity. Europe had a genuine need for credit after the war, but it should not have been met simply by printing up more dollars. The export of dollars should have been matched by a steady expansion in the export of tangible wealth, especially high-technology capital goods.

Instead, American policy discouraged investments in basic industry, exports stagnated, and a false philosophy of a services-based "post-industrial society" was allowed to take hold. The dollar's weakness rests ultimately on this failure to improve productivity in the tangible goods producing sectors. Gilbert's cure—exchange controls—would ensure an even faster demise of the dollar by isolating U.S. industry from world markets.



## When the economy goes

*How much worse the economy looks than it did last March, and who will be shaken out first.*

**S**eatrain, the shipping and rail company, will begin dismembering its operations by selling its Pacific Ocean freighter services to Hong Kong interests for \$54 million Dec. 10. Seatrain was forced to make this arrangement when, on Dec. 5, Chase Manhattan Bank called in \$50 million on a loan for immediate payment. Within hours of Chase's move, Seatrain fired 50 employees in its New Jersey operations, and it is expected to file a Chapter 11 bankruptcy soon.

The potential Seatrain bankruptcy, while reflecting special circumstances, is a weathervane for the shipping industry and the U.S. economy as a whole. With the prime lending rate hitting 20 percent Dec. 10, the economy will begin shaking out, and only the very strong will survive.

The signs of industrial collapse began showing up in mid- to late-November. Small and medium-sized companies find themselves holding each other's accounts receivables (IOUs for goods sold) but in a game of musical chairs, no firm can get another to pay up. At the same time, orders are dropping and involuntary shipments are building up. "The story we're getting," reports Judith Mackey of Townsend-Greenspan, "is that orders have dropped sharply since mid-November, often significantly below shipments. Some firms are comparing the situation to last March," during the credit crunch. Now, most firms

are operating at a lower production level.

The emerging pattern is that, as *EIR* predicted months ago, interest rates have not eased toward the end of the year, jarring the earlier predictions of every other major investment and econometric consulting house. The prime, as many are now saying in the investment community, could bounce right up against the upper limits of the U.S. usury ceiling of 25 percent. And it won't come down, unless there is a very severe immediate crash, until some time around February.

The shake-out will be of immense proportions. *U.S. Automotive News* reported that car output in November fell 13.3 percent from its dismal levels of the previous November to 543,627 units. This is the lowest November level since 1970, when General Motors was closed down by a strike.

Car production for this year through Dec. 6 will be 5,924,321, a 26.9 percent decline from last year. Truck production for the first 11 months will be 49.7 percent lower than last year. Unemployment in the industry, which reached 367,000 in May 1980, is now 200,000 according to government figures.

Chrysler has drawn down \$800 million of a \$1.5 billion federally guaranteed credit loan that it can draw on under the emergency conditions set up by Congress last December. Chrysler head Lee Iacocca has announced that Chrysler needs

another \$350 million draw down in the next 30 days to keep operating. But the approval for this loan must come from the Chrysler Loan Guarantee Board, the three-member board established by Congress to oversee Chrysler's finances and loan guarantees. One member of that board is Volcker and another is Treasury Secretary Miller. Both look unfavorably on Chrysler's continued existence, and in general at the auto industry.

Ford has borrowed \$725 million in the past two weeks to repay bridging loans it took out through its European subsidiaries this summer. At a contracted 18 percent interest rate, Ford will pay \$650,000 per day in interest on its new loans.

There are many indications why the approaching shake-out of the economy will be worse than March to May 1980. For one thing, U.S. export levels for manufactured goods will be down next year compared to the levels for the first three quarters of this year. The dollar is no longer cheap, thus neither are U.S. exports; and the world is currently in a recession, and thus not offering the U.S. a market. But manufactured goods exports account for 15 percent of U.S. manufacturing. This safety valve for production, which existed in the summer of 1980, will be shut tight.

Furthermore, the recession will be more widespread, hitting manufacturing, city and state governments, as well as housing. Income levels will be lower and consumer credit, when corrected for inflation, still has not grown above the levels of July of this year. One economist, Gert von der Linde, of Donaldson, Lufkin, Jenrett is predicting a 10 percent *real* GNP drop for the first half of 1981.

## Triffin's new gold standard

*Who's moving a financial crisis, and why the bullion price will soon bottom out.*

A new "Friedmanite" international gold standard is in the making and could take a giant step forward when and if Britain joins the European Monetary System (EMS), according to Robert Triffin, a leading spokesman of the "Siena Group" of monetary reformers and economics professor at Belgium's University of Louvain. Triffin, who was interviewed by *EIR* correspondent Laurent Murawiec, reported that British Prime Minister Thatcher "has been moving closer and closer to the idea of joining the EMS."

"What I can see happening very soon is dealings in gold among central banks, being done at current market prices or market-related prices; gold settlement, in other words, through the ECU [European Currency Unit]," Triffin remarked. "Euro-American financial relations" may be organized in the future "on an ECU-dollar basis instead of a dollar-mark basis."

Triffin, however, indicated that central banks should not be permitted to benefit from any future appreciation of the gold price, since this would lead to the creation of "inflationary" new liquidity. Instead, "there could be an agreement to limit world reserve growth, growth of ECU reserves or any other reserves to, say 5 percent per annum, to give a Friedman-type indication, with qualifications, of course, for special cases. Then we should sterilize the prospective bookkeeping profits or losses of

gold."

Triffin's description of future monetary developments might be dismissed as academic, were it not that certain influential British and European bankers have been talking recently about the possibility of a severe Eurodollar market shake-out, including John Craven, deputy chairman of Merrill Lynch International, and Robin Pringle, executive director of the "Group of 30."

Indeed, only a world financial crash, or the threat of one, could induce France, West Germany, and other European governments to accept a "return to gold" in the deflationary form suggested by Triffin. What Triffin proposes is essentially a return to the pre-1914 gold monetary system, which was designed to throttle industrial growth outside of Britain. But if the Eurodollar market is destabilized, European governments might have to revert to such a system simply because gold would then be the only international currency of any recognized value, and the shattering of financial confidence might preclude the use of gold to foster growth.

The sharp fall in the gold price Dec. 9 and 10 should, therefore, be seen as part of phase one of a "crash of 1981" scenario. Investors are being panicked into dumping their gold and other commodity holdings, based on projections of continually rising U.S. interest rates which increase the cost of holding commodity futures contracts at the

same time that high-yielding, short-term dollar instruments appear relatively more attractive. What such analyses ignore, however, is that U.S. interest rates cannot remain very long at present levels without precipitating major bankruptcies, which in turn could unleash a domino effect on the international banking system. Under those conditions, gold could skyrocket, and those who were clever enough to buy at the bottom would profit.

According to a source at Swiss Banking Corporation in New York, the dramatic fall in the gold price on Dec. 10, to \$568 an ounce compared with \$593 at the previous day's close, occurred when a single large seller appeared on the European markets. This could be an indication of market manipulation. Also feeding the panic liquidation was the *Wall Street Journal* article of Dec. 10, which reported that some European gold analysts believe the Soviet Union may be forced to double its gold sales to the West next year to raise hard currency for Poland.

By the end of the day, however, David Potts, senior gold analyst for the British mining firm Consolidated Gold Fields, told Reuters that "he would be surprised to see gold fall much below \$550 an ounce, given what he suspects has been reasonable bank support around \$600 lately. He said he would be looking for support now from central banks, long-term investors and the fabrication industry."

In my view, gold probably will bottom out soon, not only because European central banks will support it, but also because the fear of financial collapse (not necessarily the collapse itself) may shortly become a factor in the markets.

# World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
<b>NEW DEALS</b>				
\$500 mn.	Saudi Arabia/U.S.A.	Ashland Oil will build 5,000 bpd lubricating oil refinery in Saudi Arabia as a 50-50 joint venture with Saudi state oil ministry, Petromin.		Agreement is for 50-75 yrs.
\$220 mn.	Holland from U.S.A.	Dutch Air Force has ordered 22 more F-16 fighters to replace expected losses on 102 F-16s already ordered. Dutch Fokker will produce tailfin assemblies for these and for 67 American F-16s as share in production.		3 of original 5 NATO partners in F-16 deal have dropped out.
\$30 mn.	Mexico from U.S.A.	Joint venture to build plant making 20,000 tpy ABS resins signed between Borg-Warner and Fisomex, a large private Mexican group.		
	Cuba/Mexico	Pemex will help Cuba modernize Havana oil refinery and seek oil off Western Cuba. Pemex will sell Cuba bottled gas for household use and buy kerosene from Cuba.		Agreement signed. Mexico is <i>not</i> supplying any oil to Cuba.
<b>UPDATE</b>				
About \$3.3 bn. of \$14 bn.	U.S.S.R. from France	Siberian-Western Europe natural gas pipeline project. Crédit Lyonnais leading French bank consortium financing French exports of turbines, compressors and other equipment for project.	Coface guarantee; at about 7.8% on French francs.	Terms being negotiated
\$2.37 bn.	India from U.K.	205 Jaguar fighter-planes deal is going through, announced Sir Frederick Page of British Aerospace after visit to India. Contract is for 90 planes made in England and 115 by Hindustan Aeronautics in Bangalore. Also discussing light combat planes.		Contract was reviewed by new Gandhi govt.
\$150 mn. per year	Jamaica/U.S.	Jamaican Prime Minister Seaga proposed U.S. help for his bankrupt country by bartering grain and other goods for 4 mn. tpy bauxite for U.S. strategic reserves.		Bauxite is, after cannabis, Jamaica's chief export to U.S.
<b>CANCELLED DEALS</b>				
\$40 mn.	U.S.S.R. from U.S.A.	Technological data from Dresser Industries for an oil drill bit plant under construction in Soviet Union. Carter admin. claims license cancellation will delay plant several years. Dresser says Soviets already got equipment and most technical data and will only lose training.		Dresser complains Afghan embargo makes U.S. seem "unreliable supplier."

## London predicts January dollar crisis

*Reagan can bolster the dollar by ending the Volcker interest-rate hikes instead.*

**T**he City of London and the Thatcher government say that the U.S. dollar may be in trouble just in time for Reagan's inauguration.

Federal Reserve Board Chairman Paul Volcker has adopted a British interest-rate policy, but unless the Reagan administration adds to it a Thatcher-style fiscal austerity program, the U.S. dollar is in for an old fashioned currency crisis of the sort which used to plague the British pound sterling, the London *Financial Times* editorialized this week.

In "The Old Duke Emigrates," the monetary policy of the Bank of England is likened to the strategy of the Duke of York, who marched his 10,000 men up, and then down, the hill again: jacking up interest rates and then letting them fall freely.

Britain has learned that this policy by itself will only cause the money supply to grow out of control, encouraging foreigners to dump the currency, the daily says. "The Duke, however, has not died; he simply seems to have moved to New York," they write, for Volcker is still trying to jack rates up only to let them fall, thinking this will encourage investors to buy long-term corporate bonds while rates are still high.

The rate gyrations have instead killed the U.S. bond market, "and dealers talk freely of catching the British disease," the London bankers' paper notes.

This is leading to an explosion in the U.S. money supply, because corporations forced off the bond

market are borrowing furiously short term from the banks. "The Fed is tending to find, just as the Bank of England used to, that the harder it squeezes, the faster monetary growth becomes," the *FT* writes. "There is no reason to expect that it will be any easier for Americans to escape from this impasse."

British Chancellor of the Exchequer Sir Geoffrey Howe, in a speech this week, also noted that the pound will continue strong against the dollar no matter how high Volcker raises rates. "Now that U.S. rates have risen and ours fallen without any major impact on sterling, it is very hard to argue" that sterling is headed anywhere but up against the dollar, he said.

By the time of Reagan's inauguration, the *Financial Times* writes, Reagan will be able to stave off a dollar crunch only by showing he is serious about fighting inflation. This means endorsing Volcker and also making slashes across the board in the U.S. budget, including cuts in military spending, pay freezes, and abandonment of Reagan's much-publicized plans for a major tax cut.

The pressure on the dollar "is posing some nasty problems . . . for President-elect Reagan some weeks ahead of his accession, as Mr. Volcker calls for fiscal support in the fight against inflation," the *Financial Times* says.

"The only alternative we see is higher taxes."

Willard Butcher, president of

the Chase Manhattan Bank, told the Union League Club of New York this week that indeed Mr. Reagan must adopt a Thatcher-style fiscal program. "No central bank can wring out inflation when, at the same time, the federal government continues to finance large deficits," he said. "The U.S. must not abandon sound monetary policy, but add to it cuts in "government spending and borrowing."

Mr. Butcher also proposed to phase out the cost-of-living clause in most U.S. labor contracts.

Benjamin Rowland, of New York's Salomon Brothers investment bank told *EIR* that a January dollar crisis "is baked into the cake" by Volcker's interest rate policy. "The dollar is very weak on fundamentals, the economy is weak. Volcker's raising of rates has served to mask this, while weakening the economy, by attracting short-term money into the dollar. But it's only international hot money, flight capital.

"Volcker has also baked a new recession into the cake, and when it hits and interest rates fall, all the hot money will go right out of the dollar. Rates don't even have to fall sharply. One or two percent will do it," he stated.

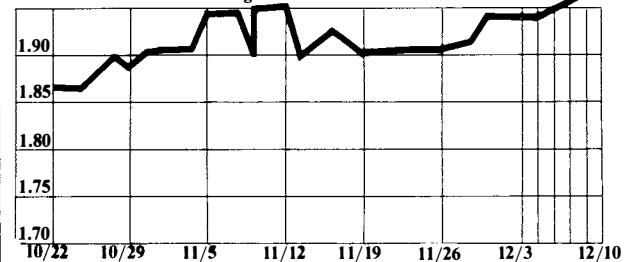
"To defend the dollar, Reagan will have to eliminate all his other policies," Rowland stated, "eliminate tax cuts, and go with deep budget cuts."

Reagan, however, does have a choice: he should dump both the Volcker and Thatcher budget program. Sources close to the President-elect say he may do just this, and go with a program of credit for industrial capital formation which will make the dollar look very good indeed.

# Currency Rates

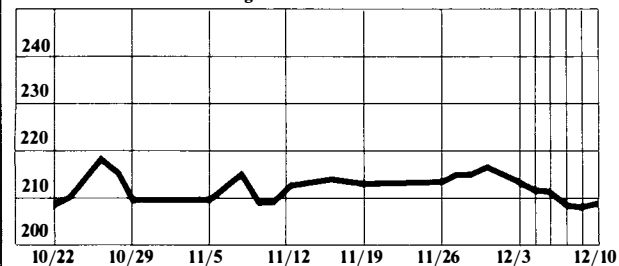
## The dollar in deutschemarks

New York late afternoon fixing



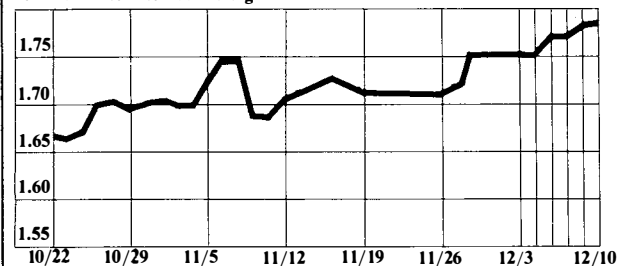
## The dollar in yen

New York late afternoon fixing



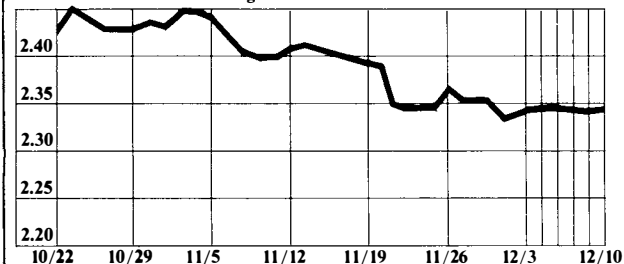
## The dollar in Swiss francs

New York late afternoon fixing



## The British pound in dollars

New York late afternoon fixing



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# Business Briefs

## Commodities

### Markets 'coming apart at the seams'

"It's a complete debacle," an analyst from Conti Commodities in Chicago told *EIR* Dec. 10. "The downslide is feeding on itself now." Traders agree that the sell-off was provoked by the steady climb of interest rates back to the unprecedented levels of last spring, helped along by fears over events in Poland.

Investors' confidence in commodities has been shaken, Conti's Al London asserts; and a lot of money has left the markets in favor of fixed-interest investments. The market collapse has been across the board, Mr. London emphasized, without regard to "the fundamentals." Sugar has plunged from 45 to 30 cents. Gold and silver followed suit. Once the sell-off got going, margin calls added momentum.

Despite tight world supplies of feed-grains such as corn, and continued excellent demand prospects, prices have been tumbling for the last week.

"The high interest-rate environment is weighing on prices," one analyst explained to the *Wall Street Journal*. "It's becoming more attractive to unload tangibles."

## Fiscal Debate

### Chase president urges support of Federal Reserve

In a speech before New York's Union Club Dec. 9, Chase Manhattan President Willard Butcher defended the U.S. Federal Reserve Bank's 14-month high-interest-rate policy. "No central bank can wring out inflation when, at the same time, the federal government continues to finance large deficits," Butcher stated.

The argument that continuing high levels of government spending are what has made the Fed's crunch ineffective against inflation is an argument that has been promoted recently by economists associated with the Heritage Foundation

in Washington, D.C. In turn, the Heritage group, which is urging President-elect Reagan to declare zero-monetary growth for one year starting with the day of his inauguration, is also known to consider the current monetary policies of British Prime Minister Thatcher an effective model for U.S. monetary policy.

Butcher called for cutbacks in government spending and borrowing; evaluation of how to bring wage increases down to below the consumer price-rise rates; labor-management groups to coordinate a drive for "increased productivity"; alterations in tax policy as they affect profits and R&D investments; and reductions in government regulations.

## Banking

### Deregulation: an 'obituary for S&Ls'

The Depository Institutions Deregulation Act of 1980 has proved to be "an obituary for the savings & loan industry, written by the big commercial banks," W. C. Smith, lobbyist for the Pittsburgh Realtors Association said this week. Deregulation is already causing a spate of mergers, he said, as S&Ls are forced to compete with commercial giants like Citibank for a dwindling deposit base.

S&Ls are losing money in the cut-throat competition; 50 percent of S&Ls polled by the *Wall Street Journal* this week expect an operating loss in 1980. Their savings base has crumbled with S&Ls' share of new savings plunging to 13 percent in the first half of 1980 from 52 percent in 1976. S&Ls' share of new mortgage lending has fallen this year to a historic low of 37 percent from 47 percent in 1979.

"We don't have the muscle or earning power to compete as a consumer bank," said Ralph McDonald, president of the Phoenix, Ariz. Saguaro Savings and Loan. As a result, hundreds of smaller S&Ls are planning to be acquired by larger institutions to avoid bankruptcy, Maurice Mann, vice-chairman of the Warburg Paribas Becker investment bank, told the *Journal*. "Only big thrifts

can profitably borrow money and sell securities as a replacement for the eroded savings base," he said.

## Public Policy

### Schmidt opposes high interest rates

West German Chancellor Helmut Schmidt declared in a speech Dec. 4 that he opposes the policy of high interest rates advocated by the United States and Great Britain. West Germany would like to lower its rates, he said, but cannot do so since the high U.S. and British rates would then draw funds out of the Federal Republic of Germany.

The chancellor was addressing a meeting of the Darmstadt Discussion Circle, a conservative faction in the Social Democratic Party.

Schmidt denounced the ideology of zero growth, according to the *Frankfurter Allgemeine Zeitung* Dec. 5. Zero growth is the result of economic recession, hardly a desirable phenomenon, he said.

Schmidt underlined the importance for his government of the Franco-German alliance. French President Valéry Giscard d'Estaing will give his full support to U.S. President-elect Ronald Reagan, Schmidt said.

## World Trade

### France proposes joint ventures with Japan

The French government has proposed that France and Japan work to head off a potential Japanese-European trade war through joint ventures in high-technology capital goods, including joint exports to developing countries. Aircraft, nuclear power, oil drilling, agrochemicals and electronics were in the proposal presented to Japan's Trade Minister, Rokusuke Tanaka by François Missoffe, special adviser to the French trade ministry.

## Briefly

Tanaka and Foreign Minister Masayoshi Ito were in France to meet with Premier Raymond Barre as part of a Europe-wide tour. Before the meeting, Barre had told a business conference in France that protectionism against Japan is absurd; instead, Europe should learn to be as productive as the Japanese.

The cabinet-level meetings coincided with a major conference in Paris of Japanese and French industrialists representing chemicals, steel, nuclear power and other sectors, who discussed proposals for joint ventures. The leader of the Japanese delegation, Chamber of Commerce and Industry chief Shigeo Nagano, was particularly interested in cooperation on nuclear fast breeders.

Protectionist sentiment has sharpened in Europe, spurred in part by growing sales of Japanese cars and TVs at a time of economic stress. The European Commission has urged a European-wide showdown with Japan. France urges a nation-by-nation approach as a means of bypassing the abrasive commission. The French government has now combined limits on French imports of Japanese consumer durables with the new proposals to expand both countries' export markets through joint ventures.

### Agriculture

## U.S., Mexico sign farm trade pact

The United States and Mexico last week signed an agricultural trade agreement for 1981 providing for between 6 and 8 millions of U.S. grains exports to Mexico. A number of other commodities are also included in the agreement, such as edible beans, soybean meal, cottonseed, and nonfat dry milk.

The agreement, contains a potentially controversial provision on direct government-to-government sales. Last January, Mexico agreed to purchase nearly 5 million tons of grain, and an agreement amended in September to cover slightly more than 7 million tons was signed. In all, Mexico took delivery of 10 million tons of U.S. farm commodities in 1980,

as the third largest U.S. customer.

At the time of the first agreement, Mexico had made it clear that they wanted a supply agreement with the U.S. government, and cited the embargo on Soviet trade. Agriculture Secretary Bergland, under pressure to find markets for more than 15 million tons of embargoed grain the government had purchased from the grain companies, arranged for the Commodity Credit Corporation to "sell or arrange for the sale" to Mexico.

The grain companies issued loud protests through their lobbying arm, the North American Export Grain Association in Washington. Commodity Credit Corporation head Kelly Harrison defended the agreement on the grounds that it was in the interest of broad-based improvement in U.S.-Mexico relations.

Section 4 of the new agreement provides that while trade will be through "normal commercial channels," government-to-government transactions are not excluded.

### International Credit

## German economy hit by Volcker policy

The effects of the U.S. Federal Reserve's credit policies, with special focus on continuing to increase bank interest rates, is having a marked negative effect on the West German economy. Rumors are beginning to abound that both the Commerzbank and the Dresdner Bank will be unable to pay out dividends this quarter, an extremely unusual situation.

Volkswagen is also experiencing difficulties due to the collapse of its vital U.S. and Brazil markets. The company's after-tax profits collapsed by 42.2 percent during the first nine months of 1980 relative to the previous year, and there were losses in both the Brazilian and American Volkswagen subsidiaries.

Even West German auto sales are falling, with Volkswagen deliveries for 1980 dropping by 9.4 percent. The West German GNP rose a mere 0.7 percent in the third quarter of 1980, the German Federal Statistics Office reports.

● **IMEMO**, a Soviet think tank, gives qualified support to the Brandt Commission's report favoring a call for "appropriate technologies" for the Third World. In the October issue of Imemo's publication *World Economy and International Relations*, P. Khvoink endorses the Commission's linkage of disarmament and development of (nuclear) technology, but objects that all Western investment in the Third World is exploitative and the LDC's are better off relying on their "own efforts."

● **WILLIAM PROXMIRE** told the Senate Dec. 11 that he supports the Federal Reserve's policies even if the prime rate "may reach 30 percent."

● **MARTIN WARD**, president of the United Association of Plumbers and Pipefitters, writes in the December issue of the union's journal that "85 million man-years of employment opportunity have been forfeited as a result of the economic stagnation caused by the Federal Reserve's policies."

● **LANE KIRKLAND** has quietly organized the AFL-CIO's unions to support a full embargo against all trade with the Soviet Union and East bloc if the U.S.S.R. intervenes in Poland. "We don't give a damn what the government says, we're going to do it anyway," an AFL-CIO spokesman says.

● **MORGAN GUARANTY** Trust has filed for approval from the Security and Exchange Commission to offer 100,000 American Depository Receipts (ADRs) for shares of the Hong Kong and Kowloon Wharf & Godown Co., one of Hong Kong's largest landowners.

## Eurosocialists launch takeover of Democratic Party

by Konstantin George

The American capital was host last week to the largest gathering of Eurosocialists ever to take place on U.S. soil. They came for the avowed purpose of intervening into the internal affairs of the United States. Never before had it been done so blatantly.

The specific occasion was the Dec. 5-7 “Eurosocialism and America” conference of the social-democratic Second International, sponsored jointly by the German Marshall Fund and the Washington-based Democratic Socialist Institute.

The goals elaborated were: 1) radicalize America’s Democratic Party, drive the conservatives and moderates out of it, and turn it into an anti-capitalist institution under tight top-down control, on the model of the British Labour Party; and 2) use this class-war battering ram against the Reagan administration, in the expectation that Reagan will precipitate a depression by adopting the economic policies of the present British Conservative government.

The guiding policy is to obstruct the coalescence of the business, labor, and minority-group majority that gave Reagan a mandate for an economic growth policy; the policy guides are typified by the bankers who finance the German Marshall Fund—Averell Harriman, David Rockefeller, and Walter Wriston, who have tenaciously backed the efforts of the Carter administration and the U.S. Federal Reserve to deindustrialize the United States.

Of the over 2,000 attending the conference from Europe and the United States, the leading participants included the West German Social Democratic Party chairman, Willy Brandt; the French Socialist Party president, François Mitterrand; British Labour Party Executive Committee member Anthony Wedgwood Benn; Dutch Labor Party chief and president of the Confederation of Socialist Parties of the European Community, Joop den Uyl; British Member of Parliament and Sussex University (Tavistock) fellow Stuart Holland; Swedish Social Democratic Party chairman Olof Palme; Interna-





Willy Brandt (l) with U.S. social democrat Michael Harrington.

tional President of the International Association of Machinists and AFL-CIO executive council member William Winpisinger; Rep. Ron Dellums of California; Bill Lucy of AFSCME and leader of the Coalition of Black Trade Unionists; feminist Gloria Steinem; and Michael Harrington of the sponsoring Institute for Democratic Socialism, who also served as conference supervisor.

In Washington meeting with Palme and other luminaries of the Social Democracy was Georgi Arbatov, head of the Soviet Union's U.S.A.-Canada Institute. The Institute is the main Soviet institution charged with studying the United States as well as running operations into the country, particularly in behalf of the Soviet central intelligence agency, the KGB.

But Arbatov did not limit his activities to discussions with conference participants. Both before and after the conference, Arbatov held a series of highly confidential meetings with American politicians, among them Henry Kissinger.

It is noteworthy in this respect that the various policies proposed at the Socialist International conference are identical with those the right-wing Heritage Foundation is trying to foist on the incoming administration. Arbatov's interlocutor, Henry Kissinger, will either be part of the Reagan executive or will continue his attempts to influence it from the outside.

### **The private meetings**

As confirmed by former State Department Director of Political-Military Affairs Leslie Gelb, the round of

high-level meetings that coincided with the Second International conference included first, a meeting of Gelb himself, former Secretary of State Cyrus Vance, and Georgi Arbatov; second, a meeting of Gelb, Willy Brandt, and Olof Palme. The former Swedish premier is now serving directly under Austrian socialist Kurt Waldheim as director of United Nations "mediation efforts" in the Iran-Iraq war. In further meetings, Arbatov conferred separately with Palme and with Henry Kissinger.

Private meetings in Washington during the weekend also involved high officials of the Soviet think tank IMEMO, an entity in the "class war" faction of the Soviet Union that also includes the KGB.

This convergence of meetings intersecting Kissinger, Vance, the Second International Eurosocialists, and representatives of the Soviet KGB had a lengthy preparation. In October, the Eurosocialists formed a new group called the Palme Commission, based in Vienna. The group's membership includes Palme himself, Cyrus Vance, Leslie Gelb, and former British Foreign Minister David Owen. From the Soviet side, the members include IMEMO-KGB figures Arbatov and retired General Mikhail Mikhalev. Next week, this group will hold a plenary session in Vienna.

Gelb himself recently described the group's function as forming "one of the two or three channels that will definitely stay open [the other two being embassies and the U.N.] if the Soviets go into Poland . . . all other channels will freeze shut and stay shut."

In other words, the anglophile KGB colleagues of the Eurosociologist crew would clamp the padlock on informal Franco-Soviet, German-Soviet, and Reagan-Soviet channels.

Such meetings between Eurosociologists and the KGB are quite common in the old capitals of Central Europe such as Vienna. The Vienna "Treffs" are designed to allow a cold war to proceed under what is termed by British policy-makers "crisis management," meaning protection of the interests of the Anglo-Continental "black nobility," while the interests and positive alignment of the U.S., France, Germany and Russia as nation-states is sabotaged.

This past weekend was, however, unprecedented. The "Treffs" between these Eurosociologist leaders and the KGB were located this time in Washington, D.C.; the timing, by design, was the aftermath of Ronald Reagan's presidential election victory.

And, most significant, the overriding theme of the conference was "Eurosociology and America," where Palme, Brandt et al. gave major speeches and press conferences. The bald gameplan presented by this one-worldist group: take over the Democratic Party and create in its stead a social democracy, a carbon copy of the British Labour Party.

The theme and the conference proceedings—a group of Eurosociologists linked to the KGB scheming how to orchestrate a takeover of the Democratic Party—was sufficient cause for the national media and press to place a ban on coverage. Despite well-attended press conferences given by Brandt, Palme and others, except for a perfunctory article in the *Washington Post*, no public mention of the conference was recorded anywhere in the country.

The fact that the conference participants repeatedly declared that the key to their perspective for takeover lies in ensuring a world depression confirms the acute embarrassment that objective coverage of the proceedings would have entailed.

British Labour Party leader Wedgwood Benn, in a keynote speech, outlined the perspective in precisely these terms. Benn stated in unequivocal terms how the accession of Margaret Thatcher and her imposition of depression policies had enabled a "successful radicalization" of the Labour Party, and the prospect of "after Thatcher, us." Benn extended the point to the new Reagan administration, gleefully outlining the prospect of a Thatcherized Reagan administration enforcing a U.S. depression, creating the only conditions under which Benn's takeover scheme becomes a possibility.

What exactly are these "Eurosociologists" who so cavalierly talk of promoting Thatcher policies of depression? Is it merely a line advanced for the credible that a depression is the best and quickest road for social-democratic takeovers?

There is a fundamental identity between the policies

of the Eurosociologists, social-democratic assets within the Democratic Party hierarchy, such as the pro-Volcker Tip O'Neill and Vice-President Mondale, on the one hand, and the Thatcher crew in Britain, Milton Friedman, and the other would-be Reagan administration Thatcherites on the other hand.

One instance is the convergence of the Thatcherite and American Heritage Foundation apostles of so-called "free enterprise" with the KGB-linked Eurosociologists in support of the establishment of Hong Kong-style "free-enterprise zones." The "enterprise zone" policy was first drafted by Sir Peter Hall, chairman of the socialist Fabian Society of Great Britain. The concept was vigorously endorsed at the conference by the leader of the radical left wing of the Labour Party, Anthony Wedgwood Benn. Tony Benn told a reporter present that his "only possible" difference with the Heritage Foundation on the enterprise zones industrial and urban policy is that "it must include local control."

The convergent policy commitment of the Socialist International and the Thatcherite Tories and pseudo-conservatives seeking positions of influence in the Reagan administration is deindustrialization and deurbanization.

Brandt and other leaders of Eurosociology have gone on record endorsing the world population reduction demands that form the genocidal core of the "Global 2000" policy endorsed by the Carter administration. Global 2000 sets a goal of reducing a projected world population of 6½ billion in the year 2000 to less than 4 billion.

The endorsement of, and organizing for, a feudal strategy of severe population reduction, technology control (another recurring theme at the conference), deindustrialization and deurbanization, demonstrates the crucial point: the feudal blueprint is the product of an alliance of Anglo-American financiers and European black nobility. The "Socialist International" is the anti-capitalist, anti-technology Jacobin deployment of the leading oligarchic families against advanced industrial nation states.

The sponsorship of the conference is exemplary of the point. The meeting was organized by the German Marshall Fund, established in 1973 by American financiers such as Averell Harriman and Robert Lovett, whose ultimate policy goal for Western Europe is a "post-industrial society"—in effect, the belated implementation of the Morgenthau Plan, the infamous post-war scheme which was to have denied Germany any industrial sector. The German Marshall Fund has funded numerous studies along these lines, including the study which produced the blueprints for deindustrializing the German steel center of Dortmund and much of the Ruhr.

The crucial role of the Eurosociologists and various social-democratic institutions is their diffusion of "lim-



Photo: Stuart Lewis/NSIPS

*William Winpisinger at the conference with reading material.*

its to growth” and related Malthusian ideology to blue- and white-collar strata of the population. The related role is that of—with varying degrees of success—enforcing material austerity, while posing it as “advancing the quality of life.”

German Marshall Fund documents define “quality of life” as follows: “fewer people means that each person can consume more.” The black nobility and the IMEMO-KGB faction work towards a deindustrialized “North” (OECD and Comecon) which would ultimately resemble certain pre-World War I fiefdoms of Europe’s black nobility, such as Austria-Hungary, which the Hapsburgs kept utterly rural, utterly backward, and fraudulently deemed, from 1880 on, “overpopulated.”

This is no mere academic alliance between the Eurosociologists and the KGB for wrecking the industrial “North.” The destabilization of Poland, funded and orchestrated through the Eurosociologist networks (with additional ample bankrolling from the League for Industrial Democracy’s social-democratic leaders and assets in the American trade union hierarchy such as Lane Kirkland and Sol Chaikin), in direct policy alliance with the KGB, provides the current “model for the North,” to use Benn’s phrase in a statement he delivered to the conference.

The Polish model of Jacobinism has, in summary, overturned the industrial growth policies of the former

Gierek regime; cancelled industrial projects and nuclear plant construction; and, in ousting Gierek and his Politburo allies, dismantled the faction allied with the Franco-German opposition to the Brandt-KGB outlook.

Alongside Poland as the “model for the North” ran the conference’s companion theme of “El Salvador, model for the South.” As in the case of Poland, more than academic calls for civil war in El Salvador were involved. Brandt took the occasion to announce that the Socialist International would help fund the “revolution.” Thus, a Western Hemisphere explosion is being planned around Reagan’s inauguration, whose immediate strategic purpose is designed to poison any chances for an early U.S.-Mexican oil-for-technology accord that could serve as a paradigm for similar export of high technology accords with the developing sector.

As these conference proceedings and decisions demonstrate, the Eurosociologists, the KGB, and the Heritage Foundation will pull all stops to sabotage the crucial first 100 days of Reagan’s administration.

If the Reagan administration, with bipartisan support, moves early and decisively to reverse the Carter-Volcker slide toward a full depression and to break out of the “El Salvador trap” by underwriting Mexican development, the well-crafted plans of Brandt, Palme, Arbatov and the black nobility can rapidly unravel.

# The Second International plans radicalization of America

by Scott Thompson

Standing in the long queue outside the Dec. 5 plenary session of Michael Harrington's "Eurosocialism and America" conference was an experience not unlike being skipped back two decades in time to the anti-Vietnam War movement of the 1960s. The 2,000 participants appeared to be mainly bearded youths in imitation lumberjack dress sporting regulation backpacks, together with handfuls of tweedy professors and little old ladies.

What made this ragtag gathering of interest was the contrast between the raw material at hand and the tasks which our news service had picked up as the goal of the three-day conference. Among the many "leaks" we gathered, one of the best was obtained in the classic "conversation overheard in a bar." Two leaders of Michael Harrington's Democratic Socialist Organizing Committee were discussing how they would threaten the moderate wing of the Democrats with splitting the party in order to stop their turn toward more conservative policies.

"The idea is to present a really live threat that the left liberal wig of the party will walk out. The Europeans being here will help that a lot. Then O'Neill can force the conservatives to back off or to leave the party themselves. The moderates won't let the party split in two for the sake of a turn to more conservative policies. We can force them to adopt social democratic policies that way."

Later at a press conference of Capitol Hill one of our Washington correspondents asked: "Mr. Harrington, is it true that you have been threatening to split the Democratic Party during the closed-door sessions of the last few days? My sources indicate that the threat is really designed to force the conservatives out of the party." The appropriate part of Harrington's anatomy turned interesting colors at the discovery of his ruse.

## A peasants' revolt

This scenario for effecting an ideological takeover of the Democratic Party, after it had suffered one of the most resounding defeats in its history, was further uncovered in the plenary session, as were at least the outlines of how organized labor was to be brought into the gameplan.

Present on the dais, in addition to Harrington, were for the first time in history of the American socialist movement such Second International power-brokers as former German Chancellor Willy Brandt, former Swedish Prime Minister Olof Palme, and British Labour Party Executive Council member Anthony ("Wedgie")

Wedgwood Benn. They were joined by *M.s.* magazine editor Gloria Steinem, International Association of Machinists President William Winpisinger, and Rep. Ron Dellums (D-Cal.), "the one-man socialist caucus on Capitol Hill."

Benn, who would work most closely with the young socialists throughout the conference (profiling them for later deployment), gave the broad outlines of why this unprecedented event was taking place. In his speech, Benn used the example of the economic chaos resulting from Conservative Prime Minister Margaret Thatcher's monetarist policies to show the sweeping "radicalization" that could be catalyzed if the Reagan administration were backed into a corner and made to impose Nixonian wage-price controls as a result of the austerity measures of Federal Reserve Chairman Paul Volcker. According to Benn, monetarism had already left as much as 60 percent of the population unemployed in key industrial cities in England.

"I am astounded," said Benn, "at how radicalized the population has become in just 18 months. A demonstration of 150,000 workers to protest unemployment has taken place in Liverpool, and we recently held the largest demonstration since the Trafalgar Square anti-bomb demo in London. . . . We are facing the same problem that occurred in the 1930s, which was solved then by rearmament and war."

What does socialism have to offer as an alternative to monetarism? Concretely, Benn admitted, nothing. Every other speaker during the conference would confirm the same conclusion, from proclaiming "the post-industrial society" to statements that "no growth will be possible in the foreseeable future." Ron Dellums, who preceded Benn, made a similar point. Under present economic conditions there could be no New Deal, Fair Deal, New Frontier, or Great Society. Instead of basic industrial and scientific growth, or traditional liberal handouts, Benn predicted that the Labour Party would ride to power in three to four years by offering labor "a new morality," "genuine internationalism," "enfranchisement," "a return to our socialist roots."

Throughout, Benn worked to shape the slogans and ideology that could be used to "create solidarity with labor, bringing it into direct coalition with the peace movement, the women's liberation movement, the ecology movement." Organized labor was too "nonpolitical," Benn told one *EIR* correspondent, and "it may be necessary to create a new form of trade unionism."

From the examples he cited, it became apparent that Benn and his Eurosociologist colleagues planned to use American labor against the Reagan administration.

Two European examples of what this new “direct coalition” with labor must become were given. The first was that of the Peasants’ Revolt of 1381. In 1981, Benn said, the British Labour Party would mount a year-long celebration of the 600th anniversary of the Peasants’ Revolt, “the origin of modern socialism,” according to Benn.

His second example was the “Solidarity” union of Lech Walesa in Poland. “Ironically,” he said, “it was trade unionism in Poland that liberalized communism.”

From American history itself he chose such examples as Robert Owen’s utopian socialist schemes, the anarchist “Wobblies” (International Workers of the World), the Jesuit-spawned Catholic Social Action movement, and “liberation theology.”

Benn was precisely on the mark in citing the Peasants’ Revolt as the “mother” for such movements. The common thread through all of them was Jacobinism: the anarchist mob that transformed the republican revolution in France into bloody butchery.

### ‘Out of the closet’

William Winpisinger, international president of the machinists’ union, showed in his speech that he was in full agreement with this course. From his first ad lib on his prepared text (“Socialists rejoice, we’re out of the closets. . .”), Winpisinger made a call for building a labor-based socialist movement around the slogan: “The quickest way to progress is to self-destruct.”

Faced with the self-destruction of America, which he predicted a Reagan administration would bring, “Wimpy” (as he is known by his trade-union colleagues) stated: “The American trade-union movement and its left-of-center allies must fuse democratic values and a socialist vision of society into a viable economic and political movement that will defang the snarling corporate wolf and humanize his marketplace jungle.”

It was also left to Winpisinger to deliver the threat that if the Democratic Party, to correct for its smashing Nov. 4 defeat, continues to turn toward more conservative policies and program, Harrington’s Democratic Socialist Organizing Committee and allied radical elements “will take the high road, the Canadian route” to form a “New Democratic Party” splinter.

Walking back from the conference with Olof Palme, I asked him whether this threat was serious, and, if not, what he expected for the Democratic Party from the conference. In response, Palme said:

“I don’t think there is any possibility of splitting the party in the near future. Nor will Harrington’s group succeed in taking it over within the next decade. What we really want to do is hold the liberals. We can do this,

in part, by strengthening the radical wing of the party.”

As I later learned from top officials in the AFL-CIO, it was for this purpose—creating a radical wing that would ultimately move more and more into the mainstream—that the Socialist International made a unilateral decision at its Madrid conference to replace the more right-wing Social Democrats USA as its official U.S. representative with Harrington’s DSOC.

Buttonholed by an *EIR* correspondent at the Saturday reception, Harrington was even more explicit about what was behind the blackmail threat of a split:

“We are already the dominant socialist group in America, as I believe this conference makes clear. What we are doing here is ‘networking,’ building the basis so that we can radicalize the mainstream of the Democratic Party over the long run.

“Our immediate goal is to stop the party from being captured by the conservatives, the Democrats to the right of Kennedy and left of Reagan. We plan to get a lot more involved in primaries, to build up strength through them. Just like the New Right, we’ll work against conservative candidates we don’t support.”

When another *EIR* correspondent grilled Benn, whose many posts include being past chairman of the British Fabian Society, he made an astonishing admission. “Well, yes,” said Benn, “I guess our economic policies do converge with those of the monetarists.”

Benn, who claims to have coined the phrase “deindustrialization” to describe the effects of “monetarism,” went on to admit that several of his Labourite and Fabian Society colleagues were themselves working on “deindustrialization” schemes. One of his closer associates, Peter Hall, was, according to Benn, at work that very moment on a “free-enterprise zones” model of “building little Hong Kongs inside cities,” which had been picked up by the Heritage Foundation to feed into the Reagan administration.

### Convergence

These admissions from a shaken Tony Benn—namely, that Eurosociology was merely a “soft-cop” variant of monetarism—were confirmed in the statements of all the major speakers. This version of Schachtian economics was spelled out most explicitly by Joop den Uyl, former prime minister of Holland and chairman of the Federation of Socialist Policies.

In his speech, den Uyl stated that “structural problems” in the present world economy mean that “the normal rhythm of the fifties and sixties” cannot be resumed. As proof that economic growth must end, den Uyl cited the recent OECD report of Bertrand de Jouvenal’s Interfutures think tank in France. This futurologist body is linked to the circles in England around Geoffrey Vickers, a member of the Vickers armaments industry family, who has pushed a “Hundred Years

War" model of regional warfare throughout the Third World. Historically, it is not the least surprising that Vickers was a member of Britain's Ministry of Economic Warfare during World War II or that Bertrand de Jouvenal was linked to the fascist circles around Jacques Doriot in Vichy France. According to den Uyl:

"The rise of oil prices and other raw materials was an expression of the fundamental and continuing scarcity and of the newly won power of the oil-producing countries. Protection of the environment would mean that the cost of the industrial production would increase and growth would be permanently inhibited.

"There has also been a shift in values: people in the postindustrial society are more interested in the quality of their work and in having more leisure time than in the level of their income. Post-materialist requirements, Interfutures calls it. . . . [As a result] the Western economy will have to continue to reckon with a low growth of at the most two or two-and-a-half percent. That has enormous consequences for the future of the welfare state."

What are those consequences? Confronted by *EIR*, den Uyl admitted that the "gravest problem will be to get the European workforce to accept a much lower level of economic growth." His solutions amounted to more of the same social democratic programs which had helped create the present limits on growth.

Den Uyl called for a new World Environmentalist Conference similar to the one held in Stockholm in 1970

to impose controls upon the development of micro-electronics and other new technology, including fission-fusion technologies that would resolve the present energy shortage. And he called for the International Labor Organization to sponsor a New World Employment Plan (an adjunct to the genocidal "appropriate technologies" and "food control" policies of the Brandt Commission) to reorganize jobs in the advanced sector countries. To obtain full employment under "zero growth" conditions, den Uyl proposes a "six-hour day," more jobs in the service sector, and sharing of job opportunities equally between men and women.

Similar proposals were made by each of the other key speakers and panelists:

**Olof Palme** called for greater "co-participation" of the labor force in a tripartite arrangement bringing labor together with government and industry. "Co-participation" under conditions of "zero economic growth" such as Palme endorsed has been widely denounced in the past as a means to dupe workers into self-policing their own austerity.

Perhaps the most honest view of "co-participation" was given in a panel discussion by **Irving Bluestone**, a retired vice-president of the United Autoworkers. At a General Electric plant, Bluestone said, workers were bored with the tedious assembly of small electronic components. Management decided to let them have a greater role in the plant—e.g., the color of walls. "They still had the same boring assembly job after this," said

## El Salvador's 'just struggle'

In public speeches and in corridor discussions at last week's Second International conference in Washington, the world's social-democratic leaders stated that El Salvador—wracked by a bloody, no-win civil war—is the "model" for national liberation and independence struggles that must be encouraged throughout the Third World.

Months of battles in that country between left- and right-wing forces have left over 9,000 dead so far this year. The economic effects are so extreme that some observers are beginning to compare El Salvador to the devastation Cambodia underwent under Pol Pot's regime.

Yet the Socialist International has turned their support for armed struggle in El Salvador into their major cause célèbre internationally, as speeches by Anthony Wedgwood Benn, Olof Palme, Willy

Brandt, and others made clear. Second International Chairman Willy Brandt himself unabashedly admitted on national American TV Dec. 7 that the International is funding leftwing guerrillas operating in El Salvador, and defended that policy for other areas of the world as well.

Swedish socialist Olof Palme told the conference that support for struggles for "human rights" like in El Salvador is a necessity which he compared with support for the Polish solidarists.

Spanish Socialist Felipe Gonzalez, who personally coordinates many of the Socialist International's Latin American operations, spelled out this idea. According to Gonzalez, Poland and El Salvador both epitomize just struggles to establish a "Third Way" between East and West, which is necessary in order to destroy the "bipolar world." "The destiny of Latin America is being decided in Poland," Gonzalez argued, "because if in the current bipolar world the Soviet Union will continue to dominate in Poland, the United States will in El Salvador."

Bluestone, "but they were much happier."

**François Mitterrand** called for "a new, revitalized *autogestion*"—using the same catchphrase as the student radicals during the May 1968 Paris riots—to call for "decentralization of decisions to the level where they are implemented." Mitterrand further attacked the dirigist policies of the present government, which are similar to those of Alexander Hamilton and other U.S. Founding Fathers, by calling instead for "new spaces of freedom," including women's liberation.

The clearest example of what the Eurosocialists mean by "women's liberation" was spelled out by **Gloria Steinem** in the plenary session when she said: "One basis of the new morality must be that women control their bodies and reproductive processes." The expression on Winpisinger's face when she said this, said reams about the viability of the new "direct coalition with labor" that had been proposed.

## Backstage

As the conference drew on, the lack of labor representation outside the left-liberal UAW and IAM, was only one sign for me that DSOC and its band of 1960s radicals will have great difficulty in injecting "zero growth economics," "co-participation," greater "environmental controls on technology," into American politics. This seemed especially true after the defeat delivered those who adhered to such policies during the Nov. 4 election, in large measure due to the anger of organized labor at the economic setback it suffered under Carter and the "McGovern liberals."

Two "leaks" during press conferences, however, soon made clear that all the important work was actually going on backstage from the Eurosocialism sideshow. Asked by a journalist whether he had met with former Secretary of State Henry Kissinger, Palme admitted that he had not only met secretly with Kissinger, but he had also had a series of one-hour Washington meetings with, among others, Warren Christopher of the State Department and Georgi Arbatov of the KGB-IMEMO crowd.

A further window opened on these backstage maneuvers when Harrington admitted that the Eurosocialist leaders had met privately on Saturday, Dec. 6 with Sen. Ted Kennedy, Sen. George McGovern, Rep. Ron Dellums, and others. What made this especially interesting is that Kennedy, who has adopted conservative rhetoric since the election, had publicly refused to attend the conference.

And, finally, on Monday, I learned that Willy Brandt and Horst Ehmke had scheduled a luncheon with AFL-CIO head Lane Kirkland to discuss the conference. Harrington had stated publicly that Kirkland was irate over the event and had pulled out labor support.

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## Documentation

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### Brandt on population



*Excerpts from West German Social Democratic Party Chairman Willy Brandt's address at the Second International conference, titled "A Program for Survival":*

... "A Program for Survival"—that is the subtitle of the report published by the Independent Commission on International Development Issues [the World Bank's Brandt Commission] at the beginning of this year. Our intention there was to make it clear that North-South tensions represent a dangerous time bomb—a time bomb destined to call into question our very existence. . . .

A reduction in population growth forms one of the first priorities if we are to prevent the disastrous depletion of the world's natural resources. Naturally that alone does not suffice. But it poses a real challenge to our sense of anticipation and imagination to find fast-working, comprehensive and peaceful solutions for overcoming mass poverty. . . .

Moreover, the holders of political office—especially those who derive from the areas of social democracy—should remain receptive to fresh ideas—whether they themselves are able to develop them or not. In my view, the search for alternative life-styles, whether for the individual or for a group, must not be simply dismissed without further ado as idle fancy or as a sinister attack on an established political order. . . . Present-day conditions leave us no other choice than to seek more actively for solutions which correspond to the economic and ecological requirements of our time in order to establish, wherever possible, a stable equilibrium.

### Den Uyl on economics



*The following is an excerpted version of the speech given by Joop den Uyl at the conference of the Socialist International held in Washington, D.C. Dec. 6, 1980. Den Uyl is the leader of the Dutch Labor Party, and was premier of Holland from 1973 to 1977.*

*He is currently the president of the Confederation of Socialist Parties of the European Community. The speech was entitled "Democratizing the Social Structure."*

Social democrats from Europe who come to the U.S. have often the feeling that they come to preach the social gospel to a paganist, unwilling and resistant people. That is particularly true, since in these Reagan days, the gospel seems to be the defense of the establishment.

Let me assure you how encouraging it was for me to experience last night, and this morning, that there is another America, an America which does not accept the inequalities and the short-sightedness of an unjust society, an America that wants to give adequate answers to the rising problems before us.

We need such another America in the defense of the welfare state and on behalf of the democratic ideas of the social structure. . . .

One of the points I would like to make is how much we in Europe need a firm and strong position of the democratic left in this country. It is not only good for the U.S., we need it in Europe as well. Then it cannot be denied that in Europe today, the welfare state is under attack, and not only in the Britain of Thatcher, the Milton Friedmans are among us. The attack on the welfare state has much to do with the impact of the world economic crisis in Western European economies. The welfare state has been the creation of a period with rapid economic growth. The decline of economic growth during the seventies poses new questions to be answered by socialists . . . .

Fortunately . . . [in 1979] a new OECD study was published, "Interfutures." This displayed a considerably better understanding [than the earlier optimistic McCracken OECD report] of the structural nature of the slowdown in growth and the changed relations in the world economy.

The rise of new industrial centers in Third World countries would exercise a lasting constraint on the Western economies' capacity for growth. The rise of oil prices and other raw materials was an expression of the fundamental and continuing scarcity of oil, and of the newly won power of the oil-producing countries. Protection of the environment would mean that the cost of industrial production would increase and growth would be permanently inhibited.

There has also been a shift of values: people in the postindustrial society are more interested in the quality of their work and in having more leisure time than in the level of their income. Postmaterialist requirements, "Interfutures" calls it. . . .

[T]he western economy will have to continue to reckon with a low growth of at the most two to two-and-a-half percent. That has enormous consequences for the future of the welfare state.

In the first place, we have to choose for or against the concept of a society in which few people work and earn a lot of money, while many are excluded from working life.

I reject this model, because, in fact, it would mean legitimizing a terrible inequality. Socialism must choose for a society in which nobody who wants to work is deprived of the opportunity to do so. That means that jobs have to be created in the services sector, in the non-market sector, and there has to be a large scale redistribution of the available work among more people. The consequences of this are a reduction in the income of those employed and a greater emphasis on the total income and purchasing power of the social unit.

There are still more consequences. In a period in which capitalism has lost its driving force of uninhibited expansion, it is more crucial than ever for the safeguarding of employment not to be left to the market mechanism. If the economic process is not ordered and controlled, we have the prospect of mass unemployment.



*Peter G. Peterson  
of Lehman  
Brothers Kuhn  
Loeb.*

## Brandt's World Bank Commission

The Independent Commission on International Development Issues, generally known as the Brandt Commission, was established in the autumn of 1977 by World Bank President Robert S. McNamara, following the collapse of the negotiations in Paris between two dozen industrialized and underdeveloped nations on "North-South" economic cooperation.

In February 1980, the Brandt Commission released its first report, titled "North-South: A Program for Survival." Its principal recommendations:

- National sovereignty over economic and energy policy should be subordinated to global institutions;
- "Appropriate technologies" should be the focus of Third World development strategy, e.g., primitive agricultural equipment and cottage industries;
- "Renewable" energy sources should be emphasized, and nuclear energy de-emphasized, but non-OPEC oil as well as mineral resources should be



One of the factors responsible [is] the inevitable march of scientific progress. . . .

When it was realized in the course of the sixties that a deliberate policy was needed to protect the environment, the World Environmental Conference in Stockholm, in 1970, convened by the United Nations, led to some standardization of the requirements to be set for industry and transport to combat environmental pollution. It has been a blessing in numerous respects. I think it is high time that, at the U.N.'s initiative, and with the International Labor Organization as the implementary body, a number of common standards and measures be agreed upon as to the way in which new and existing technologies should be applied, and at what pace. We need to gain control of these technologies before they get the upper hand and lead us into a new slavery.

extracted in the Third World;

- The World Bank/International Monetary Fund should be expanded through creation of a World Development Fund and promotion of the IMF's Special Drawing Rights as an international payments and reserve medium.

Members of the Commission, chaired by West German Social Democratic Party chief Willy Brandt, include: Dragoslav Avramovic of Yugoslavia, former senior World Bank official and Unctad official; Eduardo Frei Montalva, former president of Chile and Christian Democratic supporter of the current Pinochet regime; Edward Heath, British Conservative leader and former prime minister; Amir Jamal, prominent Tanzanian politician; Joe Morris of Canada, former chairman of the International Labor Organization; Olof Palme, former Social Democratic prime minister of Sweden; Peter G. Peterson, chairman of the board of Lehman Brothers, Kuhn Loeb, and former U.S. Commerce Secretary; Layachi Yaker, Algerian ambassador to the U.S.S.R.; Katharine Graham, publisher of *Newsweek* and the *Washington Post*; Shridath Ramphal, a Guyanese associate of Henry Kissinger; and Jan P. Pronk, a Dutch Social Democrat associated with the Club of Rome.

While Brandt and other social-democratic members of the commission have focused on calls for population control and an end to "cultural imperialism," i.e., transfer of advanced technology, Edward Heath and Peter Peterson have emphasized the necessity for the World Bank and related institutions to control petrodollar flows and thus international credit flows.

## Palme on protecting nature



*The following is an excerpt of the speech given by Olof Palme at the conference of the Socialist International held in Washington, D.C. Dec. 6, 1980. Since 1969, Palme has been the chairman of the Swedish Social Democratic Party. He was premier of Sweden from 1969 to 1976. Emphasis is in the original.*

Planning includes *controlling technological development*. Technological progress changes the structure of the economy and the conditions of working life. We must control technological development and focus it on the safeguarding and improvement of the living environment and popular health. Accordingly the evaluation, steering and encouragement of technological progress has become a public task of increasing importance.

We must aim at a *responsible management of raw materials and energy*. Continued economic growth implies severe strains on raw materials. Through long-term planning, we must prevent the exhaustion of these assets. As for energy, planning concerns not only how energy is to be produced but, just as much, our use of energy. Saving and economizing is a prerequisite. . . .

To be able to guarantee everybody a *good external environment*, we must formulate nationwide environmental policy objectives and acquire the means of achieving these objectives. Otherwise we cannot protect nature, preserve our land and water resources, fight pollution and contamination.

## Winpisinger: 'The way to progress is to self-destruct'



*Taken from a speech to the Second International conference by William W. Winpisinger, international president, International Association of Machinists (IAM), and member, Executive Council, AFL-CIO:*

We congratulate Brother Harrington, the Democratic Socialist Institute and the German-Marshall Fund for sponsoring this historic conference.

Let America take note: We're out of the closet and in

lame-duck proceedings and waddle over here to join us in this, the new politics of enlightenment and hope.

But, as someone suggested, Congress is playing a role not unlike that of eunuchs in a harem: its members are extremely observant, they see many things others do not see, and it is not their fault if they do not quite grasp the essence of what is really going on.

And we note, too, the glaring absence of so many officials, from other great American trade unions, whose members surely are our kindred spirits in this quest for economic and social justice. . . .

But at this point, we can only advise our missing friends to either lead or follow, but get the hell out of the way, because the times do not permit, nor do our members have the patience, to wait on the niceties of behind-the-scenes power arrangements in a declining political economy.

The wolf of corporate hegemony is beating at the door!

And that's the grim reality we must face, as we open the door onto the 1980s.

We must start where we are at, and lead beyond.

The American trade-union movement and its left-of-center allies must fuse democratic values and a socialist vision of society into a viable economic and political movement, that will defang the snarling corporate wolf and humanize his marketplace jungle.

Using the radical's language to achieve conservative goals will no longer suffice. It never worked anyhow.

Liberal reforms and social and economic programs have provided semblances of solutions to age-old problems, but they are incessantly compromised and starved of public funding to the point of unworkability. Meantime, the fundamental structural causes, which created the problems in the first place, have not been altered in the public interest—in the common interest of the people, if you please.

Those fundamental structures have been radically changed, all right—but by the forces of the private few at the expense of the public many.

The corporate animus has become the corporate state.

And as this government changes guard next month, we are left with the naked truth: we will be living with a government literally bid for and bought on the corporate exchange.

It is a government founded on the will of a distinct minority—only 26 percent of the electorate put the Reagan administration in business.

It is an electoral system that has excluded the real majority in this country.

Ben Wattenberg, wherever you are—the real majority in this country is not comprised of that 45 percent of *eligible* voters who went to the polls and pulled the lever for either Carter or Reagan.

The real majority in this country is that 55 percent who either didn't vote or voted for a presidential candidate other than those provided by the two major parties.

And it is *this* real majority that can constitute the swing bloc as we forge a democratic socialist movement across the country in the coming decade.

All we have to do is talk to them, give them an alternative program with hope, rather than the oral nugacity of the politics of sameness.

The quickest way to progress often is to self-destruct. Unfortunate. Sad. But true.

And this is the path we're on in this country.

So when more of the same flops once again; when supply-side economics fails to trickle down and put Americans back to work; when monetary maniacs over at the Federal Reserve Board fail to curb inflation; when the deregulators have dismantled the federal government and producers control the prices of everything produced; when our interventionist foreign policy, backed up by war capitalism, fails to produce either peace or prosperity or provide for the national security; when the pyramids of income and wealth have been leveled by the holy trinity of free enterprise. . . .

Then America will recognize its cruel irony: The quickest way to progress is to self-destruct; then we can start building our policy of economic and social justice.

For we are talking about the end of the deindustrialization of America.

And as it happens—when it happens—we must have our democratic socialist programs developed and ready to shove into place—like modular units in a computerized control room.

Now we are talking about beginning our economic reconstruction.

Not reindustrialization but reconstruction. Everybody is talking about reindustrialization. That's what supply-side economics is all about. That's what the monetarists are all about. That's what the AFL-CIO's industrial revitalization program is all about.

That's what the corporate state is all about. . . .

We don't need corporate America's brand of reindustrialization.

We need democratic economic reconstruction.

Economic reconstruction means a restructuring of the way decisions are made about investment, technology and what is going to be produced and with what priority.

Economic reconstruction means taking control and ownership of our basic natural resources out of the hands of private monopolists and putting it under the direction of the public interest. The poorest child in the South Bronx has more right to a return on investment in the oil shales of Western public lands than does Exxon, Gulf or Mobil.

Economic reconstruction means integrated economic planning to replace the absurdities of the market place

and the excesses of private, profit-motivated behavior.

Economic reconstruction means working toward the goals of full employment, progressive distribution of wealth and income, the guaranteed right to trade unions to grow and prosper, and an end to the madness of the arms race.

Economic reconstruction means that this nation begin importing the economic checks and balances of Eurosocialism, and stop exporting our jobs, our livelihoods, and corporate free enterprise.

After all, European democratic socialists look at us over here and wonder why we provide the bad example that tugs at their own standards of economic and social justice.

They aren't looking for the Americanization of Europe.

Meantime, we will not run in place.

We will take first things first, and see if our economic reconstruction program and *all* its components, will be accepted by the Democratic Party.

For that party is at a crossroads, Either it is going to return to its natural constituency and champion the causes of economic reconstruction, along with those individual rights and civil liberties we all hold dear, or it is going to continue to attempt to co-opt the Republican Party's conservatism.

If it does the former, and we'll try to help it do so, we probably can walk with it a mile or two more.

If it continues as it has for the past several years, however, then we better prepare to go the Canadian route.

That's democratic socialism with a trade-union core constituency—Eurosocialism on the North American continent.

It may be a contradiction in current trends of history, but it is not a contradiction on the long road to peace and prosperity.

Thank you.

## Benn on radicalization and 'the Warsaw experience'



*Taken from comments by British Labour Party spokesman Anthony Wedgwood Benn at a Second International conference workshop titled "Why No Mass Movement in the United States?":*

If you think you don't need a mass socialist movement in the United States, let me

make one thing clear, we need it. You have here an elected president of a Western power who will dictate International Monetary Fund policy and tell the European Community how much taxes have to be raised, how much they can spend; he will have the multinationals tell our industry what to do; he will push the cruise missiles and dictate foreign and defense policy. . . . We are the silent constituency of Reagan. But we are going to reverse the old saying, "No taxation without representation," into "No annihilation without representation." Ex-imperial Britain is now accepting the status of a colony. . . . If the Labour Party appears a bit to you like a "liberation" party, well, we are!

I can't help stressing how ripe conditions are right now to build a mass movement. If now is not the time, then it will never be. If you can't mobilize an opposition to Reagan, then you are not the kind of people you are. . . .

Let me begin by telling you something about the Labour Party. The British Labour Party read into its defeat a victory of the right and our own failure. . . . What Thatcher did is radicalize the Labour Party, the mainstream of the party; the party has gone back to its roots, radicalized by its struggle, and Reagan will radicalize the Democratic Party. You have a good antiwar-movement history; Europe looked up to you then. . . .

Socialism in Great Britain goes back over many centuries. In fact, we will celebrate next year the six hundredth anniversary of the Peasants' Revolt in 1381 [following the Black Death]. We are building for a big event, and just in time for the next election. The roots go back to the socialist Levellers and Diggers in 1649, Tom Paine, the Chartists, Robert Owen, the Webbs, Bernard Shaw. . . . We have to understand our history. Capitalism is much younger, and has proved to be an unsuccessful experiment. We root our tradition on the human brotherhood which has given birth to *solidarity*. Solidarity is part of the American heritage . . . Eugene Debs, Norman Thomas, the Wobblies [applause]. . . .

You should learn from the Warsaw experience. Poland shows that it can be done. Who would have thought a year ago that trade unionists would engage in a struggle to change the bureaucratic structure? Now, in El Salvador we have an opening.

The agenda for building an American mass movement involves uniting in defense against attacks by the right; support for public services; support for women, blacks, trade unions, and others; safeguard workplaces; openly advocate socialism—if black is beautiful, socialism is beautiful! Have dialogue without sectarianism; I want a mosaic and not a monolith of socialism. Let's rehabilitate Trotsky as the first Soviet dissident! We must clarify for people what they are fighting for—we want a consensus where all accept democratic socialism. Permeate the different way.

## The Labour Party: a top-down operation

The history of the British Labour Party shows very clearly that the current radicalization of the party under the monetarist Tory administration of Margaret Thatcher is not a localized sociological response to the rapid economic collapse of the country which that government has been so fiercely administering. Labour Party National Executive Committee leader Anthony Wedgwood Benn spoke truthfully enough at the Eurosocialist conference when he traced the ideological roots of his movement to the Dark Ages period of European history.

Like its predecessor parties, such as the English Whigs, the Labour Party was created to function as the left-wing side of a classical left-right political organization of Britain. What both the left and the right—in present day Britain, Labour and the Tories—have always shared is an ideological conviction that an American-style capitalist economy based on continuously applied technological development must be avoided at all costs.

In the resulting periods of economic depression, the Labour Party, like its predecessors, becomes the vehicle for channeling the rising discontent of the population into a managed, self-defeating radicalization devoid of constructive economic program. This is exactly what is happening in Britain today under the staggeringly rapid collapse of industry and employment the Thatcher government is generating through its implementation of Friedmanite monetarism.

Consequently, in last fall's Labour Party congress, the left-wing extremists under Tony Benn were allowed to consolidate their hold over the party, dictating also its overall policy platform. This situation was further consolidated with last month's election to party chief of left-winger Michael Foot. It should surprise no one, however, that left-wing radical Foot is a nobleman and the brother of the famous Lord Caradon who runs British Middle East policy; the Labour/Tory or common people/aristocracy parties relationship, is orchestrated from above.



*Labour founders Sidney and Beatrice Webb.*

The economic policy platform adopted at the Labour conference demonstrated this again. With the emphasis on full employment and workers' control of production, the platform called for the expansion of the service sector—not industry—as the vehicle for employment increases, and a "small is beautiful" alternative to dirigist economic development.

When required, the Labour Party has been the seeding ground for spinoff "right-wing" radicalism. Exemplary of this is the famous case of the World War II British fascist party leader, the aristocrat Oswald Mosley.

As documented by his biographer Robert Skidelsky, for Mosley "socialism was the modern expression of the feudal idea of community," a view he maintained when he changed his party tag from Labour Party socialist to nationalist in founding the British Union of Fascists in the 1930s.

Members of the Heritage Foundation, closely tied to the present Tory government, have noted recently that it is on the issue of local-control economics that the left and right can converge. It is certainly true that Tony Benn, the Labour left radical, put forward the same local-control idea as well as the return to the feudalist period of fourteenth-century England as the essence of his view of socialism. Benn would have no fundamental quarrel with Mosley.

Mosley began his career in the Labour Party under the tutelage of the Fabian Society and the allied London School of Economics. He was one of the original members of the Coefficients dining/discussion club created by Fabians Beatrice and Sidney Webb. His economics were fed by the liberal Maynard Keynes, whom he studied under the tutelage of his Labour sponsors. When it became appropriate to launch a British fascist movement, Mosley did so with the blessing of the King and the continued support of the Fabians, his London School of Economics friends, and others.



**“The environmentalist-terrorist groups are merely infantry divisions deployed by some of the most powerful political forces in the United States.”**

—Robert Greenberg  
Editor, Investigative Leads

Over the last decade, the United States and other industrialized countries have been under all-out attack by the forces of the so-called environmentalist movement. Radicalized youth, “social-activist” lawyers of the Ralph Nader variety, and “expert studies” have all been combined to convince many that growth and prosperity are things of the past.

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## Europe, Jordan make new Mideast offer to U.S.

by Judith Wyer

Jordanian King Hussein and the European Community (EC) have extended an offer of cooperation to the incoming Reagan administration to scrap the Camp David framework and forge an overall Arab-Israeli settlement.

Henry Kissinger, the architect of the separate peace doctrine of Camp David, and the Carter administration, are conspiring to undercut this Euro-Arab peace initiative through dirty tricks and diplomatic maneuvers. The Kissinger-Carter axis aims to lock the Reagan government into the separate peace track which bypasses the central issue in the Arab-Israeli dispute, the Palestinians.

According to a French diplomat, Europe would take a leading role in fostering a general peace by mediating relations between Washington and the Mideast.

At the Dec. 3 European heads-of-state summit, a decision was taken to continue the efforts to realize a "comprehensive, just, and lasting settlement" in keeping with the June 1980 Venice declaration of the EC which called for the Palestine Liberation Organization to be a party in future negotiations. The communiqué is especially emphatic on the necessity of providing stability in the area, and ensuring the integrity of Lebanon.

### 'New mandate must pave way'

Hussein told the press this week that Reagan is a "good omen" for Palestine. "I think we are on a new threshold. There's a new mandate for the U.S. which must pave the way to new policies. . . . I hope the U.S. won't be prisoner of past policies." Hussein noted that Camp David has reached an "impasse."

He was referring to the deadlock between Egypt and Israel to reach an agreement on Palestine autonomy. He called for United Nations Resolution 242, which is accepted by all nations but Israel as the basis for Mideast negotiations to be revised to take into account the problem of the Palestinians.

At last month's heads-of-state summit in Amman, Jordan, Hussein was given a mandate to speak for the Arab world in fostering a dialogue with the Reagan administration. Since then, Hussein has repeatedly urged Reagan to adopt a Mideast policy which "includes Europe and would lead to a comprehensive peace."

Reagan's Mideast policy, according to sources in the Reagan camp, is still being hammered out. These sources indicate that opposing Kissinger are certain policy-makers who are considering steering Middle East policy away from the Camp David process, which they consider no longer adequate for advancing negotiations.

In their view, the key to U.S. policy is to bring Egypt and Israel into an agreement in principle with the pro-European axis of Jordan, Iraq, and Saudi Arabia. They view resolving Israel's worsening inflation and debt as critical to stabilizing it and enabling Tel Aviv to engage in a general peace dialogue.

This policy depends on two factors: first, that the U.S. break with the cold war policy of fostering an "arc of crisis" on the Soviet Union's southern flank, and second, Washington will cooperate with France and



Photo by Saw Lwin, courtesy of the United Nations.

*King Hussein attacking the Camp David pact before the United Nations in September 1979.*

West Germany on Mideast policy.

Following meetings with Egyptian Vice-President Hosni Mubarak last week, Henry Kissinger announced that he would depart on Dec. 28 for a five-day visit with Egyptian President Anwar Sadat. According to *Le Matin*, Kissinger may also visit Jordan, Israel, and Saudi Arabia.

Arab sources report that Sadat is "extremely nervous" that Reagan will break with Camp David, a policy that Sadat has staked his rule on. Both Egypt and Israel are working through Kissinger, who is an adviser to Reagan, to lobby for continuing the Camp David process.

### **The Carter-Kissinger ploy**

Kissinger's aim is to convince Reagan that he has advanced the peace effort within the Camp David framework and in so doing has both shaped future policy, cutting out the Europeans, and has won himself a position in the new government.

Last week, Reagan's top national security adviser Richard Allen announced that Carter administration envoy to the Mideast Sol Linowitz would visit both Egypt and Israel this month to assure them that Reagan would continue Camp David.

But Arab sources discount the announcement as a maneuver to assuage anxiety in Tel Aviv and Cairo. According to one source, "stating a commitment to the Camp David framework can mean anything. The question is whether Reagan will go with a policy of divisive

separate peace treaties which the Egypt-Israel treaty signifies. That is not clear."

### **Leaked cables**

Concomitant with the announcement of the Linowitz trip, the Carter State Department leaked classified cables from Moscow on talks between Sen. Charles Percy (R-Ill.) and Soviet Foreign Minister Andrei Gromyko. Percy conferred with Soviet leaders on behalf of Reagan late last month.

According to the leaks, Percy told Gromyko that he favored the creation of a Palestinian state. The leaks brought attacks on Percy from Zionist leader Rabbi Alexander Schindler and pro-Israel Sen. Patrick Moynihan (D-N.Y.), were designed to pressure Reagan from pursuing a new Mideast policy.

The Carter administration has stepped up its efforts to solidify a military axis between Egypt, Israel, and the U.S. to police the oil fields of the Persian Gulf, a policy which Jordan and the Gulf states have repeatedly condemned.

Last week, Defense Secretary Harold Brown held secret meetings with Israeli Deputy Defense Secretary, Mordechai Zippori, and the head of Israel's Military Strategic Planning Center, Avraham Tamir. The *International Herald Tribune* reports that the meetings focused on beefing up the Rapid Deployment Force for the Gulf. Arab sources reveal that both Egyptian Chief of Staff Abu Ghazala and Mubarak were in on the meeting.

The creation of a NATO-linked military alliance for the Gulf and Indian Ocean is a central feature of the Camp David accords which call for future European participation in policing the Gulf. Europe has repeatedly attacked this plan. Diplomatic sources say that if Reagan continues Camp David it will force a split in the Atlantic Alliance.

## From the European communiqué

*From the communiqué of the European Council meeting on Dec. 1-2.*

In the face of the disquiet caused by developments in the international situation, the European Council is conscious of the responsibilities devolving upon Europe.

The Council considers that Europe's experience and resources make it one of the essential factors of equilibrium and peace in the world.

It is in the context of the solidarity which unites a strong America and a Europe confident of itself and of its role that dialogue and coordination between them will best serve the cause of peace and freedom.

The European Council will therefore ensure that Europe acquires greater cohesion and that its voice is heard.

### **The Middle East**

The European Council reviewed the action taken by the [Group of] Nine since the adoption of the Venice Declaration on the Middle East.

The Council heard the report of Mr. Thorn on the mission which he carried out on behalf of the Nine in accordance with paragraph 11 of the Venice Declaration. It noted that this mission had made clear the great interest aroused by the position taken up by Europe and that in this respect it had been a success.

The results of the mission confirm that the principles of the Venice Declaration incorporate the essential elements for a comprehensive, just, and lasting settlement to be negotiated by the parties concerned. They reinforce the Nine's determination to contribute to the search for such a settlement.

In this spirit, the European Council approved the decision of the ministers of foreign affairs to undertake consideration of the matter with the aim of clarifying and giving substance to the Venice principles. This consideration has resulted in the drafting of a report on the principal problems relating to a comprehensive settlement under the following headings—withdrawal, self-determination, security in the Middle East, Jerusa-

lem.

The report emphasizes that the measures envisaged under these four headings should form a coherent whole and should therefore be coordinated carefully.

The European Council was in agreement on this approach.

It noted that different formulas were possible to give substance to some of the Venice principles, in particular on the duration of the transitional period leading up to the electoral procedure for self-determination, the definition of the provisional authority for the vacated territories, the conditions and modalities for self-determination, the guarantees of security, and Jerusalem.

With a view to a more thorough exploration of these formulas and with the determination to encourage a climate more favorable to negotiations, the European Council considered it necessary that new contacts be established with the parties concerned side by side with continued discussions within the community.

The European Council accordingly instructed the presidency in office to undertake these contacts in consultation with the ministers for foreign affairs.

The Council also asked the ministers to continue their discussions with due regard for developments in the situation and to report back to the Council.

The European Council laid down this action program in order to provide a more consistent platform designed to bring the parties concerned closer together.

### **Lebanon**

The European Council again devoted its attention to the situation in Lebanon, where the latest developments are continuing to give rise to serious anxiety.

The Nine wish to reaffirm that the unity, independence, sovereignty, and territorial integrity of Lebanon must be fully respected. This is essential to enable the legitimate government of Lebanon to restore peace throughout the country. Lebanon belongs to the Lebanese: it is for them alone to establish the rules of their co-existence.

It is in this spirit that the Nine make a fresh appeal for the integrity of the borders of Lebanon and the safety of its people to be respected. Respect for the international boundaries of Lebanon is one of the essential factors in the security and stability of the region.

As they declared in Venice on June 13, the Nine trust that Unifil will be enabled to fulfill the assignment given to it by the Security Council.

The European Council reaffirms that one of the aims of the Nine's action in the interests of peace in the Near East is to restore the integrity of Lebanon's borders and to enable it once more to exercise its national sovereignty in full.



# The devolution of Venezuela

*Fred Marlowe outlines how the Herrera government's free-enterprise policies have undercut the economy.*

Venezuela, an oil-rich country which two years ago was in the process of becoming a modern industrial nation, is now suffering the effects of a conscious policy of economic contraction, following a drastic change in leadership and policy.

In March 1979, the new administration of Luis Herrera Campins replaced the nationalist, progrowth administration of Carlos Andrés Pérez. Herrera brought in official policies of fiscal austerity and free trade; the long-term Sixth Plan adopted by Herrera was designed in Israel by adherents of Friedman's economics.

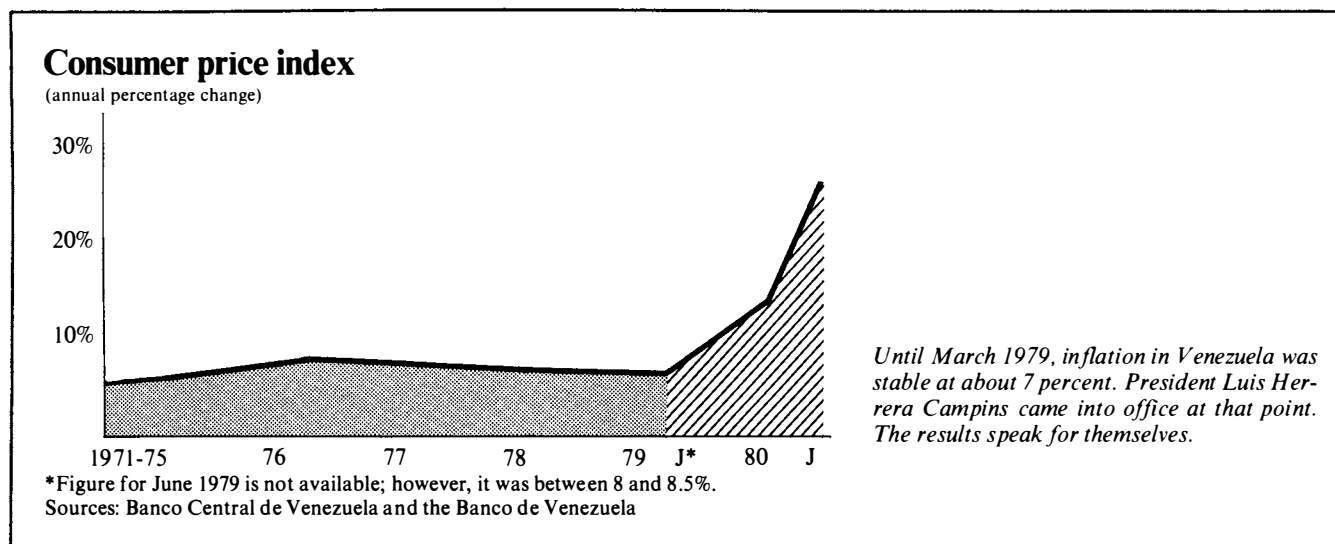
The stated immediate aim of the plan is to administer "shock therapy" to the Venezuelan economy in order to halt the "excessive" growth of the Pérez period. The government has also implemented short-term austerity policies which have succeeded in bringing the growth of Venezuela's GNP down from over 7 percent in 1977 to 0.7 percent in 1979, and slashing living standards.

The Herrera administration's Sixth Plan is a five-year program that re-orientes policy from the emphasis on capital-intensive development of the Pérez administration into "social priorities": education, housing, public services, and income redistribution. President Herrera is officially committed to only five of the major industrial

projects Pérez started: the Caracas metro, the Guri hydroelectric plant, the INOS water supply projects, the Corpozulia iron and coal project, and a housing program designed to build 600,000 new units in five years.

The government's aversion to modern technologies and capital-intensive production is evidenced in a speech Treasury Minister Luis Ugeto delivered at the annual joint assembly of the International Monetary Fund on Oct. 1: "Petroleum creates a bias towards the intensive use of capital, by making highly technical capital-intensive processes cheap, which is at odds with the level of efficiency of the rest of our productive process and which makes full employment a more difficult goal to be attained. . . . The manual labor cost structure, heavily influenced by a high wage level in the oil sector, which is capital-intensive, radiates to the other industries of the modern sector, through highly organized labor unions. In this way they are incapable of absorbing available employment, in quantity or in quality, thus creating a marginal population which is incapable of being absorbed, unless properly trained, and leaving the public sector the task of employing them beyond its real administrative necessity. . . ."

Besides fiscal austerity, the new government has



begun to deregulate both the private and state sectors of the economy. A major portion of the state sector is being sold to private-sector interests.

In the past few months, the government has liberalized the nation's strict pricing structure. The result for many basic necessities has been a surge in speculation, which has sent prices zooming and produced widespread shortages of foodstuffs, even with a bumper crop this year. Food prices have leapt by 40 percent in the past month, despite the elimination of many import barriers and restrictions. This situation is expected to grow worse next year as the basic infrastructure in the countryside is collapsed by a freeze on government loans to farmers and agricultural projects.

As part of the deregulation of the state sector, the three largest banks in Venezuela, all owned by the government, will be sold to private investors. The government is also in the process of planning the sale of state-owned companies, such as sugar refineries and cement factories.

Labor is included in the plans to deregulate the economy. As a first test case, Carlos Villaroel, president of the National Institute of Ports (INP) and a close Herrera ally, has put forward a plan to deregulate the

port sector, and then sell it to the private sector. The plan calls for increasing the revenues of the INP by, in Villaroel's words, "the implementation of strict austerity policies to reduce costs of operation to reasonable levels . . . [and the] liquidation, at the point of the switch [from the state sector to the private sector] of the totality of the workforce. . . . Then there will be an immediate hiring of a workforce which will be only 60 percent of the original one. This will facilitate a rigorous preselection process. It is essential that the current employer relationship be replaced, so as to interrupt the existing labor relationship, and then create a new one."

The Herrera labor policy goes beyond simple union-busting and the firing of tens of thousands of workers. It also calls for the abrogation of collective contracts in general and the creation of "cooperatives" in their stead. Under these cooperatives, a pool of workers will be available who will be hired as jobs come up.

The case of the country's single tractor factory, Fenatraco, is illustrative. As part of Pérez's ambitious industrialization program, several key industries such as truck, tractor, and machine tool production had been encouraged. On Oct. 3, 1980, after the intervention of Herrera's development minister, Manuel Quijada, the

## Carlos Andrés Pérez makes a comeback

During the last month, a political battle has emerged in Venezuela as former President Carlos Andrés Pérez has staged a remarkable political comeback. This is evidenced by two developments: first, a series of national strikes sponsored by the CTV labor confederation has badly shaken the government of Luis Herrera Campins; second, Pérez's faction within the opposition Acción Democrática party won control of the post of secretary-general in recent primary elections.

The comeback has surprised and panicked the Herrera government as well as the ruling party, Copei. Only three months ago, Pérez was on the verge of being prosecuted by the government on several corruption charges. This Watergate, which was accompanied by a purge attempt against Pérez's supporters, was eventually thrown out of court thanks to some fancy parliamentary footwork by Pérez's congressional allies.

The underlying reason for this political shift is the state of the Venezuelan economy.

Pérez has been quick to make political capital out

of the difference between his progrowth policies and Herrera's recessionary approach. The former president publicly organized against Herrera's austerity in meetings and "walking tours" across the country, which in some cases have drawn upwards of 60,000 supporters. His attacks are typified by a speech he gave in the rural town of Acarigua, after a march with 12,000 supporters:

"During my five years of government we provided abundant credits to the rice producers, to the corn producers, sorghum producers, to the cattlemen, and left the region of Portuguesa in prosperity and abundance in various areas of national production. Today the last of the good harvests is coming in, and it is the result of the infrastructure that *my* government left. However from next year on, we shall see with pain that the *decapitation* of the fields of Portuguesa, and all Venezuela, has started. Harvests will start to diminish."

In this particular speech, Pérez went on to describe how the Herrera government had dried up credits and stopped infrastructural projects. He ended ironically: "President Herrera Campins loves the poor so much that every day he is creating more poor people, in order to have more poor people to love."

On Oct. 26, Pérez's political faction within Acción

tractor factory was shut down. Although the plant had already sold 1,600 units, and was in the process of setting up an efficient maintenance network, not available for foreign-built tractors, the operation was deemed unnecessary. The reasons cited for closing the factory were that it could only be maintained by continuing Pérez's protectionist tariff policies, which of course are opposite to the "free trade" policies of Herrera.

The formula underlying the shutdown was made explicit in an official communiqué that stated: "No enterprise whose products will mean a rise in the costs of production for the farmer can be kept operating. Because of this, it is not advisable to maintain the tractor company."

The shutdown has caused an uproar among Venezuelan industrialists, but the installation remains closed.

### Energy policy

The mentality of the Herrera government is typified in its handling of the oil industry. Although Venezuela is one of the world's largest oil producers, Herrera has instituted a policy of energy austerity designed to "conserve" oil. As part of this policy, a law was passed prohibiting the manufacture of eight-cylinder cars in

Democrática swept the primary elections. Jaime Lusinchi, a close political ally, was elected secretary-general of the party, and it is expected that Pérez's followers will take the majority of the seats in the National Executive Committee during the AD's upcoming national convention.

One prominent Venezuelan banker interviewed by *EIR* stated: "There has been a radical change in Venezuelan politics . . . this was proven by the massive support for Pérez, his policies and his people, by the constituencies. I don't even think that Pérez thought he had as much support as what surfaced. . . . This gives Pérez tremendous muscle."

Pérez started to flex this muscle on Oct. 23, when the CTV labor confederation ordered 15,000 postal workers and 20,000 dock workers to go on strike. Ostensibly the strike was a response to massive layoffs of postal workers, and to a 40 percent rise in food prices over the last few months. But the political underpinnings of the strike were evidenced by CTV president José Vargas's attacks on Herrera: "The government has to change its current economic policy, return to price regulation for basic commodities, and rehire the workers fired from the postal services." It is well known that Vargas and others of the CTV leadership are with the Pérez machine.

## Growth of Venezuela's GNP

(annual percentage)

	1968-73	1973-77	1978	1979*
Total GNP . . . . .	5.1	6.8	3.2	0.7
Non-Petroleum Sector	6.9	9.5	3.7	0.2
Manufacturing . . . .	6.7	9.3	4.9	3.8
Agriculture . . . . .	3.6	4.2	6.3	3.7
Construction . . . . .	11.6	15.0	11.0	-9.8
Commerce . . . . .	4.4	9.9	0.2	-6.6
Services . . . . .	7.1	8.7	2.9	4.1

\*1979 is the first year of the Herrera administration.

Source: Banco Central de Venezuela

Venezuela starting in 1981. In addition, every car has to be kept off the roads at least one day during the week. Fines are levied on those who disobey.

The most destructive single element of the Herrera energy policy is probably the development of the Orinoco "heavy oil" belt in eastern Venezuela. This project has become top priority for the antidevelopment forces in Venezuela. The reason is that the oil in the Orinoco belt is virtual tar, with high sulfur content, which makes it difficult and costly to extract and refine. The Orinoco belt is thought to be unprofitable at world oil prices under \$60-\$70 per barrel; its promoters prefer to channel resources there, betting on a new energy crunch, rather than into the industrial economy.

Another disputed element of Herrera's \$8 billion Orinoco oil strategy is his invitation to foreign companies—possibly Bechtel or Exxon—to develop the belt. Pérez nationalized Venezuela's oil industry in 1974, and foreign participation in extraction is technically outlawed. Pérez's followers believe that Herrera is moving toward reversing that policy.

A real energy program based on the development of nuclear energy is not even being considered by the Herrera government. The emphasis has been exclusively on "renewable" resources and "soft" technologies such as solar energy. Venezuela has already contracted the Israeli government to develop an "integrated agricultural program using solar energy as its energy source." With these policies, Herrera expects to make Venezuela into the "model" Third World economy that the Club of Rome has been calling for.

### Financial situation

In order to "get the economy in order, lower inflation, repay the debt, and balance the budget," Herrera has implemented monetary policies designed to "cool off" the economy. The growth of GNP was successfully slowed to 0.7 percent in 1979, as noted above, during the first year of the Herrera administration. The chart

above shows how the growth rate dropped in all sectors except services. Most significant is the decline in the construction industry, traditionally one of the largest employers and value producers in Venezuela.

Foreign debt has almost doubled in the year and a half since Herrera took office. Short-term debt has increased from \$4.5 billion in March 1979 when Herrera was inaugurated to \$8 billion as of June 1980.

The increase in borrowing is not expected to slow, since the government needs to finance a large 1981 budget. In order to underwrite wasteful programs such as the Orinoco heavy oil project, the treasury has planned a 1981 budget of \$22 billion; though roughly double the 1979 budget, this does not include funding for government industrial programs, such as those handled by the Investment Fund (FIV).

In order to disguise the size of the budget, the government resorted to drafting an official budget of \$16.5 billion, consigning the remaining \$5.5 billion to be appropriated through "special laws." This tactic has backfired, however, as the opposition party, Acción Democrática, has publicly attacked the coverup and the underlying policy behind the budget as a whole.

After an examination of the programs and policies implemented in Venezuela since Herrera came in, one conclusion recurs: the only thing anyone in Venezuela has to do with these policies is to implement them. The policies themselves have been designed and elaborated by a nexus of foreign governments and organizations including the Israeli government, the Club of Rome, Milton Friedman's Mont Pelerin Society, and the Rand Corporation.

### Israeli input

*Business Venezuela* magazine reports that the Sixth Plan is based in its entirety on a 1,000-page study titled "A Profile of Industrial Policy, 1980-85," which was researched by former Israeli Planning Minister Meier Merhav and a team of Israeli experts. Another link between Venezuela and Israeli policy-makers is a Venezuelan company called Orinoquía. Two months ago, this company set up an official treaty between Israel and Venezuela, covering such areas of collaboration as agriculture, industry, and education.

The fact of the matter is that the policies of the Herrera administration had been decided on before he was sworn in as president. One month before his inauguration, 100 "illustrious thinkers" traveled to Venezuela to participate in a conference that elaborated the economic policies Herrera later implemented. Reported by the press as major speakers were Aurelio Peccei, president of the Club of Rome; Charles Wolfe, director of the Rand Corporation; and Yehezkel Dror of the Hebrew University of Israel.



## German FDP wants to end 'gigantomania'

by Rainer Apel

West German Foreign Minister Hans-Dietrich Genscher, the chairman of the Free Democratic Party, has pledged to lead his party in the fight against the materialistic "gigantomania" of economic development. Speaking at the national convention of the FDP in Munich Dec. 5-6, Genscher declared that the emptiness of the federal coffers will help to effect "fundamental changes in basic values among the population" in the direction of "warmth and solidarity."

"Simpler and smaller—that means more comprehensible and more humane," Genscher said. "The movement for a natural environment is unstoppable; as most people feel and many know, the destruction of the natural environment is a crime against the future."

Genscher's endorsement of the back-to-nature ideology of the movement which in the United States calls itself the "Aquarian Conspiracy" is a first for the foreign minister. Genscher otherwise puts himself forward as the Bonn government's foremost "Atlanticist," the statesman who knows how to "get tough" with the Russians.

The Munich convention marked the consolidation of the FDP as an "Aquarian" party—a process which has been under way for over a decade. The party voted up a resolution calling for repeal of the federal constitution's strictures against homosexuality and incest, a demand

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*Above: Hans-Dietrich Genscher (r) with Chancellor Schmidt.*

hitherto supported only by West Germany's youth "counterculture." The FDP is now the West German party most "purely" committed to "Thatcherite" free-market economics and austerity, environmentalism, and the liberalization of laws against narcotics and terrorism.

Although it is the "junior partner" in the ruling coalition with Chancellor Schmidt's Social Democratic Party, the FDP possesses leverage and influence far beyond its small size. The party normally garners between 5 and 10 percent of the national vote; in October's elections to the federal parliament, the Bundestag, it received an unexpectedly high 10.6 percent.

Without the FDP, Schmidt does not have a majority in the Bundestag, and the FDP's newly increased number of parliamentary seats has given it virtual veto power over any move the Chancellor may wish to make. Discontents in Schmidt's own Social Democratic Party are complaining that Schmidt is now effectively an "FDP chancellor." The FDP has played an important role in preventing Schmidt from pushing forward a domestic program for nuclear energy development, and FDP ministers have opposed the implementation of the second phase of the European Monetary System as a springboard for global industrial expansion. The creation of a gold-backed monetary system to foster world trade does not suit the FDP's "free-market" economics.

During the two months since the federal elections, speculation has been rife that the FDP might break with Schmidt altogether, pulling down his government and forming a coalition with the opposition Christian Democratic Union-Christian Social Union bloc. Although Genscher disclaimed any intention of doing this in his Munich speech, he refused to rule out the possibility of a "grand coalition"—a government of all major parties.

The FDP's hammerlock on the Schmidt government owes much to Interior Minister Gerhard Baum, the up-and-coming leader of the party's left wing who has been mooted as a possible successor to Genscher as both foreign minister and FDP chairman. Baum was the first West German politician to publicly endorse the legalization of methadone "therapy," following meetings with U.S. Attorney General Benjamin Civiletti earlier this year.

Baum submitted to the party convention an "Ecological Action Program" demanding a "sweeping" policy of environmentalist reforms. His ministry is the primary source of environmentalist regulations which have stalled the construction of nuclear power stations and other development projects. Two weeks ago, Baum announced new regulations for German industries of an even more far-reaching character. They will curb the chemical and construction industries, and the use of antibiotics in German agricultural production.

Baum is known for his support of liberalized laws

against terrorism, and has recently moved to take over control of West Germany's intelligence services from alleged "authoritarian" antiterror fighters. Horst Herold, the head of the federal anticrime department, the *Bundeskriminalamt* (BKA), resigned recently under pressure from Baum and FDP'ers in the press. *Der Spiegel* magazine in particular had been waging a campaign against Herold. The magazine's publisher, Rudolf Augstein, a member of the FDP since 1956, was arrested last year in Italy for possession of marijuana.

Baum is arranging to have Heinrich Boge, a police chief from Hannover with no special competence in the fight against terrorism, named the new head of the BKA. He is also seeking to have his man Franz Kroppenstedt named the new head of the federal office for domestic security.

### **Schacht, Scheel and the rejection of science**

The FDP's current role as a battering ram against West Germany's economic development is a lawful outcome of the party's pedigree. Its prewar predecessor was the German Democratic Party (DDP), the conveyor belt for the political ambitions of Hjalmar Schacht, the czar of German deindustrialization policies during the period following the Versailles Treaty who subsequently became Adolf Hitler's finance minister.

Following World War II, the party was reconstructed under the auspices of the British occupation administration. This was its "conservative" period, when, under the leadership of Eric Mende, it opposed Chancellor Konrad Adenauer's plans for the industrial recovery of Germany and the foundation of a united Europe through alliance with France. Mende was an executive member of the anti-industrial profeudalist Pan-European Union, now headed by Otto von Hapsburg, a close associate of Franz-Josef Strauss, Chancellor Schmidt's CDU opponent in the 1980 elections.

This "conservative era" ended with the accession of Walter Scheel to the chairmanship of the FDP beginning in 1966. Scheel became foreign minister under Willy Brandt in 1969. He began to push the "Aquarian" ideology directly, as indicated by the following statement made before the West German Federation of Chambers of Commerce in February 1978:

"Our view that the scientific-technological civilization is superior to any other or, worse, that we are culturally superior to others because we are more advanced in science, is based, I think, on a fundamental misperception."

Scheel's rejection of scientific progress as the motor behind human development ushered in the whole gamut of "leftist" programs like environmentalism, tolerance for drug usage, prostitution, and terrorism which are the hallmark of the Free Democratic Party today.

# Court rules against IHT in LaRouche case

by Laurence Hecht

The judgment of a Paris court finding the *International Herald Tribune* guilty of criminal libel against former Democratic Presidential candidate Lyndon H. LaRouche was released to the public last week.

In a strongly worded statement released Nov. 29, the court charged that *International Herald Tribune* manager Thayer was guilty of defamation and "damage to the honor of a candidate" for public office by its publication of two articles appearing in the Oct. 13 and 14, 1979 editions. The articles characterized the former presidential candidate as the leader of an anti-Semitic cult.

Mr. LaRouche was awarded 5,000 francs (about \$1,000) in damages by the French court. As "complementary damages," the decision requires the *International Herald Tribune* to publish inserts of the decision and also to have it printed "in two newspapers which the plaintiff can choose."

The *International Herald Tribune* is a jointly owned subsidiary of the *New York Times* and *Washington Post*, published in English for European circulation.

The decision of the French court is of special interest to Americans, since the articles in question were reprints of articles that appeared in the Oct. 7 and 8, 1979 editions of the *New York Times* at a time when Mr. LaRouche was already campaigning for the Democratic Party's presidential nomination. In 1976 Mr. LaRouche ran for President on the U.S. Labor Party ticket, which the libelous material termed "a cult."

In making its defense, the *International Herald Tribune* offered no proof of the truth of its allegations against Mr. LaRouche. Instead, the newspaper defended itself by citing other newspaper articles, also defamatory of candidate LaRouche, as their source. Many of the other articles were produced by the newspaper's parent company.

In July 1979, *New York Times* reporters Paul Montgomery and Howard Blum, who jointly prepared the libelous articles, confessed to undercover investigators that they were preparing the articles with the intention of prompting a government investigation of candidate LaRouche.

Excerpts from the decision of the French court, presided over by Mme. Clavery, follow. Emphasis is added.

## 1. About the defamatory character:

Starting with the headline, the *defamatory character* of the article appears. Effectively, the author associates the name of a political organization to a purpose very different from that which it should have: the cult of a paranoid mental disease, a form of psychosis which the U.S. Labor Party is thus accused of. . . .

The author explains that he bases his article notably on interviews with former Labor Party members, "none of whom wanted to see his name mentioned. Some of whom said they feared for their life. . . ." Those remarks clearly express the idea that Mr. LaRouche leads an organization which has so many things to hide that it is ready to execute those who would divulge information about the party, *which is defamatory*. . . .

This accusation of violence, and of dubious activities, is formulated again in the . . . sentences in which the journalist stated that there were close relations between the party of Mr. LaRouche and organizations which have attached their names to ideas of racism and violence, which [statement] *damages the honor and the consideration of a candidate who wishes to present himself to the suffrage of the citizens*. . . .

A few paragraphs later, evoking the psychological atmosphere of that party, the author specifies, "Often, leaders of the party choose the person with whom the member must live." That means he imputes to the leaders, and thus to Mr. LaRouche, psychological pressures such that the members of the party can no longer enjoy their freedom, thus tending to present the party as a "sect" with all the pejorative connotations that can be attached to that term. . . . This insinuation . . . is also expressed in his conclusion: "We find that group as strange as the Marxist People's Temple of Reverend Jim Jones."

*It suffices to recall that the latter [Jones] pushed hundreds of his followers into suicide, to establish the defamatory character of this comparison*. . . .

## 2. On good faith:

The accused, *who did not offer to prove the veracity of the defamatory facts*, limits himself to asserting that he acted in good faith, by informing his readers of what other journalists have written on the subject. But, not only were most of the articles presented by the accused published in newspapers belonging to the same press group as the *International Herald Tribune*, moreover it is not sufficient to show that other organs published the same defamatory information to establish the good faith of the one who restates these allegations. Mr. Thayer had the duty, as any newspaper manager would, to act with care and objectivity and thus to verify the affirmations he let be published. . . .

The accused has thus not established that he acted in good faith. . . .

# Political strife flares again in Nicaragua

by Gretchen Small

A new round of internal destabilizations shook Nicaragua at the end of November, as security forces uncovered preparations for armed insurrection and a coup d'état. The plotters were a group of disaffected business leaders and members of the old Somoza regime who planned to assassinate the current leadership and place themselves in power as a new junta.

While this coup attempt, the most serious since the new government seized power in July 1979, appears to have been successfully defused by the Sandinista government, Nicaragua's population is now even more polarized, and the possibility of renewed civil war in the country over the next year is still grave.

The destabilization first surfaced on Nov. 12, when eleven conservative political parties and business and labor organizations walked out of the State Council, in which they shared power with the Sandinistas, in opposition to a government ban on a planned protest rally of an opposition party, the National Democratic Movement. Five days later, the country was further shaken by the announcement that government security forces had killed a leading businessman, Jorge Salazar, during a shootout between security forces and Salazar's bodyguards. The security forces had gone to arrest Salazar, head of the Coffee Growers' Association, at his ranch on charges of arms running to the insurrectionary forces.

Several other leading businessmen were also arrested at the time, and charged with conspiracy to overthrow the government.

## The government

A split in the government coalition looked inevitable at the time, but government members moved quickly to cool out the crisis atmosphere. They organized a series of well-attended National Unity rallies throughout the country to demonstrate the continuing popularity enjoyed by the government. Government leaders warned those attending to be prepared to repel a possible armed intervention into the country during the coming months by the foreign allies of the insurrectionists.

Subsequent revelations by the government of the extensive plotting behind the provoked political crisis, and the leading role played by Salazar, managed to

isolate the plotters as a minority faction within the business community—at least for the moment.

Critical to this was the announcement by banker Arturo Cruz, the leading representative of the business sector within the five-man junta, that he continued to feel that a basis for collaboration between business and Sandinista leaders still existed, and that therefore he would remain in the junta.

## The Somocistas

Perhaps most devastating of the government's revelations was that of Salazar's collaboration with leading figures of the hated Somoza regime. The documented ties of the arrested coup-plotters to the *Somocistas* discredited their claims that they were merely organizing to assure "democratization" and liberty.

Nicaragua's director general of state security, Lenin Cerna, reviewed the documents, testimonials, and other evidence now in the government's possession on the Salazar and related cases at a press conference Nov. 22. Plans for the overthrow of the government were to include: a simultaneous invasion by a Somocista force, probably from Honduras; armed insurrection from within the country; and the capture and assassination of the members of the ruling junta and the Sandinista Party directorate. Contracts for "truckloads" of arms to be shipped into the country had already been signed on recent visits by Salazar and collaborators to Miami, Caracas, Honduras, and El Salvador, and infiltration of supporters into the Sandinista army had already begun.

Nicaragua's underlying problem remains its economy. Never developed industrially by the previous Somoza regime, the country's agricultural and infrastructural resources were almost entirely destroyed during the 1979 civil war in which tens of thousands were killed, and major sections of the country razed. The new government faced a \$1.6 billion debt and an empty treasury when it seized power, and has received insignificant foreign aid since then. Consequently, only minimal reconstruction efforts have been carried out, and the Sandinista government has generated no visible momentum for development. This has left most business and labor demands unmet, and created an environment where political polarization is easily generated.

This is exactly what has happened, and an increasingly radical mood now prevails. Inflammatory speeches by some Sandinista leaders against the "rich" have created an ugly Jacobin climate in which radical "defenders of the poor" are pitted against the business community as a whole. The coup preparations strengthened the hand of the significant sections within the Sandinista Party who from the beginning argued that the attempt to institute a pluralist democracy with a mixed economy of private business and state enterprises could not work, and a "Cuba model" must be adopted.

# Darwinism dethroned by the evidence

by Vin Berg

Citing much biological and paleontological data, 150 evolutionists attending an international conference in Chicago concluded that hypotheses based on Charles Darwin's Malthusian ideology cannot account for evolution of higher species from lower. The results of the late October conference could promote some new breakthroughs in biological and medical science.

For 40 years, biology has been dominated by a form of molecular Darwinism called the "Modern Synthesis," whose main architect was Julian Huxley. According to the Modern Synthesis, random mutations at the gene level, called point mutations, produce genetic variations within a species population. Scarcity of available resources enables only "the most fit" to survive and procreate. This creates gradual, continuous shifts in the genes of a population, so-called microevolution. These gradually accumulate, leading to speciation—the appearance of genetically distinct, reproductively isolated species.

The "Modern Synthesis" led to increasing frustration among both biologists and students of the fossil record because, frankly, it didn't fit the evidence. Recent biological data defying interpretation according to this theory raised the frustration to a pitch, and in October's Chicago conference, entitled, "Macroevolution," there occurred what might be called a coup.

The coup was carried out by the paleontologists, but they had plenty of support from the biological community. The *microevolution* of the "Modern Synthesis" does not lead to *macroevolution*, they concluded. While it might account for small variations within a species, it cannot account for the evolution of major differences that result in higher-order (taxonomic) developments.

Paleontologists have long known that speciation occurs abruptly. For example, 70 million years ago, small rodent-like mammals, which had remained virtually unchanged for tens of millions of years during the dinosaur age, underwent abrupt morphological transformations that produced species as different as a whale and a mouse in only three million years. The fossil record is replete with such discontinuities.

Darwinists, beginning with Darwin himself, argued that evolution had occurred gradually, but paleontologists had simply failed to find all the "missing links." But there are no "missing links" worth speaking about, concluded the Chicago conference participants. "Certainly the record is poor, but the jerkiness you see is not the result of the gaps, it is the consequence of the jerky mode of evolutionary change," argued Stephen Jay Gould of Harvard.

"The record is not so woefully incomplete," added Steven Stanley of Johns Hopkins, author of a book, *Macroevolution: Pattern and Process*, refuting Darwinian "gradualism" with paleontological evidence.

Roger Lewontin, a Harvard geneticist, asserted that "macroevolution" is very clearly *directed* in a way that Darwinian doctrines cannot explain. And Guy Bush, a University of Texas geneticist, proposed an alternative to the Modern Synthesis, arguing that evolution was chromosomal. Using biological data, he established that chromosomal rearrangements could prosper in species organized in harems, for example. This would reproduce chromosomal changes in a large number of offspring, some of which might later interbreed in turn.

If the conference participants kicked Darwin out, however, they failed to address the question of what *causes* chromosomal arrangements, or any other possible mechanism of evolution.

In a March 1980 article in *Fusion* magazine, "Evolution: A Riemannian Approach to Biology," Carol Cleary of the Fusion Energy Foundation used Guy Bush's evidence to argue that the most rapidly evolving species—like placental mammals at one time—constitute a singularity, acting collectively to create a new, more differentiated environment, with a net increase in biological energy flows.

Cleary also pointed out that cancer can be approached as the inverse of evolution—entropy. Cancer may represent chromosomal rearrangements under conditions of entropic drops in energy throughput.

At a recent Washington symposium on aging and cancer, evidence was presented that cancer is a result of unrepaired chromosomal reordering, not point mutations. John Cairns of the Imperial Cancer Research Fund in London reported that the cancer rate of patients with Bloom's Syndrome, an inability to repair chromosomal rearrangements, is 100 times higher than the general population. George Martin of the University of Washington established a similar correlation in patients with Werner's Syndrome, a rare disease involving premature aging.

A shift in cancer work to a broad basic research program involving studies in cancer, immunology, genetics, cell kinetics and structure, and evolution—using such techniques as recombinant DNA—could produce fundamental progress in biology.



### His Highness visits India

*Despite the British Commission's best efforts, the results were less than auspicious.*

India was treated to a rare spectacle Nov. 24 when the heir to the British throne arrived for a two-week visit. The moment Prince Charles—also known as the Prince of Wales, Duke of Cornwall and Rothesay, Earl of Carrick, Baron of Renfrew, Lord of the Isles, and Prince and Great Steward of Scotland—descended from his Royal Air Force jet, however, it seemed unlikely that Britain would gain much advantage from the tour.

Strict observers of protocol, the Indian government sent only the vice-president and a few cabinet ministers to greet Charles. Neither Prime Minister Indira Gandhi nor the president was there, as British news reports complained at length.

On the second day after the Prince's arrival in New Delhi, local newsmen covering his visit to the Nehru Memorial were, in the words of United News of India, "unceremoniously bundled out of the premises" by a British official accompanying the prince—Mr. Warrick Hutchings, assistant press secretary for the Queen of England, suddenly appeared before the press corps three-quarters of the way through the Prince's 40-minute tour of the Museum. Mr. Hutchings blocked their way forward and announced, "I'm afraid you have come too far and I must ask you to leave immediately." When journalists protested, Mr. Hutchings had them escorted out by British security personnel.

Speculation here was that Mr. Hutchings was ordered to perform

this act of unaccustomed brashness, when he realized that his Royal Highness's insipid comments in the vicinity of reporters belied the carefully cultivated image of the Prince as a very well-educated young man. Journalists here were, for example, taken aback to hear Charles inquire about the meaning of *satyagraha*, the term describing the nonviolent protest Mahatma Gandhi launched in the mid-1920s to expel the Prince's forebears from India. "That's nice" typified his other reactions, along with "Uhhmm."

I happened to encounter another incident that would have embarrassed the late Lord Mountbatten, last Viceroy of India and the Prince's preceptor, when I called the British High Commission about what had been billed in Charles's public itinerary as a "meeting with the press." My question about the time of the press conference elicited the response from the Commission that it was "not, heaven forbid, a *press conference*," but "an informal meeting with a select group of Indian and British journalists," and no Americans were invited.

One of the Indian journalists allowed to attend wrote afterward in the *Times of India* that the invitation to the gathering asked the select guests to "please use the rear entrance to the High Commission."

Two larger incidents occurred during Charles's visit. The first involved a report in the Indian weekly *Blitz* that four British sailors, during a goodwill visit to Bombay by

several Royal Navy vessels, made unauthorized entry into the naval dockyards and were caught by Indian officers taking photos of sensitive military subjects, including a submarine in dry dock.

Further surveillance, according to *Blitz*, turned up Royal Navy frogmen who had apparently been deployed to "bottom search" a Soviet-built Indian missile cruiser.

*Blitz* is not considered a very reliable source, but attention has been drawn to the fact that the Indian External Affairs Ministry has not denied the report, despite pressure from the High Commission.

The second incident occurred on Nov. 25, when the U.K. government announced its decision to continue the practice of X-raying children from the Indian subcontinent who arrive in Britain, in order to determine their age and consequently their right to settle in the U.K.—a decision viewed here as "racially derogatory and medically indefensible." The decision is being compared with the scandal two years ago in which Indian women emigrating to Britain were given virginity tests "to prove that they were fiancées" before entry permits were granted.

Trailing alongside during the various upheavals of the Prince's visit was a high-level delegation of British industrialists, led by the Earl of Limerick. Though it offered economic assistance, investments, joint projects in third countries, and credit packages, skeptics were quick to point out that nothing had come of similar missions in the past, because of what Charles himself has described as Britain's industrial collapse, and India's rise as a competitor with the U.K. and many Commonwealth countries.

## **Prime Minister Sadegh Ghotbzadeh?**

*Iran's liberals try to stay ahead of a growing anti-clergy sentiment. The regime's survival is at stake.*

**F**or the first time since the establishment of the Islamic Republic of Iran, demonstrations and even near-insurrections have taken place in several Iranian cities by a coalition of Iranian forces who oppose the dictatorial rule of the Iranian clergy.

In Tabriz, Iran's second largest city, as well as in Teheran, Qom, Mashad, and Isfahan, Iranians have taken to the streets with slogans such as: "Death to Beheshti! Death to Rafsanjani! Death to Khamenei!" The three clergymen named are the leaders of the ruling Islamic Republican Party (IRP), the clergy-dominated gang that controls the Iranian government.

According to Teheran sources, the outbreak of discontent, which had long been simmering under the surface, was catalyzed by the ongoing war with Iraq. The success of Iraq in blocking Iranian oil exports and reducing to a trickle imports of food and fuel to Iran's chief cities has exacerbated the unrest.

Most essential commodities are now rationed in Teheran and other centers. Food, water, and heating oil, along with gasoline, are under strict controls, and in many cases there are outright shortages.

In the context of the crisis in Iran, a clique of secular politicians in Iran, including the president of the country, Abolhassan Bani-Sadr, former Foreign Ministers Sadegh Ghotbzadeh and Ibrahim Yazdi, and ex-Prime Minister Meh-

di Bazargan, have begun a carefully calculated power play.

Long in eclipse since the start of the hostage affair in Iran, this faction has started anew to challenge the mullahs by capitalizing on the widespread discontent.

Last month, for instance, Bani-Sadr wrote a letter to Ayatollah Khomeini demanding that Prime Minister Mohammed Ali Rajai of the IRP be forced to resign.

"The presence of the current government is more disastrous than a war," said Bani-Sadr's letter. "This government is not worthy of the situation, and the fate of the country should not be left to those who do not have the slightest knowledge about the country's position and whose capabilities are minimal."

At the same time, this week Bani-Sadr accused the IRP of condoning torture of political prisoners, a very sensitive charge in Iran, and the scandal forced the resignation of Ayatollah Khomeini as chief drug enforcer. Khomeini, who heads the Fedayeen-e Islam, the Iranian branch of the Muslim Brotherhood, has earned a reputation as a sado-masochistic killer.

According to Iranian sources, in demanding Rajai's resignation, Bani-Sadr is trying a power play to install Ghotbzadeh as premier.

In this effort, Bani-Sadr and Co. are receiving international backing from the apparatus of the Socialist International of Willy Brandt and

Olof Palme, according to intelligence sources. Part of the support is also coming from Arab League circles associated with Algeria, Libya, and Arab League United Nations envoy Clovis Maksoud.

To undercut the power of the mullahs, Ghotbzadeh is reportedly threatening to expose connections between key members of the Iranian clergy, such as Ayatollah Beheshti, and the old Savak apparatus, the Shah's secret police.

In postrevolutionary Iran, this is a standard threat. Most of the leading mullahs did, in fact, work with Savak. After the revolution, Yazdi and Ayatollah Lahouti, both allies of Bani-Sadr, took over the Savak headquarters and seized possession of the many Savak files. In addition, Yazdi's son-in-law, who headed the Iranian embassy in Washington, handed Yazdi the secret files of that office. It is those files that Ghotbzadeh is threatening to reveal.

Lahouti and another Bani-Sadr aide, Ahmed Salamatian, are touring Iran's outlying districts to rally anti-mullah circles to support them.

Hossein Khomeini, grandson of the ayatollah, in turn, blasted Bani-Sadr: "Today, those who had gathered under the umbrella of Mr. Bani-Sadr want to start acting against the imam. They have made grave errors. The friends of Mr. Bani-Sadr are falling away. The clerical figures who had supported him repent today. . . . There is a big conspiracy against the imam." At least one analyst, Prof. Richard Falk of Princeton University, is already predicting civil war.

The real question is: can Bani-Sadr and Ghotbzadeh contain the ferment, or will it sweep away the Islamic Republic altogether?

## López Portillo calls Klein a speculator

*The Wharton Model's stock is declining in Mexico after the president gave the Nobel Laureate a public drubbing.*

President José López Portillo called a major press conference with the national media on Dec. 3 to assess the first four years of his administration. The topic the attendant journalists most enjoyed was the president's ironic swings at the 1980 Nobel Laureate in Economics, Dr. Lawrence Klein, top dog at the Philadelphia-based Wharton Econometric Forecasting Associates.

The journalist who opened the press conference asked the president point blank to comment on Dr. Klein's assertion that, due to its rapid economic growth, Mexico "runs the risk of an outcome like Iran." As readers of this column will recall, the "father of econometrics" had predicted this gloomy fate for Mexico last month.

The Mexican president's opinion on this came through loud and clear: "That is what can be called a simplistic speculation. To speculate, as you know, comes from the Latin word *speculo*, or mirror. . . . Frequently foreign specialists make simplistic assertions, precipitous generalizations."

The laughter of the journalists filled the conference room, but the president, a man well-tutored in economics himself, continued his professorial discourse: "If we see reality in the mirror of prophesies, that and nothing else can occur. Atlantis could emerge in the middle of the Atlantic Ocean, and the Peninsula of Yucatán could sink into the sea."

Recent statements from Dr. Klein seem to indicate that he is in no mood to defend his econometric abilities. In an interview for the Mexican daily *El Sol* last week, Klein confessed that Mexico's "rapidly changing economic structure" is making things very difficult for Wharton's quarterly econometric service on Mexico, appropriately called "Diemex."

As the *EIR* has emphasized in its reports on the new LaRouche-Riemann econometric model, the failure of all previous econometric models, Wharton's included, lies in their inability to account for the most crucial element in a growing economy, which is the constant changes and improvements introduced by new technologies.

Klein's confessions sparked distrust among some of Wharton's Mexican clients. One businessman who uses Diemex told us sarcastically: "Since Wharton can't explain growth, maybe that is why they would like to see the Mexican economy stagnate. That way their computers could accurately forecast the future."

In the same press conference on Dec. 3, López Portillo also addressed the controversial theme of a possible peso devaluation. As we have previously reported, Wharton has been putting out the line that, in order to make its exports more attractive in the international markets, Mexico has to devalue.

López Portillo characterized

this too as a simplism. "Our currency is floating," he said, "and what is important is not how much our currency is worth, but how much our economy is worth. What we have to do is take care of our economy."

As for the monetarist argument that Mexican exports are declining due to the peso's alleged overvaluation, the president pointed out that the real cause for this was the accelerated growth of domestic demand, which is always met first.

These remarks produced an immediate response in private business circles here, some of which had previously echoed the Wharton devaluation theme. One by one, the heads of the large business associations lined up with the president.

"The government's decision" to not devalue the peso "has been accepted," Carlos Amtman, president of the exporters and importers association, Anierm, told the press. Another business leader, Mario del Valle Bulnes, acknowledged some businessmen had personally met with Lopez Portillo to mistakenly try to convince him of the virtues of a devaluation. Nonetheless, added Gilberto Ortiz from the Canacintra industrial association, the great majority of businessmen now "agree with the president on the fact that it is not necessary" to devalue.

All of which, it should be added, does not guarantee the peso's current parity forever. In fact, Friedmanite pressures for a devaluation are expected to continue and grow stronger next year. But López Portillo's "no" to an immediate peso devaluation, and to the "Iranization" of Mexico, certainly put Dr. Klein and Co. on notice as to where they stand with the Mexican government.

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# International Intelligence

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## ***More Polish union protests possible***

Sources in the Polish trade union Solidarity told reporters Dec. 7 that new protest actions might be staged during the month of December, despite the fact that there were no strikes occurring and none planned. The Dec. 18 installation of a memorial to workers killed in 1970 riots in the city of Gdansk might be the occasion for a demonstration of thousands, they said.

The union is also conducting a review of implementation of the strike settlement agreements of August 1980, the Solidarity sources reported, and if its verdict is not satisfactory, new strike actions could occur.

On Dec. 8, the Soviet news agency TASS released its harshest attack yet on the Solidarity union, charging that "counterrevolutionary groups" were operating under cover of membership in the unions.

TASS said that some Solidarity committees were trying to install people with "antigovernment" views into key trade-union jobs and commented, "Counter-revolution is leading the situation in the country toward further destabilization, toward a sharpening of the political struggle."

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## ***Europe disputes forecasts on Poland***

West European government spokesmen have urged restraint in public statements about the Polish crisis, following a Dec. 7 White House press release that said, "Preparations for possible Soviet intervention in Poland appear to have been completed."

West German Defense Minister Hans Apel said Dec. 8 that he thought it inadvisable to speak out at all on Poland, since such statements could become a pretext for the Warsaw Pact to take unwelcome steps.

Apel spoke after a meeting of NATO

defense ministers in Brussels, marked by tension between the European members of the Atlantic Alliance and outgoing American Secretary of Defense Harold Brown.

Brown, whose published remarks about the European allies' not pulling their weight in NATO had angered the Europeans, reportedly told the meeting that the Polish crisis was a threat to the West.

The West German delegation, according to press accounts in West Germany, termed it an internal crisis of the Warsaw Pact.

Klaus Bölling, spokesman for West German Chancellor Helmut Schmidt's office, said Dec. 8 that West Germany did not share the evaluation that a Soviet invasion of Poland was imminent.

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## ***Dayan 'not opposed' to overthrow of Hussein***

In an interview with the *Christian Science Monitor*, former Israeli Foreign Minister Moshe Dayan declared that the overthrow of King Hussein and the establishment of a Palestinian state in Jordan headed by PLO leader Yasser Arafat "would not necessarily be in conflict with our interests."

Dayan emphasized in the Dec. 10 interview that "the Palestinian problem" is Israel's main concern. As a result, Dayan affirmed, Israel might not come to the defense of King Hussein if Jordan were attacked by Syria.

"1980 is not 1970," Dayan declared, referring to the September 1970 events in which Israel came to Jordan's defense in the face of a Syrian military attack on Jordan.

According to the *Monitor*, Dayan is being supported by Agriculture Minister Ariel Sharon. General Sharon has for years been the advocate of a plan to make Jordan into "the state for the Palestinians," to relieve Palestinian pressure on Israel.

The Dayan statement comes at a time when the Israeli government is deliber-

ately radicalizing the Palestinians by instituting a military crackdown campaign on the West Bank.

This forced radicalization has the potential of spilling over at any time into Jordan, whose population is largely Palestinian in origin.

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## ***France grants \$3.5 billion credit to Soviet Union***

French banks have assembled a package of export and other credits to help finance the Siberian gas pipeline, Crédit Lyonnais, the head of the banking consortium, announced Dec. 10.

The French government's Coface agency will guarantee the \$3 billion credit for purchase of turbines, compressors, and other equipment. There is also a direct state credit for \$500 million, at 3 percent interest; the interest on the bank credit is 7 percent.

The agreement was reached during a trip by Crédit Lyonnais officials to Moscow to arrange French participation in the gas deals, which already involve France and Japan. On Dec. 11-12, the Franco-Soviet Economic Commission discussed the details of the arrangement and the possibility of joint ventures in third countries.

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## ***Soviet oil discovery in western Siberia***

A report from the Swedish oil consulting firm Petrostudies of an oil field larger than the combined estimated world proven reserves discovered in western Siberia has been refuted by Western oil experts and the Soviet Academy of Sciences.

However, a Soviet geology expert with the U.S. Geological Survey, in an interview with *EIR*, confirmed a report in the *Oil and Gas Journal* of June 16, 1980 that "the liquid fractions of petroleum . . . shales of West Siberia total 2 trillion tons [14.6 trillion barrels]. No

estimate has been made of how much . . . might be recovered, but the source-rock potential is significant."

In this area of Siberia are located two other oil fields, the Salym field and the Samotlar field. According to the U.S. Geological Survey source, an Oct. 4, 1979 underground nuclear explosion near the Salym field may provide the answer to how this oil shale might be extracted.

The Soviets are known to maintain a "very active" program for use of peaceful nuclear explosives which can be applied to enhanced oil recovery, mineral applications, and development of water resources.

The 1979 explosion could be linked with experiments to stimulate petroleum recovery by extensive fracturing of the shales.

The U.S. effort to use peaceful nuclear explosives, Operation Plowshare, has been dormant since the early 1970s.

## **Republican charges Iran killed two hostages**

Congressman-elect John LeBoutellier (R-N.Y.) has charged publicly that the Iranian government has tortured two American hostages to death, and has demanded that President Carter immediately suspend all negotiations for the hostages' release.

In a Dec. 10 interview with *EIR*, LeBoutellier noted that "I have been raising this issue since the days before the election, when I stated that the hostages' suspected death could be the reason why Carter really didn't want the hostages home.

"I also felt this was the reason the Iranians kept saying they would release some of the hostages until they get as much as they can get from Carter."

LeBoutellier told *EIR* that he wants Carter to make "no concessions" to Iran and to suspend further negotiations "until there is a complete accounting, through some actually independent agency, of what the state of the hostages is."

The congressman-elect further stated

that despite the fact that his charges are based on evaluations from "more than one source" and correspond to "intelligence rumors" about hostages having been killed, no media outlet was willing to report his charges until the *New York Post* ran an account in its Dec. 8 edition.

"I told ABC, UPI, and others what I was saying the night before Thanksgiving, but none of them would run the story," he claimed.

## **Moscow's New Times: Jesuits have lost power**

*New Times*, a Moscow publication that often reflects debates in the Soviet intelligence community and other policy-making institutions, carried a three-page feature on the Jesuit Order in one of its November issues. The author, Lazar N. Velikovich, is a senior researcher at the Academy of Social Sciences attached to the central committee of the Soviet Communist Party.

The *New Times* article, appearing at a time when the role of Jesuits in destabilizing Poland had been widely covered by *EIR* and other publications, argued that the international power of the order has greatly declined. "In the past, the Society of Jesus has wielded tremendous power," wrote Velikovich. "Now the Jesuits have neither the power nor the prestige they enjoyed of yore."

Velikovich asserted that there were significant factional trends within the Jesuit Order. He said that the Vatican's recent ban on priests' holding political office was "a warning to Latin American priests, many of whom are active in social and political life," a reference to the Jesuit proponents of "liberation theology" which many Soviet sources have termed "progressive."

The *New Times* article, while belittling the influence of the Jesuits on a world scale, in this way suggested that the Jesuit bid by these same activists for "dialogue and specific cooperation with Marxist-oriented groups and movements" was not to be turned down.

## **Briefly**

● **THIRTY SUSPECTED** terrorists were arrested in 11 Italian cities, in coordinated operations that began Dec. 3 and dealt a crippling blow to the left-terrorist Prima Linea (Front Line) gang. Among the arrested was Roberto Rosso, military chief and political ideologue for the group.

● **REZA SHAH PAHLAVI**, son of the late shah and claimant to the throne of Iran, narrowly missed assassination in his exile base in Egypt, the *Jerusalem Post* reported Nov. 17. According to the *Post*, Reza Shah has discontinued his schooling and has been under very tight security.

● **A COUP** attempt against the Somali regime of Siad Barre led by elements from the Somali Air Force and aided by other military units was uncovered the day before Oct. 1 national celebrations were scheduled, according to a Dec. 5 Libyan radio broadcast. At the time of the coup attempt Barre suspended the constitution and took direct control of the country through the party apparatus, according to a Somali source, to give him a more dictatorial control in order to better deal with the unrest.

● **MENACHEM HOROWITZ**, director of Israel's Ministry of Social Affairs, has called for the legalization of hashish and marijuana as "a fresh approach to Israel's drug problem." He also proposed that heroin addicts be given drugs freely. Other speakers at a Nov. 24-25 symposium on drugs at Hebrew University in Jerusalem raised the possibility of marijuana becoming a "new oral contraceptive" because of its proven ability to impede the reproductive process.

● **LEONID BREZHNEV** stated Dec. 10 to the parliament in New Delhi that the U.S.S.R. is prepared to improve relations with the U.S., but "as the Indian saying goes, you cannot clap with one hand."

## Kirkland, O'Neill plan Democratic split

by Lonnie Wolfe

On Dec. 8, AFL-CIO President Lane Kirkland, Democratic House Speaker Thomas "Tip" O'Neill, Vice-President Walter Mondale, and Sen. Edward Kennedy held a private meeting to discuss the "future direction of the Democratic Party."

The previous week, Kirkland had met with both O'Neill and Mondale.

Well-placed sources in Washington, D.C. report that behind the series of meetings is a plot by Trilateral Commission member Kirkland and O'Neill, along with members of the Socialist International, to take over and wreck the Democratic Party as a viable constituency-based institution.

Their goal, which has reportedly been the subject of the meetings, is to force mainstream party leaders either to the sidelines or out of the party completely. This would leave the party apparatus in the hands of social-democratic allies of Kirkland and O'Neill who aspire to turn it into a British-style social democratic party.

### **Liberals versus the mainstream**

At this moment, however, the battle for the Democratic Party is a real scramble, with no one in control. The election landslide displaced the entire McGovern wing of the party. It also opened the door for the conservative and moderate elements of the party to challenge the McGovernite leadership on policy questions. In recent weeks this battle has spilled into the open, as Democrats in Congress, responding to consti-

tuency pressure, have attacked the devastating high-interest-rate policies of Federal Reserve Chairman Paul Volcker.

Party insiders confirm that the election debacle has in fact left Kirkland and O'Neill in seriously weakened positions. Their actions represent an effort to recoup lost power and influence before the mainstream has a chance to consolidate its gains.

Kirkland and O'Neill are moving to shatter any potential for collaboration between the progrowth factions of the Democratic Party and the incoming Reagan administration on matters of bipartisan concern in economic and foreign policy. Key members of the Reagan team are said to be quietly working to accomplish a Thatcherization of the new President—saddling Reagan with the same failed economic policies of the British Thatcher government, which have tripled inflation and doubled unemployment. If that happens, the U.S. economy will deteriorate, promoting the kind of social crisis that Kirkland, O'Neill, et al. need to give their operation a chance.

It is no accident that the big guns of Eurosocialism gathered in Washington this week as the Kirkland-O'Neill operation began to take shape. Willy Brandt, Olof Palme, Anthony Wedgwood Benn, and the other European leaders arrived to give the marching orders for the social democratic transformation of the Democratic Party. The conference provided a cover for this purpose.

As our on-the-scene report indicates, the speeches by the Eurosocialist leaders hammered away at one theme: Reagan will be Thatcherized. The American social democrats will then use this as their rallying point to build a "mass party" out of the shards of the Democratic Party.

As pieced together by our Washington staff, the Kirkland-O'Neill strategy involves three specific areas: 1) a grab for congressional power, using the full weight of O'Neill's speakership to break resistance and enforce policy; 2) the reorganization of the labor movement to more effectively deploy the left-wing social democratic networks like the United Autoworkers; and 3) the enforcement of rigid party discipline through accountability statutes which will allow O'Neill to control debate and demoralize and stifle mainstream elements. The O'Neill-Kirkland deal to wreck the party has already been openly denounced by former Democratic presidential candidate Lyndon LaRouche, Jr., now chairman of the advisory board of the National Democratic Policy Committee, a group committed to rebuild the party on its traditional constituency base.

### **The congressional power grab**

Tip O'Neill as Speaker of the House is uniquely positioned to play a key role in the transformation. He has been identified by several social-democratic-linked Democratic Party sources as the "leader of the parliamentary party." In this sense he has been and is intended to function as the chief enforcer of party discipline. It is well known that O'Neill has files on all congressmen and their voting records. It is his stated policy to reward the faithful and to punish the unworthy, as determined by how members line up on particular issues.

O'Neill is known for his vindictiveness and his willingness to go to extremes—including political blackmail—to get his orders carried out. Tip, himself a well-known sot, does not initiate policy, but merely implements it. As our sources report, the saying goes, "When Kirkland talks, O'Neill walks."

O'Neill has been ordered to do one thing. Through the use of his powers as Speaker and his "files" and other assorted weapons, he intends to adopt an "obstructionist" posture to thwart bipartisan congressional action around an alternative economic policy to Paul Volcker's.

If O'Neill is not removed as Speaker or politically checked when Congress convenes next year, he remains in a position to bottle up both Reagan and mainstream Democratic legislative initiatives. As one leading social democratic conspirator put it, "We need a real nasty Tip O'Neill to hold things in place, to make us the 'opposition' party."

While O'Neill handles the "parliamentary party," executive board member of Social Democrats USA Lane Kirkland is reshaping the labor movement and deploying the forces under his control for the operation.

Last week, UAW President Douglas Fraser leaked to the press that the union's executive board was going to act within a week on a motion to reaffiliate the 1.5-million member union with AFL-CIO. If all goes as planned, the UAW will re-enter the AFL-CIO by some time next year, and Fraser will be given a seat on the AFL-CIO executive board.

Once that occurs, negotiations on a merger between the UAW and William "Wimpy" Winpisinger's International Association of Machinists are expected to be quickly concluded. In addition, there is also talk of a possible UAW-IAM merger with the United Rubberworkers, though this is slated for the more distant future.

This realignment of the "left-wing" social democratic UAW-IAM under the AFL-CIO umbrella has been a personal project of Lane Kirkland. Its purpose is properly located by remarks made by a Kirkland aide.

The AFL-CIO president, the aide said, has the following operative strategy for transforming the Democratic Party into a social democracy. Kirkland will himself "hold the AFL-CIO officially neutral" in party matters. This, the aide said, was the meaning of Kirkland's remarks last week at the 25th anniversary of the merger between the AFL and the CIO. "We are playing a double game," the aide said.

By staying out of the Democratic Party fray himself, Kirkland will be free to maneuver inside the Reagan administration through various "channels of influence." Meanwhile, he will privately encourage the left-wing UAW and IAM to "enter the party completely and work as labor's opposition to Reagan." Once the Reagan administration is thoroughly Thatcherized, as Kirkland expects, he will bring the rest of the AFL-CIO fully into a "social" Democratic Party at war with the class enemy.

Both Fraser, who met with European Social Democratic leaders, and Winpisinger, who spoke at the Washington social democratic conference last week, are already playing by Kirkland's rules. Both are talking about class war against Reagan at the first opportunity.

Kirkland is personally committed to bringing a British-style parliamentary system to the United States, an aide said. The AFL-CIO president has said on several occasions that he regards that system as superior to the one specified in the U.S. Constitution. The anglophile Kirkland, aides say, finds a sympathetic ear for his ideas in House Speaker O'Neill. It is through O'Neill, AFL-CIO sources report, that Kirkland intends to dictate his orders to the Democratic Party.

## Social Dems discuss the party's future

*EIR interviewed Jim Chapin, national director of the Democratic Socialist Organizing Committee, on Dec. 9.*

**EIR:** What will happen to the Democratic Party?

**Chapin:** It depends on what the Republicans do in power. In the English case, one party bucks to the right while the other goes to the left. Reagan is like Thatcher and Begin; he has the same economic adviser, Milton Friedman. We feel the Dems should have different policies. Now left liberalism will emerge—it depends on the Republicans, if they fall quickly people will say we don't have to do anything different in the party.

**EIR:** Will some sort of social democracy emerge?

**Chapin:** A social democracy is emerging within the Democratic Party. By the nature of American politics it is decentralized, but a greater party structure is talked about a lot. Accountability to the party platform was passed this time. We supported those moves.

**EIR:** Should congressmen play a greater role?

**Chapin:** It is a good idea. But elected officials should play a greater role with the party if the party plays a greater role with elected officials. Membership in an American party doesn't mean anything. Public officials must feel responsible to the party. Since the early part of the century the American parties can't withhold a nomination to a person as they can in England, France, and Canada if the person doesn't go along with the party. The presidential nominee in effect can be without experience in the party. In England, the prime minister has 10 or 20 years working in the party.

*Comments by Arch Puddington, executive director of the League for Industrial Democracy and editor of New America, publication of the Social Democrats USA.*

The most effectively organized group in the party is the Democratic Agenda, the left around Michael Harrington. But since so many liberals were defeated in the last election it won't carry over to the rest of the party. They will carve out their role. There will be a split in the party. Those that are running for office or hold office are moving to the center. The feminists, blacks, environmen-

talists are moving to the left. This is similar in form to the British Labour Party: the centrists versus the activists who are to the left of the parliamentary party.

The problem in the U.S. is that there is no party discipline. . . . The party won't become more disciplined, though, because too many people have a stake in it not being so—they are on the outs. But the direction the party has been moving is the direction of the British Labour Party.

Getting elected officials, congressmen within the party councils makes sense. A lot depends on Reagan and how well he does—if he is a disaster the left will gain influence.

*This interview with Morley Winograd, Michigan Democratic Party state chairman and president of the State Chairmen's Association, was made available to EIR.*

**Q:** Where will the Democratic Party go from here?

**A:** I am not sure where it will go. The debate on the kind of chairman we will have will determine that. We have to rebuild at the local level. Ideologically, we have been offering a majority of the voters something they want instead of giving to each constituency group. The fundamental concern is economic growth with prosperity, not destabilizing growth. People want jobs for their children, education, and decent neighborhoods.

It's a question of redirecting the focus, we have to espouse principles that are of greater concern to the little guy. Our concerns before were not relevant to the electorate, things like environmental quality, government reform, fixing up the bureaucracy. My hope is that we don't split, that the DNC brings congressmen, governors and state officials into the party.

**Q:** There has been discussion of the party becoming more like the British Labour Party, and thus gaining more power.

**A:** That is a possibility. We have had lifted the weight of the President taking over the party since we didn't win the election. But since the federal system we have is not a parliamentary system it is difficult to exert that kind of a role. It is better to do it on a state basis than a national level. It's an opportunity now that we don't have the presidency. That situation gives the party freedom and independence to move. Congressional involvement is usually positive.

**Q:** Who in Congress is interested in this?

**A:** I think Tip O'Neill. He has decided it's something he has to get involved in. His statement a few weeks ago criticizing the DNC. . . . Congressmen understand the importance of a national party. I have spoken to his office on this. It is fascinating when a party is out of power, the opportunities are limitless.



## Democrats vie for committee control

by Barbara Dreyfuss

Mainstream Democrats won some significant victories during the first two days of the House Democratic Caucus meeting Dec. 8 and 9, which chose the House leadership and a key committee chairman. In a major defeat for House Speaker Tip O'Neill, Jim Jones, a moderate from Oklahoma, won the chairmanship of the important House Budget Committee. Jones defeated one of O'Neill's closest long-time allies, David Obey of Wisconsin, an architect of the early-1970s organizational reforms of the House. These were the reforms that broke the power of constituency-oriented senior congressmen.

The House Democratic Caucus will now be headed by Gillis Long of Louisiana. Long's main opponent for the post was Charles Rose, a North Carolina liberal who founded the Congressional Clearinghouse. The Clearinghouse, which tries to shape the legislative agenda of Congress, is run by the Club of Rome, initiators of the "limits to growth" doctrine.

While control of these posts can aid the efforts of a number of mainstream Democrats to forge a bipartisan coalition that can implement economic recovery, Speaker O'Neill remains a powerful obstacle to such efforts.

O'Neill's declaration of war against the Republicans and moderate Democrats caused an uproar in the House. Texas Republican Bill Archer began talking to both Republicans and Democrats about ousting O'Neill from the Speaker's post. Only 26 Democrats need vote with the GOP when the full House appoints the Speaker in order for O'Neill to be replaced.

Various conservative and moderate Democratic groupings, including the Conservative Forum headed by Rep. Stenholm of Texas, have met with O'Neill to demand a greater role for mainstream Democrats in House activities. O'Neill was forced to retreat on his threat to pack four committees—Budget, Appropriations, Ways and Means, and Rules—and during the caucus meeting he agreed to stack only Rules and Ways and Means with twice as many Democrats as Republicans.

Control of the Rules Committee, however, gives him significant control over bills that come to the House floor, and Ways and Means oversees critical tax legislation. O'Neill, as of this writing, is also trying to force the caucus to accept a rules change that will allow a committee to keep legislation bottled up unless two thirds of the

representatives vote to bring it to the floor.

O'Neill also conceded three of the eight slots he fills on the Democratic Steering and Policy Committee to conservative congressmen: Tom Bevill of Alabama, Bo Ginn of Georgia, and Wes Watkins of Oklahoma. O'Neill retains control of the body, which appoints members to other committee.

O'Neill will be aided in his efforts to control congressmen by the House whip, who ensures passage of the leadership's legislative agenda. At the Democratic Caucus meeting, the Speaker appointed Rep. Tom Foley of Washington as whip. Foley, a member of the Trilateral Commission, is as determined as O'Neill to turn the House into a parliamentary machine. At a meeting sponsored by the American Enterprise Institute in Washington, D.C. on Dec. 8, Foley told the audience that the reforms of Congress have gone too far, and paralyzed action. Fortunately, he concluded, "in a sense, the Speaker now has more powers than ever before," and O'Neill, he emphasized, will use them.

### Tip's economic mentor

Tip O'Neill's office reports that Tip's chief adviser on economics is Walter Heller, former chairman of the Council of Economic Advisers under Kennedy and Johnson. "When he talks about 'my economists' he means Heller," declared a writer well-versed on Tip's activities.

Walter Heller not only supports the policies of Federal Reserve Chairman Paul Volcker, which are destroying the economic viability of America, but complains that they do not go far enough. Heller was trained in the late 1930s by Milton Friedman, whose austerity proposals have already destroyed the economies of Israel and Chile.

He made his economic programs plain to a reporter this week. "You have to have not just fiscal and monetary discipline, but it must be coupled with wage and price restraints. . . . You need these restraints to enable the downward pressure you exert on the economy through tight money and restructuring fiscal policy to help the economy. . . . When you run the Federal Reserve policy in restraint and budget restraint, it is not necessarily sufficient. You have to couple it with a policy to retard wage and price increases. My guess is that intellectually Tip O'Neill agrees with this but doesn't see it as a political reality. I have good evidence that his office is very receptive to my ideas."

## State chairmen expand voice

by Laura Chasen

For the first time since the trouncing of the Democratic Party in the November elections, members of the Democratic National Committee (DNC) executive and Democratic state chairmen met to discuss how to avoid another electoral disaster. The state chairmen conferred in Washington, D.C. on the morning of Dec. 9, while the DNC executive gathered that afternoon in the same hotel.

Most striking was the overwhelming sentiment in both meetings that elected officials be made ex officio members of the DNC, in order to rebuild the party around constituency groups. Democratic leaders made clear their blatant rejection of the "McGovern" reforms beginning in the late 1960s, which had opened up the party to numerous affirmative action rules, breaking the strength of political networks. The McGovern reforms were attacked as a critical reason for the party's huge electoral defeat. "We have invited any special interest group to come in and sandbag a meeting or organization," declared one state chairman. "We must get elected officials back into the party. Legislators must respond to the grass roots, so we should let them back in."

For the first time in many years the direction and leadership of the party is up for grabs.

"Why did we lose? and what should be do about it?" asked Morley Winograd, head of the state chairmen's group, in opening the meeting. Winograd's question unleashed the pent-up rage of the state chairmen against the Carter administration and the national party leadership for ignoring the local party structure throughout the election period. "In our state the national party has been the enemy," declared William Farris, state chairman of Tennessee. "I had to fight with them much more than I fought the Republicans. We never get visits, consultation, never has an individual from the Tennessee party been put on national commissions. . . . The national party now comes in before elections and tells people not to give to the local party but just to the national. . . . So let's make sure the new direction of national chair is in league with the people."

Chairman after chairman stood up to emphasize that

the next head of the Democratic Party must be concerned about rebuilding the base of the party and electing local officials. "We all know what John White was hired for" declared one chairman, referring to the current party leader, whose only concern was the re-election of Jimmy Carter. "As for the party chairman, he must be committed to electing Democrats at all levels" commented one Eastern party leader bluntly. "The new party chairman must not be a candidate himself or be committed to any candidate for President." Rosalie Abrams of Maryland proposed that the state chairmen's group arrange to have all the candidates for party chairman address the state chairmen's group before the DNC actually chooses a party chairman, a proposal unanimously approved.

Western state chairmen spoke out against the neglect they have felt from the national party leaders and the administration, the Democratic administration had at times outraged many Western party officials by opposing such programs as water development which are critical to the West. Declared Wanda Hitchcock of Wyoming: "I would propose that there be regional coordinators to coordinate national with regional policy and also let the state parties understand some problems of the national."

Although no specific proposals were offered, the chairmen recognized that unless Democrats can come up with solutions for the economic crisis, the party will lose more elections. "We lost this election because people were voting pocketbook issues," declared one leader. "We must talk about lowering interest rates, about more jobs," declared another.

### DNC executive session

At the Democratic National Committee executive meeting, Winograd, who is a member of the executive, and Michigan DNC executive member Sam Fishman, a UAW official, strongly backed a resolution establishing a commission to review making party officials "accountable" to the party policy. The resolution had been mandated by the 1980 convention. In support of the commission, Fishman, who like Winograd favors "social-democratizing" the party, stated: "In regard to the resolution on accountability, it is a major thrust that the national Democratic Party program and platform ought to be the party's contract with the people, and people can expect that it will guide candidates."

Eventually, a fight broke out about whether party finances were misspent during the election. Finance chairmen Charles Manatt and Peter Kelly reported on the state of the party's finances, claiming that the Democrats had spent a higher percentage of their national finances for local elections than the Republicans had. Outraged at this assertion, when they knew the national party had given little help to local candidates, the DNC officials voted for a resolution requiring a full accounting.

# Curbing the EPA

*A legislative update from  
Susan B. Cohen.*

Recent developments in the House of Representatives indicate that Congress has not waited for the President-elect to take office before exercising the November mandate. On Dec. 4, Congress passed a bill which gives it the right to veto future federal pesticide regulations, and also provides for new scientific review procedures for use by government regulators.

The bill, H.R. 7018, was approved in the House by a 334 to 13 margin shortly after its approval in the Senate, and now only needs President Carter's signature to become law. H.R. 7018 extends authority for appropriations to carry out the Environmental Protection Agency's (EPA) pesticide-control programs through Sep. 30, 1981. The bill also provides for a two-house congressional veto of EPA regulations dealing with pesticides and further directs EPA to set up formal procedures for "peer review" by independent scientists on major scientific studies used as the basis for EPA regulatory actions.

The bill, with its key riders, was sponsored in the House by Rep. Kika de la Garza (D-Tex.) and Rep. William C. Wampler (R-Va.). "The House action means that we will finally be putting into effect the recommendations of the National Academy of Sciences and the General Accounting Office for independent scientific peer review in cases involving changes in pesticide regulations," Wampler stated. "Such reviews have not previously been required in all cases, and the change will lead to improved decisions."

Wampler is the ranking Republican on the House Agriculture Committee, and is expected to play a leading role on agricultural and environmental matters next year.

## Science for agriculture

In February Representative Wampler will reintroduce his "National Science Council Act," according to an aide. The bill, on which Wampler hopes to set hearings in March, calls for the establishment of a National Council of distinguished scientists to "decide questions of scientific fact which arise in agency adjudications involving restricting the use of certain substances. . . ." The Food and Drug Administration's ban

on the use of diethylstilbestrol (DES) in livestock is a case in point. The FDA falsely based its ban on findings that the daughters of women who had used DES contracted vaginal cancer. However, as agricultural experts note, DES is nonresidual in the tissue of livestock.

The Council, to be established within the federal Office of Science and Technology Policy, would have absolute authority in disputed matters, and is aimed at putting regulatory decisions on a uniform and consistent scientific footing.

In recent years the EPA has come under severe criticism by consumers, scientists, and industry. The "guilty until proven innocent" policy of the EPA has drastically increased the cost of developing and producing new, safe chemicals for use in agriculture and elsewhere.

At the same time, the banning of various chemical substances has followed no rigorous methodology. In fact, many observers contend that if there has been any consistency at all to the whole process, it has been consistently bad.

## EPA blunders

Two of the best examples of the miscarriage of the EPA's regulatory process are the banning of the chemicals 2,4,5-T and the more infamous case of DDT. The herbicide 2,4,5-T has been used for over 30 years with an unexcelled safety record.

On March 1, 1979, the EPA issued a ban on several uses of the chemical. The EPA now admits that the evidence upon which the ban is based is invalid, but has refused to rescind it, and, in fact, is holding hearings on making it total. It is estimated by the U.S. Department of Agriculture that the ban could reduce rice yields by as much as 40 percent.

The 1972 DDT ban was even more reckless, and, as EPA chief William Ruckelshaus admitted privately at the time, totally political—not based on science. "I am told that when EPA personnel briefed the U.S. Senate Agriculture Committee staff on the DDT cancellation," said Mississippi State Agriculture Commissioner Jim Buck Ross at a meeting of the Southern Legislative Conference for the Council of State Governments in Washington last week, "it was justified by a dead fish in a Louisiana bayou that had some DDT in its fatty tissue. When I asked if the DDT had killed the fish, they did not know, but assumed it had because it was present."

As Ross pointed out in emphasizing the urgency of putting science in control of EPA decision-making, DDT not only prevented malaria but it was the most effective insecticide for the control of the boll weevil and boll worms in cotton, and is still being used safely in almost every other part of the world.

# 'Misconduct was by government'

*A federal judge has ruled that two Philadelphia Abscam convictions violated due process.*

On Nov. 26, U.S. District Judge John P. Fullam reversed the Abscam convictions of Philadelphia city councilmen George X. Schwartz and Harry P. Jannotti on constitutional grounds. Judge Fullam's decision left Deputy Attorney General Charles Renfrew in a "deep state of shock," according to news reports. It represents the first judicial confirmation for those who have opposed the Abscam-Brilab investigations as a "political witchhunt" that the Carter administration is guilty of gross misconduct in pursuing these cases.

The Fullam decision, excerpts of which are reprinted below, attacks the convictions of the two Philadelphia city councilmen on four major grounds.

First, the court throws out the conviction of the two councilmen under the Hobbs Act, the federal extortion statute. Fullam points out that the defendants did not demand money from the FBI men soliciting their participation in bribery, and since the FBI solicited the councilmen's services for a local hotel project, they could not have consciously designed their activities to have affected "interstate commerce." Both these grounds are necessary for a conviction under the federal extortion statute. The government had attempted to counter the clear language of the statute by stating that the "perceptions of the defendants" as opposed to the language of the law was the clear determinant for a conviction and the defendants "must have known" that a hotel scheme of the magnitude proposed would have to affect interstate commerce. Judge Fullam's reversal of the Hobbs Act conviction reintroduces the constitutional standard of "objective," as opposed to "speculative," intent to commit criminal acts into the Abscam cases.

The constitutional importance of the Philadelphia decision turns, however, on the court's finding that the government wilfully entrapped the defendants into the bribery scheme and violated their due process rights. Judge Fullam found that the intent of the Abscam investigation was not to expose corruption, or even to determine who was corrupt. Rather, the entire series of inducements was designed to determine who *could be corrupted* and thus violated every notion of American criminal law. Fullam found that Schwartz and Jannotti were not "predisposed" to commit a crime, but surrendered themselves to what he characterized as "over-

whelming government inducement."

Even if he were not compelled to throw out the convictions on the finding of governmental entrapment, Judge Fullam noted that he would vacate the conviction on another available constitutional ground, the fact that the FBI's entire Abscam scheme in Philadelphia represented such gross governmental misconduct as to have violated Jannotti's and Schwartz's rights to due process of law under the U.S. Constitution. This aspect of gross governmental misconduct is expected to be raised by defense attorneys for Congressmen John Murphy and Frank Thompson in appeal hearings of their New York convictions based on Judge Fullam's decision. Attorneys for Murphy state that the entrapment defense is not available to them because Murphy states he never took the money proffered by the government agents. Entrapment demands that the government successfully induce the defendant into commission of a crime before it can be raised as a defense.

Finally, in a major blow to Justice Department white-collar crime efforts on the municipal and state levels, Judge Fullam found that the Philadelphia Abscam bribery scheme was deliberately designed by the Justice Department to artificially extend federal legal jurisdiction to the local level. In recent political white-collar crime and corruption cases, the Justice Department has been unstinting in its efforts to prosecute where local authorities have found no basis for prosecution under state laws. Judge Fullam attacks this procedure and states that the artificial creation of a scheme of bribery and entrapment designed to confer federal court jurisdiction is enough in itself to throw out the convictions.

## Judge Fullam's decision

*The following excerpts come from Judge Fullam's decision.*

At all pertinent times, the defendant Schwartz was President of the Philadelphia City Council, and the defendant Jannotti was a member of the City Council. The Government's evidence at trial proved that Schwartz accepted \$30,000 from undercover F.B.I. agents who purported to be representatives of wealthy Arab inves-

tors contemplating construction of an elaborate hotel complex in Philadelphia. . . .

There is no contention that the evidence at trial proved that interference with interstate commerce was a conscious object of the alleged conspiracy. And . . . I am now of the opinion that this Court's jurisdiction under the Hobbs Act has not been established. . . .

I am aware of no appellate decision, in any circuit, upholding a Hobbs Act conviction on the basis of a bribe which was neither requested by the official, nor perceived by the payor as either necessary or at least helpful. In contrast, the evidence in the present case clearly establishes that not only did the defendants not request payment, they made it very clear that the payments would not be necessary. . . .

In my judgment, it is impermissible to treat federal jurisdiction thus doubly expansively: first by extending it to passive acceptance of gratuities by public officials, and second by extending it to purely hypothetical situations. . . .

The undercover operation which has come to be known as Abscam was established initially by F.B.I. agents working out of the Happaug, Long Island office of that agency, Melvin Weinberg, whom they had recruited for the task. While details of the ruse varied from time to time, as the result of improvisation by various undercover agents, the broad outlines of the scheme remained fairly constant: The undercover agents represented one or more extremely wealthy Arab sheiks desirous of investing huge cash resources in this country. Arrangements were made with the Chase Manhattan Bank, so that anyone who inquired would receive verification that the Arabs did indeed have more than \$400 million on deposit with that institution. Mr. Weinberg would "spread the word" through his underworld contacts and other shady connections. It was contemplated that persons expressing interest in providing investment opportunities would be carefully screened; if the proposed deal appeared legitimate, no further action would be taken, but if there was reason to suppose it might provide an opportunity for discovering criminality, the matter would be pursued, and the participants videotaped or otherwise electronically recorded. In actual practice, however . . . the distinction was not always carefully observed. . . .

Mr. Weinberg was strongly motivated to produce results for his F.B.I. employers. At the time he was recruited, he faced a substantial prison sentence on charges of mail fraud, covering transactions which had netted him in excess of \$100,000. The F.B.I. interceded with the sentencing judge, and arranged to have Mr. Weinberg placed on probation. It was also agreed that Weinberg would receive substantial compensation . . . during his Abscam employment. He thus had a direct financial stake in the continuation and expansion of the Abscam investigation. Moreover, the aura of wealth . . .

and the probable limited duration of his employment, were not without their own temptations for one who, at other stages of his career, probably represented the archetypical amoral fast-buck artist. . . .

Perhaps the crucial aspect of the undercover operation was its emphasis upon "the Arab mind." . . .

In their initial, videotaped, meeting, undercover agent Wald explained to Criden that the sheik was interested in building a hotel complex in Philadelphia and might also be interested in major long-range projects having to do with the revitalization of Pennsylvania's coal industry and related major improvements along the Philadelphia waterfront, but only if, in accordance with the "the Arab mind" he could be assured of the friendship of important governmental officials. . . .

In my opinion, in their zeal to make sure that the defendants would accept the tendered payments, the government agents offered such attractive inducements as to preclude any reliance upon the defendants' acceptance of the money as proof of predisposition. In the first place, standing alone, the very amounts of the bribes were, to paraphrase the language of the court in *Scriber v. U.S.*, *supra*, "a substantial temptation to a first offense."

In the second place, it was clear that the defendants would not be asked or expected to do anything improper on behalf of the proposed hotel venture; and they agreed to do nothing inconsistent with their obligations as members of the City Council, working for the benefit of their constituents.

Finally, and most importantly, they were led to believe that if they did not accept the money, the project would not come to Philadelphia. In the context of the fiscal crises which beset all large cities these days, and in the context of the problems of urban blight and decay, the governmental inducement in this case was indeed calculated to overwhelm.

Viewed in its entirety, the Philadelphia aspect of the Abscam investigation was plainly designed not to expose municipal corruption, not to determine which officials were corrupt, but merely to ascertain whether, given enough inducement, city officials could be corrupted. And what the Government succeeded in proving was, not that the defendants were corrupt city officials, but that, exposed to strong temptation, they could be rendered corrupt. In short, the evidence establishes entrapment as a matter of law. The evidence was, as a matter of law, insufficient to establish the defendants' predisposition beyond a reasonable doubt. . . .

In my judgment, the circumstances of the present case argue . . . more strongly for dismissal on due process grounds. . . . While municipal bribery may be "fleeting" and "elusive," so that governmental subterfuge and even creative involvement may be necessary to combat it, the techniques employed here went far beyond the necessities of legitimate law enforcement.

## Part II: the Halbouty report to the Reagan administration

In last week's column, I noted with general delight the overall production commitment of the Reagan Energy Task Force recommendations submitted to the President-elect on Nov. 5 by task force chairman, and consulting geologist, Michel T. Halbouty. The second portion of our review takes up the recommendations for nuclear, coal, synthetic fuel, and alternate energy resources.

The members of the Halbouty committee include EG&G Chairman Bernard O'Keefe, Shell Oil President John Bookout, Transcontinental Pipeline President W. J. Bowen, Bechtel Vice-President W. Kenneth Davis, Socal Chairman W. J. Haynes, duPont President Edward Jefferson, Peabody Coal President Robert Quenon, and Pacific Lighting Corp. President Joseph Rensch. Scientific and engineering experts include Prof. Hollis Hedberg, geologist; Prof. George Loef, chemical engineer; and Dr. Petr Beckmann, electrical engineer.

While this reviewer is hard pressed to object to any specific section of this portion of the report, I must note one potential Achilles heel of the report: The state of disarray of the domestic and export nuclear industry is such, that its survival will require bold and forthright national leadership, combined with positive tax and other incentives to reverse years of deliberate delay by various pressure groups.

### **Nuclear and Electric Power**

Unlike coal, fossil fuels, or other energy sources discussed, nuclear—in current as well as advanced-generation breeder and fusion technologies—is the only technology which provides a qualitatively higher level of energy flux density than current fossil, and certainly solar, and other assorted sources. This fact is not evident in the report, despite a commendable commitment to reversing the disastrous nuclear policies of the last several years.

This section of the recommendations bears the

stamp of Kenneth Davis of Bechtel Power Corporation. Its first premise is clear and undeniable: "An expanding and healthy economy requires increasing electric supply capability. . . . Only coal and nuclear plants can fill this need, and they are highly capital intensive." Directing attention to this financing problem, they make several recommendations: "Federal leadership can be helpful in achieving favorable action by state regulatory agencies including inclusion of the cost of construction-work-in-progress in the rate base, retention by the utilities of the intended benefits of accelerated depreciation and investment-tax credits as well as satisfactory rate structures.

"Revitalization of the essential nuclear power program requires top-level national leadership, which itself can substantially strengthen public support and facilitate necessary legislative changes," the report declares. "The Carter administration's policy of benign neglect toward nuclear power has left the Nuclear Regulatory Commission adrift," contributing to a plant-licensing "quagmire" that now takes up to 15 years for completion of a nuclear plant. "Reducing the licensing time for nuclear power by focusing on substantive issues only will enhance safety—not compromise it—and speed the time of United States' energy security."

The report does not mince words when it comes to the all-important issue of the Carter administration's nuclear nonproliferation policy: "Effective policies with respect to proliferation of nuclear weapons are essential. Those of the Carter administration have not only been counterproductive, by increasing the risk, but also have seriously damaged the United States' domestic and export nuclear program." In this light, it calls for an immediate review of these policies, "especially as they affect . . . the domestic program, including nuclear fuel reprocessing and development of the breeder reactor."

Carter administration policy on the latter became codified in the form of such restrictive legislative nightmares as the Percy-Glenn Nuclear Nonproliferation Act

of 1978, and subsequent attempts by the White House Council on Environmental Quality to apply "environmental impact" requirements to export of nuclear reactors. The cumulative impact of such Carter policies has been to virtually halt U.S. reactor export and prod many less-developed nations, such as India, to push ahead with fully independent domestic nuclear programs to avoid the caprice of what, to their eyes, has become an "unreliable supplier."

On the highly publicized but little-understood question of nuclear "waste" disposal, spent fuel from light-water reactors, it is understated: "[T]he federal government's nuclear waste disposal program has been characterized by sudden and arbitrary changes in direction . . . and an unwillingness to fund and begin an adequate demonstration program. The result has been," they correctly note, "the mistaken perception by the general public that technologically feasible solutions to the waste disposal issue are not within our grasp. The fact is that the difficulty has been political . . . rather than technical. . . . To accommodate the transition period between now and the time when the nuclear fuel is closed [i.e., development of fast breeder and commercial fuel reprocessing], we need rapid construction of away-from-reactor spent fuel storage facilities."

To anyone technologically knowledgeable about nuclear reactors, this section will be greeted with cries of relief, or howls of protest, depending on whether one is concerned with energy development or is part of the gaggle of Nader-Fonda "environmental aristocrats." The most important index of how well Reagan and his energy secretary understand the central importance of reviving this nation's nuclear development effort will be its treatment of nuclear, in the table of organization of the Department of Energy or any successor agency.

Davis himself threw light on one possible option being considered when he stated in a recent interview that a separate nuclear agency, reminiscent of the old Atomic Energy Agency, should be created to deal with the production and power-related nuclear programs. If such an agency remains part of a restructured energy agency, he stated, it must be more than the present "cumbersome" DOE.

### **Coal, synthetic fuels, and alternative sources**

Policy toward development of the vast coal reserves states that "expanded use of coal can play a major role in alleviating . . . our dependence on imported oil. . . . In addition . . . coal can make a positive contribution by becoming a major export." In order for any of this to take place, however, restrictive and unnecessary air quality regulations must be subject to reform, including the highly controversial National Ambient Air Quality

Standards of the Environmental Protection Agency.

Policy toward the recently passed Carter administration \$88 billion synthetic fuels legislation is clearly a subject of unresolved controversy, including the future of its acting chairman, John C. Sawhill, the man responsible in large part for a number of the most destructive antigrowth policies of recent years, including the outline of the Windfalls Profits Tax on crude oil, the series of Carter nuclear-proliferation policies and other damaging policies. Sawhill, it is no secret around Washington, is scrambling frantically to retain his post. Whatever the decision regarding the future of the synfuels corporation, a prime candidate for the transition axe should be Sawhill. The task force calls for a "special task force to study the desirability of continuation" of the Synthetic Fuels Corporation.

Regarding development of fuel from oil shale, the report notes: "There is more oil in one single area, twenty-five miles in radius, than has been discovered in the whole Middle East." The technical problem is extraction, residue disposal, and demands for process water.

Cold water is appropriately tossed on the highly criticized federal "gasohol" program, stating that "ethanol production from grain, using oil for fuel, is energy inefficient, using more petroleum than it displaces."

Similarly, on the development of solar-energy resources, the report calls for the government to "provide reliable information to the public on the costs/benefits of using renewable energy sources." This diabolical move would dry up the federal ballyhoo around the costly and inefficient solar technologies, and eliminate the artificial and costly "glamor" of federally subsidized solar projects.

The remainder of the report is briefly filled with a series of practical steps to be taken to expand construction of deep-water oil ports, remove oil pipelines from Federal Energy Regulatory Commission control, where they are now treated the same as natural gas, back to regulatory preview of the Interstate Commerce Commission. The final note of the report then concludes, "In view of the serious organizational questions surrounding the existing DOE, an immediate task force should be created to review, in detail, its various functions and to recommend restructuring the organization."

The overall report, like the members of the task force who drew it up, is a practical and positive change in vital energy policy. The remaining test will be the extent to which energy policy on this immediate practical level is understood from a broader strategic military and scientific policy. If this is accomplished in the right way, there will be no limit to what can be accomplished around such a Reagan energy development policy.

# National News

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## Senator Morgan hits Abscam 'conspiracy'

Senator Robert Morgan (D-N.C.) charged that Abscam is "an executive conspiracy" against Congress in a speech Dec. 5 in the Senate.

Morgan charged that the institution of Congress itself, rather than individual members, was the target of the Department of Justice.

The outgoing senator stated: "Constant surveillance and temptation of members of Congress could introduce into the norm of its everyday life a secret police under the control of the executive department. . . . Members of Congress would be unable to carry on the vast body of constituent business without fear of being framed."

In response, Attorney General Benjamin Civiletti denied that there was any "intention by the Bureau [FBI], the Justice Department, or FBI director Webster to come anywhere near the House or Senate."

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## Anti-Volcker measure passed in New Jersey

In a voice vote Dec. 8, the New Jersey State Assembly unanimously resolved to call for the resignation of Paul A. Volcker as Federal Reserve chief and a reversal of his policy of credit restriction and high interest rates.

The resolution was motivated by its sponsor, Democratic Banking Committee Chairman James Bornheimer of Middlesex County, who noted: "Every day the prime rate is changing, every day the rate on bonds changes. One person should not set policy for the economy by manipulating the interest rates of the U.S. Therefore, I move this resolution."

The New Jersey State Senate was expected to pass a similar resolution at its meeting Dec. 11.

In New Jersey's largest city, Newark, the City Council also passed an amended version of the resolution, deleting the

phrase calling for Volcker's removal after one city councilman found it objectionable to place the blame for the entire economic crisis at Volcker's feet.

A unanimous motion, incorporating the repudiation of Volcker's high interest-rate policies, was then passed. It will be sent to the New Jersey League of Municipalities, which meets Dec. 18.

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## Is Lane Kirkland linked to Joe Hauser?

Washington sources say that an investigation has begun into reports that AFL-CIO President Lane Kirkland has had a close relationship with convicted swindler Joe Hauser, the Justice Department's star fingerman in FBI sting operations against U.S. trade union leaders.

According to these reports, Kirkland actually introduced confidence man Hauser to leading labor figures at the time Hauser was peddling his phony insurance scam on behalf of the Justice Department's efforts to set up union officials for indictment under operation Brilab.

The *EIR* learned of the investigation into the reported Kirkland-Hauser connection at the same time it was rumored that a nationally syndicated columnist with a reputation for muckraking plans to carry an item on Kirkland's surprisingly strong reaction against the activities of the Committee Against Brilab-Abscam, a group of labor and community leaders which has taken the offensive against the Justice Department's entrapment operations.

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## Senator Boren: high rates 'insane'

A continuation of the current high interest rate policy of Federal Reserve Chairman Paul Volcker "amounts to economic insanity," Sen. David Boren (D-Okla.) stated on Dec. 11. "If interest rates stay at their present high levels, our country will be on the brink of economic collapse

before the new President even has a chance to work toward a long-range cure," Boren said.

Boren, who is a former governor of Oklahoma and the current head of the Senate Finance Subcommittee on Unemployment and Related Problems, urged President-elect Ronald Reagan to take quick action to reduce interest rates, increase savings, reduce Federal spending and establish plans to help financial institutions in the event of panic or defaults on international loans.

Also joining the crescendo of voices criticizing the Fed was Michael Sumichrast, chief economist of the National Association of Home Builders, who spoke before the National Economists Club on Dec. 10. "We [the housing industry] have no money, we have no cash. We can't bring people to the settlement table; we are about to die. . . . I am very upset about the way the Fed has been messing with money rates. . . . They [the Fed Board] overreacted, and brought us to the brink of our industry going down the drain."

In a major development, United Auto Workers Union Subcouncil No. 9, meeting Dec. 11 in Milwaukee, Wisc., voted up a motion directed to the UAW's executive board that the union call for Volcker's immediate resignation, undertake a one-day shutdown of all union-organized workers to protest the Fed's policies, and organize a mass demonstration against the Fed chairman outside the Federal Reserve Building in Washington, D.C.

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## Alabama Farm Bureau to Fed chief: 'Quit'

The Alabama State Farm Bureau Federation voted overwhelmingly to urge Federal Reserve Chairman Paul Volcker's resignation at its statewide meeting in Mobile, Ala. on Dec. 7-8.

The resolution was strongly endorsed and motivated by state Farm Bureau President Goodwin Myrick, who said: "If Volcker is not removed, he'll bankrupt this country. In cooling this inflation, he'll put the fire plumb out if he



doesn't ease this credit."

"Alabama farmers shudder to think of beginning this next crop year with interest rates at 19 percent or more," said Myrick, a dairy farmer.

High interest rates and rising production costs for farmers are disastrous, he stated, because "everyone has to eat and there's an expanding world population."

Myrick added that despite the dismal economic outlook for 1981, he was encouraged because of the "new conservative philosophy on the national political scene."

The full convention of 1,500 people, including 500 voting delegates, passed a resolution calling for Volcker to resign and pledging their resources to carry out an emergency program to ensure stable, low interest rates and orderly marketing arrangements for agriculture.

The Alabama Farm Bureau has a membership of 231,590 member families and represents 40 to 50,000 family farmers in the state.

The North Carolina Farm Bureau on Dec. 9 passed a resolution against high interest rates, urging Congress to exert control over the Federal Reserve.

## Washington suspends meat import quotas

Department of Agriculture Undersecretary Dale Hathaway has announced that the Carter administration will lift quotas on imported meat for 1981 on the basis of information indicating that "the supply of meat in the U.S. for calendar year 1981 will be inadequate to meet domestic demand at reasonable prices."

Spokesmen for the National Cattlemen's Association (NCA) immediately charged that when the administration did the same thing in 1978, the result was "a severe cutback in the nation's beef cattle herd that is still limiting supplies and keeping prices to consumers high." The cattle industry has been depressed since 1974.

NCA president Merlyn Carlson emphasized that due to rapidly escalating production costs and reduced cattle

prices, cattlemen have been recently losing money.

Although the amount of additional meat to be imported with the quota suspension is not large, the action will feed the uncertainty prevailing in the industry. The effect could be a further reduction of herds.

Carlson also countered the propaganda about beef prices, asserting that the "price problem" cited by the government is largely the result of the inflation fostered under the current administration.

## Will Chicago's Byrne be muzzled?

Chicago's pugnacious and vituperative Mayor, Jane Byrne, who is now finishing her first year in office, is getting unmistakable pressure from her backers to, in the words of one supporter, "shut up."

According to the "Chicago expert" of a leading real-estate law firm instrumental in installing Byrne in office, the recent resignation of Edmund Yeo, Byrne's top budget cutter, was meant to pressure her to cool out the fights in the city's Democratic Party. "The factionalization is so deep that there is absolutely no way to turn it off. What we are worried about is next fall, when we pick the 1982 [Democratic] candidates."

Byrne's intra-party opponent, Richard Daley, son of the late mayor, recently dealt the Byrne forces a series of body-blows, the most important of which was his November victory as Cook County State's Attorney. Byrne backed his Republican opponent, Bernard Carey, then tried to fire Democratic officials loyal to Daley.

Last week, Byrne lost a court decision that enforced the 1976 Shakman decree prohibiting political firings.

The Byrne group was further unsettled when 15,000 Chicagoans showed up Dec. 1 to celebrate Daley's victory, despite the Cook County party fundraiser Byrne had scheduled for the same night.

The liberal/real-estate crowd hopes to prevent any political showdowns until a teachers' strike next fall, for which preparations are now under way.

## Briefly

● **BOB MICHEL** (R-Ill.) defeated Guy Vander Jagt for the post of House Minority Leader in elections held Dec. 8 by House Republicans. Capitol Hill sources claim that Michel, a professional parliamentarian who has been an active whip, will be a far better combatant for the Reagan administration's legislation than Vander Jagt, who lacks experience.

● **TRENT LOTT** was elected Republican whip Dec. 8, defeating moderate Republican Bud Shuster (R-Pa.) Conservative Democrats say that Lott, a Mississippian they know well, is ready for a bipartisan approach to policy-making.

● **RONALD REAGAN** is said to be less than enthusiastic about the new multi-billion dollar Synthetic Fuels Corporation and even less enthusiastic about its chairman, John Sawhill. While Reagan is now considered likely to give a cautious go-ahead to the corporation, he will probably dump its wildly pro-synfuel chairman.

● **GERALD FORD** paid tribute to his former Secretary of State, Henry Kissinger, at a reception by the Daughters of the American Revolution, Dec. 10. Former President Ford declared that Kissinger was in the tradition of Judah Benjamin, secretary of state for the Confederacy under its president, Jefferson Davis.

● **LAURENCE COUGHLIN** (R-Pa.) and Newt Gingrich (R-Ga.), speaking Dec. 9 on the House floor, called on Democrats to join with Republicans in ousting Tip O'Neill as Speaker of the House. "If the majority leadership persists in trying to foist upon this House opposition to the mandate of the American people, both in Congress and in the election of a new president, at least from the standpoint of this Republican, there is no reason why Republicans cannot unite with like-minded Democrats to change the leadership of this House," declared Coughlin.

## Behind the 'rise of the right' scare

*The Klan is being consolidated with some interesting collaboration, says Investigative Leads.*

As *EIR* has reported, a major right-wing versus left-wing terrorist buildup is occurring in the United States, as part of an effort to destabilize the incoming Reagan administration. While the Communist Workers Party and left-wing terrorist regroupment represents the most immediate threat of violence, the growth of the right-wing terrorists also represents a serious problem for law enforcement.

According to highly reliable sources, the current unprecedented news media buildup of Bill Wilkinson's branch of the Ku Klux Klan is the result of a secret deal Wilkinson has worked out with the Anti-Defamation League of the B'nai B'rith. In exchange for refraining from agitation against Jews, Wilkinson's "Invisible Empire of the KKK" will receive concerted publicity, and recruitment into his organization will be facilitated. Ultimately, insider sources state, Wilkinson hopes to centralize control over all Klan branches in the country, with himself as national "Imperial Wizard."

In addition to the news stories already broadcast which detail Wilkinson's paramilitary training camps, the following pattern of information concerning the Wilkinson-ADL deal is available:

- NBC-TV is planning a debate, or parallel interviews in debate format, with Bill Wilkinson and Irwin Suall, director of the ADL's Fact-Finding Commission intelligence unit, to be aired on the "Today" show in the near future.

- David Duke's branch of the Klan has been systematically dismantled over the past year, with several sections moving directly into Wilkinson's group.

- Joseph Dutton, a printer based in Louisiana who formerly worked for David Duke printing Klan propaganda, is known to have given Wilkinson membership lists of Duke's organization, as well as Duke's extensive files.

- Wilkinson is also recruiting members out of the United Klans of America, which has virtually folded in the recent period.

- In North Carolina, one of the centers of the right-versus left conflicts, Virgil Griffin, the former leader of the Federated Knights of the KKK in the state, has been replaced by Joseph Grady, a close associate of Wilkinson.

The exact reasons for the selection of Wilkinson's Klan over other branches of the KKK for this new arrangement are still not clear. However, Wilkinson himself admits to having spent over eight years in U.S. Naval Intelligence with a top-level security clearance prior to founding his branch of the Klan, which strongly indicates his connection to the contaminated elements of the U.S. intelligence community that have repeatedly been found to maintain links with domestic terrorist projects.

In January 1980, for example, *EIR* identified the arms supplier for Muslim Brotherhood terrorist networks inside the United States as

Iranian Captain Siavash Setoudeh, whose office was located in the U.S. Office of Naval Research in Arlington, Virginia.

During the past three years, Wilkinson has also developed ties with the National Front in Britain, an ultraright-wing organization whose roots are in the avowedly fascist groupings headed by Oswald Mosley beginning in the 1930's.

In addition to Wilkinson's KKK activation has been the growth of Frank Covington's neo-Nazi organization. Recently several experienced neo-Nazi organizers have been brought into North Carolina, where Covington is based. The purpose is to build up North and South Carolina as a base of operations for nationwide neo-Nazi activities. Covington has been solidifying relations with the Federated Knights of the KKK, recently taken over by Wilkinson.

Other emerging Wilkinson alliances are with the anti-Semitic Christian Defense League and with Robert DePugh, who is currently attempting to rebuild the paramilitary Minuteman organization.

While the Department of Justice has launched an investigation into Wilkinson's Invisible Empire at the request of President Carter, the investigation has thus far been limited in its scope to exclude all inquiry into the higher levels that have encouraged the organization to grow. Wilkinson has invited a full Justice Department inspection of his paramilitary training camps.

*This column is adapted from the Dec. 15 issue of Investigative Leads, EIR's biweekly law-enforcement report.*