

# EIR

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Volcker adds \$30 billion to deficit  
South Korea's industrial shock waves  
French policy planner discusses the EMS

**The India-Mexico summit: shaping  
a strategy for North-South development**



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# EIR

## From the Editor

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An international exclusive is the subject of this week's Special Report. Blacked out by the American press, who termed their week-long talks "unimportant," and bypassed by world news media, President López Portillo and Prime Minister Indira Gandhi staked out a plan for capturing the leadership of the developing sector from Jacobins like Fidel Castro, and expanding trade and investment between the northern and southern hemispheres.

We mobilized our New Delhi correspondents on the scene, as well as our Mexico City bureau, which knows the diplomatic scene there inside out. In the course of ordering a summit photograph for *EIR*'s cover, we discovered the full extent of the blackout: the photo agencies either had nothing, or were sending the shots to New York "on a slow boat" for lack of demand, so that we had to specially fly in the photo.

A second exclusive this week is David Goldman's report on the undisguised threats by Fed Chairman Volcker's controllers that if the elected administration tries to reverse the Fed's credit crunch, a blowout of the dollar and the financial markets will be deliberately triggered. The rest of our coverage shows why this is a bluff. Helga Zepp-LaRouche, famous in Europe for her fight against zero growth, explains why West Germany is demanding lower U.S. interest rates, not preparing to dump dollars if Volcker is curbed. Former French Finance Minister Jean-Pierre Fourcade, an adviser to President Giscard, states that Europe hopes the U.S. will align with its economic-development "dialogue" with OPEC and the Third World.

Our Economics section outlines to free-marketeers who's rigging the equity markets, and to budget-cutters how to remove \$30 billion from the U.S. deficit—a \$30 billion added by the costs of Volcker's interest rates and Volcker's recession. The past record of South Korean industrial takeoff is explored, reminding Americans that we gained superproductivity historically by government helping to build industry and first-rate labor power, instead of chopping research, development, or living standards.



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## The blackmailing of the President

by David Goldman

Treasury Secretary Donald Regan's extraordinary recantation of support for tax cuts regardless of budget cuts, followed immediately by a similar recantation by the President himself, makes formal and public what top bank executives have been saying for a week: the leading money-center institutions have succeeded in blackmailing the President of the United States into abandoning the aggressive growth platform on which he was elected.

At this writing, the decision is not yet cast in cement, but the trend is ominous. The Reagan and Regan statements Feb. 4 adopting the principle of "linkage" between tax and budget cuts include, in reality, a third feature of the same program: a free hand to Federal Reserve Chairman Paul Volcker, who is intent on throwing the American economy deeper into depression. That is the briefing that Office of Management and Budget Director David Stockman has given his staff. The depression scenario will proceed, according to the Hoover Institution's Rita Ricardo-Campbell, under the *personal direction* of cult leader Milton Friedman, the man responsible for reducing Britain to the status of a "Once-Industrialized Country" (in the words of the London *Sunday Times*) since the election of Prime Minister Margaret Thatcher in April 1979.

According to First National Bank of Boston Chairman Richard Hill and other top banking officials (see interviews), the blackmail began with a private dinner in New York City Dec. 8 at which Volcker received his marching orders from the board chairmen of the top eight New York clearing banks. Volcker was told—and told the President—that any perceived "weakness" in the Fed's tight money stance, or any attempt on the part of

the new administration to make Volcker abandon the tight money policy, would lead to immediate attacks on the credit markets. The big institutions would start "moving money around," shorting the market in long-term Treasury securities, undermining the record \$35 billion net new financing program of the Treasury, and leading to higher interest rates.

Although Treasury Secretary Regan is not an ideological monetarist—he was chosen for the job precisely for that reason—he wears Wall Street blinders, fearing that a loss to the Fed's "credibility" would produce an unmanageable crisis.

On the contrary: the Fed's policy will rapidly lead to a generalized credit crisis, as Alan Greenspan warned Congress two weeks ago, including a crisis on the vulnerable Eurodollar markets. Under the Credit Control Act of 1969, the President has adequate powers to impose a *two-tier credit system*, making available producers' credit while drying out speculative markets. Something of this sort is proposed in a sense-of-the Senate resolution introduced in early January by Senator Sasser (D-Tenn.).

### The triumvirate

However, President Reagan is besieged not only by external threats, but by the wrong kind of advice from friends. Through certain leading figures in the "California mafia," the immediate circle of old Reagan political backers, Milton Friedman and Hoover Institution Director Glenn Campbell have secured key appointments inside the new Treasury and OMB.

These include Friedman protégé Beryl Sprinkel, formerly chief economist at Harris Trust in Chicago,

and Bear, Stearns and Company economist Lawrence Kudlow. Sprinkel has the undersecretary of treasury for monetary affairs job, and Kudlow was named Feb. 4 assistant director of OMB for economic policy. Kudlow told his Bear, Stearns colleagues before heading for Washington that the triumvirate of Stockman, Sprinkel, and Kudlow would ensure that "the Fed chairman has more freedom to pursue monetary objectives than in any of the preceding administrations."

Meanwhile, the Federal Reserve has tightened monetary policy steadily since the Dec. 8 meeting in New York. Volcker adopted without publicity the old Morgan Stanley proposal to restrict the growth of banking reserves without concern for money-supply growth as such, endorsed in the famous Jack Kemp-David Stockman "Dunkirk memorandum." Banking reserves have, in consequence, fallen by \$1.5 billion in the past seven reporting weeks, and bank lending dropped precipitously in December and January. Bank credit is so tight that even large corporations are hard put to find routine trade credits.

The result of Volcker's post-Dec. 8 action is to put the issuance of credit and the intermediation of savings into the hands of a tiny handful of money-center institutions—the same institutions committed to the blackmailing of the White House.

Unable to obtain credit from domestic sources, those corporations who can are seeking Eurodollar loans, through the small number of American institutions with the international clout to raise funds on the offshore market. These include the commercial banks represented at the Dec. 8 New York meeting. Corresponding to the drop in money-center banks' domestic loans is a rise in Eurodollar borrowings from foreign branches, indicating the size of the inflow. The actual flow is greater, since corporations raise funds through foreign subsidiaries to ship home for working-capital purposes.

In effect, American industry has to go begging to the holders of America's foreign liabilities.

Even more significant is the sudden increment of power to the life insurance companies. With a savings rate in the range of 4 percent, the thrift institutions are unable to staunch a net outflow of deposits that totaled about \$20 billion during 1980. Families will withdraw savings deposits, but continue to pay life insurance premiums and pension fund contributions.

The life companies and the pension funds (managed by life companies, investment banks, and bank trust departments) are now the only source of mortgage money available. The principal activity of the savings and loans has become the resale of mortgage portfolios (in the form of pass-through bonds) to life insurance companies and pension funds, picking up scraps from the life companies' table. According to S&L specialists,

the volume of such bond purchases is insufficient to prevent a wave of failures throughout the thrift industry during the first half of 1981 if the current interest-rate environment continues.

Simultaneously, the insurance companies are now the only available source of mortgage finance for housing. The political clout they wield from this position is considerable. At last week's convention of the National Association of Homebuilders, outgoing President Merrill Butler deliberately muted attacks on Fed Chairman Paul Volcker—even though the man responsible for the bankruptcy of one-third of the association's members during 1980 was hanged in effigy in front of the convention hall. The homebuilders were under pressure not to alienate their principal source of funding, the life companies. Their industry, in consequence, has fallen into two categories: the smaller single-family homebuilders, whose ranks are thinning out rapidly, and larger corporate homebuilders who can obtain life insurance funding for larger projects.

### **Controlled environment**

Meanwhile, the life companies are warning the administration that it dare not touch the power of the Federal Reserve. "Volcker's strength arises from his constitutional invulnerability," says Kenneth Wright, chief economist of the American Council on Life Insurance. "He can't be asked to step down. They can't touch him. They have no legal right. . . . If he's criticized, or chastised, or asked to step down, the international financial community would see this as a real blow to the credibility of the U.S.'s ability to control inflation. This would cost the dollar tremendous prestige. It would cause a run on our currency."

The large money-center financial institutions have woven a controlled environment around the White House. Through direct pressure, they have been able to choke off the protests of important constituency organizations who have suffered the worst effects of the Federal Reserve's actions.

Beholden to the life insurance companies, organizations like the National Association of Homebuilders and the U.S. League of Savings and Loan Associations are reluctant to play rough politics with the Fed. Because Paul Volcker has restricted the money markets to what these institutions directly control, the institutions are free to punish or reward the administration for actions according to their own criteria. What President Reagan sees from the White House is not the play of "inflationary expectations" in a "free market," but the guiding nudges of a market rigged by the Federal Reserve.

Although it is difficult to gauge in advance the nature of the budget cuts that will ultimately appear after Congress has been through the administration's



proposals, a few test cases indicate that the administration has started to break down in the face of financial community demands. *EIR* has confirmed that the Eximbank of the United States will not receive the generous support envisioned earlier by Sen. Jake Garn, the chairman of the Senate Banking Committee.

According to sources close to Garn and to Eximbank officials, the administration intends to force a 25 percent across-the-board cut in Exim funding from the Carter 1982 budget proposals, already tiny compared to the export funding programs of America's European allies. OMB Director Stockman is justifying the proposed cut with the argument that Eximbank funding aids only large corporations—although Exim officials point out that every \$1 billion in exports generates 40,000 jobs.

The Eximbank issue—which is central to America's position as world industrial power—is one of the budget items that tests the administration's ability to pursue an economic growth policy. America's allies "will laugh at us when we propose cutting back our subsidies like this," says a Senate aide lobbying for additional Eximbank appropriations. "We might be able to get somewhere if we bargain from a position of strength, but with this stuff in the air, there is no possibility of an agreement" on containing export subsidies. "No one will feel pressed to agree to control subsidies if we are cutting back Exim unilaterally."

The Senate aide continued, "What I really do not understand is where Reagan's California friends are in this. They are all people who built their companies through Exim—just look at Bechtel, and at Fluor, and so forth. . . . But these guys do not seem to be doing anything to influence this fight. It does not tie together this 'supply-side' stuff, either. What will happen is that all the feeder industries to the high-tech companies will go under—lots of machine tool workers and so forth."

In effect, Fed Chairman Volcker is demanding that the Treasury pay the cost of an additional \$20 billion in interest charges on the federal debt—charges arising from Volcker's high interest rates—by chopping away the programs most conducive to improved American productivity!

*EIR* has argued (see Economic Survey, Dec. 10) that the content of the Volcker policy is not to cool inflation, which it has not and cannot, but to force the transformation of the American economy away from "smoke-stack industries" and toward an "information society." This is the content of the Carter administration's "Agenda '80s" report, produced by a panel chaired by Carter adviser Hedley Donovan. The institutions who have obtained virtual monopoly power over credit flows as a result of the Volcker monetary program, are using this power to enforce such a shift (see Corporate Strategy).

In the appended interview, First of Boston Chairman Hill sets forth a chilling program to reverse "the old Eisenhower program to pave the U.S. with highways, and have everyone build his own home and backyard." If the blackmail against the President succeeds, the Reagan administration will preside over not only a depression, but the dismantling of the institutions and programs that have made America a great and prosperous industrial power.

## Threatening Reagan with catastrophe

*An aide to Congressional Joint Economic Committee Chairman Henry Reuss (D-Wisc.) described how Reagan is being threatened with a financial crisis.*

**Q:** Why has Volcker been able to say publicly that he will "lean against" the administration if they cut taxes?

**A:** If Reagan cuts taxes, it will gun the money supply and cause inflation. Then Volcker will jack up interest rates again. If this happens, we're in for a severe slump, and real trouble for the financial institutions.

But the administration can't pressure Volcker. If they do, he has put out word all over Capitol Hill that he's going to resign. Volcker will have no other choice. And if he resigns, this will crash the dollar, no doubt about it.

*Richard Hill, chairman of the First National Bank of Boston, said the leading banks agree with Volcker.*

**Q:** How do the major banks view the President's desire to have a tax cut and also lower interest rates?

**A:** Obviously, the desire of a politician like Reagan is to see rates drop, but Reagan can't take the risk. It's too inflationary. The tax cut will have to wait. Reagan should concentrate on cutting the budget.

**Q:** Have the banks and insurance companies made it clear to the President that any pressure on Volcker to ease rates will hurt the markets?

**A:** Obviously, if we think inflation is going to continue, we'll continue to move our funds around, to move money out of the long-term bond markets and other long-term investments. Why should we lock up our money?

**Q:** I understand [Citibank chairman] Walter Wriston and the other top New York bankers met with Volcker and [New York Fed Chairman Anthony] Solomon to



work out voluntary lending restrictions.

**A:** Look, I just talked to Donald Platten [Chairman, Chemical Bank] Walter Wriston, and John McGillicuddy [chairman, Manufacturers Hanover] yesterday. The Fed would never tell them to cut back lending. We tell the Fed what we'd like to see. Inflation must fall.

**Q:** Have you told Volcker this? Or the President?

**A:** Volcker knows this. He doesn't need to be told. And he has told it directly to the President himself, at the lunch they had last week. Furthermore, Treasury Secretary Donald Regan is no fool, he knows it. He's an investment banker, he knows how the money markets work. The fact that he's brought Beryl Sprinkel, an arch-monetarist, into the Treasury means he is prepared to see Volcker tighten further if need be.

*Lacey Hunt, chief economist of Philadelphia's Fidelity Bank, emphasized the imminence of a dollar crisis if President Reagan insists on tax cuts.*

**Q:** What are Reagan's options vis-à-vis Volcker?

**A:** Volcker is not a popular guy. . . . Reagan has no option with Volcker. There's a constitutional issue around the independence of the Fed. . . . Reagan can't afford to dissipate his energies in a constitutional crisis.

**Q:** What are Reagan's priorities, then?

**A:** You're not going to see any major foreign-policy initiatives. The mandate for the administration is to bring down inflation, and reduce the budget deficit. . . .

**Q:** But Reagan said that he wants to have tax cuts, not necessarily coupled with budget cuts.

**A:** If Reagan in his TV speech on the economy on the fifth [of February] tries to decouple tax cuts from the equally necessary budget cuts, it will be seen as highly inflationary. The dollar will start to fall the next morning.

*Dr. Kenneth Wright, chief economist of the American Council on Life Insurance, noted that "international bankers" are also threatening a dollar crisis:*

**Q:** Will Volcker have his way on tightening credit?

**A:** Our concern is the need to control inflation. Mr. Reagan must realize this. The administration can talk all it wants about tax cuts, and it will get bogged down in Congress for six months trying to get tax and budget cuts through. Meanwhile, Volcker will go his merry way and never swerve. He will lean on the money supply, and that's how policy will be.

**Q:** What power does Volcker have to do this?

**A:** Volcker's strength arises from his *constitutional invulnerability*. He can't be asked to step down. They can't

touch him. They have no legal right.

**Q:** The law can be changed by Congress. . . .

**A:** They'd never get a bill through Congress. And besides, Mr. Volcker's main political bulwark is, he's the man in the administration with the credibility with the international financial community. If he's criticized or chastised or asked to step down, the international financial community would see this as a real blow to the credibility of the U.S.'s ability to control inflation. This would cost the dollar tremendous prestige. It would cause a run against our currency.

*Robert Synch, economist of Bear Stearns investment bank, described "linkage":*

**Q:** During the campaign, President Reagan often attacked high interest rates. Who is encouraging Reagan now to support Volcker?

**A:** Well, you know that Lawrence Kudlow [Bear Stearns chief economist] has been appointed as OMB Director Stockman's top aide this morning. I think that Stockman, especially with Larry as his assistant and Beryl Sprinkel as the undersecretary of the treasury, are organizing support for Volcker. I think you will see more support for Volcker inside the Reagan administration than at any time within the last twenty years for a Fed chairman.

**Q:** Who outside the administration is responsible for Reagan going in this direction?

**A:** Sprinkel is a confirmed monetarist who used to be a member of the Shadow Open Market Committee. Milton Friedman got him his job.

**Q:** How did Friedman do this? He's not on very close personal terms with Reagan.

**A:** People who support Friedman around Reagan got Reagan to consult with Friedman. The appointment was then worked out. Donald Regan definitely did not make this appointment or have much say in the matter, although he was consulted.

**Q:** I understand Stockman had a meeting this weekend.

**A:** Yes, Larry briefed Bear Stearns about it this morning. At the meeting it was agreed that Volcker has to control the monetary aggregates. They worked out a strategy that tax cuts would be presented as part of a unified plan. You cannot have tax cuts without budget cuts, and you cannot have budget cuts without monetary control, so it was agreed that there will be no tax cuts unless there is support for tight monetary control.

**Q:** Do you foresee the economy turning down?

**A:** Not yet. Volcker is going to be put under a test.

During the first six weeks of the quarter, he had it relatively easy. Borrowing eased off, and the Treasury floated \$14 billion in new cash issues. In the second six weeks of the first quarter, Volcker is going to have to be tough. There will be \$21 billion in new Treasury cash issues in those six weeks. Volcker has to show that he will not ease off like he did last summer. If he holds firm, then the economy will turn down.

**Q:** It appears that over the last seven weeks, Volcker has followed a policy of managing reserves.

**A:** Yes, he has. Now he has to show he will stick to it.

*Richard D. Hill, chairman of the First National Bank of Boston, has organized a conference in that city Feb. 9 to publicize the Heritage Foundation's urban free enterprise zones. Mr. Hill, in an interview provided by journalistic sources, explains that he seeks to "shift the urban economy" from heavy industry to light manufacturing using the zones as a catalyst. Central, he says, will be use of the zones to remove the minimum wage, Davis-Bacon regulations, and large sections of social security, unemployment, and other transfer payments which he claims to be the "root cause of American inflation."*

**Q:** Do you see enterprise zones as helping to shift and renovate the urban economy?

**A:** Yes, the American economy is out of whack, largely because of the way our cities have put it out of whack. The cause of the cities' problems is the old Eisenhower program to pave the U.S. with highways, and have every man build his own home and backyard, which created the suburbs and urban sprawl. This was aggravated by deliberate government policy, policy to build the highways, policy to have the Federal Housing Authority give cheap mortgages. This created the homebuilding industry, created the auto industry—which created the steel industry. This sprawl was a misallocation of resources.

Added to this were other government policies which built inflation into the industrial system, just as this urban sprawl built inflation into the system. We allowed wages to rise, we sanctioned unlimited cost of living adjustments in labor contracts, we built a huge federal transfer-payments system guaranteeing social security, unemployment insurance, minimum wages, all of which kept people where they were. It also inflated us right out of the ability to even make automobiles or steel and compete internationally, added to the cost. We have got to reduce this social cost.

The only way to reverse this trend is free enterprise, we must remove these government interferences. This is the purpose of the free enterprise zones, to do this to encourage manufactures to locate in the cities again. This means we have to do away with harmful manufac-

turing taxes, kill the Davis-Bacon Act, remove the minimum wage as much as possible, reduce unemployment compensation and social security, and unemployment and social security payments by business. Of course this is politically very unpopular. The idea of the enterprise zone is that you can do it in the six experimentally designated cities, and experiment with the nation's labor laws, without changing the law of the land. Then people will see this is the only way to rebuild the cities.

**Q:** Would you put money into the same traditional heavy industry in these zones?

**A:** No, those industries are overinflated. They will still exist, but they must be greatly scaled back. We need to set the example for them in the enterprise zones. These industries need a lot more discipline in wages and federal social payments. The cost of living adjustments must go, they are the worst thing that ever happened to the U.S., a disaster. And those heavy industrial companies who are surviving know that they have to scale back. U.S. Steel is becoming profitable again, by closing off all its unproductive facilities. Auto must do the same, trim the fat. GM, Ford, they will retool, and bring in highly mechanized robot assembly. They will shrink, and have a much smaller work force.

We want to reverse the flow out of the cities, of people working in such industries, and back into the cities, by setting up those industries appropriate to the inner city, primarily light manufacturing, and especially light assembly. For example, Wang Laboratories is moving right into the "combat zone," the red light district, here in downtown Boston on lower Washington Street. They'll be doing primarily light assembly of computer components, which won't require a force. They'll open a training school and train local residents, the Chinese, the blacks who live in the area. We're working with Wang on this, and also Digital, and Teladyne, whose chairman I saw last night. IBM is interested. We're also having small businessmen up here tomorrow to encourage them.

**Q:** So the size of the cities will have to shrink?

**A:** We've moved all the economically viable people out, and populated cities with the economically unviable. We need a shift in resources to allow us to employ those here.

**Q:** Do you believe there is a population problem, and what should we do about it?

**A:** The economically viable are already in zero population growth. The population problem is with the economically unviable, that population must stop growing.

**Q:** Do you agree with the McGill Commission, the President's Commission on the 1980s, there?

**A:** Yes, although people misunderstand it. The McGill

report doesn't say "move people out, down South." It says, just don't keep them anywhere artificially with government encouragement. We have to stop these government incentives to stay in unviable places. We must not do anything to stop unemployment in these industries. Just stop the cost of living allowances, stop the OSHA rules, stop the unemployment costs, stop Davis-Bacon, stop the minimum wage. Experiment. See if by removing barriers, you get people out of those industries and areas and into new areas. People will have to move. This is how to deal with the population problem among the economically unviable. Cities will be greatly scaled back, there will be fewer people.

**Q:** What is the role of the institutional investors, banks and insurance companies?

**A:** We will play our traditional role. We will finance the property development. We'll make the real estate loans, just as we used to do in the suburbs. Take that Wang factory. They've bought a rundown inner-city building which must be completely rehabilitated. We helped put together a consortium of local community real-estate developers, and we gave the consortium a first-construction mortgage on the building, backed by the Massachusetts [State] Land Bank, and by the federal Economic Development Administration [Commerce]. Wang will lease the building from the consortium, and we'll have the mortgage, and since the project will be economically viable, we'll be able to buy their industrial revenue bonds, too. Then it becomes a viable commercial property.

**Q:** Will this help raise real-estate values in the area?

**A:** That's the idea. It will encourage real-estate values to rise. Then we can get the present tenants to move out, and business will come in, restaurants will start up. New England Medical Center has plans to build there, Tufts Medical Center may build. Values in the area will rise.

**Q:** How do the AFL-CIO and other unions react?

**A:** Publicly, of course, they are very much against it.

**Q:** Don't they know they need these jobs?

**A:** Yes, they know very well they do, and I've met with these union leaders in Washington and they understand it, and they are behind the concept, privately. But it's a very sensitive issue.

**Q:** You've met with Lane Kirkland on this?

**A:** Well, I can't be specific as to names. But I've met, as I say, with union leaders. Especially those in New York, they understand the situation well.

**Q:** You're referring to Victor Gotbaum of AFSCME?

**A:** Well, as I said, I can't give specific names.

## Institutional investors force industrial shift

by Kathy Burdman

"Prudential, Equitable, and other insurance companies seek to redirect the major capital flows in the economy, and change the whole organization of production over the next decade," Stanley Karson, director of the Clearinghouse on Corporate Social Responsibility, told a journalist. The Clearinghouse is the "political arm" of the American Council on Life Insurance. The chief executives of the insurance industry who make up the Clearinghouse board believe that "dying industries like auto and steel" are no longer a "good investment" for the large institutional investor, Karson stated.

"The major institutional investors, led by insurance, are engaged in a tremendous reallocation of resources away from the smokestack industries," George Needham of the First Boston Corporation corporate finance group told *EIR*. "The U.S. no longer has a competitive advantage in steel, paying \$20 an hour for labor. The 25-year steel and auto bonds bought by an insurance company ten years ago for 6 percent interest today are worth 60 cents on the dollar. "Where future money will be made, where tremendous profits are growing, is in the computer, microchip, electronic, and related service industries," Needham said.

The institutional investors have a "short- and long-term strategy" of moving some \$150 billion in financial assets out of "smokestack" industry bonds and stocks and into the new industries, Mr. Karson stated.

"If you polled our board members," such as Robert Bates, Prudential chairman, Kenneth Austin, Equitable chairman, and John Filer, Aetna chairman, "you will find them in near unanimous agreement on moving America into the 'postindustrial society,'" Karson said.

### Manufacturing is out

This is the context for the mass reorganizations of the "information-age" companies, led by the mysterious shakeup this week at RCA. RCA Chairman Edgar Griffiths, after having dramatically improved the company's profit picture since taking over in 1979, was summarily dumped by three RCA directors, Donald Smiley, ex-chief of R. H. Macy; Peter Peterson, chair-

man of Lehman Kuhn, Loeb; and John R. Petty, chairman of Marine Midland, on the excuse that he was "too abrasive."

Mr. Griffiths was replaced by Arco President Thornton Bradshaw, a leader of the Aspen Institute, which helped to invent the "postindustrial" concept, to "shift RCA out of manufacturing and into the information age," as John Groome of the U.S. Trust Investment Committee, told *EIR*.

Macy's, Lehman, and Marine "are all committed to this concept," he said. "RCA has to stop worrying about manufacturing home appliances, the market for which is shrinking like the auto market as we enter the age of scarcity. RCA has to get back to being a technology company, concentrating on areas like its new video-disk investment, electronics, computers, and its new financial arm, CIT Financial," an insurance and investment company. The fact is that Mr. Griffith "is a line manager, a production man, who doesn't understand where RCA has to go," Groome said.

"[Thornton] Bradshaw understands RCA'S new *social* role," a Wall Street source said. Bradshaw is a specialist in "corporate social responsibility," the title of a new book Bradshaw edited that was just published by McGraw Hill. At the Aspen Institute, Bradshaw and his mentor, Arco Chairman Robert O. Anderson, who also heads Aspen, have worked out ways to use the power of large corporations "in a socially responsible way," the source explained, to shift the economy away from heavy industry, which "ruins the environment and wastes resources," and into the "leisure society" of postindustrial electronics and other light industry.

Similar shakeups are going on for the same reasons at 20th-Century Fox and throughout the TV-movie industry, in which RCA—which owns NBC-TV—is a leader, the sources said. A major group of Fox investors led by E. M. Warburg, Pincus, & Co., the New York investment-bank subsidiary of Hamburg's M. M. Warburg bank, is seeking to have Fox returned to private ownership, in order to gain control over and reorganize the company's core TV-station and film-production assets, sources say.

Behind the go-private plan are Fox Chairman Dennis Stanfill; Fox Vice-Chairman Alan Hirschfield, the former president of CBS's Columbia Pictures (originally founded by RCA); John L. Volgelstein, the E. M. Warburg partner who sits on the Fox board of directors; and F. Warren Hellman, the managing director of Lehman Brothers Kuhn, Loeb, who is part of the Warburg investors group.

Similar shakeups, the Wall Street sources said, are going on now at the Burroughs computer giant, and throughout the computer industry. Burroughs chairman, ex-Treasury Secretary J. Michael Blumenthal, is a prominent supporter of the "postindustrial" concept,

and worked to shift the U.S. economy in that direction in Washington.

This week, Blumenthal brought in four new senior officers to totally restructure management, led by Thomas E. Winter, former corporate comptroller of Xerox Corporation, who was named executive vice-president for administration. Paul G. Stern, president of commercial electronics at Rockwell International, was named the new Burroughs executive vice-president for engineering. Both appointments begin in March.

Former Vice-President Walter Mondale, who has worked closely with Blumenthal, meanwhile this week joined the board of directors of Control Data Corporation, the Minneapolis computer giant.

### 'New conglomerations'

Large institutional investors like U.S. Trust, Bankers Trust, and the insurance companies plan, by shifting their financial assets, to help RCA, Burroughs, and others to "accelerate the industrial shift to the new types of technology," U.S. Trust's John Groome stated. "We'll be shifting our investments into these companies. Eventually, what will emerge will be huge new conglomerations of computer, electronics, and other high-technology companies," he said. A core of technetronic multinationals will come to dominate the field, led by RCA, Xerox, Burroughs, IBM, and AT&T, which is going increasingly into computer production and sales.

U.S. industrial plant will be bought up by the new industry. "There is a lot of physical plant and equipment in the U.S. now being wasted in these older industries," Groome said, "which can be taken over by the new. We are helping to accelerate this process. We have already begun to shift our bond and stock investments altogether out of the older industries. . . .

"Through this shift, U.S. Steel, for example, has been forced to close many of their plants. They will now have to close many more, because there will be no large investors to buy their bonds. Chrysler will be broken up, its pieces sold off."

The institutional investors will also use their existent equity positions in older industrial companies to force these companies to "diversify into more profitable high-technology areas," and out of heavy industry, Stan Karson of the Life Insurance Clearinghouse noted. "You can't keep steel and auto going indefinitely," he said, "There must be a drastic retrenchment."

The latest issue of the Prudential Corporation's company magazine notes in its cover story that it was the "Pru" which orchestrated the latest arrangements of government guarantees for the ailing Chrysler Corporation. Prudential, one of the Chrysler's largest shareholders, is using its clout to force Chrysler to shut "unprofitable" plants, retool others, and permanently lay off much of its workforce.

# Volcker adds \$30 billion to deficit

by Richard Freeman

The *Executive Intelligence Review* projects that the policies of Federal Reserve Chairman Paul Volcker will add an extra \$30 billion to the fiscal 1981 budget deficit of the United States. This amount is larger by half than all the cuts that Office of Management and Budget Director David Stockman and his associates have proposed—and some are very dangerous budget cuts.

Volcker's policy has added between \$20 and \$22 billion to the fiscal year 1981 budget's payment of interest on the public debt. On top of this, the United States carries into fiscal 1981 an extra \$5 billion in unemployment benefit disbursements which were not there in fiscal year 1979. They were added because of the Volcker-induced recession in 1980. On top of this \$27 billion, there are other costs Volcker's high interest-rate policy has built into the budget which have swelled the deficit.

The lead item here is the sharp loss in federal tax revenues caused by Volcker's recession. All told, the total amount of extra cost built into the federal budget deficit for fiscal year 1981—with some carryover from fiscal year 1980—is at least \$30 billion.

Any economist or congressman who is serious about reviving the economy and doing a competent job on selective budget cuts could verify the above figures by simply consulting the appropriate items in the U.S. budget. They would find that:

- In fiscal 1979, according to information supplied by the OMB, the interest on the public debt was \$60 billion. Fiscal year 1980 reflected the higher interest rates imposed by Volcker, swelling the federal interest on the public debt charges to \$75 billion. If Volcker is allowed to maintain interest rates at their present level, as he has stated he will, best estimates are that the interest to be paid during fiscal year 1981 will be between \$95 and \$100 billion. (The OMB estimated last December that the amount will be \$94.1 billion, but that estimate may have to be revised.)

Thus, during the two years of Volcker's policy command, interest on the public debt will have soared by \$40 billion, or 40 percent of the total \$100 billion amount. Between fiscal 1980 and fiscal 1981, the interest paid on the public debt portion will grow by \$25 billion.

Some might object that this is attributable to higher levels of debt each year because of growing federal budget deficits. However, according to an expert on the subject at the House Budget Committee, for each increase on the federal budget deficit of \$10 billion (which increases the total Treasury debt outstanding, now at \$1,000 billion), the amount of interest grows by only

\$500 million. Thus, in the worst case where the federal budget deficit is \$60 billion for fiscal year 1981, this will increase the interest paid on the federal debt by only \$3 billion. The remainder of the \$25 billion projected increase for 1981 in interest on the public debt, or \$22 billion, is due to Volcker's mafia-style interest rates.

- It can be claimed that the total projected \$94 to \$100 billion in interest on the public debt for fiscal 1981 will not have to be fully disbursed. For example, the Treasury will be paid back \$10 billion in interest on loans made to the Federal Financing Bank (FFB) and the Commodity Credit Corporation (CCC). But the FFB and CCC are not profit-generating agencies; where do they get the extra \$10 billion projected for fiscal year 1981 to repay the Treasury? The answer is that the Treasury must float an extra \$10 billion in debt for the CCC or FFB. Thus, this \$10 billion cannot be netted out.

- In fiscal year 1979, unemployment compensation by the federal government was \$10.7 billion. In fiscal 1980, under the influence of Volcker's provoked recession, this amount leaped to \$15.6 billion. In fiscal 1981, the Carter administration's proposed budget projects that if the recession gets no worse, the unemployment disbursement will be \$18.8 billion, or a leap of \$8 billion in two years. Even taking inflation into account, this is a carry-forward of at least \$5 billion in extra unemployment compensation in fiscal 1981 because of Volcker's triggered recession.

- As for lost tax revenues, it is difficult to disaggregate precisely how much the Volcker economic collapse cost, but the best estimate is that lost business and individual taxes cost at least \$3 billion. It might be alleged that inflation brought in higher tax revenues because of bracket creep; but the same inflation also increased expenditures.

Ignoring this total of \$30 billion tacked on to the budget deficit, Stockman is instead proposing a grab-bag of budget cuts, some of which, if passed, will endanger the economy and national security. These include:

- a proposed 20 percent cut in the nuclear fusion budget;
- a proposed 25 to 40 percent cut in Export-Import Bank funding;
- a proposed cut in CETA training (as distinct from employment) programs.

These cuts and others would probably cut the budget by \$20 billion, only two-thirds of the \$30 billion in cuts that could be effected with the elimination of the Volcker policy.



## Edward Seaga's pro-industry posture

by Cynthia Rush

When Jamaican Prime Minister Edward Seaga arrived in Washington in late January as the first head of state to officially meet with President Reagan, he was greeted with great fanfare, then met with top administration officials and congressmen, as well as leading businessmen. While public statements remained low-keyed on both sides, there was no mistaking the message that the new administration wished to communicate to observers: Jamaica would be a new and close U.S. ally in the Caribbean, vital for countering Cuban and Soviet activity in the region. As such, it would also be worthy of American assistance and investment.

Some press sources reported that President Reagan and Mr. Seaga discussed the problem of Jamaica's huge illicit marijuana trade, but if any substantive action was agreed upon in this area it was not reported publicly.

Otherwise, Seaga's discussions with the President resulted in the formation of a high-level commission of Jamaican and American businessmen to formulate investment plans for the island.

As the National Antidrug Coalition publicly warned last week, Edward Seaga is not the modest conservative that the media make him out to be.

When Seaga visited the United States last November, millions of Americans witnessed his statements on CBS's Face The Nation that marijuana had become the "life-line" of Jamaica's economy and that he saw no "moral" question involved in using marijuana—only an *unproven* medical one. "The industry is here to stay," he told the *Washington Post* during that visit. "It is just not possible for it to be wiped out. . . . We have to make up our minds how best to deal with it."

Seaga's means of dealing with the drug trade has been to order Jamaica's central bank to accept dollars earned "from the export of a certain illegal export item"—no questions asked.

In his anthropological studies at Harvard University, he specialized in "spiritualist cults" and faith healing, and is known to have personally overseen the creation of the bestial Rastafarian cult, which claims marijuana as its sacrament, from his position as minister of culture in the early 1960s. Thus Seaga's assertion in a Jan. 29 press conference that he opposes drug legalization and will govern as prodevelopment conservative is a deliberate lie. But under scrutiny of the National Antidrug Coalition, which had alerted many of President Reagan's advisers and constituencies to the truth about Seaga, it was a lie he felt compelled to tell.

National security adviser Richard Allen is promoting this unfortunate alliance. Allen is one of the original authors of a proposal to create a "Hong Kong West" in the Caribbean—a Milton Friedman-style "free-enterprise zone" in which cheap labor, inferior technology, and unregulated banking and financial activity combine to create drug havens throughout the region. Allen also argues that the United States must ally with Jamaica against Cuban and Soviet influences.

The presence at a White House luncheon for Seaga of banker David Rockefeller, John C. Duncan of the Council of the Americas, strategists from Georgetown University's Center for Strategic and International Studies, and Peter B. Johnson of the Caribbean-Central American Action Group, suggests that the "Hong Kong west" conception prevailed in the discussions. The Caribbean Action Group is a firm backer of just such "free enterprise," light-industry zones modeled on the wretched "industry" now existing in Puerto Rico.

As for investment opportunities, Seaga suggested that American businessmen would do well to put their money into Jamaica's tourist industry, a notorious asset of the international narcotics traffic to which the Jamaican economy is inextricably linked. He called for the floating of bonds to develop the island's tourist industry and offered tax breaks to American businessmen who hold their conventions there. American officials in turn expressed their willingness to open up the "China market"—another international drug haven—for sale of Jamaican sugar.

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*A Jamaican introduces her child to marijuana.*

## Who's shaping the markets

*The Bundesbank beat back speculators who were attacking the mark—and the dollar is rumored as next.*

**J**ust as the West German Central Bank had succeeded in fending off a week of heavy attacks on the German mark, rumors began to mount on Feb. 4 that the U.S. dollar is headed for a crisis on foreign exchange markets.

The emergence of wild fluctuations and instabilities in currency values since Ronald Reagan's inauguration is not explained anywhere in the financial press, nor among the foreign exchange trading rooms in banks and corporations that give the green light to perform currency transactions. Currency parities are currently entirely subject to the political maneuvers occurring around Washington by different political groupings vying to shape Reagan's economic policies.

As stated by Fidelity Bank economist Lacey Hunt to my sources, if Reagan fails to follow the recommendations of the staunchest defenders of Federal Reserve Chairman Paul Volcker, and attempts to "decouple" implementation of tax cuts from substantial budget cuts, then "the dollar will go lower," possibly the day after Reagan reveals his economic program to the nation on Feb. 5.

While Hunt's line would have little credibility by itself, identical threats have been issued by managers of major institutional investors, namely, that if Reagan doesn't bend to Volcker, drastic international financial consequences could ensue. This is adequate evidence to

assert that the option of an early dollar crisis is an active threat.

The severity of the speculation against the mark over the recent period, which produced some of the wildest currency exchange fluctuations seen since 1978, also underlines the fact that the major speculators out in the market know the game they are playing is political.

In a two-day period, the Bundesbank threw \$1 billion in U.S. currency onto the markets to drive back the speculators. On Feb. 3, the speculative funds were moving at such rapid rates that within a three-minute period, the mark had gyrated between 2.12 and 2.16 to the dollar. With a heavy show of force, however, by Feb. 4, German officials had succeeded in halting the mark's movement at 2.11.

As this was occurring, Reuters news service and foreign exchange floors in banks around the world were rife with rumors that Germany was seeking an "emergency" support package that would probably involve large purchases of dollar bonds. German officials angrily denied these reports, denouncing them as "nonsense" on the grounds that the mark and the economy behind it were fundamentally strong enough to stand up without admission of crisis and defeat.

While it still needs to be determined exactly which financial institutions were behind the assault on the mark, there is evidence that the large British and Hong Kong financial multinationals used their

clout on this occasion. (They form one of only two global financial networks with the capability to launch rapid-fire financial warfare, and the record of exercising this capability.)

It is most telling, for example, that on Feb. 2, just as a wave of currency chaos began to descend on Frankfurt, Bank of England Governor Gordon Richardson issued a statement that Britain would like to become a member of the European Monetary System (EMS), the currency stabilization arrangement set up by Germany and France in 1979 as a steppingstone to world monetary reform.

Britain not only refused to join the EMS then, but opposed the stated goals of the EMS, which entail using European financial weight to industrialize the Third World. Consistently, Britain has only offered to link up fully with the EMS under conditions in which the EMS can become an instrument of the Bank of England's deflationary policies for Europe.

Also, the attacks on the mark occurred the same day as an unprecedented factional assault was launched against EMS proponent Chancellor Schmidt by an environmentalist, pro-British Labour Party faction in Schmidt's Social Democratic Party. Had the currency unrest continued further, this would have added to the left SPD's efforts to topple Schmidt.

I noted above that the British financial institutions are one of two world centers capable of moving currencies in this way. The other grouping—the Saudi-dominated oil producers—has backed the mark, and is expected to have contributed to the central bank's assault on the speculators.



## The Florida test case

*IBF 'free banking zones' will be used to turn major U.S. cities into Hong Kong sweatshop centers.*

The Volcker Federal Reserve is expected shortly to approve the startup in October of international banking facilities in major U.S. cities. These so-called free banking zones would be totally exempt from state and federal taxes and reserve requirements. IBFs would allow the large multinational banks led by Citibank and First National Bank of Boston to "bring the Eurodollar market back home" into major U.S. cities, pulling in large flows of speculative foreign "hot money."

The international free banking zones will not just create inflation here. They will be used to further the "urban free enterprise zones" plan written by Stuart Butler of the Washington, D.C. Heritage Foundation, to turn U.S. cities away from heavy manufacturing centers into postindustrial light-assembly zones modeled on the labor-intensive Hong Kong economy.

The city of Miami, Florida will be used as a "national test case" for both the IBFs and the urban enterprise zones, under a plan drawn up by Southeast Banks of Florida, Barnett Banks, AT&T, IBM, and other business leaders in Miami.

Florida Gov. Robert Graham, whose brother William sits on the Barnett board, has already determined to use "free enterprise zones" to make Florida a financial center. He has removed all state taxes on international banking in Florida, attracting dozens of Latin American, British, and other foreign banks, and billions of dollars

in "hot money" from Latin America.

Graham has worked closely with the Greater Miami Chamber of Commerce, including Southeast Bank President David Wallard and Barnett's Miami executive John Benbow, to "put together an international financial center here," Chamber Executive Director Scott Llewellyn says.

The banks in Miami intend to use IBFs to "bring back onshore billions in offshore money now floating around in the Caribbean," Llewellyn stated. Chamber lawyer Bowman Brown has already written the legislation, which the Chamber is having Miami State Senator McKnight put through the current Florida state legislature, to formally establish IBFs.

Miami will be turned into a "model free-enterprise city, which will take advantage of three free-enterprise concepts. They are the free trade zone, which we have now, the international banking facilities, which we will get, and the urban enterprise zones."

Miami has already built the largest free trade zone in North America, attracting hundreds of Hong Kong-style light industrial jobs to the city. "These zones do not exist to manufacture," says a Commerce Department expert. "They exist for re-export. A Japanese manufacturer of computers ships the parts into the zone, assembles them there with cheap labor, and ships the computers out to Brazil."

"Now, to make it work, we need the free enterprise zone," Llewellyn says. The Miami Chamber and banks have already invited Heritage's Stuart Butler to town to give a seminar on using the free enterprise zones to "rebuild the riot-torn areas of Miami," he stated. "Unless we get the free enterprise zones, we'll have more riots. We need lots of low-wage, labor-intensive jobs for the black unemployed."

IBFs, said Llewellyn, will be able to finance the development of Miami as "a national example of free enterprise." Normally, IBFs are restricted to financing foreign trade, and not domestic companies like the Hong Kong-style shops planned for the Miami urban enterprise zones. But in Miami, IBFs will be able to get around the law, and finance the enterprise zones by pretending to finance their foreign trade, since under law, all enterprise zones also become foreign trade zones automatically.

"IBFs will do all the export-import financing into the enterprise zones," Llewellyn said. "When an enterprise-zone company imports parts, IBFs will finance the foreign exporter. Then the IBF will finance the foreigner who imports the assembled project as it leaves the enterprise zone."

The presence of IBF Eurodollar financing will furthermore encourage "British, German, and other foreign investors to set up labor-intensive operations in Miami for export to Latin America," Llewellyn said. "We've talked to ICI, Rank Xerox, all the major British computer companies. They'd love to come here and take advantage of local labor. And this is what IBFs are for—to expand U.S. export financing."

# World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
<b>NEW DEALS</b>				
\$2 bn.	Brazil from France	Brazilian President Figueiredo signed a package deal in Paris contracting \$1.490 bn. in French financing for various projects in 1981 and a further \$500 mn. in letters of intent for projects in 1982.	On 1981 orders, \$395 mn. from French treasury for 20-45 years at 3.5%; \$268 mn. export credits at low rates; \$775 private bank loans. Most projects get mixed financing from 2 or 3 of above sources.	More than expected. Some financing and many component orders will go to Brazilian suppliers. Deals here as claimed by Brazilian finance minister; French and British sources claim fewer projects finalized.
	Orders signed:			
\$566 mn.	Thomson-CSF	Dacta 2 airport radar systems		
\$187 mn.	France-Dunkerque	2 petrochemical-carrying ships plus other ships from Brazilian yards		
\$307 mn.	Althom-Atlantique	Thermoelectric plant for coal pit mouth at Candiota		
\$260 mn.		Railroad equipment for Belo Horizonte system		
\$134 mn.		Corumba, Balbina, and Samuel dam powerhouses		
\$26 mn.	Creusot Loire	Coal gasification pilot plant		
	Letters of intent:			
\$268 mn.	CFEM/UIE	Two additional semisubmersible oil platforms		
\$292 mn.	CGE Alstom	Samuel Tres Irmaos and Nilo Pecanha dam powerhouses		
<b>CANCELLED DEALS</b>				
\$5 bn.	China from Japan/others	China has abandoned the \$5 bn. Baoshan steel complex, for which over \$1 bn. in contracts have been signed. Big losers are prime contractor Nippon Steel and Mitsubishi Heavy Industries which was in the midst of building \$420 mn. machinery for a hot strip steel mill for its first phase.	Japan's MITI will not give insurance on future Chinese export deals until China compensates damages.	Japanese companies will lose heavily on already produced components of cancelled orders.
	China from U.S.A.	Wean United of Pittsburgh lost \$80.5 mn. order for steelmaking equipment when China announced cancellation of second phase of Baoshan steel complex, as reported in <i>EIR</i> , Dec. 10.	Eximbank cancelled its \$60 mn. credit, its only firm deal with China.	Exim now seeking new U.S.-China deals.

## The ghost of Henry Kissinger

*Administration 'confrontationists' are stalling efforts to lift the Soviet grain embargo.*

Now that the new administration has initiated a cleanup at the U.S. Department of Agriculture, placing an avowed advocate of production agriculture at the helm, it remains to be seen who will actually control farm policy. The way things are shaping up, John Block will not be free to directly tackle the problems facing American agriculture. First, he will have to settle accounts with Alexander Haig, the secretary of state.

The issue will center on the controversial Soviet grain embargo, whose termination was a key Reagan campaign promise. At issue is whether American agriculture will be held hostage to an adventurist foreign policy featuring the "food weapon," in spite of mounting evidence that the embargo has damaged only American farmers.

Secretary Block has already put himself on record recommending that the ban be lifted promptly. Haig, in his Jan. 28 press conference, disagreed. "It's not so simple as it might sound if you are a representative of our agriculture."

As of the Feb. 4 Cabinet meeting, where the issue was first formally discussed by the administration, no decision had been taken by President Reagan. A day earlier, U.S. Trade Representative Bill Brock predicted the decision would take months, and said it should be "linked" with other Soviet-U.S. issues.

Brock asserted that national se-

curity questions are the single most important factor to be considered. President Reagan took the matter out of the hands of the National Security Council at Secretary Block's request.

Following the Cabinet meeting, Sen. Nancy Kassebaum (R-Kans.) announced that the President had scheduled a meeting on the embargo with twelve farm-state senators for Feb. 17, making a decision unlikely before then. "The President recognizes that the twelve farm-state senators have a perspective that is valid on the embargo issue," a spokesman for Kassebaum told the press.

Since Nov. 20, pressure on Reagan has mounted to extend the embargo despite the fact that indications of its actual effectiveness are lacking.

The Heritage Foundation, for example, just sent a study to President Reagan recommending that the embargo be extended and "tightened"—namely, that "other outlets" for Soviet purchase of livestock feed be cut off. This is a prescription for confrontation, not just with Argentina and Australia, but with Western Europe, where France has actively opposed the embargo.

Not surprisingly, this kind of foolish confrontationism against U.S. allies is motivated by the most wildly irresponsible foreign policy delusions concerning relations with potential adversaries, and the belief

that food can be an effective "weapon."

"If meat is scarce and prices are high," the Heritage Foundation fantasizes, "the U.S.S.R. could experience uprisings such as the ones which have occurred recently in Poland."

Back in the real world, the USDA's latest assessment of the embargo has revealed that the Soviets will have imported a total of 34.5 million metric tons of grain from all sources in the "year of the embargo" ending June 30, at least one million tons more than the Soviets themselves had estimated they would need!

Further, while Soviet production reports show that grain production in 1980, though higher than 1979 levels, fell short of projected yields, there is no indication that the Soviets have been forced to scuttle their ambitious livestock program—the target of the embargo, and the focus of the "riots and uprisings" for which the schemers hope.

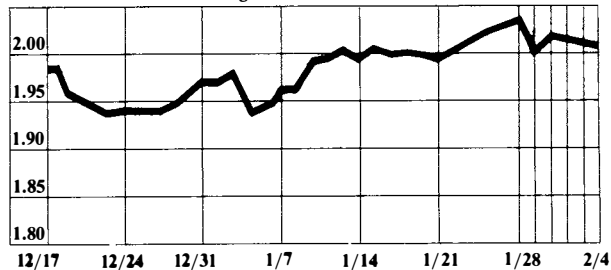
On Jan. 1, total Soviet livestock population was higher than one year ago. The cattle herd rose from 115.1 million head to 115.5 million (compared to 111 million in 1976). Meat production declined 2 percent from 1979, an indication that slaughter rates were stable to declining.

There are no indications that the difficulties that have confronted Soviet agriculture for years have been decisively exacerbated. In fact, as I reported last week, former Soviet agriculture officials insist that the embargo has given new impetus to the marshaling of additional capital resources to successfully tackle the blocks to expanded productivity.

# Currency Rates

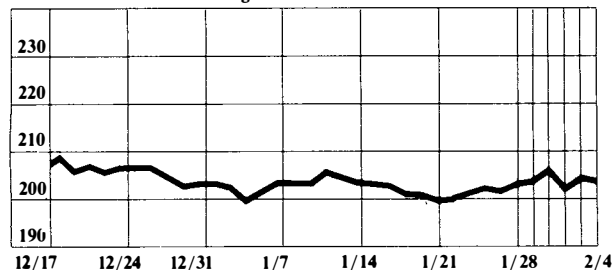
## The dollar in deutschemarks

New York late afternoon fixing



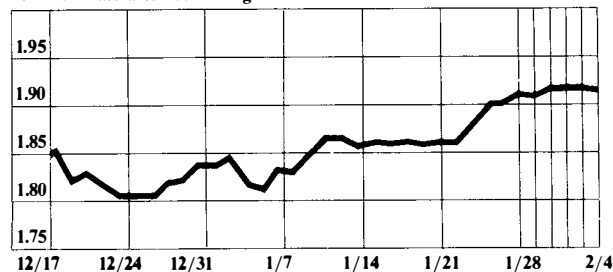
## The dollar in yen

New York late afternoon fixing



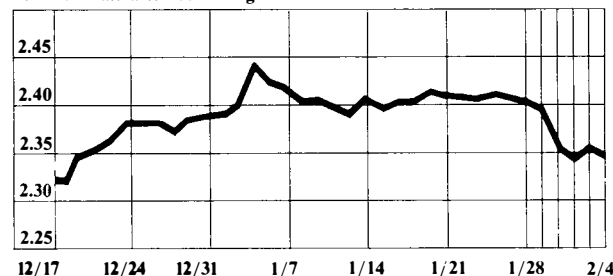
## The dollar in Swiss francs

New York late afternoon fixing



## The British pound in dollars

New York late afternoon fixing



## A series of EIR Seminars

### The Undeclared War on American Banking

In St. Louis:

David Goldman, Economics Editor, EIR

Sunday, Feb. 24 7:30 p.m.

Contact: Paul Greenberg, (312) 782-2667

### American Policy Toward Asia In San Francisco:

Tuesday, March 3 2:00 p.m.

Speaker: Daniel Sneider, Asia Editor, EIR

Contact: Ted Andromidas, (213) 383-2912

In Seattle:

Wednesday, March 4 2:00 p.m.

Speaker: Daniel Sneider, Asia Editor, EIR

Contact: Mark Calney (206) 323-9233

In Los Angeles:

Thursday, March 5

Speaker: Daniel Sneider, Asia Editor, EIR

Contact: Ted Andromidas, (213) 383-2912

### Prospects for U.S.-Mexico Business Relations

In Houston:

Sunday, March 22 2:00 p.m.

Speaker: Dennis Small,

Latin America Editor, EIR

Contact: Martin Keller, (713) 972-1714

# Shock waves of Korea's industrialization how economic development actually works

by Steven Bardwell and Peter Rush



In the zero-growth atmosphere that dominates contemporary economics, cases of successful industrial development have become a serious embarrassment. The most glaring of these cases is that of South Korea, a country which in 1959 was more rural and underdeveloped than India is today, and in less than 20 years completed the initial stages of an aggressive, sustained program of industry-based economic development to become the foremost of the “almost-developed” countries.

Lawrence Klein, the recipient of the Nobel Prize in Economics—and one of the foremost of the school promoting the impossibility of economic development in the Third World—described the fundamental premise of all conventional economics, an assumption which is simultaneously the cause of these economists’ inability to explain development, and the justification for policies which ensure underdevelopment:

At any point of time the economic system can be regarded as tending towards a long-run stationary state in which there is no net investment and in

which all existing capital equipment is exactly replaced.

Unfortunately for both the science of economics and the countries retaining the services of economists, this assumption of equilibrium has normative significance for Lawrence Klein and his colleagues. Zero growth, they claim, is not only necessary, it is desirable.

## Phase-state change shown

Recent results from the LaRouche-Riemann econometric model demonstrate in a dramatic way the scientific incompetence of the presumption of either the reality or advisability of equilibrium economics.

These results come from a six-month study of the past two decades of the South Korean economic “miracle,” and provide a beautiful case study of the interlocked processes of technological innovation, capital investment, manpower development, and industrial growth.

Specifically, the appended computer-generated graphs showing the behavior of the South Korean economy in the period under study tells us what Wharton-style econometrics will never grasp: how an economy goes through a fundamental change of phase-state.

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*A South Korean container factory.*

Courtesy of Hung Myung Industrial Co. Ltd.

Wharton's model will view an agricultural economy and project only an agricultural economy for the future. Yet South Korea's industrial sector rose with the suddenness of an economic shock wave—a term we will define in greater depth below. What competent econometrics has to measure in the period before the shock wave took place is the growing *potential* for such change to occur. That potential for phase-state transformation, *not* the current output of the economy as measured, for example, by gross national product, is the fundamental defining fact about the Korean economy 1960-1980—or about any economy, for that matter. That is what the LaRouche-Riemann model has captured.

### **Economic history: 1960-1980**

The period of the economic miracle in South Korea extends over the two decades from 1960 to 1980, and these 20 years were taken as the time span of the LaRouche-Riemann model analysis. During this time, the Korean economy grew at an average rate of 9.5 percent per year. That is, the real tangible product of the Korean economy increased more than sixfold over those 20 years! This growth was not, however, without interruption and, making provision for three periods of stagnation or regression in the Korean economy, the average actual growth rate approaches 13 percent per year at the times when the policy of the Korean government was directed toward development.

The three extraordinary periods during the course of the period from 1960 to the present are illuminated in a striking way by the LaRouche-Riemann analysis. With three interruptions, the South Korean government was run by a group of Korean nationalists whose commitment to rapid industrialization and urbanization was absolutely clear. This group, in conjunction with the Japanese, forged a policy of industrial investment which directed the growth of the Korean economy with three exceptions:

**1963-64:** The initial post-1961 economic takeoff was fueled by high rates of capital formation and import growth, the latter providing the machinery and raw materials for Korea's resourceless economy. Under World Bank-IMF pressures to stop a growing (in fact necessary) trade deficit and the burgeoning growth of credit, Korea instituted a drastic financial retrenchment leading to a decline for 1964 in both imports and capital formation.

Figures 1 and 2 show in a striking way the impact of this World Bank pressure in the composition of the economy, which had already by 1963 begun to significantly shift away from agriculture. Figure 1 shows the percentage of the country's gross profit that was produced in agriculture. In 1964 this pattern abruptly shifted.

**1970:** As we shall see, the period from 1969-1970

was critical for the Korean economy. In 1969-70, under World Bank duress, Korea once again implemented severe Friedman-like credit strictures which drastically reduced both capital formation and imports as in 1964. The long 1965-68 investment program yielded some of its effects during the 1969-71 period in a lag effect, so the economy continued to grow despite the cutbacks.

By 1972-73, the Koreans scrapped the World Bank approach and resumed high-growth development policies until the oil shock hit them. Nonetheless, the lag effects of the 1969-71 lack of imports and investment showed up in 1972-73, yielding a drop in productivity during that period. Had the 1969-71 program been continued, Korea would not have been able to implement the export boost that enabled it to survive the 1973-74 oil price rise.

Figures 2 and 3 show the impact of this policy change. Especially interesting is the fact that the average productivity of the economy actually dropped during the period from 1972-73 as a result of the World Bank policies. That is to say, the World Bank policies of labor-intensive investment actually undermined the ability of a country to continue economic production.

**1975:** The oil price rise and attendant international economic disruption had predictable consequences for the Korean economy, although it is important to note that the full impact of the disruption was not felt for many months.

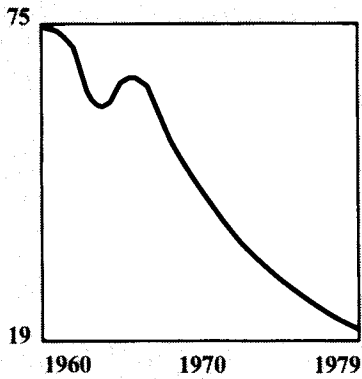
The correlation between a central government committed to development and the success of that development is unmistakable. In fact, these three periods of relative stagnation in the Korean economy show that such dirigism is necessary for development. Without that centrally directed investment strategy, a country cannot develop.

### **Phases of economic development**

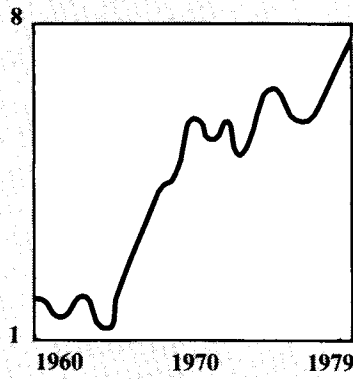
The Korean economic miracle offers an interesting example of a specific development strategy. The Koreans implemented a differentiated and time-phased investment plan (whether consciously or not), that solved for them the interconnected problems of manpower development and credit generation. They began with a program of heavy investment in infrastructural development, even before this infrastructure was "necessary."

Figure 4 shows the pattern of growth in the construction sector over this time period. Since construction is a substantially labor-intensive sector and hence, has lower than average productivity, an investment of this magnitude in construction requires a willingness to wait for economic returns for up to a decade—namely, the willingness to extend long-term, low-interest credit. Without this credit, infrastructure of the required magnitude (railroads, port facilities, and water works most

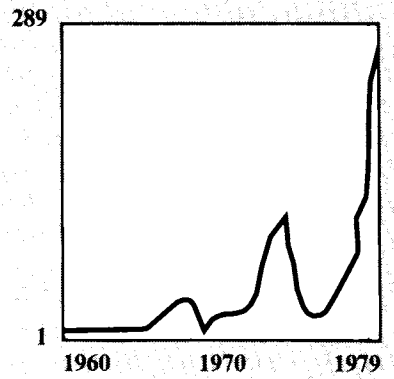
**Figure 1**  
**Agricultural surplus**  
 (as percentage of total surplus)



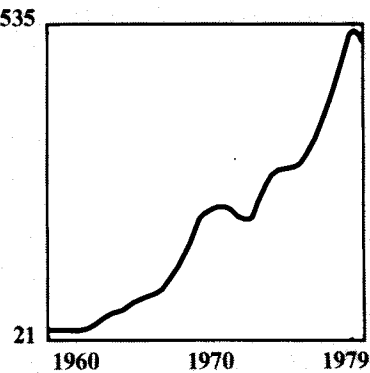
**Figure 2**  
**Productivity of total economy**  
 (ratio of surplus to consumption of productive workforce)



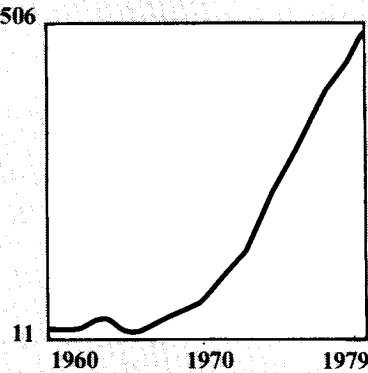
**Figure 3**  
**Net capital investment in primary metals**  
 (billions of 1975 won)



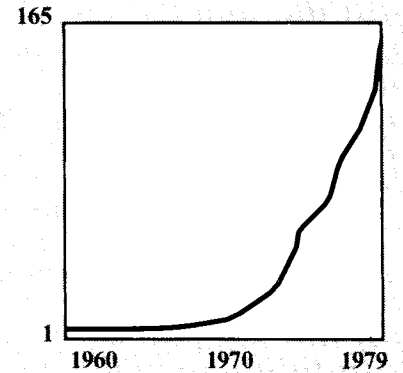
**Figure 4**  
**Construction surplus**  
 (billions of 1975 won)



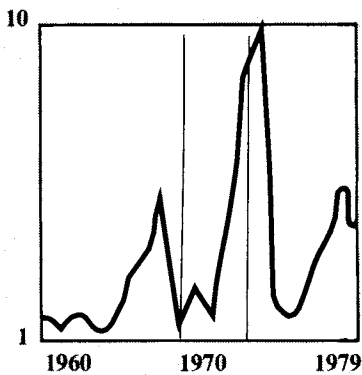
**Figure 5**  
**Textiles surplus**  
 (billions of 1975 won)



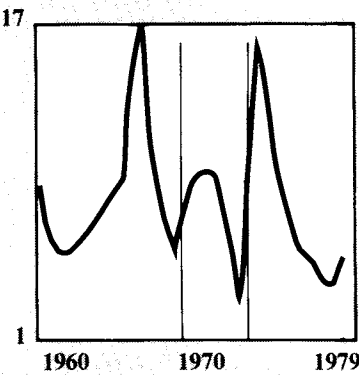
**Figure 6**  
**Primary metals surplus**  
 (billions of 1975 won)



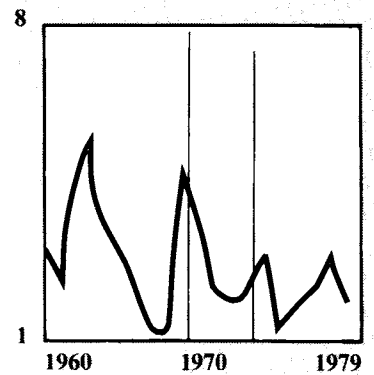
**Figure 7**  
**Net capital investment in primary metals**  
 (as percentage of total net capital investment)



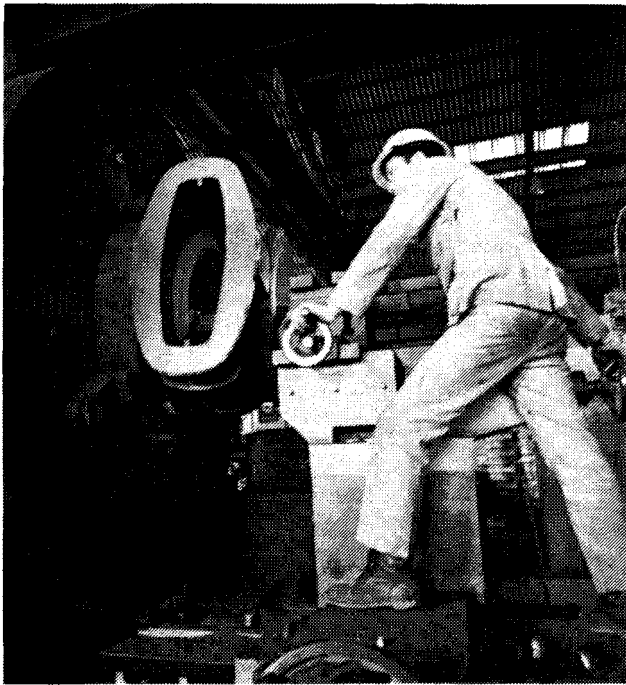
**Figure 8**  
**Net capital investment in textiles**  
 (as percentage of total net capital investment)



**Figure 9**  
**Net capital investment in construction**  
 (as percentage of total net capital investment)







Courtesy of the Dongkuk Co.

At the Busan Cast Iron Company.

importantly) cannot be built. The Koreans made this investment in the first stage of their program. This large investment had the second rationale of providing an initial pool of skilled and semiskilled workers. These workers formed the basis of the urban work force that would, in 10 years, be the backbone of the Korean urban economy.

The second phase of the Korean development plan began in the middle to late 1960s, when investment in the textile industry began to rise. The sudden onset of this investment is shown in Figure 5, where the gross profit from a sector representative of light industry is shown. Again, this investment was directed in two aspects towards the long-term development of the Korean economy; the large-scale production of textiles provided needed profits and foreign currency, and more importantly, trained the next and larger wave of the work force.

The third phase of the industrialization process as seen in Korea began in 1972, when the gross profit from heavy industry then began to rise rapidly (see Figure 6). Investment in primary metals, as representative of heavy industry, increased by more than 50 percent during this time. The result of these investment policies was an almost monotonic fall in the agricultural component of the economy (see Figure 1) and the urbanization of the work force.

While it certainly is not clear that this sort of phased investment policy is appropriate for all economies, the importance of high investment rates and the economic

destruction of low-productivity agricultural activity is clear.

### Shock waves of industrialization

The most exciting result from the LaRouche-Riemann analysis, however, came with the discovery of the first empirical example of an “economic shock wave” which had been predicted two years ago in the initial theoretical work on the model. The 18-month period during 1969-1970 shows a dramatic and almost discontinuous change in a number of key parameters for the Korean economy. This period falls at the end of a relatively long period of development and bears all the signs of a shock wave—it is the result of a self-accelerating process of investment which, at a certain well-defined point, “breaks” like an ocean wave, leaving its mark on the quantitative parameters measured by the model, a set of violent and rapid shifts. Figure 7-9 along with Figure 1 show that the shift from agricultural to industrial, rural to urban, occurred in a final way during this short period.

The quantitative indicators of the shock wave appear in almost every sector: construction’s contribution to the economy more than doubled in this 18-month period (reflecting the payoff of previous investments), but new investment in construction dropped dramatically, reflecting the new stage of the economy with an essentially adequate infrastructural base. Investment in primary metals jumped by a factor of three, while investment in textiles fell by almost as much. The contribution of agriculture to the whole economy, while it rose in absolute terms, experienced an accelerating drop in relative terms.

All of these indicators point toward the sudden appearance of a nearly developed economy. The shift from rural to urban, from agricultural to industrial, and from labor-intensive to capital-intensive, has not been completed, but after 1970 it became essentially irreversible.

This phenomenon is not unique to Korea—the process of industrial development and technological innovation is inherently discontinuous precisely because it is self-accelerating. For the same reasons that a sonic boom forms, an ocean wave breaks, the dynamics of industrial development create a sharp boundary between urban and rural economies, as an example.

This phase change occurs *because* a shock wave of technological innovation and capital-intensive investment has passed through the economy. The central role played by qualitative change in economies is ignored by conventional economists because it turns out to be mathematically equivalent to the assumption of the inherent *non-equilibrium* nature of economic change. If an economy *can* change, then it *must* do so in jumps. If it *cannot* change discontinuously, then it will collapse.

# Business Briefs

## International Credit

### Bonn demands 'interest-rate disarmament'

"The Americans must now lower interest rates," Chancellor Helmut Schmidt told the West German weekly *Die Zeit*. The West German Finance Ministry is urging a four-power conference among Bonn, Paris, Washington, and London to reverse the policies of the U.S. Federal Reserve and achieve "interest-rate disarmament," according to the Feb. 5 *Die Zeit*. The powerful Dresdner Bank is publicly seeking an end to Volcker's policies, the *Financial Times* of London reported Feb. 4. "The United States should take steps to stimulate the American economy and reduce impossibly high interest rates if the world economy is not to slide into deeper stagnation this year," declared board member Hans-Joachim Schreiber in Djakarta, Indonesia.

## Gold

### Gold role debated in Euro-Saudi talks

Saudi Arabia is currently reviewing proposals for linking up long-term supply agreements of oil with guaranteed earnings on investments placed in consuming industrial nations in Europe, according to reports from the annual international financial conference held this week in Davos, Switzerland. Asked what types of initiatives the Saudis are considering, an officer in the Mideast division of Chase Manhattan suggested that Saudi proposals may be connected to the debate in France over the success of a FF 6.5 billion gold-backed bond issue by the French government in 1973.

Because of the unusual way the issue was designed, over the past three years, interest payments have become equal to the total value of the loan. This has provoked a widespread debate in French financial circles over whether gold-

backed bonds "work." Chase's comment signals that the Saudis and Europeans are currently reviewing ways that gold-backed bonds can be used to facilitate recycling of petrodollars.

Some gold analysts are saying the uncontrolled growth of interest on the 1973 French issue "proves" the unsoundness of gold-backed bonds. In fact, this particular issue was designed on the assumption that the gold price would still be mostly determined by official central bank prices, not market prices. As a result, it was pegged to prices on gold ingot. Presumably, Saudi investments in gold-backed bonds would depend on the ability of central banks to settle on a price behind the gold, which would also protect Mideast investors from inflation.

## Urban Policy

### Roger Starr: get out the knives

Roger Starr, who coined the phrase "planned shrinkage" as his vision of America's urban future, recently told a reporter that the recent report of the President's Commission for a National Agenda for the '80s fails to fully deal with the "problem of the underclass."

"I know what we did with them a hundred years ago; we gave them tuberculosis, but now we can't do that any more. Some of us thought they have found a way to extinguish themselves with drugs, but unfortunately it hasn't happened on a large enough scale," said Starr, who was considered for the Housing and Urban Development cabinet post under Carter, and dominates the *New York Times* line on urban policy.

"We went through hell getting the right building for the owner of a 'marginal business' packaging chicken parts in the Bronx. But, it employs an awful lot of Puerto Ricans and gives each one of them a very sharp knife, and they are god-damned good at cutting chickens into parts." New York City will survive, he concluded, because it can adapt to "new kinds of enterprises."

## World Trade

### Comecon and Taiwan look to textiles

The Taiwan Textiles Federation has decided to set up a trading company for the promotion of textile exports to Eastern Europe. A spokesman for the federation said many leading East bloc enterprises have expressed wishes to initiate textile trade with the Republic of China, with whom they have diplomatic relations through private organizations, such as the Taiwan Textiles Federation.

The trading company will target Hungary and East Germany first, and expand its business throughout the region should sales prove satisfactory, the spokesman said.

Taiwan's trade with Eastern European nations totaled \$70 million last year, according to Taiwan's Ministry of Economic Affairs.

## Equity Markets

### Institutions bear stocks and bonds

U.S. insurance companies and bank trust departments this week began a classic British-style bear raid on industrial stocks. Institutional investors such as Prudential and U.S. Trust are moving the market, U.S. Trust Investments Committee member John Groome told *EIR*, by shifting investments out of certain stocks.

Prices fell in some of the "smoke-stack" industries because the institutions believe they are a poor long-term investment and are "getting out," he said. Prices also tumbled on high-technology stocks such as Texas Instruments, Motorola, and RCA. Here, Groome said, the institutions are deliberately creating a "sell atmosphere" by auctioning off stocks in order to buy them cheap later. "Why else would we let the prices drop?" he said. "These are the industries of the future. . . . Some of the large computer

## Briefly

companies are snapping up shares in small companies."

Bank trusts and other institutional investors are also getting out of long-term bonds in such a way as to permanently shut those markets, George Needham of First Boston Corporation told *EIR*. "People used to think the shutdown of the industrial bond calendar was a cyclical phenomenon, that industrial companies like Caterpillar, who have found no investors for their bonds lately, would be able to come back to market as soon as interest rates dropped. It's not true. The industrial bond market is shut down more or less permanently. No institution will ever want to lock up its money for twenty years at 13 to 14 percent in this inflationary environment again."

### Banking

#### Delaware set up as 'Luxembourg of the U.S.'

A sweeping free banking bill passed the Delaware state legislature this week that can be expected to raise interest rates dramatically and deregulate banking to the detriment of the U.S. consumer on a national level.

The new Financial Center Development Act deregulation move encourages out-of-state banks to transfer to make it "the Luxembourg of the U.S.," Gov. Pierre DuPont said this week.

The 54-page bill, which most of the Delaware legislators unwittingly rubber-stamped, was written by O. Francis Biondi, a lobbyist for Chase Manhattan and J. P. Morgan of New York, which have made large commitments to set up operations in the proposed Delaware "free banking zone." It was pushed through the Delaware legislature by Irving Shapiro, chairman of E. I. Dupont de Nemours, which dominates the state, and Governor du Pont.

The act replaces the state's current flat 8.7 percent income tax on banks with a regressive tax starting at 8.7 percent and declining to 2.7 percent for banks with incomes over \$30 million, to encour-

age the biggest banks to move in operations. This compares with a New York State tax of close to 26 percent, and the new Delaware law should encourage major moves by New York banks into the state, in particular.

The bill also eliminates all interest-rate ceilings on consumer loans; permission for banks to charge customers additional expenses such as withdrawal fees; permission for banks to foreclose on borrowers' homes in event of default; and an allowance for such extreme devices as retroactive raises in interest rates on credit card transactions.

If major banks move their credit card and other lending operations to Delaware, these conditions will obtain nationwide. They could result in dramatically higher effective interest rates to U.S. consumers, which could reach 25 to 35 percent once new fees and charges are added.

### Agriculture

#### Cattlemen: future hangs on interest rates

The U.S. livestock economy in 1981 will be determined by "interest rates and weather," was the conclusion of directors of the Livestock Marketing Association meeting in South Carolina recently. Cattlemen are concerned about a continuing herd liquidation in 1981.

Since 1975, the nation's live herd population has dropped about 18 percent. Over the past year many producers were driven into bankruptcy by high interest rates. Tight-money conditions, combined with drought in key areas, have intensified pressure on the industry. Drought in California has reduced cattle numbers there about 20 to 25 percent, and by about 20 percent in Arizona. In the Midwest, drought led to the marketing of 10 to 15 percent more cattle than usual over the past year. Producers could not afford to keep them and feed them.

The rising supply of meat that resulted kept meat price rises to a low average of 5 percent over the past year.

● **HENRY REUSS**, chairman of the Joint Economic Committee of Congress, asked Paul Volcker during testimony Feb. 5: "How do we stop the interest-rate warfare?" Europe has accused the Fed of engaging in. Volcker's response, described as "airy-fairy" by one JEC staffer, was that coordination has never worked between central banks.

● **COMMODITY** prices worldwide are sharply down on 1980, and are expected to hit Third World producers' export earnings hard. Copper has declined 38 percent, tin 2 percent, lead 29 percent, zinc 18 percent, coffee 41 percent, sugar 32 percent, and rubber 36 percent.

● **THE SWEDISH** labor federation and the employers' association came to a 1981-1982 wage agreement in near-record time. The 9 percent total settlement, if it sticks, will tend to weaken the confrontationist wing of the Social Democrats, who had been gearing for a showdown with the Center Party government.

● **BRITISH PETROLEUM** and the Anglo-Dutch Shell group have agreed to buy 500,000 and 100,000 barrels per day of Iranian oil respectively, after the Bank of England facilitated the Carter-Iran hostage deal. Both oil companies were deeply involved in the overthrow of the shah, as *EIR* has documented.

● **HIROMICHI MIYAZAKI**, the chairman of the International Energy Agency, said Feb. 3 in Paris that oil consumption of advanced capitalist nations dropped by 7.5 percent in 1980. Miyazaki said a third of the reduction was due to recession, a third from price increases, and a third from "consumer restraint." He termed the present drop, which is expected to continue next year, "a most encouraging picture."

## India-Mexico summit shapes strategy for North and South

by Latin America editor Dennis Small and  
New Delhi correspondent Paul Zykofsky

You didn't read about it in the *Washington Post*. Associated Press thought it was "unimportant." "Our correspondent is on vacation," said the *New York Times*.

Yet in the last week of January, the two most respected statesmen of the Third World held a week of summit talks in New Delhi, India, which took a long step toward shaping a viable strategy for North-South development, and toward defusing the danger of an East-West conflagration.

Mexican President José López Portillo and Indian Prime Minister Indira Gandhi met amid "growing signs of the resurgence of the Cold War with the intensification of global rivalry between the superpowers," in the words of their final joint communiqué. López Portillo summed up his visit by telling reporters that his talks with Mrs. Gandhi were "of an extraordinarily high level. We covered all aspects . . . multilateral, renewal of North-South talks . . . bilateral issues. Our similar positions makes it possible for us to unite on many points," he explained.

The Mexican and Indian heads of state centered their attention on two main points of unified strategy:

- 1) That "universal peace" can be won only on the basis of joint economic development between North and South, based on the transfer of the most advanced technology to foster rapid industrialization. They explicitly rejected the slow-growth, antitechnology approach of the Brandt Commission, and its Socialist International sponsors. President López Portillo told a press conference that what is needed is the "creation of a financial system that will allow real transfer of resources" and technology to developing countries.

- 2) That Mexico and India could and would develop model bilateral relations between developing nations, on the basis of exchanging Mexican oil technology for Indian nuclear energy technology.

As significant as these two strategic foci is the fact that Mrs. Gandhi and Mr. López Portillo also established an excellent personal working relation during the trip. Both leaders have in the past taken outstanding responsibility for ordering world affairs, and they clearly recognized in each other a



Photoreporters

valuable colleague and partner. The final communiqué reflected this joint adoption of a global role for their nations, as the two leaders stated that their countries are placed "in a very favorable position to play a new and healthy moderating role in the context of contemporary turbulent international relations."

### Superpower proxies

What brought special significance to the India-Mexico summit is the international diplomacy López Portillo and Gandhi has engaged in *before* they met.

On Jan. 5, the Mexican president met with Ronald Reagan in the border town of Ciudad Juárez, Mexico for three and a half hours of discussions. Despite every attempt by the Socialist International and others to derail that summit and keep U.S.-Mexican relations in the pit where Jimmy Carter had placed them, the talks were successful and cordial. Reliable sources in Mexico have informed *EIR* that a cooperative approach to North-South relations was agreed on and an understanding was reached whereby Mexico would work with India, Iraq, and other moderate forces in the Third World to contain the influence of the "confrontationist" faction represented by Fidel Castro. Reagan, reportedly will attend a scheduled June summit of two dozen heads of state in Cancún, Mexico to discuss North-South relations.

Implicit in the Reagan-López Portillo talks was the hope of establishing a new strategy of economic cooperation among nations of the East and West, to help develop the Third World.

López Portillo took this initiative with him to India, and told the press there that "we are very optimistic at the attitude of friendship and respect expressed by Reagan" toward Mexico.

This was an important signal, because Indira Gandhi had also engaged in recent diplomacy with India's respective superpower to the north—the Soviet Union. At December summit talks between Mrs. Gandhi and Soviet President Leonid Brezhnev, Brezhnev used the occasion to state his commitment to mediated solutions to the world's hotspots, and to economic cooperation for development. The Indian and Soviet leaders signed major economic accords centering on oil and energy. In addition, they called for turning the Indian Ocean into a zone of peace; for negotiating a solution to the Afghani crisis, free of foreign interference; and for superpower consultations on the explosive Persian Gulf.

Similarly, the Mexican-Indian joint communiqué takes up the same international issues in almost identical terms, indicating that an international axis around such policies is emerging, and that India and Mexico are playing a vital proxy role in trying to align their respective superpower neighbors with this strategy.

The India-Mexico summit opened up important international space for proposals to replace the IMF with the European Monetary System as the guarantor of credits for development, to allow it to gain ascendancy as the dominant outlook of the Western alliance.

Should such policies prevail, it will be a mortal blow to the Socialist International and its Brandt Commission strategy, which suggests global slow-growth as an

economic strategy, combined with political and military confrontation between North and South, seen most clearly in the Socialist International's simultaneous crusade to blow up El Salvador and Poland into crisis points.

### South-South cooperation

The success of López Portillo's visit to India was conveyed by the excitement with which the Mexican president discussed his visit with reporters.

"We have been greatly impressed by the conjunction of India's great past with its exemplary development efforts. We have seen the temple caves carved out of the rocks in Aurangabad [dating from the second century B.C.], the Taj Mahal, and also its efforts to develop nuclear energy," he noted, "all of which are very representative of this great nation."

These sentiments were reciprocated by India, which invited López Portillo to attend the Republic Day celebrations, the first Latin American head of state to do so.

Although the final communiqué stops short of outlining detailed solutions to the international economic crisis, agreement was reached on "the need for the international community to adopt a world energy plan," a reference to the 1979 proposal presented to the United Nations by López Portillo.

The communiqué also stated "satisfaction over the upcoming meeting of foreign ministers of nonaligned

countries that will be held in New Delhi, and expressed the hope that this meeting will play a constructive role in reducing existing tensions."

India welcomed the initiative for a proposed North-South conference to be held in Mexico—originally proposed by the Brandt Commission—but both nations rejected the commission's preferred zero-growth agenda. The conference, to which López Portillo invited President Reagan, should "put the world economy in order."

López Portillo highlighted the significance of cooperation to ensure the development of more advanced technologies. After noting that India had achieved self-sufficiency in food grain production through high-yielding varieties of wheat from Mexico, López Portillo stated that "the fact that India has become self-sufficient in food is a clear indication that things *can* be done."

López Portillo drew out the significance of this type of technology transfer based cooperation for ensuring world peace: "A few years ago we were able to contribute to the solution of their [India's] problems. Now with great pleasure and most humbly, we must accept India's progress in this field and receive its contributions. Perhaps in the future, with the support of these contributions, we will again be helpful to India. I believe that this is an example of how things should be in the world. . . . This is the road to peace, and it offers the possibility of creating a just development of the world based on that peace."

## U.S. press: the summit is not worth covering

A series of history-making discussions took place last week between the president of Mexico, José López Portillo, and Indian Prime Minister Indira Gandhi. But, did you read about it in the liberal *New York Times* or see it covered on scandal-mongering ABC-TV?

Did the *New York Post* interrupt its steady stream of pornography to enlighten its readership with real news?

Not a single word on the historic summit appeared in any major American media. And the European press didn't do much better.

*EIR* asked them why.

"I didn't even know he [President López Portillo] went to India" the foreign desk officer at the *New York Times* confessed. When we explained that in their talks President López Portillo and Indian offi-

cial had discussed a new strategy for the North-South dialogue, which is of utmost importance for the United States as the leader of the "North," the *New York Times* could only say: "Well, you know, there is a limited number of things we can cover. Besides our [Mexico] correspondent Alan Riding is on vacation."

The *Washington Post* foreign desk clerk had similar excuses: their correspondents in India and Mexico were *both* away from their respective home bases, "and the AP and UPI wires were very sketchy."

But UPI and AP international news departments could not recall having covered the summit. AP even asked us, "Was that meeting in Mexico?" We explained that it took place in New Delhi, and that the issues discussed there will most probably be taken up in the North-South meeting of heads of state scheduled for next June in Mexico, a summit to which President Reagan has been invited.

"Well," AP's foreign desk officer told us, "there are too many things happening in the world for me to remember that."

# Brandt Commission tries for momentum

It's now precisely a year since the Independent Commission on International Development Issues, known as the Brandt Commission, completed its first phase of work with the publication of its report, "North-South: A Program for Survival."

In its first months, the Brandt Report appeared to gain extraordinary force as the defining document of a revived North-South dialogue. Its "promising proposals" were hailed alike by the "Group of 24" caucus of Third World nations at the International Monetary Fund Interim Meeting in April and the Venice summit of Western heads of state in June.

Yet ask many international policymakers what the Brandt Commission proposals actually *are*, and the answers are something like those of the seven blind men asked to describe an elephant.

The Commission was put together for precisely this quick-change-artist capability. Its heavy Socialist International component, headed by Willy Brandt himself, plays up "radical" calls for "transfer of resources" from the industrialized North to the developing sector South. Its New York and London banking component reassures banker colleagues that it's all a con game to get Arab petrodollars recycled through their own banks and the IMF rather than the alternative structure taking form around the European Monetary System.

The methods proposed for "resource transfer"—variously a tax on world trade, a new World Development Fund, or depositing Arab petrodollars in the IMF—are instruments of a neo-Malthusian world order to be ruled from "one world" supranational headquarters.

The selling job in the Third World has been run through three channels: the United Nations "one world" octopus; the Socialist International and its West German think tank, the Friedrich Ebert Stiftung; and direct "Brandt Commission" forums. These last, in Latin America, included major meetings in Brazil in August 1980 and in Colombia in October (cosponsored by Colombia's drug-legalization lobby). In March a Socialist International summit in Santo Domingo deployed Michael Manley of Jamaica to Cuba to get Fidel Castro's green light for the Brandt Commission effort—which he

got. A similar Socialist International conclave in late May adopted a "small countries' initiative" to apply Brandt Commission con games to Africa.

In Europe, the entrenched Socialist International apparatus has taken the lead, at the same time piping the report through its channels into the Soviet Institute of World Economy and International Relations (IMEMO).

On the U.S. side, a Council on Foreign Relations offshoot called the Overseas Development Council (ODC) was given the job of officially distributing the report. When publicity lagged, an elite directorate drawn from the CFR, the Trilateral Commission, the German Marshall Fund, and the ODC met in May and June to consider new initiatives. One of those under consideration was to directly hand sponsorship to the CFR.

## North-South summit

One of the key Brandt Commission proposals was for a world heads-of-state summit to implement the Brandt agenda. The first task was lining up respected leaders from North and South to cosponsor such an event. During Mexican President López Portillo's trip to Europe in May 1980, Brandt, Palme, Austria's Bruno Kreisky, and the Second International's "inside man" in the Mexican government, Foreign Minister Jorge Castañeda, all pressured the Mexican president to sponsor it, with Kreisky as his "North" counterpart.

After López Portillo's conditional agreement, Brandt, Kreisky and Castañeda convened a meeting of foreign ministers from selected countries to plan the next step. Mexico, Canada, Sweden, Nigeria, India, West Germany, Yugoslavia, France, and Austria were represented at the November gathering in Vienna. Mexico was selected as the site for a full summit. The time was tentatively set for June 1981. A further foreign ministers meeting will take place in March 1981.

But as the momentum for a summit has built, Brandt Commission control of the process has been slipping. As underlined by the López Portillo-Gandhi talks, the question of whether there will in fact even be a summit—and who will determine its content—is very much up for grabs.

In a press conference in New Delhi on Jan. 29, López Portillo repeatedly made references to "if the meeting occurs" and "should it be held in Mexico." The Mexican president has also repeatedly specified that it is *he* who will make the final determination of who is invited. So far, Indira Gandhi, France's Giscard d'Estaing, and Germany's Schmidt have all accepted invitations, and U.S. President Reagan promised he would give close attention to the invitation extended to him by López Portillo Jan. 5 at their border meeting.

If a framework of major technology transfer can be agreed upon, then the Brandt control could be completely broken.



## From the summit communique

*The following are excerpts taken from the joint communiqué signed by President López Portillo and Prime Minister Indira Gandhi after their recent summit talks. It was translated by EIR from the Spanish original appearing in the Mexico City press on Jan. 30, 1981.*

The President of Mexico and the Prime Minister of India examined the present international situation and exchanged points of view on bilateral relations between Mexico and India. Both rulers said that the similarity of the levels of economic development in the two countries placed them in a very favorable position to play a new and healthy moderating role in the context of today's turbulent international relations.

They expressed their deep concern over the deterioration of the world situation, over the failure of détente, and the growing signs of the resurgence of the Cold War with the intensification of global rivalry between the superpowers. . . .

On reviewing the Latin American situation, the leaders expressed their concern over the tensions in some parts of the Central American region, and their hopes that the agitated situation in certain countries be resolved by the peoples involved, without any foreign interference.

In regard to the Middle East, they reiterated that only a complete settlement of the conflict, with the participation of all the affected parties, would make possible a just and lasting peace. This settlement must include Israeli withdrawal from the occupied territories, according to United Nations resolutions, total recognition of the legitimate rights of the Palestinian people, including their right to form their own state or territory, and the right of all countries in the region to live in peace within secure, recognized, and guaranteed borders. . . .

With respect to Afghanistan, they offered their total support to the independence, sovereignty, territorial integrity, and nonaligned status of that country. They demanded the parties involved together seek a political settlement that secures for the Afghani people the right to decide their own destiny without foreign interference or intervention.

Both leaders stated their conviction that protecting security and stability in the Persian Gulf is clearly

the responsibility of the states of that region which they must exercise free from all foreign interference. At the same time, they exhorted the interested parties to be careful not to provoke any increase in foreign influences and to seek peaceful solutions through negotiations.

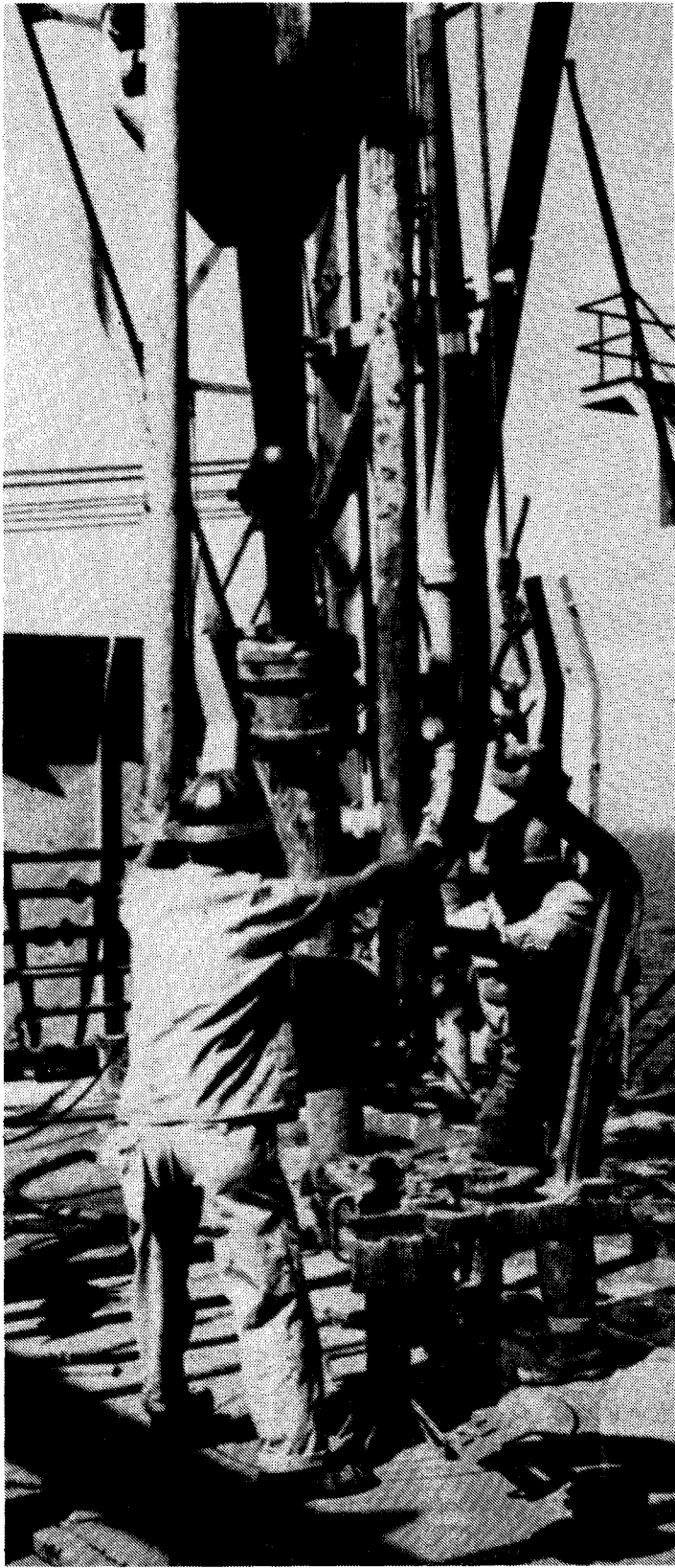
The President of Mexico and the Prime Minister of India observed with deep concern the grave crisis facing the world economy. . . . The alarming recession of world economic activity and the persistence of high inflation rates highlight the urgent need to carry out structural changes in the present international economic system that would guarantee the effective implementation of the new international economic order. They also stressed the need for a massive transfer of resources toward developing countries, especially toward those whose needs and development problems are greatest. . . .

India received with satisfaction the initiative co-sponsored by Mexico and Austria with which a group of developing and advanced countries including India, have joined, to hold an international meeting of heads of state and government to contribute to a better understanding of the interdependence among nations and the interrelation of the problems of the world's economy.

The two rulers exchanged opinions on the present energy problem and agreed on the need for the international community to adopt a world energy plan that rationalizes production, distribution, and consumption of energy resources and gives highest priority to research and development of alternative renewable sources of energy. . . .

Both leaders expressed the firm political will of their governments to increase, diversify, and strengthen bilateral economic cooperation in the fields of trade; industrial and technological cooperation; agricultural development; the production, distribution, and technology of food products; long-term energy cooperation; scientific-technical cooperation; and financial relations. . . .

The President of Mexico invited the President and the Prime Minister of India to visit Mexico. Both invitations were accepted with satisfaction, and the dates for the visits will be arranged.



*A Mexican oil rig.*

## From the Mexican president's address

*On his arrival in New Delhi, Mexican President José López Portillo delivered a speech focusing on the strategic issue of world peace. Excerpts follow.*

The fantastic expense of the arms race consumes resources indispensable for subsistence and development. . . . All peoples seeking peace and law must struggle to reduce tensions and reject the pressures that try to commit us to a new cold war.

To advance toward these objectives, we must reach political solidarity and economic cooperation between countries which—like India and Mexico—face reality in much the same way. Countries without imperial dreams nor hegemonic pretensions, which zealously defend their sovereignty and which affirm their right to independent development.

My government believes that limited wars, border skirmishes, and the mere exhibition of military might threaten in varying degrees the world's equilibrium and peace. . . .

Mexico does not recognize security zones or zones of influence which extend beyond a nation's own frontiers. Therefore, Mexico disapproves of the concentration of warships and troops in the Indian Ocean, which, since 1971, has been expressly designated as a zone of peace.

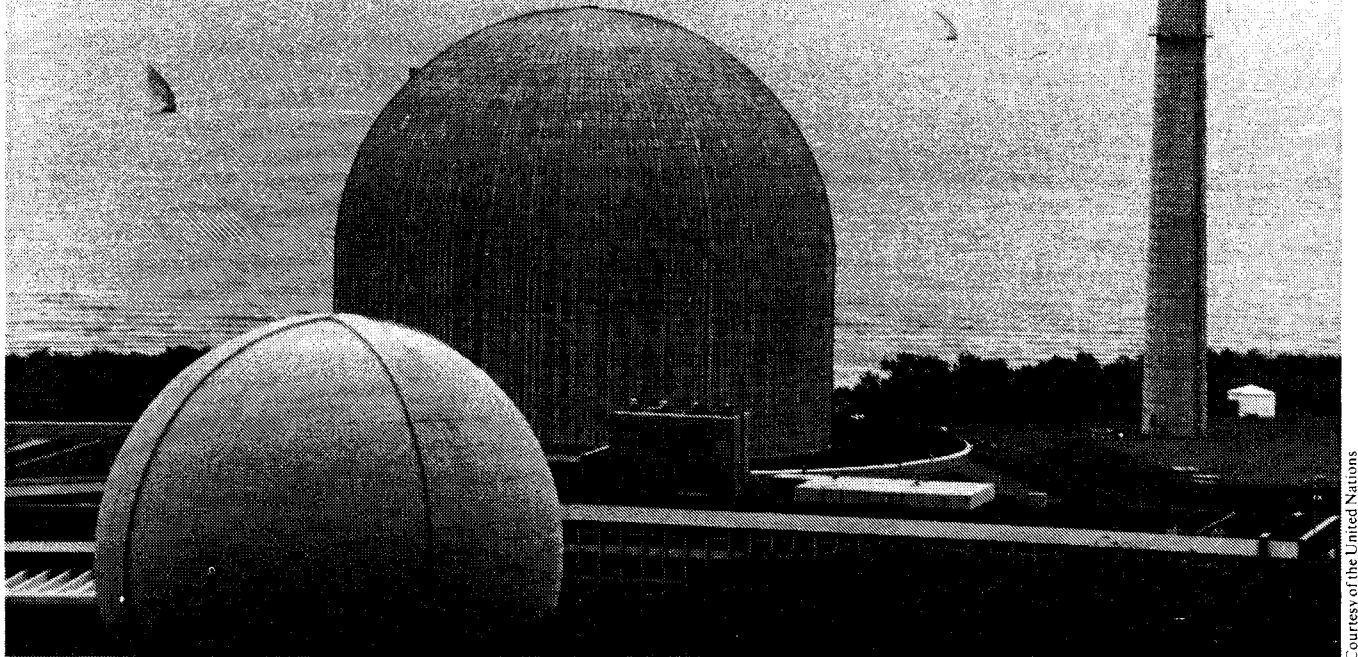
We are extremely worried over the provocative declarations and the military preparations being made by foreign governments and groups interested in the Salvadorean events. Once more I must repeat that Mexico severely condemns any effort to intervene in questions that are the exclusive concern of the Salvadorean people.

Contemporary international society rests on the sovereignty of each of its members. It is based on the essential principles of self-determination and nonintervention. Any lack of observance of these principles is an attack on the foundations and the very *raison d'être* of international law. . . .

We are more than willing to accept these responsibilities, and we think that one way of doing that is to seek bilateral agreements with every country, but especially with those who share our political philosophy. I am sure that India and Mexico are among those countries, and that increasing exchanges between them will serve to improve the social conditions of their peoples and to strengthen the cause of universal peace.

# Mexico-India economic deals based on high technology and energy exchange

by Elsa Ennis



Courtesy of the United Nations

Every one of the areas of bilateral economic collaboration discussed last week by President José López Portillo and Indian officials had a common denominator: a commitment to exchange scientific and technological breakthroughs made by both countries, primarily in the areas of nuclear energy, oil development, and agriculture.

Although only one formal agreement was actually signed during the talks, through which Mexican and Indian agriculture research centers will exchange know-how and scientific advances, the two governments agreed on completing joint protocols during the course of a year in the fields of oil exploration, chemicals, fertilizers, and science and technology.

A tour by President López Portillo of the Bhabha Atomic Research Center (BARC) near Bombay was played up by both governments as a high point of his visit to that country. After visiting BARC, the Mexican president opened a press conference by enthusiastically commenting that "India's efforts to maintain its identity and to modernize seem to us extraordinarily stimulating. . . . We think that [India's] experiences in the

nuclear area can be extraordinarily useful to us both in energy and agriculture as well as in medicine."

The Mexican president has expressed similar enthusiastic views on nuclear energy in previous visits to such countries as the Soviet Union, France and Japan, but his words in India had a special meaning for him and for all of Mexico. The Mexican press and the president did not hide their delight and surprise at seeing how India, an underdeveloped country like theirs, is striving to develop a pool of scientists and skilled manpower that now rivals that of the most powerful countries in the world.

The national path India is taking, said the *Diario de México* in an editorial Jan. 28, is a "wonderful movement of authentic independence and progress. . . . That example alone is sufficient to convince us of the necessity of changing certain proceedings" in Mexico.

What the Mexican press and politicians were thinking about is that up to now Mexico has not fully understood, as India has, the necessity of building a large and highly trained labor force as the basis for an independent, modern, industrial country. While Indian technicians are now building such advanced technologies as a fast breeder reactor based on the French Phoenix reactor, and are capable of building heavy water reactors from beginning

*The BAR Center in Bombay.*

to end, Mexico's nuclear research is still underdeveloped. Construction of its first 1,300 megawatt nuclear plant in Laguna Verde, Veracruz, has been dragging on for years. It will only come on line starting in 1982.

India's application of nuclear energy to agriculture was played up as a key component of the agriculture deal completed last week. "Mexico was privileged to provide technological aid, such as improved wheat seeds to India," said President López Portillo in his press conference. He described how Mexico's improvements of food crops such as wheat and corn during the 1950s and 1960s were applied on a massive scale in India." Now, the genius of this extraordinary country has gone beyond us in many technologies and can in turn help us," said López Portillo.

Given the two countries' huge food requirements and especially their cereal deficits, the importance of this high technology-based agriculture deal cannot be underestimated. Last year, Mexico's inadequate food production forced it to import 10 million tons of cereals from abroad, primarily from the United States.

Even López Portillo's agriculture adviser, Cassio Luiselli, one of Mexico's most outspoken proponents of Maoist self-subsistence agriculture, praised this high-technology approach. In a press conference in New Delhi, he announced that the main areas of agriculture collaboration will be nuclear energy, biochemistry, and fertilizers, and said that "India has achieved a real revolution . . . and that is what we are going to do in Mexico with wheat and with corn; we must make a revolution in productivity".

According to Indian government spokesmen, Indian officials also proposed to exchange Indian nuclear know-how for Mexican oil technology to be used in India's vast oil-development projects. They also asked for an increase of Mexican oil exports to their country, now about 30,000 barrels per day.

The increase of oil imports from a stable ally such as Mexico would be of utmost importance to India, which now imports more than 50 percent of its oil needs and spends 70 percent of its foreign exchange on those imports—most of which come from the unstable Persian Gulf area.

Asked to detail what Mexico's response to the Indian request was, President López Portillo explained that although his country has set a limit to oil production and exports in order to not disrupt its economy with "undigestible" foreign exchange revenues, it could surpass such a limit if "a world plan [is created] that guarantees the existence of an international fund which can prevent foreign exchange . . . devaluations and other problems."

This is the Mexican president's "world energy plan," a plan to rationalize and increase world energy production, which the Indian government has explicitly endorsed.

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## INTERVIEW

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# Malaviya on the importance of Mexico

*The following are excerpts from an exclusive interview conducted in New Delhi on Dec. 18, 1980, the eve of the Gandhi-López Portillo summit, by our bureau chief Paul Zykofsky, with Mr. K. D. Malaviya, one of India's most prominent political leaders and elder statesmen. Mr. Malaviya, who is 77 years old, is a veteran of the independence movement who joined the Indian National Congress in 1920 and became one of the closest associates of Indian leader Jawaharlal Nehru. Mr. Malaviya served in the Indian cabinet in various posts over a 25-year period beginning in 1952. He is best known as the creator of the Indian national oil industry, having served as minister for petroleum and chemicals for more than 12 years, during which time he founded the state-sector industry and initiated the oil-exploration and development program. Today he is a Congress Party leader, an adviser to the prime minister, and the publisher of the India science magazine, Future India.*

**EIR:** Mr. Malaviya, as the founder of India's state-sector oil industry, did the example of Mexico's oil expropriation and subsequent development of its oil resources influence you in any way?

**Malaviya:** Yes, it did. What inspired men like me was the decision of the Mexican government under President Cárdenas to take over the petroleum industry entirely from the American and British multinationals. I believe that was sometime in 1937 or 1938.

It was a daring action taken under severe conditions of limitations of finances and industrial equipment, and indeed the Indian decision to undertake the finding of oil by its own efforts was to a great extent inspired by Pemex, the oil company of Mexico. . . .

The decision that was taken to nationalize the petroleum industry and expel foreign oil companies was a very complicated and difficult task for the leaders of Mexico. Yet the great vision of such a decision backed by the Mexican people shook the world at that time. I often feel that it is a people who make their country great. Mexico is one of the finest examples of this lesson.

As you know, the program of learning the know-how of oil prospecting and exploration was a difficult one, not only because of the reluctance of the neighboring country to pass it on to Mexico, but also because of the inherent economic underdevelopment and lack of suffi-



Courtesy of the United Nations

*Calcutta, India.*

cient engineering manpower in Mexico at that time. The pace of oil development was therefore not very fast in the early stages. . . .

We also faced similar problems after independence from the British in 1947. As was the case here, however, these and other such problems gave the leadership of the Mexican people determination, and they drove away the foreign interests to start their own long march toward improving the social and economic conditions of their country.

Consequently, under Cárdenas, conditions were set for Mexico's rapid economic growth in later years in much the same way that our first and second five-year plans, initiated under Jawaharlal Nehru—with their emphasis on basic industry—laid the groundwork for our economic growth in subsequent years.

There are other ways in which the Mexican example of oil development held several important lessons for us. Just as the foreign oil companies had reduced production in Mexico prior to the nationalization in 1937, after our independence the oil multinationals insisted that there was no oil in India. It was only after much fighting that

we were able to establish the ONGC [Oil and Natural Gas Commission] in the late 1950s, under my minister-ship, to carry out our own oil exploration and development. We got help from Soviet oil technicians and, sure enough, we began to find more oil; and I believe there is still more to be found. In fact, in the first six years we exploited more oil than the Assam Oil Company, owned by the British, had exploited in the previous 30 years. Much of the oil India is exploiting now, for example in Bombay High, was the result of finds made by ONGC in the early 1960s.

To carry out this policy in an aggressive way we found it necessary to nationalize those oil companies which were here before independence, although on a more gradual basis. Of course, from the very beginning we also emphasized—as Mexico did—developing our own manpower, which as you know is one of the most important inputs for carrying out truly independent policy.

**EIR:** Speaking more broadly about the history of oil development in Mexico and India, what do you feel were



the motivating forces behind these policies?

**Malaviya:** Well, clearly both countries have a republican, nationalist historical tradition committed to improving the condition of their people through economic development. In the case of oil this is perhaps reflected best in the fact that the main thrust of progress was borne not so much by private initiative as by a policy of government leadership, where the direction of economic development was controlled by a political leadership committed to that vision. In other words, this progress was not the result of plenty of resources or technical strengths per se, but of the tenacity of the leadership to act with courage and vision to destroy poverty and backwardness.

Today, when Mexico has become one of the richest oil countries in the world, its attention has been drawn to the development of cities, basic industry, communications and transport, and above all of agriculture and what makes agriculture develop rapidly, such as fertilizers and irrigation.

Despite the talent and determination of the Mexican people, they continue to face antagonism from big neighboring countries. Had the leadership not shown the determination to face this, this country would not have produced a president who is today regarded as one of the most respected citizens of the world, one who has seen that worldwide cooperation alone can save the future of humanity.

India and Mexico must come closer to each other because such a process will have its own moral and material consequences towards improving the world's future.

**EIR:** At the 1979 United Nations General Assembly, Mexican President López Portillo presented a "global energy development proposal." What is your view of this proposal?

**Malaviya:** López Portillo's proposal was a clear-cut call to the advanced nations of the world to search for a rational system to link up production, consumption, and distribution of energy resources for the whole world. When he laid special emphasis on helping the developing countries financially to obtain whatever energy resources could be made available to them in their local areas, he had, no doubt, before him the great objectives of disarmament and immediate stoppage of the wasteful defense and armament industries.

Special emphasis must be placed on nuclear energy—both fission and fusion—which can ultimately provide a long-term solution to the world's energy problems. Besides, while the developed countries have the technology, there are countries of the Third World, including India and Mexico, which have rich deposits of nuclear minerals—uranium and thorium—and there is no reason

why we cannot plan out both the transfer of technology as well as the rational utilization of these resources for increased nuclear energy production throughout the world. This is especially so if proper understanding is achieved as a result of clear advice and action led by the leadership of countries like Mexico, India, and to a great extent also by many socialist, developed, and developing nations.

## The significance of Benito Juárez

The figure of Mexico's Abraham Lincoln, Benito Juárez, was invoked repeatedly by both Mexicans and Indians during the López Portillo visit to India. This carried special meaning. Juárez's determined fight for Mexican sovereignty and independence during the period of European invasion (1862-1867) is seen in India as a parallel to India's own independence struggle 75 years later. Moreover, Juárez's rise to the leadership of his nation from a backward Mexican Indian village symbolized one of the great themes of López Portillo's and Gandhi's discussions: how to incorporate backward rural populations of the two countries in the urgent nation-building tasks each country faces.

Indian President Neelam Sanjiva Reddy drew out the historical parallels in his welcoming remarks to López Portillo on Jan. 25. "When the Mexican people began its march toward national independence on Sept. 15, 1910, our land was gradually falling under the control of a foreign empire," he declared. "The Mexican Revolution and the struggle of the Mexican people for social and economic justice served to awaken the spirit of national independence in the minds of the Indian people. Its leaders, like Padre Hidalgo and Benito Juárez, inspired us in the struggle for independence."

In the course of the visit, a ceremony was held to rename a New Delhi street in honor of Benito Juárez.

And López Portillo returned to the figure of Juárez in his final press conference, this time speaking of U.S.-Mexico relations. "We are very optimistic on account of the attitude of friendship and respect which Mr. Reagan has expressed to us. When we Mexicans learn to talk, the first words that are placed in our consciousness are those of Benito Juárez, which begin with the word 'respect': 'Respect for the rights of others is peace.'"

# Rama Rao on the growth potential

*The following interview, which we excerpt, was conducted by EIR's New Delhi bureau chief Paul Zykofsky, with Col. R. Rama Rao (retired), of the Birla Institute of Scientific Research. The interview took place on Dec. 17, 1980, shortly before Mexican President José López Portillo's visit to India.*

**EIR:** Up to now relations with Mexico have not been very extensive. In light of the upcoming visit by Mexican President López Portillo to India, do you think India and Mexico can develop closer relations?

**Rao:** There are important reasons why the two countries, so geographically far apart, are close, and in the days to come could move even closer to each other. . . .

Specifically, I feel that the two countries can work closely in an international forum promoting peace and mutual cooperation, especially among nonaligned and developing countries. Other promising areas are in agriculture, industrial development, and scientific research. Cooperation in the defense field also, such as meeting each other's needs of equipment, should be possible.

**EIR:** Could you elaborate further on some of the areas in which bilateral cooperation could be carried out?

**Rao:** In the case of agriculture, Mexico and India have cooperated earlier, I believe under the auspices of international organizations, in agricultural research and extension, thus initiating the "green revolution" in India. Mexico made a positive contribution in that India first obtained high varieties of corn and wheat from Mexico, which technique this country subsequently extended to other crops. Soil productivity in both countries could be stepped up significantly by further planning and use of agricultural technology.

Overall, the water resources of Mexico, as well as of India, are by no means extensive in relation to respective land areas and population densities; hence the need for water conservation, better utilization of surface, as well as underground water. In short, better water management linked with agricultural research directed toward evolving systems which utilize less water than at present are areas requiring continued research in which the two countries can fruitfully cooperate.

The industrial sector offers an equally broad scope. Mexico has been building up its industrial sector rapidly; India, less rapidly so. Even so, this country has acquired expertise in the production of engineering equipment, capital equipment, and transportation equipment, as well as other goods. For a start, each could try to supply the other with some of the items now imported from third countries. This could steadily increase, since both countries are planning to industrialize rapidly.

Each country could assist the other and thus disprove those gloomy forecasters who have advised the American President that between now and A.D. 2000 Mexico's real average annual growth rate of per capita income should be no more than 1.3 percent and India's 0.8 percent. Earlier, the two countries proved how wrong William Paddock's associates were when they forecast near famine conditions and chronic food shortages in Mexico and India by 1975. Mexico, despite its water shortages in its northeastern provinces, has not done too badly, while India's farmers in 1975 succeeded in raising bumper harvests.

**EIR:** What about cooperation in the field of energy?

**Rao:** As you know, Mexico is endowed with rich oil resources. Mexico's experience in dealing with multinational concerns and developing and safeguarding its oil resources is of value to India in the development of our own potential in offshore basins along our eastern as well as western coasts.

Mexico also has extensive uranium resources and is, as I understand it, correctly planning to set up a number of nuclear power stations with an installed generating capacity of 20,000 megawatts between the 1980s and 1990s.

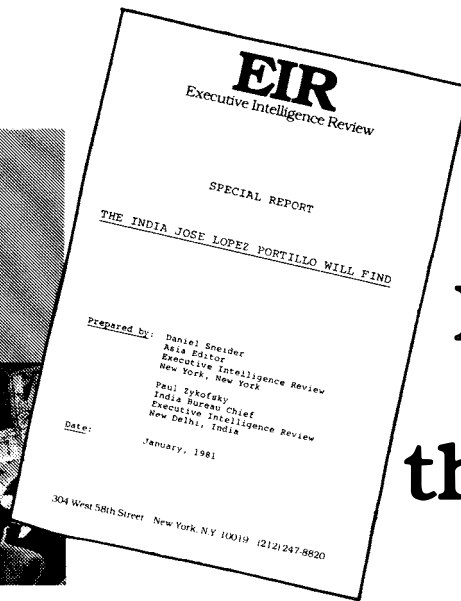
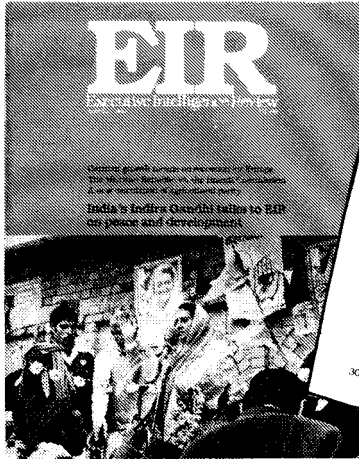
Our own plans for nuclear development ran into trouble—from which we are only now emerging. We too have plans to set up nuclear power stations in addition to those under construction, so that by A.D. 2000 we may have about 9,000 to 10,000 megawatts of installed nuclear generating capacity. This is very modest indeed compared to Mexico's program. Hopefully this target for installed nuclear generating capacity will be revised upward once we overcome the problems.

On the positive side, India's total self-reliance in the design and operation of nuclear power stations has been obtained. Only production capacities in certain key areas will have to be created and stepped up.

Undoubtedly there will be scope for close cooperation between the two countries in all aspects of application of nuclear technology and space technology, which India is also developing. . . .

The scope for mutually beneficial cooperation between the two countries is so vast, I earnestly hope that President López Portillo's visit to India will lay the foundation for such cooperation.





# To analyze Lopez Portillo's trip to India, the Mexican press turned to *EIR*

Indian Congress Party leader K.D. Malaviya... showed interest in having Mexico and India intensify transfer of nuclear technology to resolve the problems of supply over the long term. Malaviya said: "What inspired men like me was the decision of the Mexican government under President Cardenas to take over the petroleum industry entirely from the American and British multinationals."

*El Sol*, Jan. 25, 1981.

Unattributed citation from exclusive interview with Mr. Malaviya in *EIR* Special Report, "The India Jose Lopez Portillo Will Find."

I believe very strongly in modernizing the country. I think there are some traditions which have to be kept because they are a unifying factor for one thing, and a certain amount of national pride is essential if you want people to put in their all.... Saying we're going to keep

some of the old and also some of the new, that is the most difficult. But there is no way out. That is what we need for this country.

Jose Luis Mejias, *Excelsior*, Jan. 26, 1981. Unattributed quote from Indira Gandhi 1979 *EIR* interview, appended to *EIR* Special Report "The India Jose Lopez Portillo Will Find."

The victory of Indira Gandhi showed that her defeat, four years before, could be attributed not to personal errors but to a trap laid by the World Bank. [The trap] was the World Bank demand that Indian demographic growth be stopped at all cost if India wanted that institution to provide it credits which were so urgently needed by the country. And here it is appropriate to reproduce an answer which Mrs. Gandhi gave in a press interview.... "The developed countries, the powerful countries, are

accumulating nuclear arms, and refining them, making them more and more sophisticated, whereas they don't want us to use [nuclear energy] even for development purposes, which is all that we want."

Francisco Cardenas Cruz, *El Universal*, Jan. 28, 1981. Unattributed use of the analysis of *EIR* Special Report, "The India Jose Lopez Portillo Will Find," and of an appended May 1978 *EIR* interview with Mrs. Gandhi.

Mexico has extensive uranium resources and is, as I understand it, correctly planning to set up a number of nuclear power stations with an installed generating capacity of 20,000 megawatts between the 1980s and 1990s.

*El Nacional*, Jan. 28, 1981. Unattributed citation of Colonel R. Rama Rao, in exclusive interview for *EIR* Special Report, "The India Jose Lopez Portillo Will Find."

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## A leftist insurrection against Helmut Schmidt

by Susan Welsh

Leftist opponents of West German Chancellor Helmut Schmidt have gone into open insurrection against the government. The goal announced by the Socialist International at its conference in Washington last December—of unleashing 1968-style “social convulsions” against the governments of France and West Germany—has entered the implementation phase.

During the last two weeks, a wave of rioting hit the cities of West Berlin, Frankfurt, Hamburg, and Stuttgart. But the uprising has an important difference from the 1968 case: side by side with the bearded, wild-eyed anarchists are high-ranking officials of Schmidt’s Social Democratic Party (SPD), notably former Chancellor Willy Brandt, the chairman of the SPD and of the Socialist International.

For the first time, the rioting has begun to take the form of outright terrorism, including the planting of bombs aboard two U.S. military helicopters. A newsletter circulated by one war-resisters group (the *Deutsche Friedens gesellschaft/Vereinigte Kriegsdiensgegner*) linked to the German Communist Party is calling for sabotage and blocking of military transport. The newsletter publishes detailed maps of military installations and armaments factories.

At press time, the rioting included:

- **West Berlin:** Continuing extensive disturbances growing out of the “squatters” movement which has been occupying the city’s derelict housing. Police report 130 violent incidents in the last several days, including arson, trashing of stores and banks, and shooting at

police with sling shots and heavy nuts and bolts. A police car was called into one area only to be bombarded with small explosives. At least 45 houses are now occupied by the squatters.

- **Frankfurt:** An anti-American demonstration of 15,000 against the El Salvador junta and President Reagan was held the weekend of Feb. 1, organized by the Social Democratic Party and the DGB national trade-union federation. The protest ended in violence as a split-off group attacked the police and smashed local shops. At the podium of the Frankfurt demonstration was Karsten Voigt, the SPD leftist who recently called for West Germany to reconsider acceptance of NATO’s “Euromissiles” since the United States has failed to ratify the SALT treaty.

- **Hamburg:** On Feb. 2, 12,000 demonstrators began a protest against the construction of a nuclear power plant in nearby Brokdorf. Soon they took over the entire city, smashing automobiles and shop windows.

Alongside this uprising in the streets is an insurrection in the SPD, with leftist parliamentarians denouncing Chancellor Schmidt as a Nazi. The party was first shaken by the call of 24 of its members of Parliament for the government to lower its defense budget. Then leftist Karl-Heinz Hansen escalated the battle, publishing an article in the radical magazine *Konkret* accusing Schmidt of “political obscenities in foreign and security policy,” including the supply of arms to Chile’s Pinochet dictatorship. The left is also trying to obstruct a major arms deal with Saudi Arabia.

Although Hansen's statement was censured by the SPD parliamentary caucus, SPD chairman Willy Brandt announced that he was against the *form* of Hansen's article, but not the *content*. The SPD youth, the Jusos, are fully backing Hansen.

Indications began to emerge Feb. 4 that Schmidt and his supporters in the SPD were launching a counterattack. For the first time in months, the chancellor came out strongly in favor of nuclear energy, at a speech to the Federation of German Industry. (In his government declaration last November, he advocated only "limited" nuclear energy development.) He has vowed to support the Brokdorf nuclear power project, even though the Hamburg city SPD opposes it.

The so-called *Kanalarbeiter* faction in the SPD, led by Egon Franke, is mobilizing to have Hansen expelled from the SPD and is said to hold Willy Brandt personally responsible for the current state of affairs in the party.

## The Network

The demonstrations and riots now being orchestrated against West Germany's cities and against the Schmidt government are the result of a revamping of the country's leftists over the past year. Coordinated through a banking and financing cooperative known as "The Network," the movement draws together the remnants of the 1960s radical left, lawyers and support networks of the Baader-Meinhof terrorists, radical Lutherans and Jesuit "Solidarists," and the left wing of the Social Democratic Party (SPD).

The protest movement unifies the "no-nukes" environmentalists with a growing "ban the bomb" campaign, directed particularly against the deployment of NATO "Euromissiles" in the Federal Republic of Germany. Added to this are the anarchist "squatters" movement and the ideologists and practitioners of a communalist, zero-growth future.

The movement is in turn supported by a faction of the KGB, the East German Stasi intelligence service, and the Moscow IMEMO political-economic think tank. While *Pravda* praised the SPD's peacenik rebels against Schmidt, IMEMO representative Pavel Podleznyi was a special guest recently at a conference on disarmament sponsored by the SPD's youth organization in the state of Hessen. The meeting was organized by Manfred Coppel, an SPD parliamentarian and one of the closest supporters of Karl-Heinz Hansen, who has publicly attacked Chancellor Schmidt as a supporter of Chilean dictator Pinochet. The Soviet factions backing this new "peace movement" are the same ones in open insurrection against the "peaceful coexistence" policy of President L. I. Brezhnev, which is based particularly on an alliance with Schmidt and French President Giscard.

"The Network" in West Germany (Das Netzwerk) raised 240,000 deutschemarks during 1980 and redistri-

buted the funds to various projects. West Berlin is its strongest base of operations, where it currently functions as a government within a government, financing a large number of shops and cooperatives. It has officially endorsed the squatters movement, and unofficially finances it.

Also financing the squatters is the Neue Heimat company, Europe's largest housing development agency, which is owned by the Deutsche Gewerkschaftsbund (DGB), the major trade-union federation.

"The Network" is effectively turning West Berlin into one big free enterprise zone, according to the blueprints worked out by the Club of Rome, the German Marshall Fund, the Heritage Foundation, and the British Fabian Society.

These various left and right libertarian organizations converge through their hatred of industrial capitalism—and industrial socialism—and advocacy of what they call "guild socialism," a feudalist throwback.

The German Marshall Fund, which was founded in 1972 through the efforts of Willy Brandt, Averell Harriman, Guido Goldman, and others, has sponsored numerous studies on how such a "decentralized future" was to be attained. Notable among them was the report "Revitalizing Inner Cities: a Trinational Perspective." It called for a "thinning strategy" for dying cities, citing West Berlin as a model, in which "advantage is taken of declining densities and population to improve the quality of urban life and housing." The report advocated a program "in which old structures are not destroyed, but put to new uses that enhance the area's livability"—the "squatters" program in West Berlin today. The report opted for an overall strategy of community "self-help," the slogan of the counterculture and of the free enterprise zone.

The German Marshall Fund et al. have effectively turned West Berlin over to "The Network," whose leaders include key controllers of the radical youth movement from the 1960s to the present:

- **Joseph Huber**, who founded it in 1978, is a prominent "futurologist" and theoretician of the environmentalist movement, and a member of the Club of Rome.

- **Helmut Gollwitzer**, a cofounder, is a Lutheran theologian who teaches at the Free University of Berlin. He is the grey eminence of the West Berlin left, the theoretical godfather of the 1960s student movement, and a personal friend of Rudi Dutschke ("Rudi the Red"), the head of the 1968 West Berlin SDS student organization.

- **Ekkehardt Krippendorf**, a member of the board of directors of "The Network," is the theoretician of the "autonomist" movement against constituency-based parties. "The parties are finished," he proclaims. "Mass action is the key." Krippendorf is an "expert" on Italian terrorism, having spent 10 years at Johns Hopkins's Bologna center.

# 'Let the parties split: form a new alliance'

Helga Zepp-LaRouche, the chairman of the European Labor Party (Europäische Arbeiterpartei—EAP), issued a call Jan. 30 for the formation of a new “Grand Coalition” in the Federal Republic of Germany. Citing the crisis in Chancellor Helmut Schmidt’s Social Democratic Party (SPD) over the threatened splitoff of a group of leftists led by Karl-Heinz Hansen, Zepp-LaRouche called for a cross-party alliance of prodevelopment forces “in the interest of our republic, whose technological potential must provide such an important contribution for the industrialization of the Third World and thereby for world peace. We need a coalition for economic growth and a peace policy, based on technological cooperation with the East and the the developing countries.

“Although the undermining of the Schmidt government is already dangerously far advanced,” she declared, “there remains a whole array of things that can be done, at least as a last resort. . . . It is now up to the courageous and deliberate intervention of all patriotic elements in the Federal Republic if irreparable harm is to be prevented to our state and thereby indirectly to the globe.

“If one considers only the political situation within the Federal Republic, it is impossible to grasp the extent of what is under way. When the so-called left wing of the SPD consciously sets out to use a ‘peace movement’ to topple Chancellor Schmidt, without whose cooperation in the past few years with Giscard, world peace could scarcely have been preserved—one would probably take it for at most a degenerate kind of two-faced Jesuitry. But there is a great deal more than meets the eye.

“What is at stake here is a titanic battle over the shape of policy in the new Reagan administration, and a titanic battle over the question of which Soviet faction, at the upcoming party congress, will secure the mantle of succession to Brezhnev. The already accomplished or still-in-process transfer of power within the two superpowers forms the arena in which two fundamentally opposed political factions are warring for the upper hand. In the simplest terms, these are the political factions in East and West who are convinced that the world’s problems can only be solved through scientific progress and economic growth, and those who on the contrary seek the ‘postindustrial era.’ ”

Zepp-LaRouche continued, “If he works closely with

Schmidt and Giscard, as he promised to do on the first day in office, there will exist no insuperable obstacle in the way of extending the European Monetary System into a world monetary system, and a global development strategy would prepare the ground for peaceful cooperation with the Brezhnev faction in the Soviet Union.

“Reagan’s meeting with López Portillo at the beginning of January, his first telephone discussions with Schmidt and Giscard, and his initial statements on his policy toward the U.S.S.R. all pointed in this direction.”

Similar positive tendencies exist in the Soviet Union, in the leadership current around Brezhnev, she said. But just as the Alexander Haig and the “Eastern Establishment” in the United States are out to perpetrate a coup against the progrowth tendency of Reagan’s government, so in the Soviet Union the “class struggle” factions centered in the IMEMO political-economic institute and the KGB secret service intend to sabotage Brezhnev’s policy of cooperation with “rational forces” in the West.

### New combinations

“One thing must be made clear,” the EAP chairman wrote, “if the Haig-Bush faction in the United States, with its commitment to a postindustrial society, comes out on top, and the ‘class war’ faction in the U.S.S.R. does the same, then a confrontation between the superpowers by way of conflicts in the Third World—a confrontation that could reach the point of a global nuclear war—becomes a near-certainty. . . .

“This week the future of our nation is at stake as never before since the end of World War II. What faces us is either an economic disaster that can become even more acute than Economics Minister von Lambsdorff has warned in his annual report. Or, through the combination of efforts by Schmidt, Giscard, Reagan, López Portillo, Indira Gandhi, and finally, by a Soviet leadership in the Brezhnev tradition, we can ... look toward a worldwide recovery. And this will decide the question of war or peace.”

In the Federal Republic of Germany, it may turn out to be “a very fortunate thing” if the SPD leftists carry through on their threat to split the party, Zepp-LaRouche concluded. “In each of the four parties represented in parliament, there are leftists, environmentalists, and advocates of the postindustrial order—a basic reason why these parties do not function. In a crisis, we ought to have no fears about reshaping the political constellation.

“Among the spokesman for German industry, and in several of the trade unions, there fortunately exist responsible men who under the circumstances place greater weight on the national interest than on the so-called party percentages. Splitting the parties and forming a new Grand Coalition would then be the best solution.”

# 'Reagan in alliance with Europe would be stronger than Volcker's blackmail'

by Helga Zepp-LaRouche

*The following commentary was written by Helga Zepp-LaRouche, national chairman of the European Labor Party in West Germany, on Feb. 5.*

Just before President Reagan's national statement on economic policy tonight, West German Chancellor Helmut Schmidt, in an interview with the weekly newspaper *Die Zeit*, demanded: "Now the Americans must bring down interest rates!" At the same time the state secretary in the chancellery in charge of financial policy, Horst Schulman, announced a new West German initiative: to convene an international "interest-rate disarmament conference" as soon as possible for the purpose of lowering interest rates. Bonn has already undertaken negotiations on the conference with France, the United States, and Great Britain. Respected bankers like Dresdner Bank board member Hans-Joachim Schreiber are directing urgent appeals to the United States, stating that Mr. Reagan must get the economy moving and end the high interest-rate structure, if a deep slide into a world depression is to be prevented.

Behind this appeal lies far more than a concern for the condition of the world economy. Europe *knows* that President Reagan is currently being *blackmailed* by an international conspiracy of financial interests, represented by Federal Reserve Chairman Paul Volcker. This is an incredible scandal, that Volcker is forcing the President of the United States, a supposedly sovereign nation, to submit to his high interest-rate policy. Otherwise, Volcker threatens to resign, a signal for the provoked total collapse of the dollar, coordinated with Volcker's friends in the international financial community. This scandal is what has accelerated the Europeans' initiative.

As Gaullist candidate for the French presidency Michel Debré emphasized during his latest visit to the United States, Europe sees as the only path out of the economic crisis the establishment of a new world monetary system that can provide low-cost, long-term credit for the industrialization of the developing nations, as well as productive investment in the industrialized sector.

What is concealed from the American people by the Eastern Establishment-controlled media is the fact that there already exists an important alliance of countries that view the expansion of production and exports as the

alternative. Along with the natural gas agreement between West Germany and the Soviet Union, which involves a total of \$500 billion, in recent weeks trade accords have been reached among West Germany, France, Saudi Arabia, Iraq, India, and Mexico totaling about \$150 billion

The founders of the European Monetary System, Schmidt, Giscard, and their closest associates, share the attitude that America cannot stay out in the cold, but on the contrary, that with American collaboration with the EMS, the establishment of a two-tiered credit system, and a massive expansion of American exports, America can quickly be brought into economic bloom. Not least because of their concern about the international strategic balance, Schmidt and Giscard want a strong dollar, not on the basis of speculative flows into the currency, but on the basis of a healthy, growing economy.

Yet precisely because the European faction represented by Schmidt and Giscard want a strong America, it is alarming to see how, through the Carter legacy, Reagan is in danger of being turned into a tragic figure.

Here is Reagan, a sympathetic, evidently profoundly honorable man, on whom the hope of a shaken nation now rests—the hope that after four years of disgrace and humiliation under the weakest President in their history, after years of foreign-policy defeats and economic decline, and the horror of the moral degeneration and rising drug dependency of its youth, the United States will finally recover itself again.

Despite the best personal intentions, Mr. Reagan is in a position to fritter away all this, because he has around his neck the miserable inheritance of the Carter administration, the *Wackerstein* Volcker. Reagan won the election because the majority of American citizens, as sound patriots, would no longer allow their nation to be ruined economically and otherwise by a bunch of kooky liberal one-worldists. If Reagan does not immediately free himself from Volcker's hammerlock, he will not only lose the confidence of the American people. He will play directly into the hands of those who are preparing the "Reagangate" scandals and a worldwide anti-American destabilization against him: the Socialist International.

For Europeans, Volcker is the symbol of a continuation of Carter policy. And for them the question goes far

beyond interest-rate levels.

Under Carter, the relations between Europe and the United States sank to their absolute low point since World War II. In Bonn and Paris, above all, the connection is all too well known between an escalating world economic crisis, for which the insane Carter policy was viewed as responsible, and the momentum toward a new world war—a connection that people in Europe have gasped far better than those in the United States.

At the beginning of 1978, Schmidt and Giscard were convinced that Blumenthal and Carter were intentionally, and for ideological reasons, sabotaging the dollar and the world economy. Increasingly, political circles in Europe proceeded from the assumption that Carter was incalculable and unreliable, and that Europe had to assume more of the initiative within the Western alliance. While in the course of 1978, the West German central bank had to pay out over \$40 billion to support the dollar Blumenthal was wrecking, Schmidt and Giscard were trying to maintain détente with the East.

The historic 25-year cooperation accord between Schmidt and Brezhnev in May 1978 was followed in July 1978 by the founding of the European Monetary System by Schmidt and Giscard at the European Committee summit in Bremen. Contrary to all the rumors spread by the Carter administration, the EMS from the beginning was intended as the cornerstone for a new global monetary system, aimed at maintaining a strong dollar as the world reserve currency. Above all, however, Schmidt and Giscard saw the establishment of the EMS and the overcoming of the world economic crisis as the only effective strategy for avoiding war. In the autumn of 1978, there was frequent discussion in the European press and in European business circles that the EMS initiated by Schmidt and Giscard was based on the theoretical concepts that Lyndon LaRouche first presented in 1975 under the name "International Development Bank."

At this point, there is panic among the political circles known to Reagan supporters under the name of one-worldists. The industrialization of the Third World initiated through the EMS by means of advanced technology would prick for once and for all the fantasy of a return to the Dark Ages.

The oligarchic faction and the same international financial community that instigated Volcker's blackmail against President Reagan resolved to wreck the EMS at its outset, because they accurately feared that it would drastically reduce their influence. They chose a dual strategy of sabotaging the EMS from within and from without. The policy of high interest rates and resulting currency instability was intended to make the fixed parities within the EMS impossible. On the other hand, destabilizations in what Brzezinski termed the Arc of Crisis were intended to destroy potential export markets internationally for the EMS member nations.

In December 1978, when the EMS was officially adopted by the European Community, Milton Friedman threatened in a statement from Sweden to launch trade war and financial warfare. At the same time, Henry Kissinger, through the Aspen Institute in West Berlin, coordinated the destabilization of Iran. "It is not true that cooperation with the East on the basis of development of the Third World is possible," raged the inflamed Kissinger, "it is not true that economic development leads to political stability—the best example is Iran." It was decided to make Iran into a bloody example for every country Third World that aspired to industrialize.

During the entirety of the past year, the issue has naturally been the so-called big potato, the OPEC surplus, which could be used either to consolidate the insane refinancing schemes of the International Monetary Fund, or instead to finance technology transfers by EMS members to the Arab nations and other developing countries. Kissinger, who played a more important role in the Carter administration than is generally known, worked to the best of his abilities with Alexander Haig, at that time NATO commander, in order to block the integration of OPEC revenues into the EMS.

The Gulf region was not supposed to be industrialized, but rather, in line with the Bernard Lewis Plan, splintered into ethnic regions and thrown back into the Middle Ages. In early and mid-1979, Warren Christopher and Defense Undersecretary Robert Komer traveled repeatedly to Europe. In order to indirectly compel the Europeans to agree to their demented plans, they demanded an extension of NATO's sphere of operations into this region, a measure the Soviets would never accept, as well as the militarization of the region through the secret clauses of Camp David.

When the Carter administration's controllers had to acknowledge that blackmail could not deter Europe from its progrowth orientation, they decided to pull out all the stops. Europe was to be squeezed between the pincers of high interest rates and the economic crisis triggered by Iran. Congressman Reuss, a supporter of the Brandt Commission and declared enemy of Helmut Schmidt, wrote letters to Carter and G. William Miller stating that Europe must be forced to stop its growth policy. The House Banking Committee issued reports prophesying the imminent collapse of the EMS.

On Oct. 6, 1979, the situation came to a head: Volcker launched his high interest-rate policy, which within five months sent inflation from 13.5 percent to over 20 percent. *EIR* and Lyndon LaRouche were the only ones to anticipate this outcome. In November, the American hostages were seized in Iran.

Carter threatened to take military actions against Iran, on the one hand, an action that in the view of

international experts was far less likely to free the hostages than to force a cutoff of oil supplies which would affect Europe far more acutely than the United States and collapse their economies—and thus an end to the EMS.

By the early summer of 1980, Europeans were convinced that the world was standing on the edge of World War III. Schmidt repeatedly voiced this estimation within the space of a few weeks, and warned that the superpowers had no war-avoidance strategy. Increasingly it seemed that the Carter administration had gone insane. That was the background for Giscard's unilateral visit to Poland, and Schmidt's trip to Moscow.

Meanwhile, the effect of the high interest-rate policy on the European economies was catastrophic. While, until March 1980, West Germany was relatively able to counterbalance the oil price increases and the double effects of high U.S. interest rates (namely, compulsory increases in its own interest rates and the wreckage of certain export markets) through heightened export activity and the resulting increase in capital flows to the West German economy, in September 1980 the trade balance turned into a deficit for the first time.

Overall, West Germany's industrial output for 1980 sank about 6 percent as a result, and unemployment rose to 1.3 million. For most of the other European countries, the picture has turned still worse.

In Europe, concern is, moreover, mounting about the potential effects of a collapse of the American economy. By last December, former central bank chief Otmar Emminger already feared that in view of Volcker's high interest-rate policy, the U.S. economy could not last much longer than six months.

While the collapse proceeds in the industrialized countries, the world is sitting on a powderkeg as far as Third World indebtedness is concerned. With interest rates around the 20 percent level, the developing countries, which have about \$400 billion in debt, accumulate some \$80 billion in extra interest alone, whose financing, not to speak of any debt liquidation, becomes increasingly impossible. The collapse of the banking system, with which some especially immoral representatives of the international financial community are flirting, hangs over us like a Sword of Damocles.

If the policies for which Volcker, Milton Friedman, the Heritage Foundation, and the IMF stand are carried out, that means mass death for the Third World. Five years of depression, as resolved upon at the last IMF session in Washington, are synonymous with hundreds of millions of dead in Africa, Asia, and Latin America, if not far more. This, along with Volcker, is another cuckoo egg Carter has left behind for Reagan, and is now being worked out with the full complicity of Haig and an entire staff within the State Department, while

Wilson Schmidt and others at the Treasury continue the work against the EMS.

Every political development of the past two years can only be understood in the framework of the most fundamental and most important battle: the battle between the one-worldists, who intend to halt economic growth and reduce the world population in pure Nazi fashion, and those who intend to overcome the depression through a new world economic arrangement and take on future problems through constantly improved technologies.

On the European side, the difficulty consists, among other things, in the fact that under enormous political pressure Schmidt and Giscard in particular have become more susceptible to what are often simpler-seeming pragmatic solutions. And, since the 1979 Belgrade conference of the IMF, a softening of IMF credit conditionalities for the Third World has been promised, in order to prevent an energetic follow-through on the EMS.

Meanwhile, the immediate needs of covering their trade deficits have influenced Schmidt and Giscard to pursue less energetically the institutionalization of the EMS as a global system, and to focus on directly obtaining OPEC funds, which for all their usefulness do not eliminate the basic problem.

On the American side, the major problem is that Reagan was indeed elected by good, progrowth Americans, but only the cabinet appointments affecting domestic policy reflect this tendency, while the areas of foreign policy, intelligence, and economic policy are dominated by advocates of the postindustrial society. Then there are those, like Jude Wanniski, who pretend to work toward the EMS, but are actually engaged in "Reagangating" the President's associates.

The question now is the courage of Reagan, Schmidt, and Giscard. Just as surely as the establishment of the EMS is a war-avoidance policy, the continuation of Volcker's policy will sooner or later lead to war, because it precipitates destabilizations that will finally spin out of control. The greatest danger is that Reagan, Schmidt, and Giscard will deal *pragmatically* with their specific problems. Compromises mean cumulative motion toward disaster.

In dealing with an international conspiracy to blackmail the President and the American population, Mr. Reagan has every right in the world to call on his best allies for assistance, even when that is not the pragmatic path because these allies are perhaps neither members of his party, or, in the case of Schmidt and Giscard, of his nation. The authors and initiators of the EMS must now quickly and decisively work together.

The policy of blackmail must be broken for once and for all. History may perhaps give us no second chance.

# Fourcade discusses the EMS

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*The former French finance minister and current policy shaper also defines the 'trialogue' and the obstacles to both.*

In the interests of giving the new Reagan administration and those around it direct access to the thinking of European leaders and policy-makers, *EIR* is publishing this exclusive interview with Jean-Pierre Fourcade, a leading associate of French President Giscard d'Estaing, who was his finance minister in 1974 after the president's election.

Jean-Pierre Fourcade has been associated with Giscard since 1959, when he was first brought in as an aide to then-State Secretary for Financial Affairs Giscard, later serving as his adviser when Giscard became minister of finance in 1962. Mr. Fourcade is currently president of the Clubs Perspectives et Realités, a post he has occupied since 1975. This organization, at whose Paris offices *EIR's* Dana Sloan conducted the interview, was initiated by Giscard to set up a "think tank" with a grassroots base for the majority coalition in France, composed of the Gaullist party and the coalition known as the Union for French Democracy (UDF) which includes Giscard's Republican Party.

Jean-Pierre Fourcade explains what is behind President Giscard's proposal for a "trialogue" between European, Middle Eastern, and African countries: a convergence between the great technology of the West, the great financial resources of the oil-producing countries, and the mineral and other wealth of Africa, leading to considerable advances in overall living standards. Implementation of the triologue, he explains, will depend on expanding the current European Monetary System to include parity arrangements with the dollar, the yen, and the ruble, and the major currencies of the OPEC countries.

Fourcade also points out that one of the reasons the EMS has not moved to Phase Two, the European Monetary Fund, is that the "one worldists" in the International Monetary Fund and the United Nations, joined by the United States under the Carter administration have done all they could to oppose it.

Fourcade calls for an end to the "brutal and monolithic" policies that characterized American monetary

policy under the Carter administration and for a greater "spirit of cooperation" on these matters with the new administration. But, like the current French Prime Minister, Raymond Barre, Fourcade seems to be a proponent of what a certain grouping of policy-makers has convinced itself Europe can exist with: a milder form of Milton Friedman's monetarist domestic economic solution.

Next week, *EIR* will present an interview with another French leader, Michel Debré, former prime minister and currently a presidential candidate on the Gaullist party ticket.

**EIR:** You have often declared that the international monetary situation is extremely grave. What measures do you envisage to reform this monetary system?

**Fourcade:** There is no longer an international monetary system, not since the United States of America eliminated the convertibility between the dollar and gold. Since that time, that is to say 1971, the International Monetary Fund has attempted to carry out certain actions to maintain a minimum of organization. But in fact, the fluctuations between the major currencies create considerable disturbances in world trade, and these fluctuations are linked on the one hand to domestic American politics aimed at fighting inflation, and on the other to the difficulties resulting from energy price increases.

Therefore, to envisage the possibility of returning to a rate of growth in world trade that is more satisfactory than the current rate, we must envisage a new international monetary system based on a certain number of precise factors. I think that we must begin by creating more solidarity between the major currencies. The proposals which I have made in different international institutions are to start, in a pragmatic way, with agreements for a coordinated float between the currencies that are part of the European Monetary System, the dollar, and the yen. And I think that if it was possible to prevent the fluctuations between the dollar, the yen, and the EMS from being too great—through an agreement between



central banks within the framework of certain limits to be agreed upon in a secret manner—then we could be oriented toward returning to a certain level of stability.

The second element is that—notwithstanding the political and military problems which are currently creating tensions in the world—we will have to reach an agreement on payments with the Communist bloc countries. And I think therefore that in this second phase, provided the first mechanism for stabilization yields favorable results, we will have to integrate the ruble into this mechanism, with a stable system of parities that will permit us to develop trade between East and West.

As far as the OPEC countries are concerned, I think that an agreement on the creation of a tie between the main currencies of the OPEC countries and the EMS should enable us to improve the recycling of oil capital and to create more financial relations between the OPEC countries and Europe. It is clear that the volume of petrodollars generated by oil price increases threatens to drag the EMS along with it. Therefore I see this linkage between the OPEC countries and the EMS as possible only after pragmatic agreements will have been reached between the EMS, and the dollar and the yen.

Finally, the most difficult element to solve is the problem of the Third World countries that have no mineral resources, raw materials, or energy products. It is clear that these countries, and I am thinking of the example of countries like India, Brazil, and Indonesia, are very reticent about attempts to organize the international monetary system because they suffered very much from the rigidity of the Bretton Woods accords—they have no gold—and they are therefore naturally against any mechanism that would return relative control over the international monetary system to the former colonial powers. This is why I think that a return to stability in exchange rates is one of the elements of the North-South dialogue, and that if we can make new progress in this North-South dialogue during 1981 and 1982, there will have to be a monetary element bringing a necessary complement to the first accords which I have just outlined.

**EIR:** The president of the French Republic has proposed a “dialogue” with the developing sector and to the oil-producing countries.

**Fourcade:** The main idea behind the dialogue is to take note of the fact that the world of the next 20 or 30 years cannot be defined only in terms of East-West confrontation. There *is* an East-West problem, and the problem of Poland and Afghanistan must in no way be taken out of our thinking. But it is clear that the demographic and political problems which characterize the evolution of the world today require that, beyond the East-West confrontation, we envisage a world economic construc-

tion which takes up the problems of the nonindustrialized countries.

The idea of the dialogue is the idea of attempting to find points of convergence between three entities which lie outside of the East-West confrontation and which are first, the entirety of the ten countries of the European Community, second, the entirety of African countries, whether or not they produce raw materials or oil, and third, the entirety of countries of the Middle East—with of course the additional difficulty constituted by the nonsettlement of the Israeli question.

And the idea is that these three groups, endowed with in one instance great technology, in a second many minerals and material resources, and in the third with great financial resources drawn from their oil resources, must be capable of a certain number of elements of cooperation, enabling them to intensify cooperation and development, leading to considerable increases in the living standards of the most backward countries, notably in Africa, and beyond the economic convergences, leading to a cultural dialogue. Because between European culture, which is diverse but which is nonetheless a culture, Arab culture, Islam, and the different elements of African culture, there is a possibility of a very important dialogue, of human beings having access to greater dimensions.

**EIR:** When it comes to implementing this dialogue, you run into the problem of financing projects, and the great indebtedness of the Third World countries.

**Fourcade:** I think that the obstacles to the dialogue are much broader than just the monetary and financial obstacles. I think that the political obstacles are more important. The Israeli-Arab problem, for example, creates a blockage which prevents a satisfactory evolution of the dialogue. There is a second obstacle, which some in France have baptized “Soviet hegemonism,” but which is the fact that the Soviet Union and its allies are making an enormous effort to penetrate the Middle East and Africa in order to guarantee their future raw-material supplies or to prevent Europe from having privileged relations with the entirety of the African continent or the Middle East.

In the area of economic and monetary problems, the two questions that you pose are obviously relevant. It is clear that at the present time there is the beginning of a solution which comes from the agreements between the EC and a certain number of African and Asian countries, and which in the framework of the Lomé agreements organizes an effort for cooperation, transfer of technology, and guarantee of resources of the exporting countries in the framework of mechanisms freely accepted by the European Community.

In my opinion, this is a starting point, which is a

relatively solid link between Europe and a certain number of African, Asian, and Pacific countries; but we must get the oil-producing countries of the Middle East and notably the countries which have financial capabilities that go beyond their needs, like Saudi Arabia, Kuwait, and the Emirates, interested in this starting point.

At the present time, I think that the Arab countries are showing great interest, but they have two fears. The first fear is that one of the counterparts to this general agreement with Europe and Africa would be guarantees concerning the evolution of oil prices. And it is clear that at the present time the oil-producing countries do not want to unilaterally commit themselves to a system of guarantees, without having a certain number of other guarantees in exchange. And the second element that the countries of the Middle East are currently regrouped within several political or religious organizations, the Islamic League, the Islamic Conference, the Arab League, etc. You have to find the right interlocutors and make a distinction between what I would call the moderate countries and the more extremist ones. In the framework of this triologue the position of countries like Libya and Iran is not the same as the position of countries like Egypt, Sudan, or Saudi Arabia.

What I can say at the present time is that we are lucky to have as interlocutors on the side of the African and Islamic countries, people of great dimensions . . . who have perfectly understood the necessity of this rapprochement. But a certain number of complications are created by the need to progress in all areas, and by the need to avoid giving the impression that we, the Europeans, have only one objective, the stabilization of oil prices.

And then, finally, there is the most important problem, which is also the most difficult one. It is the problem of education. There can only be transfers of technology and possibilities of discussion among equals between the three interlocutors, to the extent that an enormous effort is made to reconcile native cultures with modern technologies, and to the extent that this transfer of technologies is carried out with the participation of the nation as a whole and not just a few experts or small numbers of specially gifted people who just sit on top of the sociological structure of the country.

**EIR:** Tunisia seems to one of the countries which has resolved this problem. . . .

**Fourcade:** Yes. Because of its past, its very high cultural level, its geographic position, and its alliances, Tunisia is certainly one of the contact points for this operation. Tunisia, along with the Magreb countries, and the African and Middle East countries, has very old and very deep relations with Europe. It is clear that for us Tunisia is a country with which we must make a real effort for discussions, almost bilateral discussions, to determine

what paths to take for the triologue. And the Tunisian government is helping us a lot in this effort.

**EIR:** What are, in your opinion, the obstacles confronting the implementation of the European Monetary Fund, the second phase of the EMS?

**Fourcade:** I think that there are three obstacles at the present time to the implementation of the EMF. There is the fact—and this makes up the background—that the one-worldists in general, and the United States in particular, are not too hot about the consolidation of the EMS, and therefore both on the side of the international organizations with world pretensions, as well as on the side of American diplomacy, anything which *can* be done to delay the consolidation of the EMS *is* done. There is no reason to be surprised about this. . . . I am thinking of the IMF, the World Bank, all the organizations of the United Nations and of American diplomacy. It is clear that at the present time, all those who are one-worldists and who want some kind of a world construction and who do not share our views about starting the process with regional constructions. . . . The second difficulty comes, I think, from the fact that the two European countries which are in a difficult situation vis-à-vis the system itself, that is to say Italy and Great Britain, want to see the experimental phase continued, because they are not in a position to make more important commitments. So there is a very firm wait-and-see attitude on the part of these countries. I think that the consolidation of the British economy will mean that the British obstacle will be rather quickly dispelled. I think that in the coming years we will discover that the British will actually be more of an acceleration factor in the construction of this system.

Then there is a third element, which is as much psychological as it is technical, and that is the change in the position of the German currency, the *deutschemark*, in this system. When we were still involved in the “snake” mechanism, the predecessor of the EMS, there was talk of a “*deutschemark zone*.” And it was clear at that time that the strength of the German economy, the strength of its currency, made for the existence of a dominant currency, and that it was around this dominant currency that the other mechanisms were determined. It so happens that in the past year the German economy has been going through certain difficulties, notably balance of payment difficulties, and that as a result the position of the *deutschemark* is not as strong, and without going from one extreme to another, the *deutschemark* is no longer the dominant currency of the EMS. Consequently, the conceptions of the European Monetary Fund are conceptions which require a change in the attitude of the central banks. I think this third factor, passed over in silence through a joint agreement between France and Germany, which explains the delays in the second phase.

Finally, a fourth element which is not negligible, is

that you have to remember that Europe is made up of democratic countries in which the national parliaments express themselves, and there are in all the European parliaments people who are strong nationalists and who are opposed to any supranational constructions. There is no doubt that the creation of a monetary fund, with its requirements, its limited margins for maneuvering and its particular rules, would create certain parliamentary difficulties in France as well as in Germany, Great Britain, the Netherlands, or Belgium, and so it is clear that with the difficult circumstances that the world economy is going through today, the heads of state and of government do not want to confront these internal problems.

**EIR:** In the U.S., the chairman of the Federal Reserve, Paul Volcker, is carrying out a deflationary policy which is now spreading on a world scale. Doesn't this policy threaten us with a financial crash?

**Fourcade:** American economic and financial policy is, to say the least, unclear. And it will only be clarified after the swearing in of the new Reagan administration and when its precise objectives will be defined.

It is clear that at the present time, confronted with the difficulty of controlling the strong inflationary tendencies facing America, the Federal Reserve has used to the fullest the only weapon it has, which is credit policy. Since the U.S. has renounced the use of any wage-price policy (Nixon tried it but finally gave it up) and since there is no possible budget policy to the extent that disagreements between the President and the Congress have prohibited any revision in budgetary policy, the only possible weapon is the credit weapon, and the Federal Reserve has used this weapon in an extremely brutal way.

I think that this credit policy, which is basically an interest-rate policy, with occasionally a quantitative element to it, as we saw last March, can have results in the fight against inflation, but obviously it produces a revaluation of the dollar against other currencies and very strong tensions on the world trade markets which, as you said, generate a recession.

To the extent that the United States has a central role in financial and monetary mechanisms, they can no longer have such a brutal and monolithic policy without talking to their partners. I think that this is one of the areas in which the spirit of cooperation, which President Reagan seems to be attached to, must express itself: economic discussions with America's partners, because we cannot go on having a dollar which fluctuates between 4 francs and 4.6 francs, creating extremely serious disturbances in oil supplies, in raw-materials prices, and in foreign trade.

In 1979, we were submitted to a big drop of the yen, which generated a commercial aggressiveness on the part of Japan, and then the yen went back to a normal position. We are now going through a strong reapprecia-

tion of the dollar which is good for our exports, but dangerous for our imports of raw materials and oil, and it is clear that, added to the erratic fluctuations of the oil market and to the world tensions, these ups and downs create totally detestable conditions for the development of world trade. And I think that the first thing is to talk to the Americans about this in order to see according to what objectives and what doctrines the world economy is going to be organized.

**EIR:** But doesn't the economic situation in England, as well as in all the countries in which this policy has been implemented, demonstrate the bankruptcy or the monetarist theories of Milton Friedman and Friedrich von Hayek on which these policies are based?

**Fourcade:** I don't think it is possible to make such a cut-and-dried judgment. I think that Great Britain, and on a lesser level France, are proof of countries in which, under the effect of socialist-inspired governments or governments of socialist tendencies, the functioning of the market has been greatly modified, and created a mechanism for government intervention which is extremely powerful. And in England this went very far, putting a stop to growth and creating a blockage of the trade-union mechanism; and Mrs. Thatcher has carried out an extremely classic economic policy, inspired by Friedman and Hayek, with results which are obviously not all favorable. But I think we must wait a little while to judge, because it is nonetheless a healthy reaction against the general asphyxiation of the British economy. I think that after the brutal phase of a return to liberalism and monetarism which has already marked the years 1978 and 1979, we should see a slower evolution beginning in 1981, and find the emergence in France, as well as in Great Britain and the Federal Republic of Germany, of liberal economies, with a certain number of corrections which of course go beyond monetary theories. The application of a certain number of brutal monetary remedies has actually modified a profound tendency which was going in the direction of over-administration and a paralysis and asphyxiation of initiative.

It is difficult for me to state what the Reagan administration is going to do. Of course there were electoral promises, and when I went to the United States I noted that one of the main themes of his campaign was the rejection of federal intervention, the rejection of regulations, and a desire to liberalize the economy. But this being said, I don't think one should underestimate the profound dynamism of the American economy and I think that from the time that clear orientations are taken on budgetary and monetary policies, on the relationship between the federal government and the states, and the fundamental objectives on electro-nuclear policy, on questions of supply, and on participation in the effort to cooperate with the Third World, I think we will witness a new takeoff of the American economy which will be

beneficial for the world economy as a whole.

**EIR:** A certain number of Reagan's advisers, like Jack Kemp from Buffalo, have talked about reinstating a link between the dollar and gold.

**Fourcade:** I think this is still a premature question, because after being completely locked up by the U.S. Treasury and by international organizations, the gold market has now become an erratic market.

So I think that we must first go through a phase of rapprochement between the major international currencies, in which I include the ruble, to orient the world toward greater stability. And I think that the mere fact of this stabilization of exchange rates between major currencies will bring about greater tranquility on the gold market. And I think that it is only then that we will be able to envisage an agreement between central banks to contain the variations of the price of gold within relatively reasonable limits. Then the third phase of this reorganization, a few years down the line, will be the creation of a tie between, not the dollar, but between the Special Drawing Rights and gold; in other words I think that we have to put a piece of gold into the SDRs, in order to give some real value to this international currency. But I think that there are several phases, and the idea of re-establishing convertibility or a link right away between gold and the dollar seems to me to be going too fast at the risk of setting off a new catastrophe in the monetary field. I believe in a pragmatic method, including these three phases which I have just indicated.

**EIR:** Do you have a particular message you would like us to transmit to the American people?

**Fourcade:** Yes, and the message is as follows. I think that confronted with extremely difficult problems and in the face of the East-West conflict, the Americans did not see the rapidity of the evolution of the European continent and did not see that the EC is presently the world's first economic power, in terms of GNP, living standards, and so forth. I think that these facts must first be accepted. The second element is that I think that, because of their own power, the Americans did not really feel the importance of the North-South tension. So I think that if in the coming years American policy were oriented toward more active cooperation with Europe—and when you say cooperation this means that you discuss before making decisions, it means that you find out about the ideas of others and try to find some common objectives—and toward a much greater understanding for the concerns of the Third World, then I think that we could witness a change in this world during the coming decade, and that we could contain Soviet hegemonism better this way because the Soviet regimes are now taking advantage of this absence of sensitivity of American policy to the problems of the Third World. And I think that this is necessary for the future evolution of democracy.

## A technetronic coup against Italy?

by Marco Fanini

“Two years ago you were complaining about the dollar's weakness and the fact that our monetary authorities, accused by you of 'benign neglect,' decided not to intervene. Now you are complaining because the dollar is strong and brings inflation to your country.” Thus spoke David Rockefeller, meeting with Italian government officials in Rome, during an interview with the Milan daily *Corriere della Sera* on Feb. 3.

But the Italians have a good reason to complain. The exchange rate for Italy's currency, the lira, has reached an all-time high of 1,000 liras to the dollar, mainly due to the high interest rates imposed in the United States by Federal Reserve Chairman Paul Volcker. Thanks to these interest rates, a wave of speculation has fallen on the lira, with the result that an emergency situation that has given Treasury Minister Nino Andreatta a pretext for imposing a credit crunch of his own.

Under Andreatta's dictum, loans are frozen at the level reached as of Dec. 31, 1980 (except for loans for export); loans to industry cannot be at less than a 12 percent rate. Confindustria, the Italian industrialists' association, and the trade unions have strongly criticized Andreatta's plan for fostering production cutbacks, unemployment, and inflation.

### 'Postindustrialize' Italy

Once again, the question arises whether Italy, destabilized by terrorism and paralyzed by the inability to form a national unity government, can survive economically or not. Italian industry, despite the adverse conditions, miraculously continues to produce; but now the situation has become critical.

The new minister for the state sector, Socialist Gianni DeMichelis, has published a “white paper” on remedies for the crisis in the state-sector industries, which represent a good half of Italy's industry. But DeMichelis, whose brother-in-law has been charged with financing terrorism, is known to be a favorite of the Venetian “black nobility”; and despite the fact that DeMichelis's protégé Toni Negri is in jail, convicted of

being a member of the terrorist Red Brigades, Socialist Party leader Bettino Craxi arranged for DeMichelis to be given the office of minister for the state sector.

DeMichelis's proposals for the public sector are very simple: leave heavy industry to survive on its own, and put increasing emphasis on electronics, computers, and other "soft" industry. To do this means to change the face of Italian industrial production, and to say goodbye to any hope of industrializing the southern Mezzogiorno; it would also make Italy the first realized model of the "postindustrial" society.

DeMichelis's advocacy of such a plan is not surprising, since he is a well-known advocate of Zbigniew Brzezinski's "technetronic age." Meanwhile, the Italian economy is collapsing, as the "white paper" is discussed.

Inflation is now at 22 percent, the interest rate is 21 percent officially, but credit is really only available at 24 to 25 percent rates. Steel and chemical factories are closing down, with thousands of workers being laid off. No nuclear power plants have been built for 10 years; electricity blackouts occur several times a day. Following the recent earthquake, the south of Italy is dying.

Three weeks ago, Ambrogio Puri, director of Italsider, Italy's largest steel company which produced 10 million tons in 1980, resigned in protest of the DeMichelis proposals. Now, Puri has been replaced by Mario Costa, a man controlled by DeMichelis.

The chemicals industry is also in bad shape. The petrochemical giant, Montedison, has just announced the layoff of 12,000 workers. The state oil company, ENI, which recently absorbed the bankrupt chemical companies SIR and Liquichimica, recently published a report that shows ENI's chemicals division lost 1,000 billion liras in 1980, and projects a similar deficit for 1981. Alberto Grandi, the president of ENI, and a man linked to DeMichelis, became the head of ENI as the last remnants of the prodevelopment Enrico Mattei group were removed. Now, Grandi wants to solve the problems of ENI's chemical division through a financial deal with Armand Hammer's Occidental Petroleum.

### **The Libyan connection**

On Feb. 3, Grandi went to London to negotiate the deal that, according to the financial daily *Il Sole 24 Ore*, consists of financial and management cooperation in ENI's chemical industry with Occidental. Occidental is closely linked to the crazy Libyan dictator Muammar Qaddafi. Thus, this deal must be seen as part of Italian Socialist Party leader Bettino Craxi's "Libyan strategy."

Since late January, Enrico Manca, the Socialist who is foreign trade minister, has been in Libya. He recently announced that Italy has been offered a share in Libya's grandiose development plans, including a 2 meters-in-diameter pipeline to bring water across the Sahara for

over 1,000 kilometers, to the coast. In addition, there are proposals for 100 supermarkets, a railway line from Tripoli to Misurata and Tunisia, and a petrochemical plant in Misurata. In the meantime, Libya has cut off oil supplies to Italy (some 15 percent of Italy's total imports), as a form of blackmail.

Qaddafi is known to hold capital in Agnelli's FIAT. According to many press reports, Qaddafi is involved in financing and training Italian terrorists. French President Giscard, during his recent trip to Italy, tried unsuccessfully to convince the Italian government to cancel Qaddafi's planned visit to Italy. Socialist leader Craxi, the man behind the scenes of the weak Forlani government, wants to increase Italy's collaboration with Libya, which he sees as an important part of his Mediterranean strategy.

### **Technetronics and banking**

At the same time Italy's heavy industry is collapsing, DeMichelis is supporting a plan by Carlo DeBenedetti, director of Olivetti, a computers and office machines company, to transform it into an international "technetronic" giant. Olivetti has already entered into partnership with the French electronic company Saint Gobain Pont-à-Mousson, and has bought up the German Triumph/Adler firm from Volkswagen, and Olympia from AEG-Telefunken.

According to the Italian financial weekly *Il Mondo*, Olivetti's interest is not so much in purchasing typewriter companies as it is to acquire the large distribution networks these two firms already have. Olivetti has also already signed a contract to provide a computer system for the European Community's four-year plan.

While Italy is being rapidly deindustrialized, the banking system is being reorganized as well. One proposal under discussion would transform the three major state-owned banks, Banca Commerciale, Banca Nazionale del Lavoro, and Banco di Roma, into de facto private investment banks. Banca Commerciale and BNL recently opened offices in Peking, while Banco di Roma has announced the opening of a Hong Kong branch. Many observers have commented on the interest Italian banks have shown in the notorious drug-smuggling center of Hong Kong.

It is quite possible that Italy may not survive. But it is ironic that it was the recent earthquake in southern Italy that pushed the progrowth forces to propose a drastic reform to clean out the corruption: the introduction of the "heavy lira" that would substitute one new, "heavy" lira for 1,000 present liras, linked to increased investment in industrial production (see *EIR*, Jan. 20). Those progrowth forces in Italy who support the heavy lira know that Italy is now at the proverbial crossroad: either an economic boom with the heavy lira, or DeMichelis's new dark age.

## How the Shah of Iran was undone

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*In a message to EIR's Robert Dreyfuss, Khosro Eghbal scores the 'courtier' principle that undercut policy deliberation.*

The following letter and accompanying article are being presented in the *EIR* as part of a continuing public debate about the future of Iran, now that the Ayatollah Khomeini's regime is crumbling. The writer, Khosro Eghbal, a former Iranian attorney and ex-President of the Iranian Press Association, suggests that Iran's stability and integrity depend on that country's achieving a steady balance between the United States and the Soviet Union.

In order for a moderate government drawn from middle-class and conservative military circles to emerge, broad support must be created for a clergy-free regime that can disarm the mobs. During this period of transition from over two years of chaos, it is important that the U.S. and U.S.S.R. agree on conditions for helping establish a climate in which that rehabilitation is possible.

In the present crises, the collapse of the Khomeini government may lead to a confrontation between Washington and Moscow as both great powers move to fill the vacuum in the country. Increasingly, many Iranians believe that only a tacit accord between the U.S. and U.S.S.R. to respect Iran's neutrality can permit the establishment of a stable Iran under a moderate leadership. In this context, Mr. Eghbal has sent *EIR* an article, first published in 1962 but still relevant today, calling for an Anglo-American-Soviet treaty recognizing Iran as a neutral and nonaligned power.

Jan. 26, 1981

Dear Mr. Dreyfuss:

I have read, with much interest and considerable regularity, your articles on Iran since early 1979. This has prompted me to draw your attention and, I hope, that of your many readers, to an issue which has largely escaped public scrutiny and which, I believe, is one of the principal reasons for the fall of the Shah of Iran.

During the last 15 years of his reign, Iran's monarch had become exceedingly egotistical. The Shah visualized himself as supreme and superior, attaching little value to private or public opinion. His increasing concentration on buttressing Iran's armed forces and attention to for-

eign relations at the expense of coping with the attendant geometric rise in public expectation quietly, but steadily, insulated the Shah from the economic and social upheavals which were fast overtaking his country. In short, the Shah had become oblivious to the external events which beset the country and were soon to undermine the system of monarchy in Iran. The coterie of high public officials and governmental agencies that surrounded the Shah basically fed him misinformation and half-truths to bolster his ego and perpetuate their own entrenched and self-serving interests. By means of their deceitful and servile public service, they effectively managed to conceal from the Shah the real and growing complexity of problems that Iran was faced with.

In effect, Iran was being ruled not only from the Peacock Throne but also by a small number of toadying, self-styled "shahs," comprising the courtiers, the ever-present advisers, and ministers who fawned on the Shah and enjoyed the whole gamut of privileges with their influential positions without being accountable for them or having to shoulder the Shah's burden.

The Shah rarely solicited anyone's advice and if the advice was offered, it was usually shared with those who, with their special aptitude and intelligence so characteristic of Iranians, knew what the Shah wanted to hear. The Shah repeatedly claimed that he could appoint anyone, regardless of his social background, to a high government office. If the public outcry for the dismissal of one of his government ministers or appointees reached a high point, the Shah would preserve his appointee by letting it be known that he alone would decide the fate of his officials.

You will recall, a few months before the Shah was forced into exile he stated in an interview with *Newsweek* magazine that no power on earth could weaken the pillars of Iran's monarchy or cause his downfall.

It should be noted that arrogance and greed in the life of any individual lead to errors of judgment, social and financial bankruptcy. We must confess that it was the willful manipulation by intimate confidants that brought about the Shah's authoritarian and imperial

attitude towards mundane problems. We are all influenced by our environment. If one is told countless number of times, day after day, that one has no peers in statecraft, intelligence, and wisdom one is bound to be given to self-delusion and feelings of grandeur. After all, we should not forget that the Shah, too, was human, and therefore fraught with the same common human frailties.

History has shown that whenever Iran lost her equilibrium in her dealings with foreign powers, she fell prey to upheavals. For this reason, Iran's integrity and the preservation of her natural identity hinge on her ability to maintain the balance among external powers that have traditionally had a stake in Iran's strategic location and natural resources. To expand on this very crucial issue, I am enclosing, for your information, the translated excerpts from an article which I wrote in June 1962 in one of Iran's weekly journals. It is my adamant belief that if greater care, credence, and study had been given to the principles which are outlined in this article, today's dismal fate would not have befallen Iran. I remain confident, however, that this article can still serve as a basis for salvaging Iran's future.

Yours sincerely,  
Khosro Eghbal

## Iran between the great powers

*The following are excerpts from an article written by Mr. Khosro Eghbal, attorney-at-law, editor of the newspaper Nabard and former president of the Iranian Press Association, published in the weekly paper Diplomat in Teheran, June 7, 1962.*

The question of Iran's neutrality has become the topic of the day and the thoughts and opinions, whether pro or con, had better be expressed openly, so that one may implement, in time, what is good and advantageous for the country.

You will well remember when Iran wanted to join the treaty of Baghdad [proposed by the British as the predecessor to NATO—ed.], the government of Iran acted against public opinion by joining the Pact. In making political decisions, which have a great influence on the fate of the country, the question at hand has to be studied from different angles, so that one may be spared unfavorable consequences.

This method is consistently observed in democratic

nations and even in totalitarian nations with a single-party system. For example, in the United States even the confirmation of ambassadors requires the approval of the Senate and in the U.S.S.R. all relevant matters are to be discussed, reviewed, and debated in the party committees in advance. Rest assured that Mr. Krushchev can never independently decide; on the contrary, he is the spokesman and executor of the decisions reached by the political and executive committees of the Communist Party.

In my opinion, our own country, Iran, by observing the following principles, will make substantial improvements in a very short time.

1) Benevolent neutrality has to be the pillar of Iranian foreign policy.

2) The best interest of Iran and being a U.S.S.R. neighbor require that Iran maintain most amicable relations with the U.S.S.R., based on the principles of non-interference with each other's affairs and mutual respect. They should expand their commercial and cultural relations.

3) The U.S., U.K., and the U.S.S.R. must guarantee, by treaty, Iran's neutrality and the noninterference in domestic Iranian affairs and raise the standard of living of Iranians by giving economic assistance. After the signing of this treaty, Iran must leave the CENTO treaty and the bilateral treaty with the U.S. must be annulled.

4) In utilizing foreign economic assistance, her own resources, and the development of exports, Iran must improve her economic condition. She has to embark on short-term programs with the aim of improving public health, cultural affairs, and agriculture; she has to activate small, light industry in agriculture and in mining where the raw materials can be found in Iran; she has to organize and implement increased output and production so that the result can be a reduction in the cost of living and an increase in the standard of living.

5) Therefore, she must considerably reduce military spending and earmark those funds for education and public health.

6) An alternate service program should be created, and it shall be its mandate to give incentives and motivate people to work, to provide job opportunities and counseling to show the people the rewards of work, to fight unemployment and idleness, because it is only through work that one can overcome the economic and financial difficulty and battle poverty.

7) Every year, from among the draftees a necessary number of individuals are conscribed into military service on the basis of a lottery and the rest of the draftees must spend, through this alternative service program, the average time of military service contributing, instead, to projects of public interest, and without compensation, according to their qualifications and talents.

## Polandizing the unions

*A new round of labor problems spurred by the Communists is making government officials nervous.*

Political groups opposed to the Mexican government have stepped up their activities during the past few weeks inside the labor unions affiliated with the governing PRI party (Partido Revolucionario Institucional). Mexico's most powerful union federation, the Mexican Workers Federation (CTM), and the teachers' National Education Workers Union (SNTE) are the main targets of these activities.

Government officials are increasingly worried because strikes, demonstrations, and bloody confrontations have broken out in various parts of the country.

Their concern is compounded by the possibility that Fidel Velázquez, the aged union chieftain who has kept the labor movement united under his personal control for the past several decades, could die soon without leaving a successor capable of holding the unions together.

His nephew, Luis Velázquez, is among those close to Don Fidel who reportedly confessed, in private, that there is no visible leader capable of replacing him.

Some people have mentioned Senate leader Joaquín Gamboa Pascoe, who could well be elected to the post, but all agree that there are many CTM leaders who do not trust him.

Another mentioned is Joaquín Hernández, the strongman of the oil workers, but nobody will bet on his being able to hold the union federation together.

Top officials confide in private that the government now laments that the old labor *cacique* (chieftain) system rooted in the CTM under Velázquez prevented the emergence of new leaders. The Communist Party's battle to take over the unions during the 1950s brought it into total confrontation with the old Velázquez-run labor machines, and provoked a violent reaction. Union leadership positions soon became filled by men more distinguished by their mafia-like methods than for offering positive leadership to the workers.

During the last few weeks, labor problems have taken on an unusual intensity. Dissident teachers gathered in the National Coordination of Educational Workers (CENTE) have gone on strike in the states of Guerrero, Hidalgo, Morelos, and elsewhere.

And last week at a meeting of dissident teachers, a teacher and a parent were murdered. So far it remains a mystery who did it.

The murders evidently mark a serious fissure in the teachers' union; many believe the "martyrs" could even become the "bloody shirt" of the dissident movement.

The dissidents, in fact, held a dramatic meeting in the presence of the coffins of the victims last Sunday, and speakers accused the official SNTE leadership of the killings.

The situation deteriorated to the point that Interior Minister Oli-

vares Santana publicly proclaimed that a peaceful solution would have to be found.

SNTE leaders, on their side, have repeatedly accused retired SNTE leaders Manuel Sánchez Vite and Jesús Robles Martínez of being the instigators of both leftist and rightist dissidents inside the union.

Another headache for the CTM is the union of Tremac, a large auto parts firm in the industrial belt of Querétaro, which booted out its CTM advisers and instead contracted lawyers from the Communist Party's National Democratic Lawyers' Front. Tremac's 4,000 workers make almost the entirety of the gear boxes used by the Mexican auto industry.

Fidel Velázquez's personal emissaries failed to convince the Tremac union leaders not to abandon the CTM, and even the labor chieftain himself intervened—but to no avail.

The Communist Party has also taken over about 30 percent of the mining and metallurgical section of the CTM. It is especially powerful in Mexico's biggest state-owned steel complexes at Altos Hornos and Las Truchas.

However, the leftist groups do not appear to be focused on pulling individual unions out of the big labor federations. Rather, what can be picked up by listening to their discussions is that their strategy is to keep the unions they control *inside* the federations, in order to pave the way for taking over the whole labor movement.

Some officials see important parallels between the Mexican dissident movement and early stages of Lech Walesa's Polish operation. And they haven't yet found any way to stop it.



### Iraq proposes renewed U.S. ties

*At an EIR seminar, spokesman Salah Mukhtar said that if the U.S. shifts gears, 'we are ready.'*

For nearly 14 years, the United States has not had diplomatic relations with Iraq, the Middle East oil-producing country with the most uncompromising commitment to internal development on the basis of a full-fledged industrialization program. On Feb. 1, an audience of 125 Texas and Middle Eastern businessmen attending a seminar in Houston, Texas sponsored by the *Executive Intelligence Review* heard an official Iraqi spokesman detail for the first time how bilateral relations may be resumed—and the potentially enormous benefits that would accrue.

In a speech entitled "Iraq in the Next Two Decades," Iraqi United Nations press counselor Salah Mukhtar explained that under the direction of the ruling Baath Party the Iraqi nation is committed foremost to the development of its agricultural and industrial potentials.

To achieve these potentials, Mukhtar noted, Iraq needs industrial technology. This need could be the basis of a mutually advantageous relationship between Iraq and the United States, since the United States "is one of the most advanced countries in the world. The American and Iraqi people need each other," Mukhtar proclaimed. "We are ready to deal with Americans."

But, Mukhtar insisted, this desire on Iraq's part is contingent upon a rethinking by the United States of its priorities in the Middle

East. "We in Iraq don't think of commerce as directing politics," he noted. "We believe commerce follows politics."

Specifically, the Iraqi spokesman indicated, the U.S. must re-evaluate its historically unbalanced attitude favoring Israel's policies in the Middle East. This attitude has induced an embedded anti-Arab bias in the American population, Mukhtar claimed, which must be reversed before amicable relations can be developed. "We are not asking the United States to take a stand against Israel," he said, "but its support for Israel should not be instituted against the interests and rights of Arabs."

Should the United States hold firm in its past attitude, Mukhtar stressed, Iraq would be prepared to abstain from diplomatic relations "indefinitely."

But if, on the contrary, American citizens exert enough pressure to bring about a change in Middle East policy, then the Middle East could rapidly become the prime export market for U.S. industry and manufactures, and Iraq could become an especially important trading partner, since it "will be the last country to exhaust its oil resources."

Because public addresses by Iraqi officials in the U.S. have been rare in the past few years, the Mukhtar presentation was regarded with special interest in Houston. His comments were featured in a

Feb. 2 piece in the *Houston Chronicle*, the city's most influential daily. The piece, which appeared prominently on the paper's international page, was entitled "Iraq Prepared for Diplomacy with the U.S."

The *EIR* seminar, whose overall theme was "The Middle East: A Trillion-Dollar Peace," also caught the attention of top politicians in Texas. Governor William Clements, an influential figure in the Republican Party nationally, sent a message to the meeting expressing his regrets that he could not attend and wishing the participants success in their deliberations.

On the podium, Mukhtar was joined by Dr. Jamil Diab, honorary consul-general of the Kingdom of Jordan for the West Coast of the United States, and Robert Dreyfuss, Middle East editor of *EIR*.

In his presentation, Dr. Diab reviewed Jordan's strategic position as a component of a regional axis of nations also including Iraq and Saudi Arabia that is committed to stabilizing the Middle East region through development. He then outlined a series of recommendations for expediting U.S. business dealings in the Arab world.

Dreyfuss's presentation detailed the strategic issues now facing the Middle East region, and analyzed the policy fight in the new Reagan administration. He reserved particular criticism for Secretary of State Alexander Haig, which catalyzed a lively discussion in the question-and-answer period.

Dreyfuss also stressed to his audience that "America owes a debt of gratitude to Iraq" for its role in helping bring about the collapse and imminent disintegration of the mullahs' dictatorship in control of Iran.

# International Intelligence

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## **Schmidt and Giscard hold policy summit**

The Feb. 5-6 summit meeting between French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt ended with a major commitment to nuclear energy and above all to extending the European Monetary Fund, according to preliminary reports from Bonn and Paris. The Paris meeting addressed four major issues: the international monetary situation, relations between Europe and the United States, Schmidt's upcoming visit to the United States, and U.S.-Soviet relations. The *Executive Intelligence Review* will carry a full report next week, including the text of the final communiqué.

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## **Maneuvers to coopt Iranian exile movement**

Former Iranian Prime Minister Ali Amini, once denounced by the late shah as an agent of the Central Intelligence Agency, declared himself the leader of the Iranian exile community last week in a press conference in Paris.

When asked about his program for Iran, Amini replied, "No comment." No wonder: Amini's program is in fact the Dark Ages economics pushed by Pol Pot admirer Abolhassan Bani-Sadr, president of Iran.

According to intelligence sources, Amini is meeting regularly with Admiral Madani in London to work out how to coopt the large anti-Khomeini exile community into support for "opposition" by Bani-Sadr, Madani, and Amini. The operation, according to long-time Iran subverter Prof. Richard Cottam, of the University of Pittsburgh, is designed to pull the rug out from under Shahpour Bakhtiar, who has been trying to bring together the Iranian exile movement in cooperation with France and Iraq. In his press conference, Amini attacked Bakhtiar for his alliance with the Iraqis.

Last year, Madani was one of Bani-Sadr's choices for the post of prime minister, but was rejected by the hard-liners.

According to insiders, Amini and Madani have already formed a shadow cabinet, one of whose members is reputed to be Seyfollah Nabavi, Khomeini's former doctor. Nabavi, now living in Paris, recently was involved in an unsuccessful British intelligence-sponsored effort to prevent the convening of an *EIR* conference on Ibn Sina in Paris.

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## **Argentina dropping de Hoz policies**

The 10 percent "maxidevaluation" of the Argentine peso last week may signal the beginning of the end of the policies of Economics Minister José Martínez de Hoz, which have bankrupted not only Argentina's exporters but major sections of industry and finance. De Hoz had given his solemn word to hot-money speculators that the overvalued peso would be devalued by only 2 percent monthly until the end of March, when he formally leaves office with his protector, President General Jorge Videla.

Incoming President General Roberto Viola has stated that he is committed to "reactivating the economy," which could mean dumping many of de Hoz's Friedmanite policies. Argentina's vulnerability to the economic time-bomb set up by de Hoz forces Viola to work very carefully to avoid problems such as panicked capital flight during his transition process. How fast and how far he will go in changing de Hoz's model is still a matter of speculation and intense backroom combat.

In the new cabinet, de Hoz's "super-ministry," which effectively ruled the country, has been broken up. One part goes to General Diego Urricariet, whose stalwart defense of broad-based nationally owned industrial capabilities made him the *bête noire* of the London banking circles dictating de Hoz's deindustrialization strategy.

Investors should be attentive to

changing rules of the game, including possible further devaluations, multiple exchange rates, export incentives, restored protection for key industries, and restraint on foreign takeovers of Argentine companies.

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## **Environmentalist to be Norway's PM?**

The new prime minister of Norway will probably be Mrs. Gro Harlem Brundtland, a 42-year-old Social Democrat with little support from the party's trade-union base, but with great favor from the media. She was one of the fiercest critics of the government's plan for offshore oil development in 1976. She claims to be "neither left nor right," but emphasizes "issues": women's rights, free abortions, child care, and environmentalism.

Mrs. Brundtland's husband is a top "national security specialist" and member of the highly pro-NATO Conservative Party.

After a prolonged fight inside the Norwegian Social Democratic Party, Prime Minister Odvar Nordli, a personal friend and political ally of West German Chancellor Helmut Schmidt, was forced to resign Feb. 1. Nordli supported Norwegian membership in the European Monetary System and progrowth policies generally.

Leading the campaign against Nordli was Social Democratic Party Chairman Reulf Steen, a leftist supporter of the Socialist International. A leftist mobilization against establishing Norwegian depots for NATO arms and equipment caught Nordli in the middle.

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## **People's Republic fears new labor unrest**

The Chinese leadership, which has been so supportive of Poland's "Solidarity" labor movement, has found that the phe-

## Briefly

nomenon is not quite so pleasant when staged in its own backyard. The *Chang-jiang Daily*, reporting that Chinese workers in the industrial city of Wuhan have tried to form independent trade unions on the "Solidarity" model, complains, "A small number of people wish to break away from the leadership of the party and form so-called free trade unions and independent student unions."

Reports of similar labor activity in Shanxi has prompted the Communist Party organ *People's Daily* to warn: "Trade unions are workers' organizations under the Communist Party leadership. Workers and staff members should resist the tendency to adore capitalism and advocate bourgeois liberalization."

French wires reported Jan. 15 that Shanghai authorities have issued new warnings against street demonstrations following massive protests by unemployed workers and discontented youth. The Press Trust of India says strikes in Shanghai and several other industrial cities involve a few hundred thousand dissatisfied workers.

### **British, Israeli leaks aimed at Saudis**

Israeli and Anglo-American press outlets last week printed a stream of black propaganda on the Persian Gulf with the aim of expanding the Iraq-Iran war to include Saudi Arabia, the main supplier of oil to Europe and the United States. A series of articles in the *New York Times*, the *Financial Times* of London, and the Israeli daily *Ha'aretz*, claims that the Saudis are shipping Soviet and/or American weaponry to Iraq to aid Iraq in its war with Iran.

The aim of the Anglo-Zionist intelligence faction responsible for these leaks is to induce the Iranian extremists to attack the Saudis and their Gulf neighbors, either through military deployment or through acts of terrorism.

The Iranian news agency Pars has announced that it has evidence that Saudi

Arabia, Kuwait, and other Gulf states plotted with Iraq before the Iran-Iraq war to finance the anti-Iran war effort. Gulf observers warn that Iran has stepped up efforts to destabilize Kuwait, Bahrain, Saudi Arabia, and other countries in the region.

The suspicious nature of the stories on Saudi transshipments of weapons to Iraq was underscored by comments from the Soviets and the Iraqis. The Soviet news agency TASS called the reports "absurd." Iraqi Deputy Prime Minister Ramadan announced that "the Soviet Union has stopped implementing prewar contracts signed with Iraq," the bluntest statement to date by an Iraqi official on the question of military aid from Moscow.

To cover their tracks, the British press, through Reuters, has begun to put out the line that the arms-transfer stories might be merely "part of the propaganda battle between the superpowers."

### **Social Democrats vote against nuclear plant**

In open insurrection against the federal government headed by Chancellor Schmidt, the Social Democratic Party (SPD) in the city-state of Hamburg voted Feb. 4 by 198 to 157 against the construction of a nuclear power plant in nearby Brokdorf.

Construction continues at the site, however, and federal Economics Minister Otto von Lambsdorff declared Feb. 4 that the government will not change its position in favor of the plant.

The chairman of the national Christian Democratic Union, Helmut Kohl, expressed support for nuclear energy Feb. 5, stating that the nuclear program transcends party issues. Count Lambsdorff, a Free Democrat, told the daily *Bildzeitung* that the crisis in the SPD on the issue will not affect the Free Democratic-SPD coalition on which Schmidt's government is based, and called for "reason" to prevail.

● **TOP-LEVEL** intelligence circles in London are buzzing with rumors that the dossier of the case involving the 1967 resignation of Amnesty International Secretary-General Robert Swann is about to be reopened for investigation. Swann left his post following a dispute with Amnesty founder Peter Benenson, who accused Swann of being a British intelligence agent.

● **ANA GUADELOPE**, commandant in El Salvador's umbrella guerrilla front, the FMLN, and Hector Oqueli, foreign-policy spokesman for the Democratic Revolutionary Front, met with former Swedish Prime Minister Olof Palme in Sweden early this month, and will meet with Swedish Foreign Minister Ola Ullsten.

● **THE SUDAN SOCIALIST Popular Front**, sponsored by Qaddafi, is broadcasting calls for the overthrow of the Numeiry government in Sudan. A high-level French military delegation visited Sudan in mid-January, followed by a Jan. 29 visit from French Acting Defense Minister Robert Galley, who discussed the Libyan occupation of Chad.

● **THE DEFENSE** ministers and chiefs of staff of Nigeria, Niger, and Cameroon held a Jan. 29 summit in Lagos, Nigeria to plan responses to the Libyan takeover of Chad. At the same time, Nigerian Foreign Minister Ishaya Audu made a five-day visit to France, and discussed the Libyan problem.

● **FRENCH POLICE** investigating the December Guadeloupe bombing attempt on President Giscard were surprised, according to *Le Figaro*, to come across a former Algerian FLN politburo member, now teaching in Guadeloupe, who studied in a revolutionary school in Prague for two years.

## Behind the 'tough talk' from Alexander Haig

by Kathleen Murphy

After barely two weeks in office, Secretary of State Alexander Haig is already racking up a record of crisis-mongering and provocation rivaled in recent memory only by Henry Kissinger, his erstwhile boss at the National Security Council and fellow employee of British and Jesuit intelligence networks.

Haig's performance at Foggy Bottom thus far has been so strikingly similar to Kissinger's that one long-time Washington observer was prompted to comment: "If Al were six inches taller and 200 pounds heavier, you'd never realize that it isn't Henry himself running the State Department again."

The diminutive general has sent out a series of signals over the past days explicitly designed to exacerbate the hostile climate between the two superpowers created by the Carter administration. In particular, Haig's maneuvers are aimed at boxing President Reagan into a hardline posture vis-à-vis the Soviet Union, while simultaneously undermining the Brezhnev faction in Moscow, which has sought cooperation with the West based on a joint commitment to international trade and development.

In his first public press conference on Jan. 29, the self-designated "vicar of American foreign policy" set the tone for his reign by launching into a vitriolic, yet carefully orchestrated, diatribe against the Soviet Union. Haig's remarks on the Soviets, which were widely played up by the media, focused on two particular points. First, Haig attacked the Soviets' use of their "Cuban proxy" for "engaging in unprecedented risk-taking" in Latin America and Africa. "I can assure you," he said, "This is

a subject of utmost concern for this administration."

Second, he charged the Soviet Union with being one of the key forces involved in "training, funding, and equipping . . . international terrorism."

Just a few hours earlier, Haig had sent a stern warning to his Soviet counterpart, Andrei Gromyko, that any intervention into Poland would have a lasting impact on Soviet-American relations. Suggesting the "punk" quality underlying Haig's tough-man pose, the message was delivered in the form of a reply to a letter from Gromyko congratulating the secretary of state on his new post.

According to State Department sources, Haig has set up about 10 "high-level working groups" on areas classified as hotspots. The ones given the highest priority are Central America, including El Salvador, Iran and the Middle East, and Poland. Haig himself recently stated that Poland and Central America are the two most immediately important foreign policy issues facing the United States.

This is no accident. Poland and Central America are where Jesuit- and British-instigated destabilizations are most advanced, and the prospects for a provoked confrontation between the United States and the Soviet Union most imminent.

Over the last few days, the situations in both areas, especially Poland, have taken a sharp turn for the worse, meaning that Reagan may soon be faced with an extremely delicate and explosive crisis.

On Feb. 2, Polish communist party chief Stanislaw Kania charged the Jesuit- and British-linked Solidarists

with acting like a political party rather than a trade union, while Polish Politburo member Stefan Olszowski denounced “advocates of chaos and destruction” for being responsible for the Solidarist-connected wave of strikes in Poland.

These statements conform to the pattern of tremendous pressure being exerted on Warsaw from inside the Soviet bloc to crack down on Solidarity. The East German news agency ADN on Feb. 2 denounced Solidarity as “an oppositional political party” allied with “antisocialists” and responsible for “provoking anarchy and chaos day after day.” With charges of this gravity being leveled, most observers believe that the possibility of a Soviet military intervention is greater now than ever.

The situation in Latin America is nearly as ominous. Haig’s charge that Moscow runs international terrorism was aimed at creating the climate for a U.S. military intervention into El Salvador. On Feb. 2, Haig took definite steps in this direction when he met with the foreign ministers of seven Latin American countries to discuss the escalating guerrilla war in El Salvador. According to one of the ministers present, José Alberto Zambrano Velasco of Venezuela, Haig announced that the United States has verified massive Cuban intervention via Nicaragua in support of the guerrillas.

Haig’s revelations were intended to provoke an immediate response from the forces of El Salvador’s Jesuit-controlled right wing, as well as from the Cubans, who are already howling about his comments on them at his press conference. With the “left” versus “right” crisis escalating in this fashion, Haig hopes to steer Reagan into a military intervention which not only would sour the friendly relationship the new President has managed to establish with Mexico, but also lead to a head-on confrontation with Moscow. Significantly, a State Department spokesman said last week that the new administration will follow through on President Carter’s decision to send military equipment and “technical personnel” to the El Salvador government to help battle the insurgents.

### **Where Haig gets his lines**

Although some foolish conservatives have talked themselves into believing that Haig—a protégé not only of Kissinger, but of the ultraliberal Cyrus Vance as well—is a hard-bitten soldier who wants to protect American capitalism from Soviet imperialism, nothing could be further from the truth. Haig is a tool of an international oligarchical network which is committed above all to halting global industrial and scientific progress, and which sees a confrontation between the Soviet Union and the United States a key means of sabotaging the progrowth tendencies represented by Reagan and Brezhnev. (Haig’s private endorsement of the Carter administration’s neo-Malthusian “Global

2000” perspective should give these naive conservatives something to chew on.)

There is ample evidence that Haig is acting in concert with this oligarchical faction. On the same day that he was ranting about Soviet aggressiveness, British Prime Minister Maggie Thatcher was telling the Anglo-American Pilgrims Society in London that she sees no sign of any genuine Soviet interest in détente, and urged other Western nations to follow the lead of the new U.S. administration in dealing with the Soviets because it “understood the challenge.” She also asserted that the time has come for a more “resolute” posture by the Atlantic Alliance, and that the Anglo-American relationship had a special role in achieving this. Thatcher is scheduled to visit the United States late this month—the first European head of state to do so—and is expected to work closely with Haig in trying to dupe Reagan into a confrontationist course.

Also indicative of higher-level coordination behind Haig’s recent actions is the fact that the president of Italy, Sandro Pertini, put out the Soviets-back-international-terror line just a few days before Haig. Pertini is a leader of the British-linked Italian Socialist Party, whose ties to Italian terrorism is an open scandal.

The Soviets have responded to Haig’s antics bluntly and quickly. On Feb. 1, *Pravda* accused Haig of being party to “an attempt to strike at the process of international détente, to justify the negative American stand on strategic arms limitation and other measures aimed at relaxation of international tensions.” The newspaper also attacked the U.S. administration for “playing a dangerous game” and conducting a campaign of “lies and hypocrisy.”

Nevertheless, the question of whether Reagan and the Brezhnev faction will be manipulated into a show-down by the British subversives operating in both their countries is still very much open. In an interview published in the Feb. 3 *New York Times*, Reagan said that he is willing to talk to the Soviet Union’s leaders whenever they were prepared to discuss “a legitimate reduction of nuclear weapons,” and also tried to soften some of the harsh remarks he made about Soviet intentions at his Jan. 28 press conference.

On the same day, the Soviet news agency TASS released a statement, authorized at the highest levels of the Kremlin, expressing the hope that the exchange of harsh words between the two nations will give way to “get[ting] down to really important matters” on which “the American side will find in the person of the Soviet Union a partner prepared for constructive dialogue.”

Such an agreement would not only cool down the dangerous level of confrontation which Haig and his controllers are stirring for, but will also allow the new President to concentrate on fulfilling his election mandate for sparking a much-needed economic recovery.

# Losers try to lead regroupment but grassroots leaders gain power

by Anita Gallagher

The scramble for control of the Democratic Party, a scramble few had the stomach for after the Carter debacle in November, has now begun in earnest. Incredibly, many of the same linemen hospitalized in November are back trying to carry the ball one more time, like Carter right-hand man Bob Strauss, who has just suggested a Democratic Coordinating Council of 30 party leaders to run the show from top to bottom. The McGovern liberals, the only grouping to lose worse than Carter, are also back with flanking from think tanks, including a "Coalition of Common Sense" led by McGovern himself.

Beyond these acrobatics however, perhaps the most significant grassroots moves are being made to rebuild the party since the days of FDR himself. The powerful Association of State Democratic Chairs met on Jan. 23 and elected Marjorie Thurman, an Atlanta lawyer who fought the Carter campaign takeover of the Democratic National Committee, as its chairman for the next four years. The association's effort to defend the party organizations at the state level have made it probably the most respected group in the Democratic Party today. Thurman's election went unreported in the press, which covers every new utterance from the same old crowd.

Another healthy sign is the persistent huddling of moderate Democrats in the U.S. House and Senate. On Jan. 31, Sen. James Boren (D-Okla.), who has been prominent in an "informal" group of 10 Democratic senators, took public exception to what he called Senate Minority Leader Robert Byrd's "tilting" toward the policies of Ted Kennedy. "We hope that Byrd gets the message and recognizes that the party is not just Kennedy and Company," said Boren. Other Democratic senators in the Boren grouping are Hollings (S.C.), Johnson (La.), Nunn (Ga.), Chiles (Fla.), Exon (Nev.), Zorinsky (Nev.), Heflin (Al.), Pryor (Ark.), and DeConcini (Ariz.). Senator DeConcini, who called on Reagan to dump Carter's hostage deal, spearheaded the grouping with Boren. Many of the group have also been urging Reagan to take action against Carter's Federal Reserve chairman, Paul Volcker. A similar group sprang up in the

House after the election, the 33-member Conservative Forum, which said it intends to box in House Speaker Tip O'Neill.

The focus of sparring this month is the election of a new chairman of the DNC. The four candidates are Chuck Manatt, who was both DNC finance chairman during the Carter debacle and also close to such California Democratic products as Tom Hayden, a symbol of what many in the party view as the problem; Judge Charles Curry of Kansas City, Mo., who supported Jackson, then Carter, in 1976 and 1980; and two machine leaders from New York, Patrick Cunningham of the Bronx and Joe Crangle of Buffalo. Manatt is the media favorite, and on Feb. 4 Trilateral Commission member Lane Kirkland announced the AFL-CIO's unprecedented endorsement to lock up Manatt's election. However, the climate within the ranks of party regulars is such that all four candidates led with their commitments to the state Democratic organizations, and not the national party apparatus, while the State Chairs listened and then endorsed no candidate.

The following interview with new head of the State Chairs Association, Marjorie Thurman, indicates how key people are thinking of rebuilding the party.

## Interview

# Marjorie Thurman talks about the DNC

*The Association of Democratic State Chairs unanimously elected Marjorie Thurman of Georgia to a four-year term as its chair on Jan. 23. Thurman, a Georgia lawyer and chairman of the Georgia Democratic Party, was recently interviewed by Anita Gallagher of the National Democratic Policy Committee. Part One of the interview follows.*

**Q:** What are your plans for the State Chairs Association?

**Thurman:** First, let me say that all the candidates for Democratic National Committee chairman have assured us of their concern for the State Chairs organization, and this is what we wanted to hear. We feel very strongly that whatever happens, we must have a DNC chairman who is not just dedicated to the re-election of one candidate, but one who is going to be concerned with electing Democrats all the way down the line. Every candidate I've talked with has expressed his dedication to the State Chairs and to strong party organization. We are the ones who have to implement the program. We are the ones who have to see about getting out the vote. We are the ones who have to do the fundraising and all those things that have to be done to elect Democrats. We have been very badly ignored for the last four years. So I feel very good about the coming term.

**Q:** Will the State Chairs endorse any candidate for DNC chairman?

**Thurman:** No. Of course, I cannot say what might or might not happen, but there was some discussion of this over the past weekend, and we almost unanimously concurred that it was not our place to pick one candidate over another in an election for office or a party election. I have encouraged each member to support actively his or her choice individually. I myself, as chairman of the Association of State Chairs, will remain neutral; I am going to have a responsibility to work with whomever is elected, and therefore I feel very strongly that I cannot choose one over the other. But the individual members will be very active, and their priorities and mine are the same. We want somebody who will be a good spokesman, we want somebody who can make money, and, the number-one priority, we want somebody who is dedicated to strengthening state parties.

**Q:** The state chairs seem to have gained a good deal of respect for being the only group in the party to stand up to the DNC's use of the party as a Carter campaign asset.

**Thurman:** We're adamant about it. Many of the DNC members are not involved in implementation. They do not have to assume responsibilities for what happens in their state. They just go to meetings and vote, many of them. . . . Some of them contribute a great deal, but some have no battle-line involvement in politics. We have got to be out there on the firing line. What we did in this last campaign was in spite of the DNC and not on account of it, because we were not getting any backup at all. In most instances in Georgia, we picked up the tab for the whole campaign. We did it in spite of the fact that we had been abused, because we are party people and our concern is to make the party survive. And we realize that if we don't do it now, we may not have another opportunity.

I am going to be dedicated to strengthening the partnership of the DNC with the state parties, and I think all four of the candidates for the DNC chairmanship feel the same way. All but one have been state party chairmen, and he has been a county chairman, and he knows what it is to have to implement. What we don't want is somebody interposing something that is not realistic in terms of what we are about. During this last administration, we had to deal with a DNC that was totally involved in electing a President and nothing more.

**Q:** When will the DNC members be up for re-election? This is state by state, but what is your overview?

**Thurman:** Most have just been elected to a four-year term, and there will be very little change in the members of the DNC. There is no way that we are not very much interested in rules changes, so far as delegate selection is concerned. We want the people who have the responsibility to be the ones who are represented on that convention floor, and this is not what we had in the past. . . . We are the party of inclusion. But you don't need to exclude the folks that are there doing all the work all the while.

**Q:** A lot of people now feel that the McGovern reforms have gone too far.

**Thurman:** We are going to have to totally re-evaluate and get back to something that is reasonable. We went too far. In getting your delegation together, when you have to exclude your political leaders, just in order to bring in somebody because they happen to be black or female, then something is wrong. I am not in favor of diluting the power of blacks, women, or any minority; it's just that we have got to be practical politicians. Our leadership forgot that for a while, and we consequently lost the Senate and are being threatened so far as our majority in the House is concerned, and we intend to do something about it.

I was excluded as a voting delegate for Carter, just because he didn't like me. All it meant was that I didn't cast my vote for him. But we went the last mile to elect him, and did extraordinarily well in Georgia so far as he was concerned and so far as the party was concerned. I keep my commitments to the party organization first, and petty personal feelings second.

**Q:** What do you think about the Democratic Advisory Council that Bob Strauss is proposing?

**Thurman:** If you're talking about a superstructure proposal that was circulated that was attributed to Strauss, I am opposed to imposing a superstructure over the DNC. If you're talking about a policy council, we've had that for years, and that is no problem. If we are going to have that kind of superstructure, why do we need the DNC? . . . That seems to be the consensus of all the chairmen I spoke to.

# Bob Strauss heads push for top-down policy control

by Barbara Dreyfuss

Barely three months after the American electorate overwhelmingly rejected the Carter administration and its policies, a number of the people who ran the Carter administration are trying to reassert control over the Democratic Party. One of the main figures in this effort is the man who tried to convince Americans to accept the Carter administration for another four years: former Carter campaign chairman Robert Strauss.

Strauss and several of his close associates are now organizing a Democratic Coordinating Council to define policy for the Democratic Party and press for its implementation in Congress. Strauss wants to have leading Democratic members of the House and Senate, Democratic governors and mayors, as well as the party chairman, be members of the council. Many Democrats are very reluctant to back the plan, however, because they see it as an attempt by Strauss to direct party activity. "Some people think that this is a means by which Strauss is going to take over the Democratic National Committee and dominate the new party chairman," angrily complained one Democrat who is organizing for the group.

Strauss has also made it clear that he would like to use this group to confront the Reagan administration, rather than trying to develop bipartisan collaboration to revive the economy and American prestige abroad. A memo Strauss is circulating on the Coordinating Council declares that "it can be an effective means for orchestrating and presenting the public Democratic opposition to the Reagan administration policies. . . . Its primary goal will be to strengthen the base and bridge the coalition by attacking Republican policies."

Reliable sources report that the council plan "will get back on track after the new DNC chair is elected" at the end of this month. Lloyd Hackler, a sponsor of the idea and a close associate of Strauss, says that Charles Manatt, a leading contender for the chairmanship, "likes the proposal. . . . I think the new chair will go with it, even if he calls it something else." Hackler terms Manatt's election a "foregone conclusion." "Chuck is a friend of mine—I'd certainly be satisfied if he won." Last month Manatt circulated a letter to DNC members urging that

the party go on an immediate offensive against President Reagan.

Several other groups for formulating party policy are also being proposed by former Carter administration officials and liberals associated with the campaigns of Ted Kennedy and Moe Udall. The thinking is that a proliferation of such groups promoting similar but not identical programs will keep Democrats from coalescing around mainstream economic growth programs.

## Think tanks formed

At the end of this month, a group of liberals will announce formation of a think tank for the party, tentatively called the Democratic Forum. Those forming the group include such former Carter administration officials as Hodding Carter III, Pat Derian, Stu Eizenstat, and Anne Wexler; intimates of Ted Kennedy including Peter Edelman; Ted Van Dyke, a former top policy adviser to George McGovern; and Averell Harriman protégé Paul Warnke. "Our aim is a total re-evaluation of the ideas, the programs, and the policy positions which the party has traditionally fought for," declared one of the people working on establishing the think tank. "We seek to define a new ideology for the party."

At the same time Mark Green, a close collaborator of Ralph Nader, is trying to set up a "Progress Project" which would be an "alternate institution to develop the Democratic Party ideas of the 1980s."

Former Senator George McGovern, the man who has arguably done the most to destroy the Democratic Party as a constituency-based party, has himself formed a new organization called Americans for Common Sense. McGovern hopes this group will create a groundswell for the kinds of liberal, zero-growth economic policies McGovern and the Carter administration backed.

At the same time a multitude of fundraising groups is being created to finance campaigns of other liberal congressional candidates and to target moderates of both parties. These new groups include:

- **Democrats for '82:** Set up by Pamela Harriman, wife of the granddaddy of Democratic liberals, Averell Harriman, and mother of Winston Churchill III.

- **Progressive Political Action Committee:** Set up by former AFL-CIO staffer Vic Kamber, in conjunction with a number of former aides to Ted Kennedy and Jimmy Carter. This group plans a major direct-mail fundraising campaign.

- **Independent Action:** This outfit was just formed by former aides to Morris Udall, Ted Kennedy, and John Anderson, and plans to back Senate campaigns.

- **Democratic Study Group:** This congressional group, responsible for most of the congressional reforms of the 1970s that broke the power of political machines over Congress has suddenly decided to become active again and will raise money for House campaigns.



# Fabian congressman routed in fight over 'KGB mole' aide

by Jeffrey Steinberg

A scandal has broken out on Capitol Hill that implicates ultraliberal Rep. Paul McCloskey (R-Cal.) and FBI Director William Webster in a coverup of the activities of an alleged KGB "mole."

On Jan. 30, Charles Fager, a legislative aide to McCloskey, was fired from his staff position on the House subcommittee on Maritime and Fisheries. McCloskey was himself demoted from his post as ranking minority member of the subcommittee. Sources close to the subcommittee have told *EIR* that the actions resulted from a heated behind-closed-doors fight in which conservative members demanded the ouster of the staffer whose connections to the KGB were the subject of a widely circulated dossier during December 1980.

That dossier, issued by New Solidarity International Press Service (NSIPS) as part of a series on "KGB moles" working with the nominally Tory Heritage Foundation, documented Fager's late 1960s part in a Boston-based deserters' network closely linked to KGB-Cuban asset Philip Agee. Fager's role on Capitol Hill, the dossier documented, centered around the circulation of disinformation against political figures involved in expanding the United States' advanced scientific program.

Within 48 hours of the subcommittee shakeup, McCloskey, flanked by Fager, gave a Capitol Hill press conference attacking Lyndon H. LaRouche, Jr., a former candidate for the Democratic presidential nomination, who commissioned the dossiers on Heritage Foundation-KGB collaboration. These included profiles of McCloskey aide Fager and Rep. Larry McDonald (D-Ga.) aides John and Sheila Rees. On Jan. 16, McDonald—ultraright-winger and dupe of the John Birch Society—placed an equally scurrilous attack on LaRouche into the *Congressional Record*.

At their Capitol Hill press event, McCloskey and Fager made dramatic use of a letter from FBI Director William Webster stating that a search of the files showed no evidence of Fager-KGB links.

Far from exonerating Fager, this document-waving performance placed FBI boss Webster in a highly precarious position.

During 1974, security investigators associated with

Lyndon LaRouche met with the FBI's New York City office. The subject was the activities of the American Deserters Movement, the Boston-based Resist organization, and the associated Boston *Real Paper* and *Boston Phoenix*. All of these organizations were associated with CIA defector Philip Agee and with espionage activities positively linked to Cuban and East bloc intelligence services. Despite an overall adversary position to LaRouche and his associates, the FBI special agents emphatically acknowledged the existence of the Boston-centered networks and indicated ongoing file maintenance on their activities.

Such close monitoring of the circles that included *Real Paper* writer Charles Fager was not the sole proprietary of the FBI's counterintelligence and counterespionage divisions. Similar files may be maintained by the Central Intelligence Agency and the Defense Intelligence Agency, at least.

The question, therefore, is: did Webster wittingly execute a coverup of existing file material to protect Fager and McCloskey, or did other channels bypass the director? The answer falls within the jurisdiction of the congressional Judicial Oversight subcommittees.

Dossier material now being compiled on Paul McCloskey strongly suggests that Fager may not be the only "mole" candidate in the office.

According to media accounts, in February 1971, McCloskey was the first public figure to call for the impeachment of President Richard Nixon. In April 1971, McCloskey reportedly was the recipient of a set of documents from Daniel Ellsberg. In June, they were leaked to the *New York Times* from still-unidentified sources and became the infamous "Pentagon Papers."

Simultaneous to the Pentagon Papers scandal, during which McCloskey reiterated his demands for Nixon's ouster, the Californian announced his intentions to run for President in 1972, but dropped out of the race immediately after New Hampshire under charges of financial mismanagement of his campaign funds.

As late as 1966, McCloskey was a strong supporter of the war in Vietnam and had even requested military or State Department assignment to South Vietnam. In 1967-1968 he took a Damascus road conversion to become the leading Republican antiwar spokesman and joined Sen. Gaylord Nelson (D-Wisc.) in sponsoring Robert O. Anderson's Earth Day. Today, McCloskey is a leading figure in the zero-growth Sierra Club and has been identified as a leading American spokesman for the equally antitechnology World Wildlife Fund.

More sophisticated minds in the nation's capital are now beginning to raise more serious questions about the congressman since his overboard defense of Fager. It is now speculated that a thorough inquiry into the early 1970s Pentagon Papers affair could lead to revelations far eclipsing the Capitol Hill "mole" scandal.

## Dorgan introduces 'Volcker Retirement Act'

On Feb. 2, North Dakota Democrat Rep. Byron Dorgan introduced a bill he dubbed the "Paul Volcker Retirement Act" that will allow Congress to remove the Federal Reserve Board chairman if 60 percent of the House and Senate agree to such action.

Representative Dorgan, North Dakota's tax commissioner for 11 years, declared that "the policies of the Federal Reserve are counter-productive. They increase inflation. . . . They are creating havoc with small businesses and family farms. . . . Volker's 20 percent interest rates represent economic malpractice." Dorgan said he expects bipartisan support, because many Republicans are supply-side economists and "high interest rates are the antithesis of supply-side economics. Low interest rates increase money for investment in plants."

## House committees now being organized

Since the new Congress convened in January, the House has been busy organizing its committee structures. Over the past week a number of important subcommittee changes have occurred.

Liberal Democratic congressmen on the House Foreign Affairs Committee succeeded Feb. 3 in capturing two unexpected subcommittee chairmanships. Rep. Michael Barnes (D-Md.), a close associate of the McGovern wing of the Democratic Party, and only a second-term congressman, suc-

ceeded in unseating Rep. Gus Yatron (D-Pa.), the incumbent chairman of the Inter-American Affairs subcommittee. No second-term congressman has been elected to a subcommittee chairmanship on Inter-American Affairs in 30 years. Barnes said he plans to focus on human-rights issues in the Western Hemisphere.

At the same time, Rep. Howard Wolpe (D-Mich.) beat moderate Rep. Dan Mica (D-Fla.) for the subcommittee on African Affairs.

Another, although expected, victory for the liberals was the election of Rep. Stephen Solarz to head the Asian and Pacific Affairs subcommittee.

Sources close to the committee reported that the liberal move was "extremely well orchestrated," and pointed to Rep. Jonathon Bingham (D-N.Y.) as the point man for the operation. Twelve of the Democrats on the committee were expected to vote with committee chairman Clement Zablocki (D-Wisc.) who had lobbied for both Yatron and Mica, but both lost by 10 to 9 votes.

One thing the moderates are finding particularly irksome is the fact that Wolpe has promised to retain Representative Solarz's chief aide Stephen Weissman on the Africa subcommittee. Weissman's 1978 book *Dirty Work Two, The CIA in Africa* was a notorious attack on the CIA and included a list of several hundred undercover operatives in Africa. Weissman is close to former CIA agent Philip Agee, who has spearheaded the effort to "expose" CIA agents and make them vulnerable to attack.

Another important committee change occurred in the Interstate and Foreign Commerce Commit-

tee, now chaired by Representative Dingell (D-Mich.). Dingell, whose committee will now handle most of the energy programs in the House, has split the Energy and Power subcommittee in two. Representative Richard Ottinger (D-N.Y.) will take charge of the subcommittee dealing with conservation, renewable energy sources, and nuclear energy, while Rep. Phil Sharp (D-Ind.) has taken charge of the subcommittee that will handle fossil fuels and synthetics. Congressmen like Phil Gramm of Texas were angered at the decision to split the committee in two because they feel they now have to sit on both subcommittees to protect the interests of the oil and gas producers and the nuclear industry from these liberal, antinuclear subcommittee chairmen.

## Senate confirms labor secretary

By a vote of 80 to 17, the Senate confirmed the nomination of Ray Donovan as Labor Secretary on Feb. 3, despite the efforts of Sen. Ted Kennedy (D-Mass.), his chief aide Walter Sheridan, NBC-TV, and convicted murderer Ralph Picardo to publicly smear Donovan as an associate of organized crime. Those voting against Donovan included Kennedy, minority leader Robert Byrd (D-W.Va.), Howard Metzenbaum (D-Ohio), Don Riegle (D-Mich.), and Paul Tsongas (D-Mass.).

Even as the Senate was voting up the Donovan nomination, Sheridan, who is well known for his role in the "get Hoffa" hearings in the Senate two decades ago, brought forth several other sources

charging Donovan with corrupt activities relating to organized crime figures. Kennedy has promised to bring any further allegations to the FBI for investigation, indicating that efforts to smear the labor secretary are not over. Since he was not able to prevent the confirmation, Kennedy and Sheridan are known to plan to hold their allegations over Donovan to force him to continue Labor Department and Justice Department investigations against key unions such as the Teamsters.

### **Senate to hold hearings on trading company bill**

Senator John Heinz (R-Pa.) introduced S. 144, the Export-Trading Company Act, on Jan. 19, along with 55 cosponsors. The bill, identical to that passed by the Senate last September, would allow banks to join industry in establishing export-trading companies. The bill was vigorously opposed last year by Rep. Fernand St. Germaine (D-R.I.), now head of the House Banking Committee. St. Germaine objected to the linkup of banking and commerce

At the time, a number of local banks opposed the bill because they feared it as a foot in the door for repeal of the McFadden Act, which prohibits interstate banking. The Heinz bill would allow banks to join the trading companies across state lines. Small regional banks also feared they could not compete with large New York banks in these companies.

Senator Heinz, a leading member of the Anglo-American establishment, will hold hearings on his bill Feb. 17-18 in the subcom-

mittee on International Finance and Monetary Policy of the Senate Banking Committee. The House Banking Committee is watching the Senate actions carefully and Representative St. Germain is said to still have strong reservations about the Senate bill.

### **House calls for bipartisan collaboration**

In a speech to the National Rural Electric Cooperative Association Jan. 26, House Majority Leader Jim Wright (D-Texas) declared that "a Democratic House and a Republican President must find avenues of mutual accommodation through which the nation's interests can be served." Noting that there are areas where "cooperation, not confrontation" will be his goal, Wright cited bipartisan support for efforts to strengthen the nation's defenses and certain economic issues.

In particular Wright said he would advise the President that he must immediately "talk turkey to the Federal Reserve Board and establish clearly who is going to be President. Further reliance on high interest rates could easily plunge us into a deep recession from which it might take much time and money to recover. The President of the United States will not be a helpless bystander while the economic policies that can make or break us are made and carried out by a group of unelected and socially isolated people."

While Wright did call for bipartisan collaboration on a tax program to channel private investment into modernizing industrial plant and equipment, he also sup-

ported development of such inefficient energy boondoggles as synthetic fuels programs and solar energy development. Wright called for more oil, gas, and coal production, but did not mention nuclear energy.

### **Nunn to investigate Longshoremen**

During Senate floor discussion on the confirmation of Labor Secretary Raymond Donovan, Sen. Sam Nunn (D-Ga.), announced that the Permanent Subcommittee on Investigations will begin to hold extensive hearings on the International Longshoremen's Association (ILA) Feb. 17. Nunn, who is no longer chairman of the subcommittee by virtue of the Republican electoral sweep, has been given a free hand by subcommittee chairman William Roth (R-Pa.) to continue investigations into organized labor.

In his floor statement, Nunn said, "We have been looking into this investigation [of the ILA] now for over 12 months, during most of which I was chairman. One look at the ILA indicates that in the last two years more than 100 persons, including ILA officials and corporate executives, have been convicted of various racketeering, obstruction of justice, extortion, income tax evasion, and labor law violations. . . . The subcommittee has expanded on the Justice Department's outstanding work. We expect to show in our hearings a much more pervasive influence of the waterfront industry by organized crime, working through the ILA, than was presented by the department in various criminal trials."

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# National News

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## U.S.: no talks with terrorists

The U.S. embassy in Bogotá, Colombia has issued a communiqué in response to the Jan. 19 kidnapping of American citizen Chester Allen Bitterman which unequivocally declares that the United States will not negotiate with terrorists.

Bitterman's kidnapers, the M-19, have demanded that the U.S. government order the expulsion from Colombia of Bitterman's employer, the Summer Institute of Linguistics although the SIL is a private entity on contract to the Colombian government. The M-19 has also demanded the publication of its communiqués in the *New York Times* and *Washington Post*.

The U.S. State Department communiqué compares the M-19 kidnapping to the "inhumane treatment" of the hostages in Iran and to the murder of the American nuns in El Salvador. Upholding the principle of national sovereignty, the communiqué stresses that the kidnapping falls under Colombian jurisdiction and is "the exclusive responsibility of public security in Colombia."

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## Secretary Haig's fast diplomatic rounds

Secretary of State Alexander Haig plans a full schedule of meetings with foreign diplomats over the next few weeks. During the month of February, he will hold consultations with French Foreign Minister Jean François-Poncet, Italian Foreign Minister Emilio Colombo, and his West German counterpart, Hans-Dietrich Genscher.

Haig has already met with Canada's foreign minister and is expected to meet with representatives of the British Foreign Office when Prime Minister Margaret Thatcher comes to Washington at the end of February. Reportedly he is pressing the Europeans to increase their contribution to NATO and to bolster

U.S. defense forces in the Persian Gulf.

Haig also reportedly met privately with Manfred Woerner, defense expert for the West German Christian Democratic Union. Woerner spent the week of Feb. 2-6 in Washington meeting with other State Department officials, high-level Pentagon representatives, Reagan National Security Adviser Richard Allen, and several members of Congress, including Senate Armed Services Committee Chairman John Tower.

Haig's flurry of consultations has led to speculation that he is attempting to make U.S. foreign policy and then present it to the President as a *fait accompli*.

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## New Jersey's Byrne targets industry

Industries in northern New Jersey have been the special victim of Gov. Brendan Byrne's second phase of the current water crisis. Since mid-January, water bills have included surcharges for "excess use" under a formula dictated by the state's Department of Environmental Protection.

Industries have been surcharged as much as \$20,000 under the formula that uniformly levies surcharges on all categories of users, thus penalizing the industrial user. Obeying Byrne's 25 percent across-the-board consumption cuts means lowered production for many industries.

"Four years ago they came to my business and told me to shut off my use of gas by 4 p.m. or have it cut off," said Philip Kamil of NU Method Dying in Union City. "Somehow this time I was lucky because I changed my equipment to use much less water."

Ben Fried, president of Ben Tex Mills in East Rutherford, explained that his sanitary water bill was \$364, to which a \$1,699 surcharge was added. "They claim I am allowed 13,000 cubic feet, but I consumed 141,750 feet. Can I tell my workers not to go to the bathroom? I have received no notice from my supplier, Hackensack Water, that they would levy surcharges."

Hackensack Water admits that no notices were sent prior to assessing surcharges, nor did they inform customers how to file for exemptions. Hackensack levied \$3.3 million in surcharges on regular billing of only \$2.7 million for customers billed between Jan. 19 and Feb. 2.

Surcharges are levied under the governor's Executive Order 89. They are not based on state law.

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## Alabama Senate joins anti-Volcker effort

The Alabama State Senate, as its first order of business on Feb. 3, unanimously passed SR 3, which calls for the resignation of Federal Reserve Chairman Paul Volcker. On Feb. 5, the Virginia State Senate passed a similar resolution after an 18-18 tie was broken by the vote of Lt. Gov. Charles Robb, former President Lyndon Johnson's son-in-law.

The Alabama resolution, introduced at the suggestion of the National Democratic Policy Committee by State Senator Bobby Denton, a Democrat, calls on the Alabama congressional delegation to work for the removal of the Fed chairman and a reversal of stringent credit policies. In a short debate on the resolution, the only question asked was: "Is anyone in Congress listening?"

The New Jersey House of Representatives was the first to pass an anti-Volcker resolution. Parallel measures are pending in California (JR 5), the New Jersey Senate (SR 47), South Dakota (SCR 9), and Texas (HR 19).

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## NSIPS to expose decades of FBI 'Abscams'

NSIPS, which publishes the *Executive Intelligence Review*, will soon issue the first of a series of dossiers on the Federal Bureau of Investigation. The dossier documents how from its inception in 1908 as the Bureau of Investigations (BOI), the FBI has been nothing but an

instrument for destroying constituency machines through methods most recently expressed in Abscam and Brilab.

The BOI was established by executive fiat in 1908 by President Theodore Roosevelt and his attorney general Charles Bonaparte, the grandson of avowed British agent Napoleon Bonaparte III. The idea of a federal detective agency was so unpopular that Roosevelt did not dare to float the idea while Congress was in session, knowing that a convened Congress would have gone to any lengths to override the founding order.

Within the BOI's first months in office, members of Congress had their offices broken into and documents stolen; were followed round the clock; and were intimidated in a dozen other ways. From day one, long before "Gay Edgar" stepped into the picture, the BOI/FBI was pure gestapo. This story, when published in full, should give the American people a perspective on what Abscam/Brilab is all about.

## Drug eradication method suppressed by DOS

The National Antidrug Coalition learned this month that for the past three years the Carter administration has covered up the existence of a technique which can be used for the effective global eradication of marijuana. The technique involves the use of the plant pathogen *Fusarium Oxysporium f. Cannabis* (*Fusarium Wilt*), a fungus, to destroy marijuana plants. The fungus, which occurs naturally in Italy and which is totally specific to marijuana, was isolated several years ago by Arthur McCain of the Department of Plant Pathology at the University of California at Berkeley, but its use was totally stonewalled by the Carter administration's prodrug Assistant Secretary for International Narcotics Control, Mathea Falco, at the State Department (DOS).

McCain stated in an interview with *EIR* that his research was originally funded by an Agriculture Department grant arranged by the Nixon administra-

tion. However, once the fungus was developed, repeated attempts by McCain to have it adopted for use by the Carter administration resulted in a rejection by Falco, who called it "unsafe."

McCain told *EIR* that the fungus compares favorably with the herbicide paraquat in that it is "absolutely host specific" to cannabis, and in that, unlike paraquat, it is not a poisonous material.

Once introduced, says McCain, it would never have to be applied again.

## U.S. nuclear exports sought by Korea

The export market for U.S. nuclear reactors is expected to mushroom following the visit to Washington by South Korean President Chun Doo Hwan. Chun informed President Reagan of South Korea's plans, based on the Korean Institute of Science and Technology (KIST) proposal for a \$100 billion program to build 110 nuclear reactors by the year 2020, 46 of them by the year 2000. At present Korea has nine plants either built or under construction.

According to the joint communiqué, "President Reagan promised that the U.S. would remain a reliable supplier of nuclear fuel, generation equipment, and power technology." The use of the word "reliable" is seen as a reference to Carter's obstruction of Korea's plans, which lost Westinghouse contracts to France's Framatome during 1980.

The Korean plans include the development of the fast breeder, without which nuclear fuel would become too expensive. The KIST report criticized the Soviet Union and the U.S. for trying to deny this technology to developing countries.

The KIST plan would make Korea's electricity production predominantly based on nuclear power, in place of oil, coal, and exotic fuels. A Korean newspaper editorial praising the KIST report concludes: "It is no exaggeration to say that our economic survival depends on our ability to develop nuclear energy and to accumulate nuclear technology."

## Briefly

● **BENJAMIN CIVILETTI** used the closing days of the Carter administration to try to silence two Justice Department employees who had testified about grave irregularities in Abscam/Brilab. During a recess of the Brooklyn court hearing at which they appeared, they were interrogated and pressured at DOJ headquarters, they say. The two are Bob Weir of the U.S. Organized Crime Strike Force in Newark, N.J., and Assistant U.S. Attorney Edward Plaza.

● **KEN PAFF**, whose charges that Teamster International Vice-President Jackie Presser is "a spokesman for millionaires and organized crime" have received major press playup, is a 13-year member of the International Socialists, a Trotskyist sect, and an organizer for the IS-penetrated Teamsters for a Democratic Union. Presser, who opposed four more years of Jimmy Carter, was a member of Reagan's transition team; none of the many smear charges against him has ever been proven.

● **THE DEMOCRATIC** Party of Genesee County, Mich. has unanimously passed a resolution calling on the state legislature and Congress to take action toward the removal of Paul Volcker and the reduction of interest rates.

● **DR. NATHAN KLINE**, the leading U.S. experimenter on mind-altering drugs, has been ordered by the Food and Drug Administration to halt his work after a lengthy investigation disclosed that he was administering untested, extremely dangerous drugs to patients. In one case, he gave 14 patients a drug licensed exclusively to one physician for testing solely on animals. One patient committed suicide after being administered the drug. At a 1960 conference, Kline called for the use of drugs to control every aspect of human behavior, and has proposed adding lithium to urban water supplies.

## Production incentive or tax windfall?

*Some little-publicized aspects of the President's recent oil-decontrol decision bear attention.*

**T**he Reagan administration's decision to order, effective immediately, the elimination of remaining federal controls on U.S. oil production and marketing has generated intense heat, but so far with little light. The actual facts behind the decision bear attention.

In April 1979, in the midst of growing gasoline lines, the Carter administration, by executive order, called for the gradual phaseout of price controls on domestically produced crude oil (roughly 50 percent of total U.S. consumption), to be totally removed by Sept. 30, 1981. At that time discretionary control authority expires under the Emergency Petroleum Allocation Act of 1973 and the subsequent Energy Policy and Conservation Act of 1975. The controls were initially imposed during the Nixon 1971 wage-price freeze. They have remained in effect on crude oil prices and product profit margins.

What the President did by executive order on Jan. 28, would otherwise have come to pass automatically by Oct. 1, 1981.

Immediately, howls of protest were issued by such consumer advocates as the pro-environmentalist New Jersey Energy Commissioner, Joel Jacobson, who cried that the policy will "soak the consumer and enrich the oil companies."

I did some work on the actual impact of the crude-oil decontrol decision. The results are a little different from general press accounts.

First, recall that this is only for crude oil and product, not for natural gas, which still is slated for phased decontrol by 1985 under a different law for major categories (see *EIR*, Jan. 20).

C. John Miller, president of the nation's largest association of independent oil producers, the Independent Petroleum Association of America (IPAA), pointed out that the federal government, not the "greedy oil companies" will be the "principal financial beneficiary" of the decontrol decision. How so? Remember that Windfall Profits Tax on crude oil that Carter passed last March? As long as a certain portion of domestic crude remained below about \$13 dollars per barrel, it was not subject to the severe tax. Now it is.

The IPAA estimates that between now and October, decontrol will send some \$13 billion of tax revenue to the federal and state governments, or 90 percent of the rise in price. Only some 10 percent will make its way back into the cash flow of oil producers, hardly the windfall being talked of.

Bud Stewart, president of the Energy Consumers and Producers Association, a 1,200 member association of primarily independent producers, expressed his concern that decontrol now "might jeopardize future amendment or alteration of the Windfall Profits Tax" by deluding the public that the industry has just gotten a major windfall.

The Windfall Tax was primarily designed to leech some \$277 billion out of domestic production by Carter strategists who aimed to ensure that the April 1979 phased decontrol only resulted in higher energy prices, not increased production.

To his credit, Reagan's policy echoes his campaign pledge to emphasize increased production rather than decreased consumption as the cornerstone of national energy policy. The President stated that "for more than nine years, restrictive price controls have held U.S. oil production below its potential."

Already, since the beginning of gradual decontrol, domestic drilling activity has grown out of the industry depression of the last two and a half decades back up to levels of the mid-1950s. This is hardly sufficient to develop large new basins such as the Rocky Mountain Overthrust Belt and the promising Appalachian Overthrust. But it is a step in the right direction.

Immediate decontrol, however, will not substantially increase this rate of exploratory drilling. Because only 15 percent of the crude oil processed by U.S. refineries is still subject to price controls, equal to about 25 percent of the crude produced in the United States, its impact at the consumer level will most likely be less than feared.

The point is that "decontrol," like "free market," is one of those loaded political buzz words which can mean very different things in each specific situation. If the rush to decontrol now is merely a convenient political cover to pull further capital out of the industrial energy economy to repair Carter's budgetary hemorrhage, the nation and the energy industry could be the loser. We will watch this closely.