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Haig sponsors Carter's Global 2000 plan
The danger of U.S. fusion budget cuts
Gaullist Debre demands a strong America

Rebuilding the world economy: A European offer to Reagan

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From the Editor

As we go to press, part of our exclusive Special Report on Western Europe's mobilization against U.S. Federal Reserve Chairman Paul Volcker is breaking in the U.S. news media. In a speech before a Ruhr industrial audience, West German Finance Minister Hans Matthöfer called on the Reagan administration to join in a coordinated plan to lower interest rates. This Feb. 12 initiative made front-page news in West Germany, and forced the American press to take some notice.

Chancellor Schmidt's government, moreover, has drawn central bank chief Karl-Otto Poehl in on its strategy. This week Poehl told a financial gathering in Switzerland that "If the U.S. dollar returns to long-term monetary stability, then the dollar together with the European Monetary System will provide the foundation for a stable world monetary order through the 1980s." Note that this Special Report includes a commentary on the European Monetary System by one of its architects, *EIR* Contributing Editor Lyndon H. LaRouche, Jr., whose 1975 International Development Bank proposal and subsequent advisory sessions in France and Germany shaped the 1978-79 birth of the EMS.

A second challenge to the administration is surfacing from its enemies, not its friends. You may think the environmentalists have been thrown on the defensive. But, operating in and around Haig's State Department, they are preparing the channels for wiping out 2 to 4 billion people by the year 2000, as Lonnie Wolfe documents.

A paradigm of the human and industrial potential in the Third World jeopardized by these Malthusian "conservationists" is outlined in the first installment of expanded Colombian coverage from our Bogota bureau, headed by Carlos Cota Meza. I'd also like to call your attention to the coverage of proposed U.S. budget cuts in our Economics and National section. The same question is posed: Credit for development, or cutbacks in the name of non-existent scarcity?

Robyn Quijano

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Special Report

France's Giscard and West Germany's Schmidt at the June 1979 Tokyo summit, the first after the European Monetary System had been established. Sygma

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The stakes in the fight over Eximbank

by David Goldman

George Gregory's accompanying report from West Germany on the spectacular Soviet-West German natural gas deal indicates on what hangs the present debate over funding for the Export-Import Bank of the United States. Cut to a penurious level that continually provoked sarcasm from our trading partners under the Carter administration, the Eximbank is threatened further by OMB Director David Stockman's meat-axe approach to budgetary control.

Under the present Stockman formulation—subject to future presidential review—Eximbank would have to cut its outstanding credit commitments for the next two years from $14.5 billion to $8.3 billion, and reduce discount loans from $400 million to $200 million.

Although Sen. Jake Garn, the new chairman of the Senate Banking Committee, and other congressional leaders close to President Reagan want a strong export finance policy, the Stockman-Kudlow-Sprinkel-Ture-Roberts group at OMB and Treasury have made a special target out of Eximbank. Exim's detractors have budget rationales and ideological complaints against the policy of financing capital-intensive exports.

They envision a basic change in the composition of international trade, to dovetail with the projected transformation of the United States into an "information economy" based on telecommunications, computers, related electronics, and satellite systems, instead of traditional "smokestack industries." Rather than increase U.S. capital-goods exports—where American companies still have a significant competitive advantage in world markets—under this program the United States will correct its trade imbalance by stopping importation of expensive oil and selling expensive telecommunications and expensive food.

As opposed to manufactures trade based on traditional means of infrastructural development, Stockman and his colleagues see a system in which cheap labor in the Newly Industrialized Countries (NICs) will build components, to be assembled in free-trade zones in American cities, for re-export to other markets. In Latin America, financing for this form of quick-turnover export industry would start with the *legalization of narcotics revenues*, on the model of already extant programs in Jamaica, Colombia, and Bolivia. In Asia, moves by the overseas Chinese families—about 100 groups with capital resources of between $200 million and $1 billion each—are surfacing into the manufacturing and transportation sectors, after 30 years of specialization in the "unofficial" economics of South Asia, including a $10 billion per annum wholesale opium traffic.

This perspective for the developing sector goes by the name of "Development Without Aid," the title of a forthcoming book by Hoover Institution economist Melvin Kraus. In a Feb. 4 article for the *Wall Street Journal*, Kraus advised Latin countries to abandon hopes of obtaining resources from the United States, and instead begin "importing labor-intensive industries." Kraus envisions "free-enterprise zones" throughout Asia and the Caribbean employing cheap labor on the model of a plan which National Security Adviser Richard Allen drew up for fugitive financier Robert Vesco in 1971.

What the developing sector needs, Kraus told an interviewer, is "the kind of industries that use cheap labor; textiles, plastics, toys—light manufacture." In the

United States, he says, "It's the sunset industries which have to face the high labor costs here that will move out." The proposed labor-intensive free-enterprise zones in American cities "are exactly the same idea."

This theme dominated a Feb. 8 *New York Times* survey on the world economy. The most important issue in trade negotiations between the U.S. and its partners, the *Times* said, is not protection of our auto and steel industries, but promotion of our exports in the electronics and communications fields. It cited the "agreement ... permitting sales of American telecommunications equipment to the mammoth Nippon Telephone and Telegraph company [which] came after three years of difficult, tense negotiations, an indication of the importance Japan places on protecting its advanced-technology industries. Post office and telephone monopolies exist in most countries of Western Europe and also operate under buy-national purchasing policies."

In addition to cheap-assembly operations, there is one final element in this "new profile" of international trade: the disappearance of the world oil trade.

It is seriously argued that the U.S., after reducing foreign oil consumption by 25 percent during the past two years, can do the same again during the next two years—even though the drop in consumption reflected a collapse of both investment and current output of the steel, transportation, auto, construction, and other energy-intensive industries. These industries may shut down permanently, to be replaced by "sunrise" subsectors.

The oil question

Indeed, the New York Federal Reserve—following the suggestion of the World Bank's *World Energy Report* of Fall 1980—has projected a triage scenario in which those developing nations that survive the current world payments crisis are those which can produce their own oil. Apart from OPEC, a review in the New York Fed's most recent *Quarterly Review* states that a significant number of other nations are at or near oil self-sufficiency among the Third World; these include Mexico, Oman, Trinidad and Tobago, Malaysia, Angola, Bahrain, Peru, Syria, and Tunisia. To this list could be added Argentina, Zaire, the Ivory Coast, and Colombia that are undertaking major oil-drilling programs, because project financing is available for little else.

This was the subject of the World Bank address at the IMF-World Bank Annual Meeting last fall. Now, the New York Fed comments:

> The non-OPEC developing country current account deficit mounted to over $50 billion in 1980, more than double its level two years ago. This deterioration was nearly equal to the $35 billion growth of the oil-import bill of the group over the period. But the direct impact of higher oil prices on the developing countries is very uneven. Four countries—Brazil, India, Korea, and Taiwan—account for nearly half of the group's oil-import bill. Many other countries with less export or borrowing potential have been even more seriously affected in proportion to their own income and output. At the other extreme, those developing country oil exporters that are not members of OPEC showed a $15 billion increase in net oil receipts over the 1978-1980 period."

What the New York Fed envisions is the financial survival of a handful of countries, including those already sufficiently developed to take advantage of the electronics boom, e.g. Korea, Singapore, and Taiwan; those with potential energy self-sufficiency; and those with access to illegal funds that may now be brought onto the "legal" market through the "enterprise zone" system advocated by the Hoover Institution. Colombia, for example, overlaps the latter two categories. Brazil, which can neither produce its own oil revenues nor take advantage of recaptured flight capital, is in a category by itself. As the largest Third World debtor, Brazil is still assured of financing. The Inter-American Development Bank last November convened a Western Hemisphere energy conference in Brasilia to work out oil supply arrangements for Brazil from net exporters.

As for the rest of the developing sector, the report issued jointly last year by the State Department and the Council on Environmental Quality, entitled "Global 2000," states the conclusion inescapable under this regime: the elimination of more than 1 billion persons from the world's population, among those countries which do not fit into the above survivor countries.

The Western Europeans will have none of this. Their governments are committed—as in the West German-Soviet gas project—to maintaining the flow of capital-goods exports that have been the source of European economic strength for a generation, principally orienting toward nuclear power (see Special Report).

That the United States should adopt a trade profile compatible with the loss of its own basic industries worries the French and West German governments. The projected slash in Eximbank funding is particularly ironic after the visit last week of the South Korean President (see International), who brought a proposal for the construction of 110 nuclear power plants in Korea, including 46 before the year 2000. That by itself represents $2 billion per year in American exports for the entire period. In the past, nuclear power construction in South Korea has depended on Eximbank, and could not continue without it. Offers of this sort—echoed by the Mexicans, Brazilians, and others since Reagan took office—indicate how crucial the Eximbank actually is.

Why West Germany clinched the Soviet natural gas deal

by George Gregory

The joint West German-Soviet banking commission formed Jan. 28 to coordinate all aspects of financing, financing conditions, and credit guarantees between the Federal Republic of Germany and the Soviet Union reached "basic agreement" on financing the German end of the West Siberian 5,000-kilometer pipeline project which, when completed at the end of the 1980s, will supply the Federal Republic with 12 billion cubic meters of natural gas, and Western Europe as a whole with 40 billion cubic meters annually.

With this "basic agreement," the financing of $10 billion of credit for the pipeline, pumping stations, and other infrastructure through a consortium of German banks led by Deutsche Bank is signed—the seal merely requires agreement between the German companies and their Soviet counterparts on the detailed bill of materials, the volume, and pricing of the equipment and materials the Germans will deliver. Klaus Liesen, chairman of the board of Ruhrgas A.G., the company primarily involved in marketing the Russian gas, expects this final stage to be wrapped up by the early summer of 1981. At the end of the 1980s, the Soviets will be supplying 30 percent of the natural gas consumed in the Federal Republic, about 5.5 percent of the total energy consumption.

Pipeline construction in the Soviet Union involves Mannesmann.

This new deal, extending and expanding upon natural gas contracts from 1970, 1972, and 1974, has been in preparation since May 1978, when Soviet President Brezhnev met with West German Chancellor Helmut Schmidt in Bonn and signed the 25-year "agreement on the development and intensification of long-term cooperation between the Federal Republic of Germany and the U.S.S.R. in the area of economy and industry." The formal establishment of the joint banking commission during the visit of a Soviet delegation on Jan. 28, under

Deputy Foreign Trade Minister Viktor Ivanov, had already been envisaged back in 1978 as a means of putting long-term economic cooperation on a secure footing with coordination on financing questions.

However, when the Ivanov delegation arrived, a note of urgency was unmistakable. As the German press reported, the reason for the Soviet deputy foreign trade minister's trip in late January was to ascertain "whether the Feb. 23 Soviet party congress would be able to take the natural gas pipeline business into account in its deliberations on its next five-year plan, or not."

Had Ivanov returned home with a "no" answer, Leonid Brezhnev and other Soviet leaders who favor stable relations with the West would have been forced to go into the party congress without a shred of evidence that the "agreement on cooperation" signed in Bonn two years earlier was anything but an empty declaration of intent. Under those circumstances, it would not have been hard to predict how the prospects for what Chancellor Schmidt and French President Giscard d'Estaing termed their desire to reach a "new East/West equilibrium" would fare in the Soviet party congress and a realigned Politburo.

Despite the fact that both sides were negotiating the terms of agreement on financing in an obviously high-pressure political situation, the German negotiators made it clear that they were not going to allow themselves to be boxed into a bad deal on that account. The Soviets wanted to be sure that Bonn stood firm behind the deal, embedded in the 25-year agreement, and had therefore stalled on responses to Mannesmann/Demag's offers for pipe contracts until the financing with Bonn government guarantees was wrapped up. (Mannesmann will be delivering its specialty seamless cast pipes, the same that will soon be in licensed production by the Colorado Fuel and Iron Steel Corporation in Pueblo, Colorado, since that company recently bought an entire Mannesmann plant for $25 million.) That brought the crux of negotiations down to the question of interest rates.

The German negotiators began to get pressure from both sides. From behind the scenes, OECD official circles complained bitterly that 7.25 percent interest rates on export credits—approximately the range normally granted to Third World countries—are too low for the Soviet Union, and violate OECD guidelines. The German bankers, also behind the scenes, responded that they would then simply reclassify the credits as import credits for the natural gas, for which no restrictions exist. When the Soviets insisted on 7.25 percent, the German bankers replied, in effect, that they did not really care what the interest rates were, but that the total cost would have to allow the natural gas to be sold at market prices, without their having to incur losses that some one else would have to subsidize.

On that basis, the German-Soviet banking commission signed its "basic agreement." Both sides have agreed on an interest-rate/materials-and-equipment price mix that makes for sound business.

'No strategic dependence'

On Jan. 22, in between negotiations, Bonn's Economics Minister Otto von Lambsdorff issued an official statement dispelling two of the rumors and arguments against the natural gas pipeline deal that were periodically causing nervous flurries in Washington. First, von Lambsdorff stated, all fears that the deal would put the Federal Republic at the political mercy of the Soviets through an "intolerable strategic dependence" on natural gas supplies were "totally unfounded."

Second, he said, it is not true that the United States opposed the deal. Von Lambsdorff's ministry had completed a detailed study in early 1980 on the structure and flexibility of Germany's natural gas and overall energy network. The study concluded that Germany could afford to take 30 percent of its natural gas from the Soviet Union without any appreciable political pressures arising in the case of a total cutoff.

This winter, 30 percent of the present flow of Russian gas onto the German market has been cut, due to technical problems in the pumping stations from the lower Siberian fields. There has been no crunch on prices or availability for the German consumer, since more natural gas is being drawn from the North Sea to fill the temporary gap. The new line is to be equipped with special, heavy-duty pumping stations built by AEG-Telefunken, with electronics supplied by the Japanese. The Japanese themselves extended several billion dollars in credit to the Soviets about three weeks before Ronald Reagan won the presidential elections, to finance the joint German-Japanese equipment. The new pumping stations are designed to handle both the extreme pressures involved in 5,000 kilometers of pipeline, as well as the conditions of extraordinarily severe Siberian winters.

Asked by the West German business daily *Handelsblatt* how long the West could hold out without serious disturbances if the Soviets totally cut supplies of 40 billion cubic meters of gas, Friedrich Spaeth of the Ruhrgas board said, "As long as we want." Reserve capacities and the flexibility of supply sources in Germany are significant enough, said Spaeth, so that "we want this contract because it opens up additional energy sources for the German market," but "the U.S.S.R. knows that its customers, for a total of 40 billion cubic meters, do not need to go for this business at any price."

Present reserve capacity in underground tanks in Germany is 3 billion cubic meters, and new tanks soon to be brought into the system will increase this to 5.5

billion cubic meters. Today's volume, together with that which can be either redirected or substituted, is larger than the total Soviet supply. By the end of the 1980s, it will still be two-thirds of the total Soviet supply.

Objectively, von Lambsdorff's statement that fears of strategic dependency are unfounded is, therefore, correct. Other attempts to suggest that Germany could avoid pursuring this option for diversification of its energy sources, for example, by building nuclear reactors, are treated here in Bonn as a mere sleight of hand.

If the equivalent in nuclear reactors were used for heating, twelve 1,300 megawatt reactors would be required; if used for electricity, four such reactors. Not only is the possibility of a mere autarchical substitution termed unserious here, but Germany today derives over 49 percent of its enriched uranium from facilities in the Soviet Union. This dependency developed over the 1970s, when, due to repeated "technical difficulties," its supply of enriched uranium from the United States dropped by 47 percent. Rather than thinking of substitution, the Germans intend to secure their East-West business, engage in broad economic cooperation with Saudi Arabia and OPEC generally, and also salvage from the mothballs 40 to 50 billion deutschemarks already invested in nuclear power.

The political opposition

Over the course of the Carter administration, the view hardened in Bonn that European and American basic policy perspectives for trade, economic cooperation, and research and development with Eastern Europe were fundamentally opposed.

In mid-1979, when many of the cautious diplomats in the Bonn foreign ministry were still unsure about the appropriate tactics to apply in this situation, Dr. Friedemann Müller, an East-West energy-economics specialist from the foreign ministry's think tank at Ebenhausen, was encouraged to publish an abbreviated study of this issue. His study concluded by saying that "a political situation which, in a certain sense, represents a historical phenomenon, should be mentioned, namely, the fundamental difference in the perspectives of the U.S.A. and Western Europe as regards the political sense of economic relations with Eastern Europe."

Referring to President Lyndon Johnson's 1963 protest, at British instigation, against a similar pipeline deal between the Soviets and the Germans, Müller said that "the Americans were able to assert themselves despite the fact that agreements had already been signed between the Federal Republic of Germany and the Soviet Union. The result of this was, however, that the Federal Republic was more inclined to ignore American wishes in subsequent cases. *The policy of détente of the early 1970s also did not result in any basic change in the American attitude.*" The transition from Kissinger to Brzezinski ended with Brzezinski's "attempt to develop a concept which would not only make the U.S.A.'s willingness to do business with the Soviet Union dependent upon Soviet concessions, for instance, in the area of human rights, but he also attempted to commit the Western European allies to this policy. . . . Europeans should not pass up the chance to make an independent contribution to security in Europe in this area [emphasis added]."

On the inside of deliberations on ways and means of fulfilling the May 1978 agreement on cooperation, there were no basic disagreements even from the more cautious of the diplomatic corps, especially as Müller was emphatic on the point that "one should not lose sight of the fact that this contribution to security in Europe cannot substitute for defense policy. Economic relations can only help to avoid conflicts, but they cannot be used to regulate them." At most, some diplomats thought Müller's publication was a tactical mistake.

At that time, Peter Hermes, the experienced senior diplomat responsible for coordinating Bonn's side of the German-Soviet work in 1978, was the chief adviser to Foreign Minister Hans-Dietrich Genscher. He is now Bonn's ambassador to Washington. A much more extensive development of Müller's arguments is currently in limited circulation among professionals in the West.

At this time, Bonn is looking forward to working with the Reagan administration in the area of East-West cooperation.

The chief source of the domestic opposition to the pipeline business is, therefore, all the more remarkable because it comes from circles typically associated with the Willy Brandt/Henry Kissinger versions of "détente policies." Exemplary is one Ulrich Steger, a "left Social Democrat" counted among the radicals of the SPD allied with Willy Brandt. Steger recently returned from a trip to the United States with the story that even the "man on the street" in America is opposed to the German-Soviet business. He then spent weeks opening doors in the German industries which will be involved in the Soviet deal for Angela Yergin of Washington's Georgetown University, and for Ellen Frost from the Pentagon. The two are reportedly doing studies opposing the natural gas deal.

Apart from being a détente dove turned against long-term economic relations with the Soviets, Steger is among those Social Democrats who have attempted to undermine the German-French agreements on nuclear processing and enrichment of fuels; and most recently Steger has moved to cut budget allocations intended to finally unblock construction of the fast breeder reactor in Kalkar, in the Ruhr.

Where to cut—where not to cut

by Richard Freeman

In his nationally televised economic address Feb. 5, President Reagan sounded the note of an industrial revitalization, and simultaneously made key omissions and proposals that could undo the economy and his presidency. Reagan declined to single out the destructive effects of the Federal Reserve chairman's interest-rate policy. He also endorsed a variety of budget cuts, including cuts in the Export-Import Bank, the nuclear fusion program, and the National Aeronautics and Space Administration (NASA), which would gut American productivity.

At issue in the President's speech is the direction of the U.S. economy, not only for the next four years, but for the next couple of decades. Thus the forthright commitment to economic growth expressed in the Feb. 5 speech requires an end to muddleheadedness on monetary and fiscal matters. As I reported last week, Paul Volcker's interest-rate policy has added at least $30 billion to the 1981 fiscal budget deficit, including $22 billion in interest payments on the public debt, plus increased outlays for unemployment benefits, as well as lost tax revenue. These Volcker tack-ons to the budget gap should be the first target of the administration's cut list.

Calamities and proposals

Reagan began his address with the following assessment: "I regret to say that we're in the worst economic mess since the Great Depression. . . . Today, this once-great industrial giant of ours has the lowest rate of gain in productivity of virtually all the industrial nations with whom we must compete in world markets. . . ." The President proposed a package of accelerated depreciation tax breaks on investment in new plant and equipment, and removal of the most onerous environmental restrictions. "We have to give [American workers] the tools and equipment that workers in other industrial nations have. . . . We must increase productivity. That means making it possible for industry to modernize and make use of the technology which we ourselves invested; that means putting Americans back to work," he said.

The other side of the speech, the budget-cutting side, was virtually dictated to the President by the monetarist core within the administration, led by Office of Management and Budget (OMB) Director David Stockman and Treasury Undersecretary for Monetary Affairs Beryl Sprinkel. Last week saw the appointment of Lawrence Kudlow as the senior assistant and chief economist at OMB. Kudlow, formerly the chief economist at Bear, Stearns investment bank, served under Volcker for three years when Volcker headed the New York Federal Reserve. "At a meeting at OMB last weekend," Kudlow's colleague at Bear, Stearns, Robert Synch, reported Feb. 5, "Stockman and Kudlow and others worked out a unified package of tax and budget cuts with monetary restraint, and they will bear down on the President to adopt it."

The effect was evident in Reagan's speech and in the fact sheet presented by the President's staff at the time of the speech. Reagan stated that budget deficits are the major cause of inflation—they are not—and proposed cuts which his fact sheet says would total $15 billion in fiscal 1981 and $40 billion in fiscal 1982, many of them highly destructive.

For fiscal 1981, what is proposed includes:

- 20 percent from the nuclear fusion budget;
- 25 to 40 percent from the Export-Import Bank;
- several billion dollars through the elimination of CETA jobs, reduction or elimination of unemployment benefits for those out of work for over 26 weeks, and sharp cuts in trade adjustment assistance for autoworkers;
- cancellation of NASA's Galileo mission scheduled to probe the atmosphere of the planet Jupiter.

Reagan proposed many other cuts in the same vein. On Feb. 10 he reversed some of the proposals, stating that there are seven programs, totaling $210 billion in fiscal 1981, that benefit the elderly and very poor, and would not be cut. These include the $140 billion Social Security old age and survivors' insurance program, which serves 32 million retired workers who paid into the system, and the $45.4 billion Medicare health program for 28.6 million elderly recipients.

Whether Congress will permit major cuts in spending for NASA, the fusion budget and the Eximbank is doubtful. But meanwhile, at 19 percent interest rates, inflation will persist and accelerate, while funds flow into the high-return, nonproductive sectors of the economy, further fueling inflation. As long as Volcker receives even grudging support from the White House, no economic recovery is possible. Moreover, an unbalanced budget adds at most one or two percentage points to the current 13 to 15 percent rate of inflation. Cuts in scientific, technological, and educational outlays will simply compound the U.S. productivity crisis, and thus earn the President the enmity of the population and the paralysis of our 1980s economic potential.

Foreign Exchange by David Goldman

No German break from the EMS

The deutschemark's problems have been exaggerated. Its future depends on Schmidt's export push.

The communiqué last week by French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt affirmed the two countries' commitment to the European Monetary System, indicating that both countries would give priority to maintaining currency stability. In this case, that means strengthening the West German mark, which lost 20 percent against the dollar in the last six months.

Barring a Soviet invasion of Poland—which would prompt security-related capital flight out of West Germany—the West German mark is poised to recover slightly from its most recent dip, which brought it down from around 2 marks to the dollar at year-end to 2.14 on Feb. 12. U.S. commentaries have underestimated the speed with which the West Germans can correct their payments imbalance (now estimated at $9 billion for 1981) through stepped-up industrial exports. In major deals with the Gulf oil-producing states and the Soviet Union (see page 6), the Germans have racked up export orders exceeding DM 100 billion.

The firmness of the Japanese yen and the French franc is attributable to capital inflows to Japan of about $20 billion, and inflows into France of about $13 billion, during 1980. Although West Germany obtained some substantial direct placements of Arab funds (in the range of $6 billion), that was not sufficient to compensate for interest rate-related capital outflows. Nonetheless, the combination of a further influx of Arab official funds, and a new resolve to export out of recession, augur well for the mark.

"There are no reasons to wallow in pessimism," Chancellor Helmut Schmidt told a meeting of the German Federation of Chambers of Industry and Commerce in Bonn Feb. 10. "As we have in the past, we will in the future master the structural adjustment process required to strengthen our competitive position."

However, for largely political reasons, the American and British financial press have tended to overplay West Germany's immediate difficulties, allying with Schmidt's internal opposition. From the European side, the Swiss financial organ *Neue Zürcher Zeitung* offered this prediction concerning the health of the mark and Germany's willingness to back it up: "In light of economic news that becomes worse every day—unemployment at 1.3 million and rising, a short-term inflation rate of 6 percent, and the still-unchecked fall of the mark against the dollar—the leadership of the German trade union confederation called last weekend for a fight against unemployment. Similar calls in the past have produced no results. First, it appears that the paralyzing crisis in the governing coalition has eliminated room for new economic policy initiatives.

"Second, room for maneuver through the traditional means, fiscal and monetary policy, has long been constricted. The Bundesbank is caught between two goals. Support of the mark ... has been bought at the price of higher domestic interest rates. These could only strengthen the present recessionary course."

This deceptively simple equation of currency support—maintaining the German mark in the European Monetary System—with a deepening recession prompted a call by one of West Germany's five big economic institutes for a temporary suspension of the mark's role in the EMS, in order to provide room for antirecession policy.

However, Schmidt has opened a fight inside the Bundesbank itself over what means should be employed to strengthen the mark. His proposal (see Special Report) is to enlist the help of the Reagan administration in bringing all international interest rates own, taking much of the pressure off the mark and consequently off German capital markets. Some Bundesbank officials have balked at Schmidt's implied attack on monetarism.

But, says a top German banker, some members of the Bundesbank directorate are enraged at accommodating to Volcker at their own expense. "The Bundesbank is tired of being the good boy all the time, and then getting punished anyway," the banker said.

Schmidt has an unbroken record of facing down the Bundesbank on issues of policy disagreement. His problem is not ideological monetarists at the Bundesbank, but maintaining stability on the Eastern Europe and Mideast fronts.

Let them have Hong Kongs

The Heritage Foundation delivers some ugly advice on Third World economic policy.

The Heritage Foundation is likely to capture a key U.S. Treasury post for Third World policy in the Reagan administration.

Dr. Wilson E. Schmidt, director of the Economics Department of Virginia Polytechnic Institute, is said by well-informed Washington sources to be the leading choice for assistant secretary for international affairs. Undersecretary for Monetary Affairs Beryl Sprinkel, in whose jurisdiction International Affairs falls, is said to favor Schmidt.

Wilson Schmidt distinguished himself this fall as the author of the international section of the Heritage Foundation's Project Team Report on the U.S. Treasury, which was commissioned by the Reagan transition team at the Treasury. Schmidt, a radical opponent of all government participation in the economy, called for "phasing out the Office of Assistant Secretary for International Affairs (OASIA) altogether" in the classified report, sources on the Heritage team say. "He wrote that Treasury is too concerned with the Third World, and should worry less about it."

"Sure I did," Dr. Schmidt told a journalist this week, "but I might as well take the job, since it will take a while to get rid of the poor old OASIA."

Dr. Schmidt stated that he will be advising the Reagan administration to push the entire Third World toward the free-market economy of Hong Kong. Instead of U.S. export credits and aid for capital investment and for rapid industrialization, Schmidt proposes that the U.S. totally opt out of the Third World development process, "cut the Third World loose" to fend for itself, and demand that Third World governments "implement the Hong Kong economic model."

The basis for the Hong Kong model, he said, is not heavy industry but "labor-intensive, light cottage industry, at cheap wages."

"I'm a radical free marketeer," Dr. Schmidt said, "and this is the only choice for the Third World if they want to survive. They need to stop the normal Third World government programs, and go for free markets. This means they must get rid of their defensive foreign-exchange controls, get rid of import quota systems, and totally open up their economies for foreign investment. It would help if they waived certain labor laws for free-trade zone areas for foreign investment."

The Third World, Schmidt said, can't afford heavy industrial development, and must be willing to take what international investors will give it—labor-intensive jobs.

Asked how he thinks the U.S. government should move to enforce this, Schmidt said, "We should use foreign aid as a political sledgehammer. The purpose of bilateral aid is not economic development. The U.S. has no mission to develop the Third World. We should give and withhold aid as countries do our bidding, and tell some of these Third World ambassadors that, point-blank.

"For example, if we think a country is too protectionist in its trade policy, we should cut them off unless they change," he said. "Unfortunately, we don't have much clout with a country like Mexico, because we need their oil. But we can force change elsewhere in Latin America."

Dr. Schmidt is a U.S. member of the semisecret Swiss-based Mont Pelerin Society, which advocates a radical Adam Smith-style free trade approach, no matter what the detrimental effects on industrial development. Dr. Schmidt served as a deputy assistant secretary in OASIA during 1970-1972, when the assistant secretary was John Petty. Mr. Petty is currently chairman of Marine Midland Banks of New York, owned by the Hongkong and Shanghai Banking Corporation, which has turned the city of Hong Kong into a drug and gambling den using the principles of free trade.

In the U.S., Dr. Schmidt advocates as well "removing all trade barriers." "If that means shutting the inefficient [steel] mills, so be it. Same for auto."

Melvyn B. Kraus of the Hoover Institution, a collaborator of Dr. Schmidt's, told a reporter this week that the political model for the Heritage Foundation's Third World policy was the brutal dictatorship of Pinochet in Chile. "Sometimes a dictatorship is the only way to promote a free market economy," Mr. Kraus said. "You need dictatorial force, to have the power to liberalize the laws. A dictatorship assures that it will work."

An EMS link for the dollar?

The recent price fall may represent a move toward President Reagan's real gold price.

The recent sharp drop in the price of gold below the $500 an ounce barrier for the first time since May 1980 is being played by London traders as a bottomless pit. Many an American investor has been frightened of late by London traders' talk that the price may plummet to $400 or worse, and that all is uncertainty.

True, a great deal of the selling wave was touched off by the British. Major London firms began dumping gold out of Hong Kong early on the morning of Jan. 26, after David Marsh, the London *Financial Times* gold columnist, reported a selloff of gold by Hong Kong, Singapore, and Mideast investors. Since then, London traders have also insisted that the Iranian central bank is dumping physical gold every time the market moves above $500 per ounce.

But, in fact, the continental European central banks, led by Germany, France, and Switzerland, are in the market, well-connected Zürich sources say. They have established a price support area, in which they will buy, of between $450 and $500. It will be recalled that the Swiss National Bank late last year announced that it will be buying gold for its own account, and the Swiss are not fools enough to buy straight into a price collapse.

Rumors of Far East, Mideast, and Iranian gold dumping are furthermore "ridiculous," say these same sources.

It may be instead that President Ronald Reagan's stated desire to return the United States to the gold standard is an active topic of consideration between the Reagan administration and the leaders of the European Monetary System. It was "increasing talk about returning the U.S. to the gold standard" which revived gold this week, say traders in Geneva.

It is no secret that President Reagan has told Federal Reserve Board Chairman Paul Volcker that he would like to see gold "closer to" the four hundreds price. It has been calculated, Washington sources say, that there is a "real price" of gold which represents the actual cost of production of an ounce of gold from an American-style mechanized mine. Accounting for high-technology mining capital investment and American-style wage levels, the "real price" today would be slightly over $450 an ounce.

The best thing Reagan could do to establish an anti-inflationary environment would be to open discussion of such a real gold link for the dollar. It would be one way of convincing long-term investors, who have abandoned the bond and other capital markets, to return to making long-term investments: the capital-investment boom without which the Reagan economic program cannot succeed.

Certain Reagan advisers are also known to favor linking the dollar to the European Monetary System as a way of drawing into closer collaboration with our continental European allies on stabilizing the gyrating foreign-exchange markets. While this would be difficult in the short term, German banking sources reported this week that such a "real gold price" of about $450 is realistic.

In fact, Hans Bresser, board member of the Dresdner Bank, hinted broadly at a Madrid conference this week that the Bundesbank, if not the EMS as a whole, is considering formally monetizing its gold, by mobilizing gold to defend the West German mark. Speculators against the mark, he said, "should not forget gold. The Bundesbank has 3,000 tons of gold in reserve, which are presently valued at 14 billion deutschemarks but which would be worth DM 95 billion [over $47 billion] valued at market prices of $500 per ounce. De facto, our total reserve would then be at DM 144 billion. With that sum, Germany can weather" the markets, he said.

"The Bundesbank would have no part in a package that would sell one ounce of gold," Dresdner told us, however. "That would be tantamount to a declaration of bankruptcy."

Rather, the Bundesbank is contemplating the use of the gold as collateral for loans from a large dollar holder. This could only be an OPEC nation such as Saudi Arabia, which, according to Chase Manhattan in New York, is "very interested" in puchasing gold-backed bonds.

If such gold-backed loans were done in quantity, it would be a firm step toward an entirely new gold-based international monetary system centered on the EMS.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$280 mn.	Iraq from Brazil	Contract for 128 km. of Iraq's Expressway 1, running to Kuwaiti and Jordanian border, won by Mendes Jr., Brazil's second largest construction company. Mendes won Iraqi gratitude by continuing construction of railroads and hotels in northern Iraq during entire war.	Banco do Brasil opened in Baghdad, seeking investments in Brazil.	Brazil's Finance Min. going to Iraq in hope of big chunk of reconstruction deals.
	Italy from U.S.	State of Kentucky has signed agreement with 3 Italian state-run companies for joint ventures in coal, agriculture, and high technology. Italians want 700,000 tpy steam coal now, rising to 1 mn. tpy by 1990.		Italy studying inland water transport for Kentucky coal.
$177 mn.	Malaysia from U.K.	Britain is providing Malaysia with $132 mn. worth of govt.-guaranteed private bank credits which are mixed with $45 mn. interest-free official aid over the next three years. Credit line is good on any purchases of British heavy equipment, including armaments.	Bank credits at 7.75% on sterling; govt. loans at no interest, payable over 25 yrs.	Reduces effective interest levels to give British competitive edge.
$22 mn. capital	Mexico from U.S.	International Harvester will form joint venture with Banamex bank to build bulldozers, loaders, and hydraulic excavators in Mexico.		
UPDATE				
	Iran/Iraq from France	French govt. split on whether to block delivery of 3 missile-carrying frigates to Iran, until Iran compensated French companies and FACE state export insurance agency for $10 bn. in costs from broken contracts.	Ships had been 90% paid for.	France delivering Mirages to Iraq, which meets all obligations to suppliers.
CANCELLED DEALS				
$1 bn.	China from Japan	Ten Japanese companies with contracts for $1 bn. of plant equipment for two huge petrochemical complexes in Nanjin and Shengli, Shandong Province, have been informed project has been abandoned. C. Itoh and Toyo Engineering have already built much of machinery. Deal was part of $20 bn. 8-year oil-and-coal-for-technology deal that was signed in 1978.	Big cuts in Chinese oil exports to Japan has forced cuts in equipment imports.	Japanese Trade Rep. S. Okita in Peking seeking compensation for broken deals.
$20 mn.	Holland from U.S.A.	Air Products has canceled a polymer emulsion plant due to costly delays caused by Dutch environmentalists. Plans were complete and machinery ordered.		

Behind the thrifts' profit squeeze

The major insurance companies have shut down mortgage markets as part of their 'postindustrial' plan.

The nation's 5,000 thrift institutions, the savings banks and savings and loans who do most of the home mortgage lending in America, are being hit with one of their worst profit squeezes in modern history.

This week, nine out of the 10 largest mutual savings banks in New York reported actual net operating losses for the 1980 fiscal year. The losses totaled $264 million for the nine banks, led by the Bowery Savings Bank, New York's largest and number two in the nation.

So bad is the situation at the savings and loans, for their part, that the Federal Savings & Loan Insurance Corporation reported recently that a wave of S&L bankruptcies was only narrowly averted during late 1980 through major federal bailouts. The corporation spent a record $1.3 billion in federal funds providing short-term emergency credit extensions to as many as 35 S&Ls across the country, with total assets of almost $4 billion, to prevent these institutions from shutting down.

Federal Reserve Board Chairman Paul Volcker's murderous interest-rate squeeze is of course in large part responsible for the current threatened health of the thrift institutions. The thrifts have sustained huge losses in their deposit base during 1980, as money market funds and other speculative financial assets playing double-digit interest rates, tied in effect to the federal funds rate, have drawn billions of dollars out of the thrift institutions.

At the Bowery Savings Bank, for example, withdrawals exceeded deposits by $215 million during the first 11 months of 1980. The U.S. League of Savings Associations estimates that its member S&Ls lost over $20 billion in deposits during the second half of 1980. This trend is expected to accelerate in 1981.

The accompanying collapse of the home mortgage market has been spectacular, with both housing starts and mortgages falling by over 27 percent during 1980. This is in part due to the thrifts' shrinking deposit base, which forces them to make fewer loans, and in part due to the huge rate of rise of mortage rates to 15 percent, which homebuyers simply cannot pay.

But it was the leading insurance companies such as Prudential, along with bank trusts such as U.S. Trust, who have dealt the final blow to the U.S. home mortgage market. These large so-called institutional investors normally repurchase mortgages from the thrift institutions, and they make up the bulk of the investors in the secondary mortgage market. As of the third quarter of 1980 the insurance companies held over $300 billion in such mortgages.

It is this resale of large inventories of 20-year mortgages that has provided thrifts with the new cash to be able to make new ones. But as of this year, the insurance and other institutions have "stopped such investments altogether, shutting down the secondary mortgage market for good," Wall Street investment bankers say. "We don't know who in hell is going to buy fixed-rate long-term mortgages," Louis Anderson, vice-president at Imperial Savings & Loan in San Diego, said of the insurance companies. "They don't want to lock up their money for 30 years."

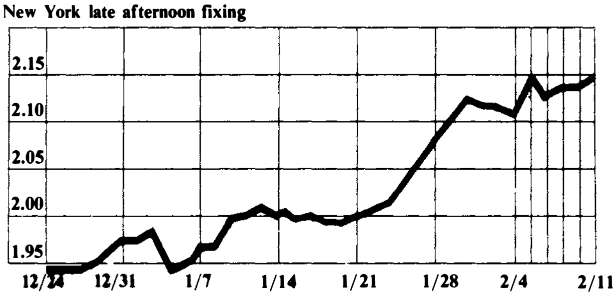
Insurance executives of the American Council on Life Insurance such as the CEOs of Prudential and Equitable believe that homebuilding is a dead or "sunset" industry in which the U.S. can no longer afford to invest, Council spokesman Stanley Karson told a journalist. The insurance companies are shifting huge amounts of funds out of mortgages, steel, auto, and other "dying industries" into computers, microchips, and other "technetronics" industries, as I reported last week.

The aim of the insurance companies is to move the economy into the "postindustrial society . . . by redirecting the major capital flows in the economy, and changing the whole organization of production over the next decade," Karson said.

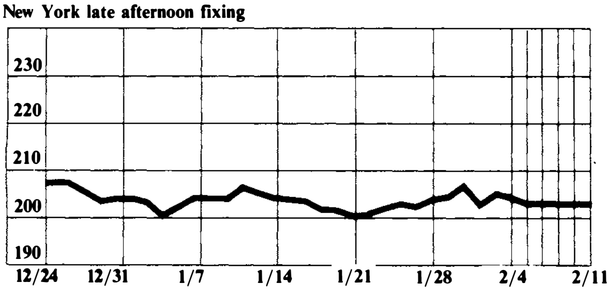
"The entire long-term investors' market," such as insurance and bank trust departments, "has made a gigantic permanent shift away from any investment in such long-term instruments as home mortgages," James J. O'Leary, chief economist of U.S. Trust, said. "This is the end of the long-term, fixed-rate mortgage. The institutions will not be interested in investing in them, and the thrifts soon will no longer be able to make them."

Currency Rates

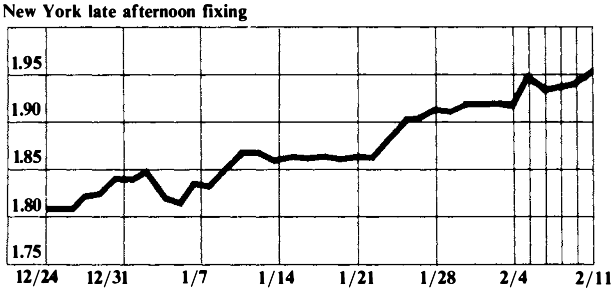
The dollar in deutschemarks
New York late afternoon fixing



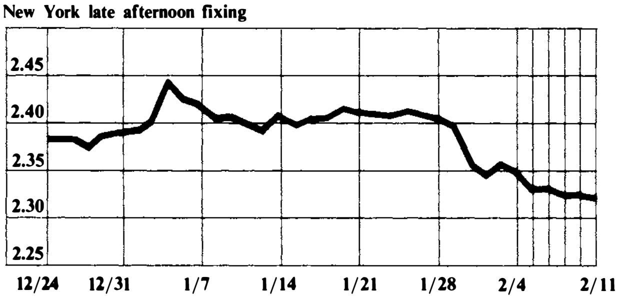
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Business Briefs

Public Policy

France assaults Volcker at BIS meeting

French central bank officials denounced Fed Chairman Paul Volcker's interest-rate policy at a meeting this week of the Bank for International Settlements, the Italian newspaper *Repubblica* reported. The Bank for International Settlements is the site for monthly gatherings of central bankers. The French reportedly scored the Fed for creating inflation with an interest-rate policy that Volcker claims will fight inflation.

Contrary to rumors in the British press, the West Germans backed up the French attack on the meeting. This indicates that Chancellor Helmut Schmidt has laid down the law to the West German central bank, the Bundesbank. Earlier, Mont Pelerin Society-linked monetarists at the Bundesbank tried to run interference against Schmidt's proposal to convene a four-power "interest-rate disarmament conference."

A West German banker commented, "No one had any confidence in Carter. But now it is different—confidence in the dollar is based on confidence in Reagan's intentions."

International Credit

World Bank fight over South Korea loans

The advent of the Reagan administration and the Chon Doo Hwan trip to Washington appears to have cut the ground under factions in the World Bank that wanted to hold up loans to South Korea over the past year.

Informed sources have told *EIR* that following a Dec. 23, 1980 *Wall Street Journal* article reporting on an in-house World Bank study calling for holding up loans to Korea, the Korean government demanded to see it. They were not given the study, but were told it had been prepared by a Korean desk officer prior to a trip to Korea by World Bank officials last summer, during the period of greatest domestic instability.

Traditionally, whenever Korea has run what the World Bank regarded as excessive payments deficits, the World Bank has pressured it to cut imports and capital investments. Each time the advice was followed, the results were disastrous.

This study urged that Korea be pressured to fundamentally restructure its economic strategy away from the high-growth heavy industry approach. It also questioned Korea's long-term political stability. The sources said World Bank President McNamara fired the writer of the report while refusing to hand the report over to the Koreans.

Now, sources report that World Bank loan applications are being processed normally, and World Bank insiders predict Korea will have no problem financing its deficits in the future.

Banking

S&L weakness sparks takeovers

The tremendous weakness of the U.S. savings and loan associations due to the Volcker Fed's interest-rate squeeze (see page 14) has sparked threatened takeovers of S&Ls by commercial banks.

National Detroit Corporation, a large Detroit commercial bank holding company, has applied to the Federal Reserve to purchase the Landmark Savings & Loan Association of Saginaw, Michigan. A series of other such attempts to buy up S&Ls in their states has also begun in California and New York.

While there is nothing in federal banking law to specifically prohibit such cross-industry takeovers, the U.S. League of Savings Associations charged this week that the National Detroit move could weaken the nation's thrift and homebuilding industries. In a letter to the Chicago Federal Reserve, which is reviewing the case pending the Washington Fed's regulatory approval, the League charged that such a merger would blur the distinction between commercial banks and thrifts. The end effect, they said, would be to accelerate the current trend of thrifts to opt out of the home mortgage lending business altogether, and simply become commercial banks.

European Economies

Schmidt promotes German economic recovery

Speaking before the German Federation of Chambers of Industry and Commerce in Bonn Feb. 10, West German Chancellor Helmut Schmidt rejected the notion that West Germany was moving into an economic decline, despite the short-term payments problems of the West German economy. "There are no reasons to wallow in pessimism," the chancellor said. "As we have in the past we will master also in the future the structural adjustment process required to strengthen our competitive position."

To eliminate the German payments deficit and continue to increase German living standards, Schmidt emphasized, nuclear power is critical for introducing superior technology into industry.

"We are playing for high stakes, and no single country alone can master the current problems," Schmidt said, in a reference to last week's communiqué with French President Giscard.

Gold

Gold-backed bonds at 3

The French aerospace group Empain-Schneider has issued the first modern gold-backed dollar bond, and it's taken the Eurobond market by storm.

Empain's U.S. subsidiary Refinemet, a precious-metals trading group, floated the $519 million issue Feb. 10 in London, and London dealers report that it is the only dollar bond selling well. Investors in general shun long-term investment in straight dollar bonds, fearing the high U.S. inflation rate.

With other long-term bonds going at 13 to 15 percent, the bond's coupon has been fixed at the minuscule rate of $3\frac{1}{4}$, because it carries a gold hedge, a principle that could revolutionize the markets.

Such a gold-backed bond issue has been proposed for the European Monetary System, to enable the EMS to use its vast gold reserves as a basis for floating dollar bonds to set up large-scale loans for the Third World. Saudi Arabia has expressed interest in buying such bonds.

Refinemet has issued 10,000 bonds, each redeemable in a face value of 10 ounces of gold. Investors may choose whether to receive interest and principle payments in gold,or in dollars at $519.50 per ounce.

Agriculture

ACA meeting launches farm export drive

A comprehensive strategy to build a stronger U.S. economy through increased farm exports in the 1980s was presented this week at a national conference in Washington, D.C. involving more than 200 top representatives of the farm production and export community.

Concern at the three-day meeting, which was sponsored by the Agriculture Council of America, repeatedly focused on the obstacles to a farm export drive presented by State Department pressures to use food as a weapon in foreign affairs on the one hand, and by Office of Management and Budget chief Stockman's determination to eliminate the various market development programs, such as PL-480.

"Farm exports are one of this country's greatest national assets," said Don Chartier, the president of Farmarco, one of the nation's largest grain marketing cooperatives, in opening the conference. "Our plan is to not only make these findings public but to take them to the American people in an effort to build a solid foundation for the future.

"The message that we are eager to get across is that farm exports aren't just in the agricultural interest—they're clearly in the national interest," Chartier stated. "Farm exports are a major factor in the U.S. economy, creating new jobs, reducing inflation and helping greatly to strengthen the dollar."

Agricultural exports, projected at $48 billion for fiscal 1981, are the leading positive factor in the U.S. trade balance. For every $1 billion increase in farm exports, 31,700 new jobs are created in the U.S. economy.

Former House Agriculture Committee chairman Rep. Thomas Foley (D-Wash.) and Agriculture Secretary John Block were among the featured speakers.

U.S. Tax Debate

Dole pushes economic recovery tax program

Senate Finance Committee Chairman Dole proposed Feb. 12 to move immediately on business tax cuts for accelerated depreciation on new investment, the element in the Reagan economic package announced so far which is most likely to help the economy recover. Dole suggested pushing this tax through ahead of the so-called Kemp-Roth cut—the proposed 10 percent across-the-board tax cut—which would have a much more diffuse effect on the economy. He added that the broader cut would have more difficulty obtaining congressional approval.

Apparently, Senate Finance Committee Chairman Dole is playing an end run around the monetarist ideologues in the Reagan administration, who are pressing for Benthamite "tax incentives" rather than hard, bread-and-butter assistance for capital investment.

Speaking for the ideologues on Feb. 12, new Council of Economic Advisers Chairman Murray Weidenbaum told a White House press briefing first, that he supported Volcker, and second, that he expected a recession this year—the obvious consequence of supporting Volcker's policies.

Briefly

- **A REAGAN** transition report on the Tennessee Valley Authority advocates cancelation of close to $15 billion of power projects, including two nuclear units currently under construction. The report, not yet officially released, was directed by Robert Sansom, an EPA administrator under Nixon and now president of Energy and Environmental Analysis, Inc. The Sansom report also calls for scrapping a $3.5 billion coal gasification project in Alabama.

- **U.S. OIL FIRMS** seeking offshore China oil contracts may lose out to government-backed firms from Japan and France, say U.S. business sources. The reason is that the French and Japanese firms are reportedly willing to take a smaller share of the oil. The U.S. firms will get some contracts but a smaller percentage of them than they had hoped for.

- **CHINA** has ordered 100 apprentices studying industrial techniques in Japan to return home immediately, following an incident in Paris. Jiang Youlou, an outstanding young PRC physicist studying in France, began to criticize the Deng regime. According to the *Far Eastern Economic Review,* the Chinese tried to drag him out of the country, but French police prevented the abduction.

- **DAVID STOCKMAN,** a former matriculant at Harvard Divinity School, denies that his appointment to OMB was a clerical error.

- **HANS EMDE,** a board member of the German central bank, said the bank could only deal with the German economy by helping develop nuclear power. Germany requires the whole cycle of nuclear energy to cure its DM 29 billion current account deficit. Nuclear energy provides jobs, energy, exports, and helps deal with OPEC surpluses, he said.

Europe's offer to the White House

by Robyn Quijano

From the historic summit meeting between French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt came an offer to President Reagan: collaborate with us on a plan to rebuild the world economy.

The joint communiqué issued by the two heads of state seemed to celebrate the end of the Carter era, a period of distrust and conflict for America's European allies. Giscard and Schmidt jointly expressed "their determination to cooperate in a spirit of confidence with the new American government."

The leaders detailed the aims and responsibilities of their nations as "the struggle against hunger, poverty, and underdevelopment, and the establishment of monetary and economic stability . . . [and] the resolutely peaceful use of nuclear energy."

The meeting was a strategy session for establishing a new order of monetary and political stability, for turning around the rapid collapse of the world economy, and expanding production and trade worldwide.

The importance of this meeting and the increasingly loud cries from Europe that the Volcker interest-rate policy is destroying the European as well as the American economies went virtually unmentioned by the U.S. press.

Why such a blackout?

From the day James Earl Carter was invited by the electorate to leave the office of the presidency, the countdown began: certain serious shifts in economic and monetary policy would be implemented internationally, bringing about an economic boom and a return to stability in international relations, or universal economic collapse would ensue, resulting in the destabilization of those governments with the capability and the intention to overcome the economic crisis.

With the Reagan victory and his clear calls to get the American economy moving again, the world correlation of forces favored the progrowth leaders for the first time in years. The economic warfare and sabotage orchestrated

against Europe by the Carter administration was over.

The clear policy that Giscard and Schmidt have put forward over the past three years around the expansion of the European Monetary System with the development credit facilities of the European Monetary Fund could be put on the table for the Reagan administration.

It is this potential that the remnants of the Carter administration, the Socialist International, and British financial circles controlled by the European black oligarchy are working overtime to destroy.

And time is on their side.

The economic devastation of world productive capacity already achieved by the Volcker interest-rate policy, and the success of the environmentalist movement internationally in shutting down the construction and development of nuclear plants throughout the advanced and developing sectors, have already accomplished hideous levels of economic devolution. If aggressive measures are not taken internationally to change the situation by May of this year, the present collapse could be irreversible.

These are the conditions that define the "countdown" of the first months of the Reagan administration. And it is for these reasons that President Reagan was bound by the progrowth election mandate he received to "hit the ground running" and rapidly shift the catastrophic policies of the Federal Reserve.

A blackmailed President

Last week *EIR* detailed the scandalous fact that key U.S. bankers who claim to "run" Paul Volcker had succeeded in blackmailing President Reagan into constricting the progrowth platform on which he was elected. The blackmail involves the threat that should the President remove Volcker and his policies from the Fed, an immediate, internationally orchestrated attack on the dollar would ensue.

Reagan fell into the trap because he believes that these very powerful gentlemen have more power than they in fact do. He is misinformed on the real situation in Europe, where key bankers outside the City of London consider Volcker a dirty word.

Our *EIR* correspondents in West Germany, France, and Switzerland went to work gathering dozens of interviews with leading bankers and industrialists. The purpose was to get the exclusive story on the real pulse of Europe.

The response

As one leading German banker told *EIR*: "If Mr. Volcker argues that if he leaves, the dollar will crash, this . . . is not true. Even if we feel that we should not intervene in American affairs . . . still, this does not mean that Mr. Volcker has our support. Not at all!"

A board member of the Crédit Commercial de France told *EIR* correspondents that "We feel not the slightest inkling of sympathy for Mr. Volcker. The level at which he has set interest rates is ruining us."

As we moved in to get this story from the men who run much of European banking and industry, the fact that the West German chancellor had voiced the same opposition to the Volcker policy was breaking into the

President Giscard discusses France's commitment to nuclear energy.

leading Western European newspapers.

The West German daily *Die Zeit* reported on Feb. 5 a call from the German Finance Ministry for the U.S., Great Britain, and France to join them in an "interest-rate disarmament conference." "If all the interest rates come down," reported *Die Zeit,* "then the Bundesbank can follow suit." The chancellor has been telling his associates: "now the Americans have to lower the interest rates."

The Europeans know that President Reagan would have the trust of the markets if he took a determined move against the interest policies that put not only the American, but also the European, economies on the verge of collapse. The dollar must take its strength from a prospering economy, they stated, not from artificially high interest rates.

The blackmail is a bluff. And key factions in Europe want Reagan to know it. But Reagan is surrounded by cabinet members and advisers who are in on the blackmail plot. As the gentleman in charge of European affairs for the Heritage Foundation, the Socialist International-run "conservative" think tank that has insinuated itself into all levels of the Reagan administration, said, "If that's what the Europeans think, it doesn't matter. The U.S. press will never cover it anyway."

The economic dangers

The countdown is real, and the enemies of the EMS are playing for keeps. They are the same enemies who have targeted Ronald Reagan for Hooverizing and "Reagangate," Giscard for ouster by the Socialist International in the spring elections, and Schmidt for destabilization by the left-wing rioters within his own party.

None of these operations could be successful, however, without the brutal backdrop of economic collapse. For Europe, interest-rate hikes have been felt as economic warfare. For Germany, as for the United States, hand in hand with the death of the "sunset" industries by the credit crunch, goes the devastating effects of the virtual shutdown of the nuclear energy industry.

While President Reagan has pledged himself to the expansion of nuclear energy and the rebuilding of a strong America, Office of Management and Budget chief Stockman's budget-cutting endangers not only the expansion of the nuclear energy industry, but the crucial funds for research and development of fusion energy.

In the Federal Republic of Germany, despite the dedication to nuclear energy by Chancellor Schmidt, the environmentalist enemies of nuclear energy have won dozens of fights in the past weeks that threaten to retard the German nuclear industry by years.

If the many court-ordered moratoria on nuclear plant construction are not quickly reversed, this will spell economic catastrophe for Germany. Already, $40 to $60 billion in investments have been put in the deep freeze. The Franco-German determination to provide nuclear energy for the development of the Third World is also jeopardized by this sabotage.

The French, nonetheless, continue to build their impressive nuclear capability. In an interview with the Feb. 7 issue of *Jours de France,* President Giscard took the example of France's massive and expanding nuclear program to describe the "rationality and courage" with which the French population has met difficulties. Our nuclear program, he said, "has astonished the world. You ought to ask foreign heads of state; they are stupefied. That is rational courage. It is not the case that any actual danger exists, because every possible security measure has been taken. But many nations have not surmounted their apprehensiveness. The French have."

Another summit

Another historic summit will take place in April when Chancellor Schmidt and President Reagan meet in Washington. The potential is great for a new alliance to rebuild the world economy, reawaken the industrial giant that is the United States, and create vast markets for high-technology products in the developing sector that will demand the expansion of all the industrialized economies of the world. Reason and courage will be essential to accomplish this task. But intelligence is also necessary.

The information in this special report, impossible to come by in the rest of the U.S. press, provides a crucial tool to ensure that the European offer is taken up by President Reagan.

‘Nuclear power and world development’

The following is EIR*'s translation of the official Franco-German summit communiqué issued in Paris on Feb. 6.*

The president of the Fifth Republic and the chancellor of the Federal Republic of Germany have closely examined the international situation, the deterioration in that situation, and the efforts required to reverse it. To the factors of destabilization and the dangers they represent to peace, they [Giscard and Schmidt] intend to counterpose resolute joint action by their two countries in order to contribute to that result. They express their determination to cooperate with the new American government in a spirit of confidence. They intend to ensure that three requirements prevail for the stabilization of East-West relations and the maintenance of peace:

1) The requirement of balanced security. It excludes the acceptance of a situation of weakness, as well as the quest for military superiority. It presupposes that undertakings to limit and reduce armaments respect the principle of the global balance of forces. It also renders necessary vigilance and dialogue. In reasserting their fidelity to the commitments of the Atlantic Alliance, in demonstrating their determination to maintain the defense effort where necessary, in working toward a disarmament conference in Europe aimed at adopting in a first phase measures of trust applicable from the Atlantic to the Urals, France and the Federal Republic are making a contribution to ensuring an equilibrium in security.

2) The requirement of moderation in political attitudes. Moderation is necessary, first of all, in relations between signatory nations to the final Helsinki accord, which defines the rules for that moderation. This signifies that it is essential that Poland be able to resolve its grave problems by itself in a peaceful fashion and without foreign intervention. This moderation is incompatible everywhere—within Europe and outside Europe—with recourse to force, with a politics of fait accompli, and with attempts to obtain unilateral advantages.

France and the Federal Republic of Germany, referring to their declaration of Feb. 5, 1980 [on Afghanistan] and reasserting their condemnation of the Soviet intervention in Afghanistan, reaffirm that détente would not survive a shock of similar magnitude. The exigencies of moderation must, by the same token, lead, in the face of a crisis or conflict situation, to negotiations among all concerned parties. This is the significance of the effort undertaken by the Europeans in the Middle East, of the initiative of the Five [the United States, Canada, France, West Germany, and Great Britain] in Namibia, and of the French proposal regarding Afghanistan. It is also the significance of the support given by France and the Federal Republic of Germany to the Lomé agreements on the independence of Chad.

3) The requirement of responsibility in the face of the grave problems of the world, the struggle against hunger, poverty, and underdevelopment, the re-establishment of monetary and economic stability due to a more orderly trend in the price of oil, the strictly peaceful utilization of nuclear energy, are universal tasks. These objectives will only be reached through respect for the independence and personalities of the states and peoples of the Third World, and in the recognition of their aspirations toward a true nonalignment. In the sphere of economic assistance, it is necessary for every state in the world, whatever its form of government, to take a proper part in the establishment of an international order in which all peoples will find a guarantee for their security, opportunities for their progress, and respect for their dignity and liberty.

In defining those orientations, France and the Federal Republic of Germany are conscious of the duties of Europe. They are determined to assume those duties in solidarity with their eight [European Community] partners, to overcome the present difficulties within the Community, to assert the political cohesiveness of Europe, to ensure the stability and progress of its economy: those are the priority tasks in order to endow Europe with a role appropriate to its historic tradition.

'How Reagan can keep Volcker from wrecking his growth program'

On Feb. 8, EIR*'s Bonn bureau chief George Gregory interviewed the chief economist for the Bank für Gemeinwirtschaft, Dr. Eberhard Dettweiler. The Bank für Gemeinwirtschaft is owned by West Germany's major trade-union federation, the Deutsche Gewerkschaftsbund (DGB).*

EIR: I'd like to hear your views on the present interest-rate storm between the United States and Europe.
Dettweiler: There are many factors involved, but basically it boils down to this: first, what will Reagan do? He'll cut taxes, he'll try to get more for defense expenditures, and he will try to cut social expenditures, but in my view, no severe cuts in that area will be possible without producing drastic political problems. All in all, if that is all that happens, I see the deficit in the U.S.A. going up, and with it, inflation.

Then, second, we will have to ask Paul Volcker what he wants to do. Will he increase interest rates even more; will he kill off, from the bottom up, the small and middle-sized industries, and move on to the big ones? I don't know a businessman in the world who can keep his shop running on 25 percent interest rates.

EIR: *Die Zeit* reports that Horst Schulman and the chancellor are initiating moves to convene an international interest-rate "disarmament conference" among Germany, France, the United States, and England. What do you think of this?
Dettweiler: I know this idea is being worked on, and I met Schulman in Bonn last week, but we didn't talk about this in particular. The way I see it, the idea is very positive, but we have a severe time problem. I fear very much an economic crisis like the developments of 1931 to 1932.

EIR: Those are pretty famous dates in economic history that you're naming.
Dettweiler: It's a time problem, as I said. Take one example, an example of something that we do know about Reagan's policies, his energy policy, deregulating oil and fuel prices. Now this *could* turn out to be a real push for this particular industry, but you have to look down the line a bit. To produce oil at home, the industry is going to need miles and miles of pipe, to say the least, and that, in turn, will give a boost to the steel industry, which really needs it. This same program would then also provide excellent chances for the steel industry in other industrial countries. *But*, even if we took the plans for this out of the files right now—and I am sure oil companies in the United States have such plans ready—it would still take 6 to 12 months to see the effects.

EIR: And even if we take your example as a general one for the American economy, obviously it is going to need credits at interest rates industry can afford. But Paul Volcker, as is fairly well known in Washington, is blackmailing Reagan with the argument that if Reagan forces him to bring interest rates down, he will resign, and that would collapse the dollar.
Dettweiler: I see no reason at all why Volcker's resignation would bring the dollar down. For one thing, traders are very solid and careful people, and they don't want to lose their shirts in such a gambit. For another, the American economy is still basically strong, despite several years of horrible setbacks. We know this.

Therefore, if Volcker's resignation had any effect at all, this would be very slight. Reagan's basic program for economic growth, investment, and productivity, is exactly what is needed to give Americans back their sense of confidence in themselves. That is what is good, and on that basis, there is no danger of the dollar's collapsing.

EIR: Have you considered the potential for the new administration working with the EMS countries and re-establishing a gold link to the dollar?
Dettweiler: As I said, it's a time problem. The problem I see is that the political fight over the interest rates may take too long. Sure, we can discuss the EMS, we can discuss working back toward gold, we can discuss all that and more, but this can even wait for two years. The first thing is for Reagan to get the American economy going again, and we are not going to know that that is going to happen until we hear a lot more details from him than just repeated campaign promises. Once he says how he wants to get the job done, he'll get all the cooperation from us he needs.

EIR: Would you tell Reagan to get those interest rates down?
Dettweiler: That is what the American economy needs, and that is what we need. The dollar is flying high right now, but merely on hopes that Reagan will get the

economy going. For that the program has to come out in practicable detail, and if this does not happen in, say, four weeks, I fear a great disappointment is going to sweep the United States, and it will sweep abroad too, and then I fear that the dollar could decline very, very rapidly.

EIR: Why do you say four weeks?
Dettweiler: That's my tightest schedule, we could say the magic 100 days as the outside limit. But that is not the point. Reagan would actually only need about 50 days to show everyone that he has the economy marching on the right road—that would be the best for the United States, and the best for the world economy.

EIR: Would you then say Reagan ought to remove Volcker?
Dettweiler: I wouldn't put it that way. I would say get started on the tax cuts, take the hot air out of the budget, but be selective. With that, we go to Paul Volcker and say, "Look, we've set the preconditions. Now you bring those interest rates down."

EIR*'s European Economics editor Laurent Murawiec interviewed Dr. Andreas von Becker, chairman of the board of Industriebank A.G.-Deutsche Industriebank of Düsseldorf, which does a major portion of financing for West Germany's Ruhr industrial region.*

EIR: What is your opinion of the West German Finance Ministry's proposal for an "interest-rate disarmament conference"?
Von Becker: The idea of convening an international conference for interest-rate disarmament with the Big Four countries is a very good one. Our sentiment is indeed that interest rates are too high. Our central bank governor, Mr. [Otto] Poehl, cannot bring the level of German interest down, because of the international consequences this could have—immediate outflow of capital.

Therefore, it would be very good to have a worldwide cut in interest rates, and it would be very good for the United States, too. This is a question we also ask ourselves: how long can U.S. industry go on with such interest rates?

An international across-the-board cut would be very effective. Present rates damage industry, housing, threaten those private individuals who indebted themselves. Of course, we wonder why credit demand is still high in the United States, but there is the other question—how long can U.S. industry survive that? I repeat: the idea of the conference, aiming at a joint effort to decrease interest levels, is very good. For internal reasons of our own, lower interest rates are needed. Then a little differential between deutschemark and dollar rates does no harm.

If Volcker resigns, I do not see any reason why the dollar should go crashing down. Why should it? If the dollar went down slightly, it would do no harm to the U.S. economy! A decline from DM 2.15 to DM 2.00 to the dollar would be no catastrophe for the U.S. If the dollar has too high a parity, this does not help U.S. exports.

And if Mr. Volcker argues that if he leaves, the dollar will crash, well, this is not a good reason, this is not a good argument. He cannot say, "If I go, the dollar goes."

It is not true that Mr. Volcker enjoys the support of the international banking community. Even if we feel that we should not intervene into American affairs—what is good for West Germany is not necessarily good for the U.S.A.—even if it is not our job to criticize what our American friends are doing, still, this does not mean that Mr. Volcker has our support, not at all!

Let us have lower interest rates. Let the U.S. population tackle their problems and find their own way of doing that.

EIR *spoke with a board member of the Crédit Commercial de France who asked not to be identified, on the issue of the West German proposal for an interest-rate disarmament conference.*

The news of that international conference was predictable—but it is good news all the same! If such an interest-rate disarmament gets going, our own rates will come down. This will improve economic activity, it won't be bad for the franc; it will be good for the Americans, and good for the Germans as well. Let me be clear: we feel not the slightest inkling of sympathy for Mr. Volcker. The level at which he has set interest rates is ruining us.

German business press reports anti-Volcker move

West Germany's widely read financial daily *Handelsblatt* took note of spreading calls to force Paul Volcker's resignation from the Federal Reserve in the United States. Headlined "Anti-Volcker Law Brought Forward," the article reports:

"A legislative initiative, whose sole aim is to remove Paul Volcker as chief of the Federal Reserve, has been brought forward by Congressman Byron Dorgan, a Democrat [from South Dakota]. Dorgan argues that Volcker is responsible for the high interest rates that are destroying the basis of the economy."

Policy Analysis

The European Monetary Fund is indispensable

by Lyndon H. LaRouche, Jr., Contributing Editor

The following commentary was written on Feb. 12.

Are President Giscard d'Estaing and Chancellor Helmut Schmidt about to launch a new drive for establishing the most-postponed European Monetary Fund? Nothing to that effect has leaked directly into news media from the recent "summit" meeting of the two leaders. The British financial circles seem to be extremely fearful that such a new initiative is being actively considered.

Today's international political intelligence roundup reports a virtual "freakout" from London political and financial circles on this matter. At the same time, anti-EMF allies of London are also in a highly agitated deployment aimed at blocking EMF initiatives, including Willy Brandt's German Marshall Fund.

The European Monetary Fund was the second phase of a two-part proposal jointly submitted by Giscard and Schmidt to a July 3, 1978 heads-of-state meeting of the European Community. The first of the two phases, the European Monetary System, was implemented over the year-end of 1978-79. The second phase, a new gold reserve-based credit-issuing institution, the EMF, has been repeatedly tabled under strong Anglo-American and International Monetary Fund oppositional pressures ever since. The British government of Mrs. Margaret Thatcher, which has virtually dictated U.S. economic and monetary policy over the recent period to date, has been in extremely determined opposition to the EMF.

Properly implemented, the gold reserve-based European Monetary System would create a two-tier credit-issuing system internationally. Credits issued by the EMF would be denominated in fixed gold-value European Currency Units (ECUs), and would be used only for hard-commodity production and exports, or for development projects emphasizing modern technologies in developing nations.

The included benefit of such an arrangement would be the fact that creating an adequate supply of low-interest medium- to long-term credit for export-oriented production and world trade in hard commodities would enable nations to put the lid on the soft uses of credit which have been accelerating the rate of inflation. This would mean bypassing the combined inflationary and economic-depressive effects of usurious interest rates dictated presently by the City of London and London's Federal Reserve "asset," Friedmanite Paul A. Volcker.

Although the EMF would be launched as a "corporate" undertaking among member-nations of the European Monetary System, it is the perfect institution for equitable and efficient recycling of "petrodollars," and for expanded partition of other nations, including potentially the United States and Japan.

It will not do the entire job required, but it is an indispensable cornerstone for ensuring workability of the sweeping reforms of taxation and debt rescheduling of Third World debt (or, Israel's debt) needed to stop inflation and resume stable, noninflationary forms of growth of world trade.

The principles involved I have earlier discussed at length in published papers on this subject, including materials circulated during the course of the 1980 presidential nomination campaign.* The same principles of monetary and tax reforms are reflected in the proposal for a bipartisan economic policy issued this past November by the National Democratic Policy Committee, titled "Action Policy: Rebuilding the Democratic National Committee Around a Keystone Posture of Proposing a Bipartisan Economic Policy."

It would be eminently sensible and practical for Giscard and Schmidt to reactivate the implementation of the EMF at this time. The broad view among European banking circles and others is that President Ronald Reagan has less than 50 days to crush the Volcker policies of the Federal Reserve System, before a probable chain-reaction economic collapse which would make Mr. Reagan rather less popular than the unhappy President Herbert Hoover under comparable circumstances earlier. "Fifty days" may be a generous estimate. Although it is necessary to crush the insolence of Volcker's Federal Reserve in this matter, simply booting Mr. Volcker into overdue retirement from public life will not solve the many other grave problems to be overcome. If there is still a bit of sanity in high places, the time for implementing the EMF is already overdue.

Noninflationary credit

The reasons for continued toleration of the Volcker measures are essentially the same reasons the fellow drowned trying to walk across the thin ice of a pond. Since most persons—especially professed economists and bankers—lack competent understanding of economics, they simply fail to realize how dangerous the effects of Volckerism are. The propaganda generally tolerated by the credulous is the argument that once tight-credit action has bankrupted a certain number of superfluous "sunset industries," inflationary pressures will be lessened, and then interest rates can be brought down.

The heart of the prevailing ignorance within such locations as much of the Reagan administration is a refusal to comprehend the implications of the distinction between "productive" and "nonproductive" spending and investment. In brief, investment in capital-intensive forms of goods-producing industry and agriculture increases the productivity of labor, and therefore cheapens the average cost of production of goods for the national economy as a whole.

The benefits of increased investment of that sort are manifold. Not only do the new investments increase the productivity of those employed. Each person shifted from unemployment rolls or nonproductive labor-intensive services or redundant administrative employment into goods production lowers the waste factor of "overhead expenses" for the national economy as a whole. Each average goods-producing farmer and industrial operative now has fewer nonproductive overhead-linked people to carry on his or her back. In other words, the national gross profit of goods production is increased by advanced technology investments, while shifts from unemployment and nonproductive employment categories reduces the per capita overhead expenses to be charged (through taxes or otherwise) against the per capital gross profit cf goods production.

In order to keep that process of improvement moving, we must increase the ratio of engineers developing improved capital equipment. To keep those engineers moving ahead, we must also expand the rate at which fundamental scientific advances are being made per capita.

The person who comprehends that understands the first principles of basic economics. The person who begins what he or she calls "economics," or "economic policy-making" from any other starting point is totally incompetent, a helpless bungler.

Once that is understood, the basic principles of monetary processes are also easily understood.

There never was a truly "invisible hand"; there was only the very visible hand you failed to watch closely enough at the time your pocket was picked. All the chatter about "invisible hands" is exposed as the cult doctrine of the ignorant and superstitious, once the basic principles of monetary processes are identified. Those simple principles are the key to the practical conception of the European Monetary Fund.

The shifts of investment from productive to nonproductive categories of employment and exchanges, or vice versa, are determined by the way combined savings and new credit are caused to prefer to flow in one direction or the other. If after-tax earnings on nonproductive investments are significantly higher than on productive investments, we have as a result the inflationary spiral of economic decay to which the United States has been subjected over most of the postwar period, especially since Prof. Milton Friedman rode President Richard Nixon's back into the White House in January 1969. If credit is made cheaply available for technologically progressive agricultural and industrial goods production, and tax rates on productive investments are much lower than on nonproductive, inflation will stop, and can be reversed.

Nothing else works. Everything else is the superstitious hocus pocus of a bungling would-be magician.

Therefore, there are two main weapons governments must use to stop both inflation and depression threats today. First, cut out all favored tax treatment for nonproductive categories of income and investment, while increasing substantially tax incentives for technologically progressive investment in science and productive employment in goods-producing agriculture and industry. Second, create a relative shortage of relatively high-priced credit for nonproductive investments, while creating a relative abundance of low-priced credit for technologically progressive investment in goods-producing agriculture and industry.

If we tolerate any different approach, then those who tolerate Volcker et al. morally deserve the misery their folly has brought upon themselves.

Therefore, a new, gold reserve-based credit-issuing institution, bypassing the funny-money institutions such as the Federal Reserve (domestically), or the International Monetary Fund or "offshore" unregulated banks (internationally), is the only alternative to a general economic collapse of incalculable depth and duration. Anyone who opposes the implementation of the European Monetary System is, in effect, an ignorant fool or a willful advocate of economic suicide for the United States (among other nations).

*The author's 1980 publications dealing with these subjects include: *Basic Economics for Conservative Democrats*, *Will the Soviets Rule During the 1980s?*, Campaign White Paper #4, "How to End Inflation and Unemployment"; Democratic Party Policy Review Paper: "Why Western Europe Broke Out From Under Control of the U.S. Government's Directives"; 1980 Draft Democratic Platform, "The Next 50-Year Economic Boom"; and Mr. LaRouche's three latest major contributions, *An Open Dialogue with Leonid Brezhnev; Why Credit Can Be Greatly Expanded Without Adding to Inflation*; and *A 'Gaullist' Solution for Italy's Monetary Crisis.*

How Alexander Haig plans to undercut Euro-American entente

by Vivian Zoakos

A very nasty operation is under way, run in tight coordination between circles in Washington and Bonn, to "poison the well" of relations between West German Chancellor Helmut Schmidt and President Ronald Reagan from the outset. Channels of communication between both heads of state are being systematically clogged by the static of a broad disinformation campaign tailored to the profile of both leaders, and meant to ensure their inability to focus discussion on shared issues of great concern. In particular, the intent is to divert attention from those economic issues which are the overriding priority of Schmidt and Reagan.

The coordinating conduit for this campaign is the Socialist International, which explained the policy clearly at its "Eurosocialism and America" conference held in Washington Dec. 5-7. The primary institutions working with the Socialist International along these lines are the Haig State Department, the German Marshall Fund networks that run the Socialist International, and its Trojan Horse in the Reagan administration: the Heritage Foundation.

These circles fear that Schmidt, acting in behalf of Europe, might succeed in breaking the controlled environment they are attempting to create around President Reagan. If so, Schmidt would probably meet with Reagan's enthusiastic support for the Franco-German economic program: global economic development, including the rapid industrialization of the Third World through the use of the most advanced technologies.

This is in conscious opposition to the domestic and international economic policies of the State Secretary Alexander Haig, Heritage, et al., which find their expression in the Malthusian premises of the Brandt Commission report and in the credit blockade of Federal Reserve Chairman Paul Volcker.

The disinformation campaign around Schmidt focuses on his presumed lack of trustworthiness on defense matters, his "softness" on the Soviet question and hence his willingness to "Swedenize" Europe, turning it into a more or less neutral territory unwilling to back legitimate American defense concerns. This is the terminology used in Evans and Novak columns and by *New York Times* and *Washington Post* coverage. It has also been frequently alluded to by State Department spokesmen.

Defense was chosen as the central agitational issue because of President Reagan's urgent concern with this area of policy.

The chancellor's alleged weakness in these matters is ascribed by these circles to his growing difficulties with his left wing, that section of the German Social Democratic Party (SPD) most effectively identified with Socialist International chief Willy Brandt. As Hal Piper of the *Baltimore Sun* put in recently, Schmidt has become a Saint Sebastian pierced by arrows shot by the SPD left. Either he compromises with them, the line goes, or his government will face collapse in short order, triggered by his internal opposition.

Obligingly, the SPD's left wing began a "disarmament campaign."

Exemplary was the *Der Spiegel* interview released this week by SPD presidium member Erhard Eppler, Brandt's collaborator and Schmidt's opponent. Eppler declared that SPD members are in an uproar because it is "becoming increasingly obvious" that the "right-wing" Reagan administration "was never really interested in disarmament." Since it is "impossible" to influence Reagan in this sphere, the Schmidt government must either resist American pressure or face a disarmament initiative calling for a cut in the defense budget and a likely collapse of the government.

The *New York Times* and the other cited conduits have had a grand time using such expressions of left-wing SPD sentiment to document Schmidt's hamstrung condition. Heritage Foundation sources, including its director of European Operations, Geoffrey Gaynor, also see it as a trump card. Gaynor told an interviewer this week that if Schmidt gets "out of control" his Free Democratic coalition partners will collapse his government—using as their excuse the unruly left SPD.

In fact the capability of the Brandt left wing to destabilize Schmidt strictly depends on the extent to which Alexander Haig is able to block effective discussion and agreement between the chancellor and President Reagan on crucial matters, particularly economic policy and détente. It is not for nothing that the *New York Times* and *Washington Post* have been asserting of late that Schmidt's vulnerability rests with his increasing difficulty in realizing his foreign policy aims.

The second prong of the disinformation campaign, which in fact has been conducted through the simple technique of press blackouts, has to do with economic policy. The line of the "left" German Marshall Fund and the "right" Heritage Foundation converges here, too.

Heritage's Geoffrey Gaynor confidently explains that Schmidt's attacks on Volcker's interest-rate policy can have no impact on the United States because they will "never be covered in the American press. . . . Schmidt knows that." Guido Goldman, a member of the German Marshall Fund board of advisers, equally attempts to dismiss the chancellor's views of Volcker as "a cry of anguish and pain, nothing more."

The American press, meanwhile, blocks out the news that this supposed cry of anguish and pain was the central concern of last week's summit between Schmidt and his French ally, President Valéry Giscard d'Estaing.

The Socialist International threads

The links between the Socialist International and the Haig State Department, the German Marshall Fund, the Heritage Foundation, leading press, and similar conduits go beyond the obvious fact of a shared similarity of outlook and policy. The operational interpretation of these networks is massive and can be indicated in summary form.

The German Marshall Fund was founded by Willy Brandt during his tenure as chancellor, and functions as a conduit for Socialist International policy. Its networks into the current State Department are substantial. These State Department inroads function traditionally through Cyrus Vance appointees and Henry Kissinger former appointees who have returned to State through Haig appointments.

Vance, who at one time pressured the West Germans to increase defense expenditures, accept the stationing of medium-range missiles on European territory, and help militarize the Middle East, has more recently done a convenient about-face and is one of the founding members of the Socialist International's Palme Commission, recently established in Vienna to coordinate international disarmament. He now operates out of the Geman Marshall Fund's Arms Control Commission. The GMF cosponsored the Washington Socialist International conference that laid out the disinformation campaign currently in operation.

The motives for Europe's opposition to Paul Volcker

by David Goldman

European leaders have an immediate stake in breaking the Federal Reserve's interest-rate spiral: the present European recession is the direct result of the international market-spinoff effects of 20 percent U.S. interest rates. The French and West German export profile is heavily geared towards infrastructure- and plant-building goods produced for developing-sector markets. But the shrinkage of developing-sector markets in a regime where most of the developing world's $500 billion debt burden bears a 20 percent interest charge makes the European economies unviable. With lower interest rates, Europe's economies would be poised for the most startling recovery in the postwar period.

West German exports rose by 11 percent last year, slightly higher than the 6 percent inflation rate, but far below historical growth levels. In consequence the German trade surplus fell to about $4.8 billion, barely one-third of the 1979 trade surplus of $13 billion. During the summer months the trade balance swung momentarily into deficit, one of the few points in postwar history where the nation's model exporting economy did not register a substantial surplus. The trade deficit was exacerbated on the import side by the 1979 rise in oil prices, which accounted for most of the country's 17 percent rise in import costs last year.

The second-round interest-rate increase in the United States, which the Fed began in late August, caught West Germany in a vicious spiral. The rise in international financing costs dampened potential markets in the developing sector, which require long-term export financing. At the same time, the lowered trade surplus and the outflow of German capital seeking higher short-term returns in dollar interest rates—which have been between 8 and 10 percent higher than deutschemark interest rates—drained liquidity from the domestic banking system. The combination of a lower trade surplus and capital flight pushed West Germany into a 1980 balance of payments deficit of more than $14 billion.

The Fed's impact

Between midsummer and this writing, German interest rates have rates have risen from 6 to 10 percent on the Frankfurt capital market, and the German mark's parity has declined by 20 percent against the dollar—raising oil import costs (oil is priced in dollars) while leaving few opportunities for expanded exports. German industrial output, starting in the steel sector and spreading through the consumer-durables industries, including especially construction, declined in overall terms by 6 percent during the past eight months. In parallel, Italian industrial output dropped by 5 percent, and French industrial output by 3 percent. If the present scenario continues, the consensus forecast indicates a continued gradual dropoff in economic activity during 1981. Germany presently has 1.3 million unemployed—a politically unacceptable level—and France over 2 million.

The industrial downturn has prompted efforts on the part of the European Commission's industrial chief, Viscount Etienne Davignon, to "restructure" the European economies along lines similar to those forwarded in the Carter administration's "Agenda '80s" proposal of December. Last fall, Davignon's plan to introduce permanent capacity reductions through the European Community's market-sharing mechanism in the steel industry prompted bitter resistance by West German and some Italian steel manufacturers (see accompanying interview). Now the EC bureaucrats, who report more or less directly to the British and Belgian governments, are proposing to make the temporary distress of European industry permanent. In a speech last week at the European Management Forum conference at Davos, Switzerland Davignon called for an end to all government subsidies to industry except those to aid in the reduction and restructuring of industrial capacity, directing all European investment into data processing, electronics, energy-saving devices, and coal gasification.

The Davignon pressures

At the European Parliament, the British Conservative-led caucus, the "European Democrats," issued a mammoth report last week urging governments to "restrict investment in declining industries [such as] textiles, steel, and consumer durables," while building up the electronics-related sectors of the economy. Europe faces a "triple challenge," the Parliament's "Nicolson Report" argued: the recession, competition from Japan and the newly industrialized countries in traditional European markets, and the "automation revolution" introduced, the report has it, by the computer. Laissez-faire policies are not sufficient to meet this challenge, the report concludes. It foresees military spending as becoming the vehicle for this technetronic shift of European industry, emphasing aerospace, rocketry, telecommunications, data transfer, and computer systems.

Western European industrialists have no illusions concerning the Davignon approach. Among steel managers, it is regarded as a cynical effort to exploit a temporary problem in furtherance of a deindustrialization strategy most of Europe opposes. However, the pressures on heavy industry are having a major impact. Last week the management of the big Hoesch steel concern in West Germany announced that it would not build a new steel facility in Dortmund, a case that had become a national issue.

In effect, Volcker is conducting a repeat of the Bank of England's speculative runup of the British pound in early 1980, when skyrocketing British interest rates disrupted European currencies by attracting flight capital to London. The much larger dollar markets have a correspondingly more damaging impact. During the past week alone the German central bank lost almost DM 1 billion supporting its currency, reducing liquidity in the German banking system by a similar amount. Should American interest rates rise sharply, the short-term consequences for the German and other Western European economies would be severe.

What suppresses German industrial activity is not simply the tight internal credit-market conditions, but the way the Volcker interest-rate policy affects the world market. With Eurodollar interest rates still in the 16 to 17 percent range, long-term financing for trade purposes is unavailable. But the core of West German and French industrial exports depends on long-term infrastructural development in their developing-sector markets. The balance of payments deficit further prevents the West Germans from providing long-term export financing themselves, except where they are able (as are France and Japan) to re-lend petrodollars invested in their economy by the Saudis and other oil producers.

The first step toward economic recovery in Europe, therefore, is a uniform drop in dollar and other major currency interest rates, taking the immediate pressure off both the international and domestic markets. This would open the situation for a basic clean-up of the Eurocurrency markets. In their present condition the $1.3 trillion Eurocurrency markets are unsuitable for any form of long-term lending, turning over about every two weeks. The resources of the European Monetary Fund, which would convert the present gold backing of the European Monetary System from a simple currency support fund into a potential global lending facility, would be crucial in this operation, probably in cooperation with the U.S. Treasury. This cooperation would make possible an exchange of volatile Eurodollars for long-term, low-interest bonds denominated in gold at a specified price, transforming presently unusable liquidity into the means of financing world trade on an unprecedented scale.

INTERVIEW

'Italy must save her vital steel capacity'

The following is an interview with G. Vecchietti, director of the Industrie Siderurgiche Associate (ISA). He is one of the leading spokesmen for the steel industry grouping known as Bresciani or Tondinari, named after the steel industry in the Italian region of Brescia. The interviewer was Dr. Giuseppe Filipponi, director of the Italian Fusion Energy Foundation and a Milan correspondent for the EIR.

EIR: In Dortmund, West Germany, which is a steel-producing center, there was an open rebellion against the European Community project of Viscount Davignon to reduce steel production in Europe. The government of North Rhine Westphalia, the mayor of Dortmund, and the factory council of Dortmund's Hoesch steel plant mobilized themselves against the refusal to build new steel plants and a 1,300 megawatt nuclear plant that were projected in order to increase the productive capability of that region. These forces believed the new facilities were necessary for the construction of pipelines for the natural gas pipeline from Siberia to Western Europe. How does the Italian steel sector see this difficult period?
Vecchietti: The situation is, in fact, difficult. Davignon foresees a 28 percent cut in production in Brescia steel. The inspectors of Davignon arrived and they are able to give fines of up to 100 liras for any kilogram in excess. So all the steel factories blocked their production for one day every week. The situation will go on this way, then we will see. In the meantime, the workers are in Cassa Integrazione [to receive unemployment compensation] one day per week. We have demanded help from the government, or otherwise many firms will be forced to shut down.

EIR: How do you see the market situation? Are we in a time of overproduction?
Vecchietti: Obviously, the question must be considered equally from the side of consumption. For years we have been pressuring the government to relaunch a plan for housing construction. A program in such a sector would change the situation for steel demand, and nobody can tell me there is no demand for housing. Not to speak of the public works sector—from Florence toward the South, to Rome and Naples—everything must still be done with respect to the highways. The entire highway network from the Adriatic to the Tyrrhennian Seas through the Appennine mountains. If we want a development program to industrialize the Mezzogiorno [the southern region], then we need infrastructure. According to calculations, to build a bridge over the Messina Strait between Calabria and Sicily, you would need the whole of Italian steel production for one year.

EIR: Minister for the Public Sector Gianni DeMichelis considers the steel sector, the primary chemicals, and other sectors as sunset industries, while the future would be for electronics, informatics, and so on. What do you think of this approach?
Vecchietti: Obviously I cannot agree with such conceptions. The Italian steel sector is very modern, one of the most efficient in the world. We use, almost exclusively, electric ovens that guarantee an energy efficiency three times better than the others.

Everywhere in the world, in West Germany, the United States, and so on, they are trying to do the same thing. Obviously the problem is that we need electric energy and this is produced in Italy by ENEL [Ente Nazionale per l'Energia Elettrica is the state-owned body responsible for Italy's energy grid—ed.] and ENEL doesn't produce much of it. But at this point, this is ENEL's problem, not ours. With nuclear plants, the problem would be solved. And besides, do you know how much steel you would need to produce a nuclear plant?

EIR: The energy program drafted by the Fusion Energy Foundation for Italy foresees the complete substitution of nuclear for oil by the end of the century. The program projects the construction of 100 plants of 1,000 megawatts each with a development of the productive capabilities of the nuclear sector. To achieve this goal, it would be necessary to double the present steel production by that time. Do you have any plan to expand production, in view of relaunching the nuclear energy sector?
Vecchietti: The government continually changes its ideas on this point: solar energy, coal. It doesn't give any indication at all. We are disoriented. We prepared many times to start development programs for the Mezzogiorno, for housing, for nuclear. The government says there are no funds, while the money is given to other sectors for political reasons.

The national [steel] productive capabilities are good, in any case. In 1979, we produced 26 million tons. We are second within Europe. Great Britain, just to give an example, produced only 11 million tons. Despite everything, these data show we must still trust this country.

The choices for Reagan in the Persian Gulf

by Robert Dreyfuss

Ronald Reagan, whose foreign policy apparatus is still only half assembled, is facing imminent choices over policy toward the Persian Gulf and the war between Iran and Iraq. Within the next few weeks, he will get strong, if conflicting, advice from two European visitors to Washington: British Prime Minister Margaret Thatcher and West German Chancellor Helmut Schmidt.

First, the British. Thatcher and Foreign Secretary Lord Carrington will arrive in the United States on Feb. 25. Concerning the Gulf crisis, they will present the following package: the Reagan administration, Thatcher will urge, should follow the British lead in lending strategic and other support to the beleaguered regime of the mullahs in Iran, to strengthen what London calls the "geopolitical" alliance between Teheran and the West. Second, the British will propose that Great Britain and the United States commit themselves to covert action to undermine the Iraqi government of President Saddam Hussein.

Second, the Germans. Schmidt, who has sharp disagreements with fellow Social Democrat Willy Brandt since the latter is a supporter of Ayatollah Khomeini, will suggst an entirely different package concerning the Iran-Iraq war to President Reagan. Specifically, the Schmidt team will propose strengthened ties between the United States and the Arab countries of the Gulf, including Iraq and Saudi Arabia; both countries have recently received substantial supplies of weapons from West Germany and France. Then, Schmidt will propose a diplomatic strategy aimed at toppling the Khomeini regime. That strategy, sources say, is based on a West German belief that a generalized U.S.-Soviet accord on Iran and Afghanistan, calculated to strengthen the stability of the Persian Gulf region, is the key to a large-scale expansion of trade with the Gulf states and the Soviet Union in triangular fashion.

The British have an ace in the hole: Secretary of State Alexander Haig is working for them.

Britain on Iran-Iraq

The British strategy toward the Persian Gulf is twofold.

According to Washington intelligence sources, the British intelligence service has already begun to spread rumors that the government of Iraqi President Saddam Hussein will fall sometime during 1981. In quiet conversations and diplomatic contacts, these sources say, London is telling Washington that the Iraqi leader is unstable. At the highest levels of the administration bureaucracy, there is skepticism about the British thesis. But already, British operative Joseph Malone and others are making initial subversive efforts in Iraq (see below).

The key to the British strategy toward Iraq is meanwhile their deliberate policy of giving aid and comfort to the unstable Iranian regime.

With the release of the American hostages by the mullahs, relations between Great Britain and Iran are on the upswing. In an interview with the London *Times,* President Abolhassan Bani-Sadr said that, in his view, Anglican Church missionaries still held hostage by Iran were "not spies," and that they would be set free soon. Then, Bani-Sadr urged London to give Iran military equipment for its war with Iraq.

The first sign of that policy surfaced with the report in the London *Daily Telegraph* that the British have given export licenses to the Interarmco Corporation, a notorious British SIS arms dealer headed by Samuel Cummings, to sell 50,000 G-3 rifles to Iran.

More broadly, with the official removal of the Western economic boycott against Iran, Great Britain has moved quickly to establish itself as the primary economic partner of the Iranians. The British Petroleum group, for instance, signed a contract to buy 175,000 barrels of Iranian oil per day, and many other contracts are expected to follow. The British press is trumpeting the opportunities of renewed trade with Iran.

Underlining the significance of the trade, the London *Financial Times* said that Iran will receive an estimated $1.6 billion per month in oil revenues, more than enough to sustain its economy and its military strategy.

From Iran itself, the intention to topple the Iraqi government is quite clear. Not only did Bani-Sadr say so directly, but an editorial in the Iranian daily *Kayhan* rhapsodized about exporting the Iranian Islamic revolution: "The Islamic revolution cannot be confined within Iran," said *Kayhan,* adding that the people of Iran desire "better exportation" of fundamentalist Islam.

Franco-German countermoves

Demostrating the sharpest divergence between the British strategy and that of the continental European Franco-German alliance, France recently approved the delivery to Iraq of the first four Mirage F-1 fighter jets, part of a package of some 60 F-1s Iraq has ordered. West Germany, meanwhile, has launched an unprecedented deal with Saudi Arabia on tanks and other arms.

France and West Germany's support for the Iraqi side of the conflict has angered some officials in Washington, who see it as a sellout to the Arabs and the Soviet Union—although the White House does not share that dim view of their policy.

"Hell, no, I don't agree with their policy," said Steve Bryen, close to Anglo-Zionist circles in Washington. "I think that kind of accomomodation is dangerous.

"There are very different views between Europe and the United States over how to resolve the security issue for the Gulf and the Indian Ocean. The U.S. says it's a military question, the Europeans say no, it is a diplomatic and political question," said Bryen. "Europe is thinking more along the lines of accommodation, working out some kind of arrangement along the lines of what Brezhnev called for in the Gulf. These are practical arrangements, designed to avoid confrontation in the Middle East.

"I think the key element in this is the East-West deal for Siberian gas. And of course this pivots around Iran. Unlike a lot of people here, I think Iran needs a lot of watching. Before the Shah fell, the Russians and Europe had worked out a vast set of agreements resting on the massive gas swap deal involving Iranian gas to the U.S.S.R. and Siberian gas going to Western Europe. When the Shah fell, it destroyed the arrangement. The Russians lost the gas they needed for southern Russia. They still want that gas very badly. You can see why the Soviets and the Europeans would have a joint interest in stabilizing Iran."

This is the package Chancellor Schmidt will propose to Reagan in mid-March in Washington. France and West Germany have already established preliminary contact with Saudi Arabia to line up support for the deal in the Arab and Islamic world. And Iranian exiles, many of them former military officers under the Shah, are getting ready in case the Khomeini regime should collapse.

Efforts under way to subvert Baghdad

According to high-level Washington intelligence sources, the British Special Intelligence Services has just activated a plan to topple the Iraqi regime of President Saddam Hussein.

The British efforts are signaled by the dispatch of their asset Joseph Malone, who runs the London *Economist*-connected Middle East Research Associates consulting firm in Washington, to Baghdad for a several week stay. Malone, a former CENTO station chief in the eastern Mediterranean, was implicated in the 1975 assassination of Saudi Arabian King Faisal that was carried out by the international drug-trafficking cartel.

EIR investigations have uncovered the fact that the anti-Iraq conspiracy involves not only full collusion between Israeli intelligence and Iran, but operatives of the terrorist wing of the Socialist International. These operatives include Eqbal Ahmad, head of the terrorist-controlling, Amsterdam-based Transnational Institute, and Thomas Ricks, history professor at Georgetown University who was instrumental in installing Ayatollah Khomeini in power in Iran in 1979.

The Israeli intelligence role in the affair was indicated in a Feb. 4 piece in *Le Matin de Paris*, newspaper of the Socialist International in France. Entitled, "The Failure of Saddam Hussein in Iran," The article began by commenting: "The days of President Saddam Hussein at the head of the Iraqi regime are numbered, intelligence services estimate." *Le Matin* reports that the current edition of *Bamahane*, the official journal of the Israeli armed forces, has a feature outlining the ostensible "failures" of the Iraqi army in Iran.

Among such "failures" are probably fictional accounts conduited by think tanks in Jerusalem such as the following: "The rains have transformed the combat zones into immense mires and the Iranians, who are controlling the dams on the rivers, have even more effectively stuck the Iraqi tanks in place by inundating vast land expanses."

From the vantage point of such accounts, *Bamahane* insists, according to *Le Matin*, that "anger is growing in the ranks of the Iraqi army. The purges decided upon by Saddam Hussein against superior officers held responsible for the failure of the 'blitzkrieg' attempted against Iran last Sept. 22 have not prevented, but on the contrary increased, the discontent in the army command and as well as among certain leaders of the Baath Party. The military experience of the Iraqi president is more and more put into question, and he is being reproached for having, through political ambition, thrown his army into an 'adventure' very badly prepared." Additionally, *Matin* cites *Bamahane* as claiming Saddam Hussein is affected by "declining morale in the army."

Finally, the Israeli journal is reported as saying, "by the evidence, the war has plunged Iraq backward by several years on the military, economic, and even international plane. Saddam Hussein, it is estimated in Jerusalem, could soon pay a high price for it."

One day later, *Le Matin* reported a statement by Iranian President Abolhassan Bani-Sadr in which he nearly echoed the *Bamahane* analysis. After attacking France for its sale of arms to Iraq as a move designed to "assure the Arab market for itself," Bani-Sadr insisted that "the regime of Saddam Hussein, which inspires no trust among the other countries of the Gulf, is less stable than previously. If a change occurs in Baghdad, the chance for the future is lost for France."

Transnational's Eqbal Ahmad, a strong supporter of Bani-Sadr, elaborated during a recent discussion. "Saddam Hussein is finished," he stressed. "In two months, Saddam Hussein is going to launch a big military offensive against Iran—an offensive that will be his undoing. He may have eliminated the opposition in the communist party and outside the Baath, but where his weak spot is is from inside the Baath. It is a faction inside the Baath Party that is going to overthrow Saddam Hussein, and this will set off a long and bloody process of coups within coups."

Ricks echoed him during a recent private briefing at Georgetown. "There's trouble down the road for Hussein if his April offensive fails. The root of it will come from young officers, middle-level military personnel, who are tired of sacrificing for a losing war. An additional factor will be the old coalition of Kurds and the left. But the main problem will come from dissatisfaction in the military."

An insight into Malone's activities came from a source at the Washington consulting firm Melvin Conant and Associates, on whose board of directors Malone sits. Days after Malone left for Baghdad, the source told a journalist: "A military victory for the Iraqis is impossible. Hussein is now in a corner, he will go through with the spring offensive and he will get caught. He isn't in the same position as Khomeini, who can tell his people to sacrifice for the revolution. Saddam cannot. If he loses that offensive people will start showing their discontent. He cannot afford to ask them to sacrifice anymore. Take a look at the underground in Khuzestan [in southwestern Iran]. There are [Iranian] National Front members there who are powerful, they link up with a National Front-style opposition in Iraq. If Hussein trounces Khuzestan, it could cost him a high price."

The Iranian National Front maintains very close ties to the Socialist International.

During a Feb. 11 tour of the Iranian army command posts in the southwestern border region near Iraq, Iranian Majlis (Parliament) Speaker Hashemi Rafsanjani launched a diatribe against various powers, East and West, who were threatening Iran's "revolution." In this diatribe, Rafsanjani threatened a full cutoff of Persian Gulf oil to the "materialistic" West. His speech was covered in the Feb. 12 Teheran Domestic Service. Excerpts from that account follow.

Referring to conspiracies between the various internal and external groups during the past two years to overthrow the revolution, [Rafsanjani] said that the United States and the Soviet Union and the reactionary elements in the region and inside the country, with the cooperation of internal capitalists and left-wing and right-wing extremist groups and all those who suffered as a result of the victory of the revolution, are constantly engaged in activities to weaken and destroy the revolution. Our nation must expose all the plots of the enemies with alertness and on the Imam's orders.

Referring to the bias of Western press agencies and their far-fetched predictions, the Majlis speaker said that we have been at war for five months. Remember the wars in Indochina, Vietnam, India, Pakistan, and the short, sharp wars between the Arabs and Israel, and see what problems and obstacles they were faced with. But today, after five months, if you were to visit those wounded in the war, 90 percent of them would request the continuation of the wars; with our morale, we will definitely win. . . .

Rafsanjani then referred to the activities of the superpowers and France regarding the military strengthening of Iraq. He said that their criteria are materialistic, but our basic argument is that the flow of free oil to the West will not continue in the South of the Persian Gulf for the next decade. They will learn that the revolution will cover an area from east of Iran to beyond Israel, Iraq, and Jordan.

Gaullist leader Michel Debré demands a strong America

by Garance Upham Phau

"I would venture to say that the monetary policy of the United States has been and remains an essential element in the undermining of the confidence of many in the values of the Atlantic Alliance." This statement was made Jan. 29 to an American audience by a leading French statesman, former prime minister and current presidential candidate Michel Debré.

Debré came to the United States on Jan. 29-31 with a very strong message for the Reagan administration and the American public: that the present state of "disorder" in the Western world, to the point of internecine warfare on all economic fronts, will lead to a third world war and possibly the end of civilization as we know it.

What Debré asserted is that the United States cannot claim to provide the leadership of the West while refusing to consider the state of the entire world economy. Speaking to an audience at Georgetown University's Center for Strategic and International Studies Jan. 29., Debré said "We live with inflation as many men live with alcoholism. It takes 20 to 30 years before a man soaked in alcohol is taken to a hospital or a mental home. It takes just as long for a nation hit by inflation to realize that its strength is failing."

What is forgotten today, he continued, is "how a serious economic crisis once brought on Nazism, and Nazism brought on war." Leaders in the Western world can no longer ignore the plagues of unemployment and inflation undermining the citizenry's confidence in the free system. To do so is to let the Soviets dominate the world and ask for nuclear destruction.

For an economic recovery in the West, a new monetary system is required, he concluded. "We have in Europe a tentative monetary system. It is only an attempt, and I am sure that for the Western world it is insufficient. What I think is necessary is to have something closer to the European Monetary System for the Western world." Debré added expanding the European Monetary System, which was set up in 1978 by French President Giscard and West German Chancellor Schmidt, lacked only "political will"—political will on the part of European leaders to initiate Phase Two of the EMS, the European Monetary Fund, and the political will for the United States and other nations to join such a system and re-establish monetary order and growth potential.

For Debré, political will comes from patriotism; the citizenry's sense of responsibility to the nation that President de Gaulle mobilized in France was also fundamental to the creation of the United States. "Americans would not have been able to make America . . . if they had not been animated by a profound sense of patriotism."

About Debré

Michel Debré was a lifelong close associate of General de Gaulle and was instrumental in establishing the Fifth Republic, as he drafted its constitution and helped to develop the institutions which gave France a seven-year presidential term protected from ministerial crisis, parliamentary turbulence, or watergating press operations. These strong institutions have come under fierce attack from the Socialist International and the anglophile press corps including the French *Nouvel Observateur,* the *Washington Post* and *New York Times* and the *London Observer,* which slander the Fifth Republic as "a monarchical system" and Giscard d'Estaing as "a man who wants to be king."

Debré was prime minister under de Gaulle from 1958 to 1962, and oversaw the introduction of a method of state planning that yielded unprecedented growth and technological achievement, including the buildup of France's atomic deterrent and the launching of its massive civilian nuclear energy program. Debré later served as foreign minister and then as defense minister, under President Georges Pompidou until 1973.

The French elections

Debré's candidacy unquestionably elevates the electoral debate in France. He shares with de Gaulle a totally uncompromising attitude regarding his ideas, and above all a commitment to the nation, not a common commodity on either side of the Atlantic. His qualities of statesmanship are illustrated by his refusal to state his disagreements with President Giscard's policies before a Washington, D.C. audience as improper under the circumstances.

Debré is now providing leadership to a Gaullist movement otherwise left with the opportunistic presidential candidate of the RPR (Gaullist) Party, Jacques Chirac, and his campaign manager, the Corsican Charles Pasqua, has had close business ties to the Venturi brothers of "French Connection" fame, once the biggest importers of heroin into the United States.

The Chirac-Pasqua gang railroaded the nomination of Chirac as the Gaullist RPR Party candidate at its congress the weekend of Feb. 7. Chirac won the electronically monitored vote by 95.4 percent, with 2.9 percent going to Debré, and 0.3 percent for Giscard.

Pasqua stated at the congress that "those pushing Debré are criminals. The 'steamroller' [Chirac's nickname] will start. The current around Chirac will sweep away everything."

How the "steamroller" will "sweep away everything" was made clear by old-time Gaullist Maurice Druon, writing in the regional paper *Dernières Nouvelles d'Alsace.* Druon intimated that Chirac and his friends were threatening local RPR officials supporting Debré, with no party backing in upcoming legislative elections, and even that alternative RPR candidates would run against them. Debré politely accused Pasqua of being "detrimental to Gaullism" and charged that there were attempts to "destabilize his campaign."

Debré's candidacy will counter the scenario of Norman Birnbaum, organizer of the Socialist International conference in Washington, D.C. last December, for a convergence in the second round of the elections between Chirac and Socialist Party candidate François Mitterrand to defeat Giscard at all costs. Birnbaum went so far as to mention a plan under study for Chirac to become prime minister under a Mitterrand presidency.

'Cold war or talks'

Debré received no better treatment at the hands of the French press than he did from the American. The conservative daily *Le Figaro* called his message on the need for a Western economic recovery a pure-and-simple crusade against the Soviet Union, and claimed that Debré agrees with Alexander Haig on this score.

In fact, at a Jan. 30 National Press Club breakfast, when Debré was asked whether he agrees with President Reagan's tough remarks on the U.S.S.R., he replied, "I think that behind what Mr. Reagan said there is the will to strengthen the United States in order to hold discussion with Russia on a different basis. On this point I think he is right. In any case, I say the same thing to the French. I believe in the value of détente and entente with the Soviet Union on two conditions: that we demonstrate our resolve domestically and increase our strength, and that we clearly hold on to the idea that we know competition with the Soviets strategically and ideologically will not cease."

When, at the same breakfast, Debré was asked his thoughts on SALT, he responded, "Either one returns to the Cold War, or one returns to discussions, and it seems to me that we will return to discussions."

EIR's Garance Upham Phau interviewed former French Prime Minister Michel Debré in Washington, D.C., Jan. 30.

EIR: You have just met with representatives of the new American government. In your opinion, what are the prospects for a better understanding between France and the United States?

Debré: The American leaders—as far as I can tell after a short visit—have the desire to strengthen American affairs, economic affairs, financial affairs, political affairs. At the same time, these leaders want to restore the United States to an important role in world affairs. It seems to me, from the French point of view, that it is important for the United States to be a strong country.

It is the responsibility of France, in other words the responsibility of Frenchmen, to pursue the defense of our interests, of our ideas—in short, to be able to combine cooperation and independence.

EIR: Do you think that the election of Mr. Reagan marks an awakening of American patriotism, as some observers have noted, and do you think such an awakening would be beneficial?

Debré: It seems to me that patriotism *has* been awakened; this comes especially from the grave circumstances of the Iran hostages, and also it comes overall from the sentiment that the United States—which the Americans thought was the foremost power in the world—had somewhat lost the initiative. I am convinced that, in the world of today, the nations that will be on the winning team of world competition are those inspired by patriotism. I wish that for France. Thus I can only regard with pleasure the patriotism of the Americans.

EIR: What do you think Americans should know about the French presidential elections?

Debré: They should know that for France, what is at stake is France's recovery, or, on the contrary, her acceptance of a mediocre situation. What is also at stake, because of the communist and socialist theories, is either that a certain kind of economy will continue or else it will be abandoned. As far as I am concerned, I am convinced that Frenchmen want to keep a liberal type of economy. My wish is that Frenchmen fight, beyond that, for the recovery of their country.

EIR: I was going to ask you a follow-up question as to whether it is in the United States' interest to see [Socialist

Party presidential candidate] François Mitterrand defeated; but you have already answered that question in a way.

Debré: The interest of the United States is that France be strong.

EIR: On Jan. 29, at the Center for Strategic and International Studies, you said that in Europe there was "an attempt at forming a new monetary system, the European Monetary System, but this is insufficient." Could you explain to the American public what kind of monetary system you view as desirable?

Debré: For many years I have been convinced that one can only fight for economic development and social progress with a healthy currency, that is, on the basis of a monetary order. The monetary order established by the Bretton Woods convention has been destroyed.

Since then, under the pressure of the American Treasury, and with the too-easy acquiescence of the European governments, the monetary system has been abrogated. Eminent economists heap praise on floating exchange rates, and it is true that powerful nations and wealthy nations can play on the value of their currency and get temporary profits out of that game.

But the monetary disorder created by inflation worsened inflation in turn, and the social and political consequences of inflation are terrible for the free world. Thus I believe that, midway between the Bretton Woods system and the present disorder, we must find a form of discipline. A discipline that imposes upon all nations, be they big and rich or less big and less rich, the obligation of putting the constraints of relative monetary stability within their economic policy thinking—and this is what certain European nations have attempted with the European Monetary System. But, in my view, it is clear that the development of the Western economies demands that the principles that are at the basis of the European monetary order be spread to the whole of the Western world, and to the economies that are related to it. It is, it seems to me, a necessary condition to remedy a monetary disorder whose political consequences are overlooked by the economists' theories.

EIR: The monetarist ideas of Milton Friedman and Friedrich von Hayek have acquired great influence, and not only in Thatcher's England. It is fashionable to say that the era of high rates of growth will never return and even that they generated today's inflation. Do you think that a return to the policies of high economic growth, such as those implemented by you and Jacques Rueff under General de Gaulle, is possible and necessary, for France as well as for other countries?

Debré: I situate myself as a political man; there exists economic competition, which manifests itself as a currency war, an oil war, a trade war, a war of investments. It benefits some and undermines others, but above all it leads to major political difficulties.

It seems to me that the problem is the following: will the nations of the free world be able to stop the growth of unemployment and to provide a dignified life to all men and women? I am not an a priori proponent of a strong monetary system, nor of a policy of strong growth. As a political man aware of the risks the world is facing, I say that if there is not an effort to remedy unemployment, we are going very far into decline.

EIR: The Third World suffers, as you know, from the imposition of Malthusianism by the International Monetary Fund and the Club of Rome. Do you think, as de Gaulle said in 1945 and repeated throughout the 1960s, that the major task of this century remains the elevation of the Third World?

Debré: I am convinced that the responsibility for us rich nations is very heavy. There is a considerable effort that must be accomplished because the problem facing the starving countries, the developing countries, are key ones for war or peace in the coming years.

On this point the report of [World Bank President] McNamara, a recent report, seems to me to be very clear. The problem, from a financial standpoint, is the following: One cannot help those countries by lending them money they cannot pay back. One cannot help those countries through industrial development based on the cheapness of their labor. One can only help those countries by developing their agricultural capacities and their industrial capacities, under conditions adapted to their situation and by taking that aid out of the revenues of rich countries.

Thus, there is a whole policy to be defined, and it depends to a large extent on the success of the economic recovery [in the advanced sector], because it is clear that if the free world continues to experience economic difficulties and unemployment, it will not be able to face its obligations toward the Third World.

EIR: In the daily *Le Monde* a few months ago, you criticized the Common Agricultural Policy of the European Community [EC] and proposed a policy of food exports to Africa.

Debré: Yes, this is a special case, but a very important one. The orientation of the EC in terms of agricultural policy is toward a decrease in production and a refusal to maintain surpluses. But, if it is absolutely indispensable to help certain Third World countries to develop their agriculture for many years to come, the Third World countries will need us to bring them food and nutriment, and one can only do so if countries such as the European Community members have agricultural surpluses. This is why I am rather severe on the Malthusian tendencies of the EC leaders at the present time.

Prime Minister Suzuki mounts diplomatic effort for World Bank

by Ramtanu Maitra

The tour of the Association of Southeast Asian Nations (ASEAN) nations Jan. 8-19 by Japanese Prime Minister Zenko Suzuki reaffirmed that the Asian community is divided into two contending blocs on the issues of economic development and security relations. The nations in the area regard the two issues as intimately intertwined.

Indonesia, Malaysia, and the Philippines share a common commitment to industrialization. They regard development rather than military alliances as the key to political stability. The 1977 tour of then-Prime Minister Takeo Fukuda allied with this viewpoint as Fukuda pledged Japan's aid to ASEAN industrialization projects and rejected both rearmament of Japan and the turning of ASEAN into a revival of the old SEATO (Southeast Asia Treaty Organization) alliance.

Chinese-allied Singapore and Thailand take the opposite track on this issue and ally with current Japanese Prime Minister Zenko Suzuki. On the eve of his mid-January tour, Suzuki specifically repudiated the Fukuda developmental alliance with ASEAN. "While I fully respect the ASEAN members' own efforts in trying to industrialize," Suzuki told the *Far Eastern Economic Review*, "it does seem to me more important that consideration be given to solving the food problem." Yet, in the agricultural field, Suzuki rejected Fukuda's capital-intensive program in favor of small-scale projects modeled on the World Bank's "small is beautiful" economics.

The strategic corollary to this economic perspective is the "China card," a geopolitical military alliance between China and Washington to which Suzuki has invited ASEAN to become an adjunct. Suzuki admitted that "there are different views on the China question between Japan and ASEAN"; nonetheless, he pressured the ASEAN nations to move closer to China. Suzuki also used the trip to feel out the ASEAN leaders' reaction to a rearmament of, and a regional security role for, Japan. Both the Carter administration and the new secretary of state, Alexander Haig, have heavily pushed this concept. Suzuki referred to this overall package of China card, Japan rearmament, and ruralist economics as the creation of a "Pacific Community."

Only two nations accept the alliance with China—Singapore and Thailand—who also agreed to the revival of Japan's military, and acquiesced to the abandonment of industrialization in favor of World Bank ruralism and labor-intensive assembly sweatshops.

The overseas Chinese

The fear of Chinese domination of Southeast Asia is deep rooted among the industrializing ASEAN countries. This is not only due to China's own obvious regional ambitions and support for local insurgents but also due to the role of the overseas Chinese business community in blocking industrial development.

The London *Economist* reported back in June 1974: "Fourteen million overseas Chinese are the most formidable economic power in Asia outside Japan. Eighty-five percent of them are born in the countries in which they live now. They have no territory of their own except in Singapore, but they are united across many borders by a common language, culture, and heritage. They operate economically rather like a huge multinational corporation with its own conduct."

To this day, the overseas Chinese control more than 80 percent of the economy of Thailand and Malaysia, although comprising a small portion of the population. In Indonesia and the Philippines, where the overseas Chinese comprise only 2 to 3 percent of the population, they control up to half the economic enterprises, particularly in the commerce and trade fields.

The mercantilist outlook of these communities is often regarded as a block to development of an industrializing elite in the ASEAN countries. In fact, in both Indonesia and Malaysia, Suzuki was asked why Japanese ventures cooperated predominantly with Chinese-run businesses in these countries rather than indigenous entrepreneurs.

Besides the economic issue, Southeast Asian leaders are perhaps even more concerned about China's political intervention into those countries through the overseas Chinese. Since the rise of Deng Xiaoping in Peking, Southeast Asia has seen a merger of overseas Chinese previously divided into pro-Peking and pro-Taiwan wings. Under the leadership of Anglo-Chinese financiers out of Hong Kong and Singapore, such as pro-Peking Hong Kong shipping magnate Y. K. Pao, the Chinese business community throughout Southeast

Asia is becoming increasingly regarded as an arm of Peking foreign policy. China's continuing support for local insurgent communists, such as the Malaysian Communist Party, also reinforces suspicions of China's ultimate ambitions (see box).

Suzuki rebuffed

Indonesia, Malaysia, and the Philippines strongly, though diplomatically, rebuffed Suzuki's "Pacific Community" notion. When Japanese Foreign Minister Masayoshi Ito urged his Indonesian counterpart, Mochtar, to normalize relations with Peking—cut off after a 1965 Peking-backed coup attempt, Mochtar replied, "it will take time." Following Suzuki's departure, Mochtar told Indonesian TV viewers that the proposals for Japanese rearmament and a regional security role "was not the will of the Japanese people or government, but was the result of U.S. pressure."

Philippines President Ferdinand Marcos told Suzuki that he would like to see Japan develop nothing more than purely defensive military capacity. He demanded reassurance that Japan's relations with China would stick to the economic sphere and not develop into military cooperation.

In Singapore and Thailand, on the other hand, Suzuki found hospitality more to his liking. Singapore's Foreign Minister Dhanabalan urged Japan to build up its military, arguing, "If Japan fails to have a defense power of its own, it would increase the defense burden of the U.S., and thus the U.S. defense efforts in the region of ASEAN and the Indian Ocean would be cut off." Thai Premier Prem Tinsulanond urged Japan to take on a regional military role.

Suzuki in turn supported the efforts of Thailand, Singapore, and China to polarize Asia around the Kampuchea issue. He told the Foreign Press Club in Bangkok on Jan. 19 that the "Cambodia tragedy" was "the result of military intervention by the Vietnamese." He supported Thai-Singapore efforts to find a respectable cover for Pol Pot in the form of San Sonn's minuscule forces, and pledged financial aid to the Khmer Rouge camps located on Thai soil.

'Peking is lying'

The former chairman of the Malaysian Communist Party (CPM) publicly labeled Peking Prime Minister Zhao Ziyang's pledge to cease support for communist insurgencies in Southeast Asia a lie.

On a January trip to Thailand, Zhao promised, "Our relations with the communist parties of the ASEAN countries are based upon political and spiritual ties. . . . China will prevent our relations with the communist parties of the ASEAN countries from affecting friendly relations between China and ASEAN." Singapore's Lee Kuan Yew has been vouching for the sincerity of Zhao's statements.

CPM Chairman Musa Ibn Ahmed just returned to Malaysia after 25 years in China and told the press that Peking's reticence is only temporary and tactical. "In the long run, China will continue to give help to the pro-Peking communist parties because Peking wants to extend its influence in this region through those parties."

Ruralism versus development

On the economic side, Suzuki promised $1.5 billion in yen credits spread over a number of years, of which perhaps $400 million was simply reaffirmation of commitments made in 1977 by Fukuda, and then stalled under successors Masayoshi Ohira and Suzuki.

The ASEAN leaders in Indonesia, Malaysia, and the Philippines criticized, within the bounds of proper diplomacy, the content of the aid packages for abandoning the industrial cooperation pledged by Fukuda. Suzuki specifically restricted Japan's aid to small-scale rural projects, nonconventional alternate energy sources (*not* including nuclear), small and medium-scale businesses, and "human resources."

For example, out of the $215 million total credit package for the Philippines, $100 million was devoted to a geothermal energy project. Similarly, $100 million out of the total ASEAN package was devoted to technical training centers—not to train ASEAN students in the techniques of modernization, but only in soft energies, small rural projects, and the like.

Philippines President Marcos told the press later that his country did not want to remain only a supplier of raw and semiprocessed materials to Japan but insisted "Japan must transfer to us some technology." Indonesia's Mochtar pointedly remarked on Indonesian TV that Japan, "having enjoyed 100 years of modernization since the Meiji Restoration, could contribute its high technology to the Indonesian development process." To make sure the point stuck he referenced transfer-of-technology agreements just concluded with France and West Germany.

As oil suppliers, Malaysia and Indonesia were able to demand that Suzuki maintain credit to urea fertilizer projects originally agreed to by Fukuda. These projects for a total of $350 million plus a $150 million project for a hydro-power plant in Indonesia were the sole exceptions to the ruralist program of Suzuki.

U.S.-Korea summit bears economic fruit

by Richard Katz

"Before our President Chun Doo Hwan came to see President Reagan, many American banks and traders were hesitant to do business with us. They had fears for the political stability of Korea," a Korean government official told *EIR*. "Ever since the visit our phones have been ringing. Banks from Dallas, Boston, and Hartford are calling up asking how much money we need to borrow. Traders are placing orders for our goods and asking what machinery we want to buy."

President Chun came to the U.S. on Feb. 1-3 seeking support to ensure Korea's economic, political, and military stability from President Reagan and the American business community. On all counts, he met with success. And in return, the U.S. regained an increasingly important business partner and a trustworthy ally, in contrast to the China of the Carter era.

The issues of the economy, military security, and political stability are all very dependent on the attitude of the U.S. administration. In 1980, Korea's real Gross National Product (GNP) fell by 5 percent, including a 1.6 percent drop in the manufacturing sector, the first since the development takeoff following the Park Chung Hee coup of 1961. The oil shock of 1979-1980 was only part of the problem. The Carter administration's antipathy toward Korea was more important.

Carter policy reversed

The Carter administration and certain leading New York banks joined the World Bank-IMF to pressure Korea to respond to the oil shock of 1979-1980 with internal austerity and a slow-growth approach. In the atmosphere of social tension such cuts engendered, Carter worsened the situation by threatening to withdraw U.S. troops and by sharply crticizing the government's attitude toward the opposition. State Department criticism became more intense following the assasination of Park; it is believed to have to have been significant in the opposition's ability to mobilize the powerful destabilization effort launched in 1980.

Now, President Reagan has reversed this policy. The joint communiqué reports, "President Reagan assured President Chun that the U.S. has no plans to withdraw U.S. ground combat forces from the Korean peninsula, while also pledging to make weapons available as needed for Korea's security."

Reagan also pledged U.S. support for Korea's economic development. The annual Korea-U.S. economic consultations meetings suspended by Carter will resume at the undersecretary of state-level before mid-year, as well as consultations on security and other issues.

Korea's economic development

President Chun briefed Reagan on Korea's ambitious nuclear plans, including the Korean Institute of Science and Technology proposal for a $100 billion program to build 110 nuclear reactors by the year 2020—46 by the year 2000—needed because of Korea's lack of resources. Reagan pledged that the U.S. "will remain in a reliable supplier of nuclear fuel, generation equipment and power technology", as opposed to Carter's obstruction, which lost Westinghouse two orders for nuclear plants to France's Framatome.

Informed sources cautioned that the U.S. "reliable supplier" stance was a double-edged sword. State Department officials informed Chun that they wanted Korea to "rely" almost exclusively on American reactor suppliers, which gives the U.S. control over the use of spent fuel. Claiming fears that Korea might divert spent fuel to bomb-making capacity, they specifically criticized France for having controls "too loose."

Reagan's support for Korea, including access to Export-Import Bank loans, has dispelled doubts in the U.S. banking community as to Korea's viability as a borrower. Korean sources report they will be able to get $3 billion in additional loan commitments for 1981.

Strategic questions

On the strategic issue, Reagan pledged no talks with North Korea without South Korean participation, specifically ruling out any unilateral steps toward North Korea "not reciprocated toward South Korea by North Korea's principal allies," i.e., both the Soviet Union and China.

Reagan may face opposition from the China hands at the State Department, however. A senior State Department official—who substituted at the last moment for National Security Adviser Richard Allen to brief the press—referred only to the "Soviet threat" to South Korea and refused to include China as a potential threat. Asked by *EIR* whether U.S. arms sales to China worried the Koreans as a potential threat, and reminded that the communiqué referred to North Korean allies in the plural, the official just grinned and said, "Oh, these things are very subtle."

Energy austerity undermines high investment potential

by Carlos Cota Meza

From the standpoint of many large American firms, Colombia is one of Latin America's most stable and potentially lucrative investment sites. Under the 1979-83 development program known as the Plan of National Integration (PIN), the Colombian government has mapped out a series of huge infrastructural and energy projects, requiring both foreign capital and technology, to exploit the country's vast wealth of natural and mineral resources. Colombia has the largest coal reserves in Latin America, and large deposits of nickel, uranium, and copper, as well as impressive hydroelectric potential.

Despite this wealth, and a healthy $5.3 billion in foreign reserves, Colombia is in the midst of a severe political and economic crisis with serious implications for its future stability. The explanation for this crisis can be found in the policies adopted by the current and preceding administrations, which have increasingly undermined the country's industrial base, while reducing living standards and vital services. If these policies were reversed, particularly through programs that would allow Colombia access to credit and needed capital goods, Colombia could indeed become an ideal trading partner and profitable investment site.

The government's harsh energy austerity program exemplifies the problem. Since November 1980, the government has authorized an electricity-rationing program for four prime-time hours every day in the nation's major cities. During these four hours, no building elevators operate, domestic activities are paralyzed, machinery in the factories stands idle. Widespread layoffs of factory workers and heavy financial losses afflict the industrial sector, and sales of both capital and consumer goods have fallen off sharply.

The anger of industrialists, workers' protests, and housewives' hysteria are all the order of the day.

Why such harsh austerity in one of Latin Ameria's most energy-rich countries?

World Bank calls the shots

The rationing and industrial collapse are not the unfortunate consequences of energy gluttony by Colombians. Rather, they are the result of the "development" strategy that institutions like the World Bank have applied since 1949. It is a strategy designed to deindustrialize Colombia, denying it credit and technology needed for rapid growth.

It is a well-known fact that numerous utility and energy companies set up in Colombia with World Bank loans have been forced to shut down or curtail their services because they could not meet the bank's demands for increased rates charged to the public as a guarantee for debt repayment. Such institutions instantly became "uncreditworthy" in the bank's eyes.

Lacking credit and infrastructure for modernization, Colombia is left with the alternative of becoming the continent's leading exporter of marijuana and cocaine. It already supplies 80 percent of the U.S. market for these drugs, and its parallel drug economy is larger than tne real one.

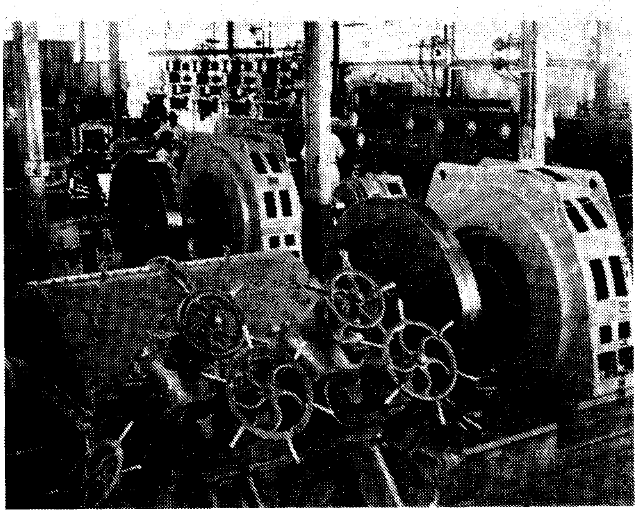
In the past, spokesmen for both the World Bank and the International Monetary Fund have told *EIR* that in their view, Colombia could just as well export marijuana as any other cash crop—as long as it generates enough foreign reserves to guarantee debt repayment.

Colombia's Paul Volcker

The electricity rationing is not the beginning of a new policy, but the final stages of what most businessmen in the United States recognize as "Volckerism."

Colombian Finance Minister Jaime García Parra, who resigned a few weeks ago to take a post at the World Bank, supervised a monetary and credit policy that would make Milton Friedman proud. His successor, Eduardo Wiesner Durán, is also an avowed Friedmanite and the architect of the same economic program that García Parra has implemented during the last two years. So there will be no changes under Wiesner Durán.

A policy of ever-tighter credit restrictions through interest rates that now top 50 percent has collapsed virually every leading industry in the country, from textiles and construction to mining, machine tools, and transport. According to official government statistics, industrial production fell by an unprecedented 50 percent from the second to the third quarter of 1980! While the economy sustained an average yearly growth rate of



A Colombian hydroelectric plant.

6 percent in the period from 1970-79, during the first two quarters of 1980 it had barely reached 3.2 percent.

Given the general unavailability of credit, many businessmen are forced to resort to the black market—whose proceeds come from the drug trade and contraband—for loans. However, the interest rates they pay are as high or higher than those on the legal market.

Not surprisingly, only speculative economic activity has shown notable growth under García Parra's regimen. What is known in Colombia as "quasi-money," the certificates and speculative paper that now make up the bulk of trade on the Bogotá stock market, has expanded at a remarkable rate of 45 percent over the past year. As one noted Colombian economist pointed out recently, the higher interest rates have made investment in speculative paper much more attractive for individuals who want to hide profits they earned from the "clandestine economy"—drugs—and other contraband activity. As of October 1980, the amount of speculative paper in circulation was *larger* than the official money supply.

Agricultural crisis

Due to aggravated decapitalization of the agricultural sector, a severe food shortage is predicted in Colombia for 1981. During the first quarter of 1980 alone, official credit to the agricultural sector was reduced by 33 percent and Colombia, traditionally an agricultural producer and *exporter*, was forced to increase food imports by a full 35 percent in order to meet domestic consumption needs. For the first time there is talk of having to import corn, a crop traditionally produced in abundance in the Andean region, and imports of items like wheat, sorghum, barley, beans, rice, and soybeans—all traditionally produced in Colombia—have greatly increased.

Colombia's labor force has watched while basic food items were priced out of its income range, rent subsidies were lifted, and factory jobs disappeared. Over the past two years, the price of the average monthly market basket has increased by approximately 65 percent. According to recent estimates, the new minimum wage of 5,700 pesos (U.S. $120) can cover only about half the price on the market basket, forcing workers to work longer hours and encouraging more members of families, including children, to enter the work force.

Government agencies say unemployment is now officially at 10 percent. Unofficially it is closer to 20 percent, and an estimated one million people are categorized as underemployed, working as street vendors and the like. The skilled worker category has virtually disappeared from the wage scale, indicating the growing pauperization of the work force, whose wages have fallen increasingly below the minimum wage.

Profile

Colombia's new financial czar

by Valerie Rush

Last month, Colombian President Turbay Ayala handed the financial reins of his administration over to Eduardo Wiesner Durán, formerly the head of the National Planning Department. Wiesner is well known in the capital city of Bogotá, where his family owns substantial chunks of real estate through Wiesner & Company.

Wiesner assumes his new post with the fullest confidence of the Colombian financial community, given his tenure as head of Asobancaria, one of Colombia's most powerful cartels of finance capital. In addition, Wiesner's resumé boasts a stint at the World Bank, where he was groomed for his present job.

Wiesner's promotion from planning to superminister of finance was in the works for over a month, as his predecessor and colleague Jaime García Parra readied himself a cushy job at the World Bank as a hoped-for steppingstone to the Colombian presidency. Observers both in Colombia and in the international financial community agree that little change in the handling of the economy will occur.

The one change expected under Wiesner Durán's direction is the acceleration of the Plan of National Integration (PIN), the four-year development program authored by Wiesner and his staff in the planning department for the Turbay administration.

De-urbanization focus

Despite the potential of the ambitious PIN program to serve as the vehicle for massive high-technology and capital-goods transfers to the Colombian economy, its architects in fact have a different purpose in mind. Designed to span 1979-83 and pump some $21 billion of domestic and foreign resources into largely public works projects in Colombia's more outlying regions, the PIN is explicitly intended to bring about the "decentralization" of the Colombian economy. *Decentralization,* in World Bank terminology, means "reversing the flow of migration to the cities" or, to be more precise, de-urbanization. "The ultimate goal," according to the PIN's author, "is regional autonomy."

Once that goal is achieved, one World Bank researcher observed, local financing needs will increasingly become the responsibility of local entities. Under such conditions, the highly lucrative drug trade could become an irresistible option. As one professor from Bolívar province told *EIR,* 10 bushels of corn is worth barely 1,000 pesos, while 10 bushels of marijuana can bring in 175,000 pesos!

The other primary focus of the PIN is construction of transportation and communications infrastructure to facilitate the extraction of Colombia's vast mineral and energy wealth, as with the Cerrejón coal project contracted to Exxon. Advanced technologies will be used only in such foreign enclaves, while "appropriate technologies" will be encouraged for the domestic economy.

Perhaps most significant is the fact that the austerity regimen to which Wiesner is pledged is a built-in aspect of the PIN. As one eonomist has noted, domestic financing of the PIN as Wiesner envisions it can only occur through certain policy options: "One option is realizing reforms that increase the elasticity of regional and local income: another is austerity and greater efficiency in public expenditures, especially in labor costs and other general expenses; a third option is more rapidly increasing rates on public services."

In fact, all three options are already in the implementation stage. The passage of a "tax reform" is the new finance minister's stated first priority, a reform which is expected to give carte blanche to the drug-tainted financial community in its drive to take over what remains of Colombia's bankrupt agricultural and industrial sectors. Figures just released by the government reveal that profits of Colombia's finance corporations *doubled* in 1980 alone while those of the productive sector plummeted, and were even negative in some industries.

Wage gouging has been a preferred method of government-dictated "belt-tightening" under García Parra and will continue under Wiesner. And even while the PIN has been touted for its plans to extend basic social services to the deprived outlying regions, in major urban centers like Bogotá those same services are being priced out of reach. Last week, the Bogotá city government announced a whopping 17 percent hike in electricity rates. This comes on top of the automatic 3 percent monthly rate increases which were imposed by the World Bank four years ago.

Wiesner Duran challenged by Bogota industrialist

A leading industrialist and former head of the Federation of Metallurgical Industries, Fernando Sanz Manrique, registered his protest against the government's deindustrialization strategy in a Jan. 11 column in the leading Bogotá daily El Tiempo:

There was a time when the industrialist was the darling of the country. It was a noble activity, praised by all. The children wanted to become industrialists when they grew up. The politician saw industry as the national redemption. . . . Chimneys were a vision of progress and not an ecological nightmare.

And basically everything that is modern in the country was made by industry. The cities of the country were made by industry. The process of industrialization made it possible to supersede the two greatest problems of the century: the population explosion of the fifties and sixties, and the mass migration from the countryside to the cities.

But times have changed. And industrialization became an antiquated idea in some circles of the new technocrats [like] Milton Friedman. . . .

And today the style is public works, certainly necessary for a country under construction. It is possible that public works can substitute . . . for industry in the generation of employment, in the number of jobs. But not in terms of quality of life or wages. The wages of a construction laborer are not comparable to those of an industrial worker. . . .

Industrialization continues to be in a bad way. When will it come into fashion in foreign universities so that we can think about it again on a national level?

The left

Will Colombia's CP turn terrorist?

by Valerie Rush

The Colombian Communist Party's annual congress, held this past December, was the scene of a major policy shift by the leadership of that organization. The victory of proterrorist forces at that event over a contrary faction which has historically predominated in the party leadership, has grave implications not only for the future of the mass-based political organization, but for the country as a whole.

It is *EIR*'s evaluation that if this policy is not reversed, the loss of the Colombian Communist Party (PCC) as a moderating and positive influence on broad sections of the population could lead to the disintegration of Colombia's precarious stability into the El Salvador-style anarchy and bloodshed already predicted by some observers.

The PCC "turn"—presaged by a gradual eclipsing of the antiterrorist faction's views in the party daily *Voz Proletaria*—not accidentally coincided with the December 1980 Cuban Communist Party congress. At that event, the Cuban Communists openly embraced jacobin uprisings, and allied themselves with dark age fanatics like Khomeini in the name of "national liberation."

At the PCC congress, the battle centered around collaboration with the terrorist cult group, the M-19, which has gained a certain perverse popularity in Colombia as a result of extensive media hype portraying the terrorists as anti-imperialist "Robin Hoods." The rejection of a pro-industrialist programmatic perspective in favor of a pluralist, "minimal" program premised on "unity of the left" signaled the victory of the pro-M-19 forces in the PCC.

That victory was furthered by the passage of a resolution at the congress which decided against publication of future editorials in *Voz Proletaria* for fear they might prove "offensive" to new allies—and divisive in PCC membership ranks.

In the month since its party congress, the PCC has shifted into a noticeably more radical, antidevelopment mode. They have adopted the Cuban line that the Carter-Khomeini deal for release of the 52 American hostages was a "victory" against the imperialist United States. The party newspaper now devotes entire pages to sports and to the fledgling environmentalist movement in Colombia which, as in the advanced sector countries, is intended to be used as a terrorist deployment against the industrialization of Colombia.

The M-19 has already demonstrated how this mindless terrorism is intended to work. Last month, the group bombed several major hydroelectric projects in Colombia to protest the government's drastic energy-rationing program. As a result of the sabotage, the rationing will be extended indefinitely—providing the M-19 with a pretext for further such actions.

The importance of the PCC

Ironically, the PCC's historic importance in Colombia's political life has been defined by its consistent support for the industrial development and modernization of the country and its willingness to ally with what it termed "nonmonopolistic capitalists" for that purpose. In this sense, the PCC can be compared to the Berlinguer faction of the Italian Communist Party, which has served a similar role in that country.

In addition, the PCC's public denunciations of the drug trade as an assault against the sovereignty of Colombia have served as an important obstacle to the advances of the drug mafias among the Colombian peasantry where the PCC has its strength.

Colombia's "communist" sects, like the MOIR or the ELN, have generally been on the opposite side of the fence, supporting terrorism, drugs, and a Maoist "zero-growth" outlook.

In its current radical mode, however, the PCC will rapidly become indistinguishable from the M-19, which recently issued a "program" virtually identical to that of the "new" PCC. The adoption of adventurist tactics and growth of left-wing violence will be seized as the justification for imposing a strongman like Alvaro Gómez Hurtado as the next president of Colombia. Gómez, a right-wing asset of the Society of Jesus, has been identified as a key controller of the M-19, and has historically been the PCC's number-one enemy.

This scenario has already begun to unfold. After the M-19 kidnaped American citizen Chester Allan Bitterman last month, the military's high command—closely allied to Gómez—announced a massive "antiguerrilla" sweep to be carried out in several rural areas. Under the personal supervision of General Fernando Landazábal Reyes, otherwise known as the "Pinochet of Colombia," the army is deploying its crack counterinsurgency troops into territory known to be dominated by armed peasant self-defense squads supported by the PCC. Rumors that the M-19 has militarily joined forces with these peasant defense groups have already begun to circulate in the Colombian press.

Haig bullies Europe on RDF

Haig and Weinberger are trying to carry out Carter's policy, but Bonn, among others, is resisting.

A major foreign-policy objective of Secretary of State Alexander Haig will be to complete the job begun by the Carter government and break European resistance to participating in the controversial Rapid Deployment Force to the Middle East.

In his confirmation hearings Haig declared that he would pursue the Carter policy. Shortly thereafter Defense Secretary Caspar Weinberger told the press that he envisioned U.S. troop presence in Israel and the creation of a crack U.S. antiterrorist unit modeled on the British SAS forces. In total, these statements reflect a policy which was created by the British government, whose aim is the extension of NATO forces into the Persian Gulf as the first step of militarizing the developing sector.

But the major obstacle which Haig and his British cohorts face is breaking West Germany of its resistance to extending its military arm south of the Equator.

According to a highly-placed Washington source, "Haig is now considering how and when to begin to put pressure on Bonn." Bonn has resisted such a ploy, both because it is unconstitutional for Germany to become involved in any foreign conflict and because Chancellor Schmidt perceives such a military buildup as contrary to his détente policy with Moscow.

Nonetheless, both London and its allies in Washington began a full-scale propaganda campaign this week to create the climate for extending NATO to the Middle East. The U.S. Joint Chiefs of Staff leaked a report proposing that command over the RDF should be placed under the European Command of American troops under Gen. Bernard Rogers. The next day *Financial Times* Washington reporter David Buchan reported that "switching the command of the RDF to Europe would underscore the U.S. contention that defense of the Gulf . . . is as much, if not more, in the NATO allies' interests as in those of the U.S. and Britain apart; Western Europe depends more heavily on oil from the Gulf."

To overcome European resistance, report military insiders, Haig wants to redeploy American forces from Europe to the Mideast and, in turn, force Germany, in particular, to both build up its conventional troop forces and to build its forward defense systems, based on the Pershing and the Cruise missiles, and on the controversial neutron bomb, as a front-line defense of Europe. This would be a first step in getting NATO forces beyond their legal boundaries.

But Harvard Europe-watcher Stanley Hoffman says that Germany sees such a policy as "shooting itself in the foot" since it would jeopardize Germany's relations with the East bloc. Hoffman and other American strategic planners agree that the most potent bludgeon to break German resistance would be a Soviet invasion of Poland.

Arab sources report that the governments of the Mideast are no less anxious about NATO than Bonn. A Jordanian source commented, "This is an invitation to confrontation between the big powers."

Last week, the Carter administration's budget for the RDF was submitted to Congress for approval. Included is an allocation of nearly $140 million for the construction of a base for the force at the Ras Banas base in the Egyptian Sinai.

Washington sources say that this base, along with whatever facilities will be given to the U.S. by Israel, will serve as the backbone of the infrastructure within the Mideast from which the force will deploy. But Egyptian President Anwar Sadat has been footdragging on giving official approval to the U.S. to go ahead with the construction, reportedly because he fears a backlash both from within Egypt and from anti-American groupings within the Arab world.

Somalia is slated to receive millions of dollars worth of sophisticated radar and communications equipment, far too advanced for the Somali military to operate, but as yet there is no agreement over U.S. military presence in Somalia. Similarly, the strategic Gulf state of Oman has granted facility rights to the U.S. on the island of Masirah at the mouth of the Gulf, but there is no agreement as to what constitutes an emergency which would prompt an American military deployment to Oman. Next week, the U.S. begins its first joint exercises with Oman, which, the Defense Department has not ruled out, may include RDF troops.

 by Josefina Menéndez

The talk of Hermosillo

Presidential politicking was fast and furious at this year's 'Meeting of the Republic' sessions.

The "Meetings of the Republic" have been a big annual event since President López Portillo kicked them off in 1978. The idea is to bring together the entirety of Mexico's officialdom on the anniversary of the promulgation of Mexico's present constitution on Feb. 5, 1917 to evaluate the health of Mexico's federal system and set collective policy for the upcoming year.

There is a strong dose of soporific rhetoric at these affairs, but everyone who is anyone in Mexican politics is there, and more politics are concentrated into a single 48-hour period than on any other occasion in the year.

In years past, López Portillo has used the event to focus the attention of the cabinet, governors, congressional and judiciary leaders, and mayors all present, on central policies of economic and political development. This year was no exception, as both the president himself and keynote speaker Jorge Díaz Serrano, director of Pemex, made the issue of rapid modernization the central point of their speeches.

Díaz Serrano highlighted the commitment to progress contained in Article 3 of the Constitution, which mandates the "constant economic, social, and cultural improvement" of the nation. He concluded by reiterating the nation-building slogan popularized by López Portillo throughout his term: "Think big, build big, to make Mexico a great country." Added Díaz Serrano: "This is the most accurate interpretation of the Constitution today."

But what lent special expectation to this year's meeting, held in the capital of the northwest agricultural state of Sonora, was that this is the year the ruling PRI party chooses its candidate to succeed López Portillo for the 1982-88 term. The question was on everyone's mind: what hints on the all-important succession question will be gleaned?

This was a festival of *política a la mexicana,* and some of the biggest political gossip columnists devoted entire columns to the issue of which door certain *presidenciable* cabinet ministers would choose to enter the hall—some doors being considered more "strategic" than others, depending on how much stir an entrance from that quarter would cause.

The object of the most intense speculation was Díaz Serrano, since the keynote "in the name of the three powers"—executive, legislative, and judicial—is the most important speech next to the president's.

Díaz Serrano lost some important policy decisions last fall to Industry Minister José Andrés de Oteyza, and people were wondering if López Portillo was reviving his star by putting him in the spotlight in Hermosillo.

All commentators concerned noted that, indeed, the speech Díaz Serrano gave was "presidential" in tone. And in a reference nobody missed, Díaz Serrano repeatedly extolled the contributions made to Mexico's revolutionary history by the "men of the north." Madero, Carranza, Obregón, and Calles, the chief leaders from 1910 to 1935, all came from the northern states of Coahuila and Sonora—as does Díaz Serrano, a native of Sonora.

But the fact that Díaz Serrano is not a full, formal member of the cabinet must not be forgotten. In its 50 years and nine presidential choices, the PRI has never moved outside the formal cabinet for a candidate, and is unlikely to do so now. Díaz Serrano's presidential hopes remain a very long shot.

Hence there seems to be some basis for speculation that López Portillo chose Díaz Serrano not for who he is but for what he is not: one of the frontrunners from the cabinet itself. In this way the speculation was deflected from more likely choices onto a less likely one, and López Portillo's own freedom of maneuver was kept intact.

One of the surprises of the meeting was López Portillo's call for a national "debate" on the role of private property in the country. He was responding to attacks from the left on his new agricultural law (see *EIR,* Jan. 17).

It is not yet known precisely what lay behind the presidential call, especially since the president himself, in the same breath, said he was in favor of keeping the current "mixed system." If so, why open the debate?

So far the reaction from all sectors—business, government, opposition parties—has been more puzzlement than either rejection or embrace.

International Intelligence

French push nuclear exports for Africa

Egyptian President Anwar Sadat announced Feb. 12 that France is planning to help supply several of eight planned Egyptian nuclear reactors within the next 20 years. This marks a major escalation of French policy to provide nuclear reactors to the African continent.

Prior to the Sadat announcement, France had either signed, or had indicated an intention to sign, deals for nuclear energy with five African nations. Previously France had been reluctant to sell the reactors to Africa, and knowledgeable Europeans attribute the turn in policy, in part, to a Paris series of conferences by the Fusion Energy Foundation centering on nuclear-based industrial development for Africa.

The most ambitious of the deals involves Morocco, where France has signed a deal to provide Morocco with a reactor by the mid-1990s, and help build Morocco's uranium industry. Neighboring Algeria has approached France for a similar arrangement.

Oil-rich Nigeria and Angola are also likely candidates for nuclear reactor exports from France.

Can Poland be stabilized?

Joint efforts by the Soviet leadership and France and West Germany have been launched to stabilize the situation in Poland.

A West German think tanker reported to *EIR* that "the Soviets want to give the Poles time to work out what they are going to do. The [government] reshuffle was designed to give the Poles the means to go after the [dissident] KOR and the worst Solidarity elements. If that doesn't work, there could be a declaration of national emergency and a crackdown."

Serge Maffert of the French daily *Le Figaro* said that anything can happen should the stabilization efforts of Poland fail, because the economic crisis is so profound. He projected a three to four week timeframe for the economy to show improvement. If that occurs, French President Giscard will visit Warsaw to crown the effort's success.

At the same time, opponents of the stabilization attempts have tried to increase disruption in Poland, with the rural Solidarity organization, now officially given "association" status by the nation's courts, threatening to delay spring planting.

China cancels more contracts

In the past week the People's Republic of China has abruptly canceled contracts with Japanese, German, and U.S. firms worth several billions of dollars for projects in steel, chemicals, mining, and hydropower. The Chinese promised compensation to Japan and have reportedly already paid U.S. firms for services rendered. Premier Zhao has admitted in a secret speech that the budget deficit is $11 billion, twice as large as estimated in September. Certain American executives still recommending major marketing efforts in Peking are being investigated by their security departments to discover which competitor they are working for.

India hosts nonaligned, calls for war avoidance

"Peace is not that which teeters on the brink. That is the absence of war, yet it threatens war." With these words, Indian Prime Minister Indira Gandhi formally opened the conference of foreign ministers of the nonaligned nations, taking place on Feb. 9-12 in New Delhi.

The theme of the necessity of war avoidance and economic development which Mrs. Gandhi struck to open this meeting of most developing nations flows directly from her summit little more than a week earlier with Mexican President José López Portillo, and echoes the communique of French President Giscard and German Chancellor Schmidt.

Mrs. Ghandhi told the assembled leaders of more than 90 nonaligned nations, "The realities of the world situation, the possibility of a nuclear Armageddon by a single lapse or rash act, reinforce the relevance of nonalignment and demand a rededication to peace. From this conference," she continued, "should issue a call to the big powers to de-escalate belligerent rhetoric, to reduce presences in the Indian Ocean and various parts of Asia and Africa, and to resume the earnest search for understanding and peace."

The foreign ministers will approve a report from a special committee of the nonaligned on the peaceful use of nuclear energy. The energy needs of the developing nations have been a central topic of discussion at the conference.

Colombia terrorist group tries new play for power

The leadership of the M-19 terrorist gang in Colombia issued a surprise communiqué in early February denouncing the kidnapping of American citizen Chester Bitterman as the work of a splinter from their ranks. The communiqué heralds a "turn" in the leadership, which, according to Colombia security officials, is now seeking to become a "legitimate" Social Democratic party. Officials report that the M-19 has decided to accept the government's offer of political amnesty to form an electoral party.

At the same time, the fracture of the terrorist gang, which has been responsible for innumerable assassinations, kidnappings, and bombings,violence in Colombia, lays the ground for the Bitterman kidnappers to emerge as a "hard-line" terrorist group modeled on Italy's Red Brigades.

The three leaders who issued the communiqué denouncing the Bitterman kidnappers are Carlos Toledo Plata, Iván

Marino Ospina, and Jaime Bateman.

In March 1980, while M-19 held the Dominican embassy in Bogotá, the terrorists had said that they favored neither communism nor capitalism, but a "third way" based on the Social Democracy of Austria's Bruno Kreisky, an ally of Socialist International head Willy Brandt.

Sadat and Shamir make diplomatic rounds

Egyptian President Anwar Sadat's talks with French President Giscard, which ended Feb. 11, reportedly centered on an effort to contain the expansionism of Libyan dictator Muammar Qaddafi. As for Arab-Israeli questions, Sadat, according to Washington sources, hopes to build up as many options as possible, including a closer relationship with Western Europe.

At the same time, Israeli Foreign Minister Yitzhak Shamir held private meetings in Washington with U.S. Secretary of State Haig. The two appear to be planning to "put the screws" to Sadat and President Reagan to pursue the decaying Camp David accords. Haig has made it clear that one of his priorities is to extend NATO into the Middle East, using Camp David as a back door for militarizing the Persian Gulf.

Syria-Jordan tensions rise after Beirut kidnapping

A terrorist operation that bears all the markings of a British or Israeli intelligence maneuver has brought relations between Syria and Jordan to the edge of renewed confrontation. The abduction of a Jordanian chargé d'affaires by a group claiming to be close to the Syrian regime could turn into a casus belli.

Syria officially denies any link to the kidnappers, who call themselves the "Eagles of the Revolution," and blame an "outside force" for the crime. The Syrian news media link the incident to the recent assassination of a top-level Syrian intelligence operative in the Persian Gulf, implying that wider efforts are under way to destabilize both Syria and Jordan.

The Jordanians, however, insist that Syrian President Hafez Assad's brother, Rifaat al-Assad, had trained the "Eagles" group. Jordanian newspapers accuse Rifaat and his faction of "developing terrorism inside and outside Syria." These charges do not necessarily signify that Jordan rejects the view that foreign intelligence is behind the whole affair, since it is widely known in the Middle East that Rifaat has extremely unsavory international connections.

Dope lobby petition denied by United Nations group

The United Nation's Nongovernmental Observer Council unanimously denied a petition by the International Cannabis Alliance for Reform (ICAR) for semi-official status at the U.N., after a blitz campaign by the National Antidrug Coalition, Feb. 10. The council turned down the application stating that ICAR's goals were "not compatible" with those of the U.N.

The National Antidrug Coalition (NADC) issued a news release heralding the victory against ICAR, the main international promarijuana legalization body. NADC is now planning a campaign for a new treaty to wield the economic and military clout of the United States and its allies to defeat the dope cartel.

In a letter to the council's 13 members, including the U.S., NADC Chairman Allen Salisbury gave evidence that ICAR openly aims for the legalization of "recreational drugs," such as hashish and marijuana. ICAR has called for the annullment of the U.N. Single Convention treaty against drugs, and calls for the "human rights" of peasants forced to grow marijuana, whom it calls "workers in the cannabis industry."

Briefly

- **INDIA,** until recently a chronic food importer, is now a significant grain exporter. In the current fiscal year India exported 1 million tons of rice and 89,000 tons of barley. In the 1979-80 financial year India earned $2.17 billion in agricultural exports, a figure the government expects to double in five years.

- **KLAUS BÖLLING,** the new chief of the West German mission in East Berlin, was given the red-carpet treatment during a Feb. 8 East Berlin reception. East German leader Erich Honecker, welcoming Bölling, stressed the importance of developing relations between the two Germanies. East Germany's attitude almost certainly reflects the prompting of the prodétente Brezhnev leadership.

- **HERBERT WEHNER,** the veteran party whip of West Germany's Social Democratic Party, engineered a unanimous vote by the party's parliamentary caucus Feb. 11 against SPD Chancellor Helmut Schmidt's economic and defense policies, which had been under unprecedented fire from the SPD's left wing.

- **SOCIALISTS** plan to hold a "disarmament conference" this week in Madrid, under the aegis of several Socialist International think tanks. Sponsors of the conference include the Friedrich Ebert Foundation (West Germany); Pablo Iglesias Foundation (Spain); the Marxist Studies Foundation of the Spanish Communist Party; Italian Socialist Party; French Socialist Party, and Greek socialists.

- **TEN MEMBERS** of the Puerto Rico-based FALN terrorist group were found guilty Feb. 11 of sedition and terrorist conspiracy, in a Chicago federal court. Under the policy of the Civiletti Justice Department, however, no extended dragnet investigation had been pursued beyond the 10 hard-core terrorists, who now face a maximum sentence of 80 years.

Haig sponsors Carter's Global 2000 plan

by Lonnie Wolfe

Investigations by *EIR* have uncovered a "live" conspiracy to promote the policy doctrine embodied in the "Global 2000" report, drafted by the Carter administration, which calls for the genocidal reduction of the world's population by 2 billion before the turn of the century.

This conspiracy stretches to both sides of the Atlantic and includes members of the leading profeudal families of the European aristocracy and the Socialist International. It also involves members of the Reagan administration, most prominently Secretary of State Alexander Haig.

The policy doctrine of the conspiracy is contained in an interagency report drafted under the auspices of the Carter administration State Department and the White House Council on Environmental Quality (CEQ). The Global 2000 report, which received wide press coverage when it was released last summer, states: "If present [population and development] trends continue, the world in 2000 will be more crowded, more polluted, less stable ecologically, and more vulnerable to disruption than the world we live in now. Serious stresses involving population, resources, and the environment are clearly visible ahead." It goes on to recommend that the world reduce its population growth by 2 billion people. The report was endorsed by then-Secretary of State Edmund Muskie.

The Global 2000 report has since been augmented by an implementation document, drafted by a special task force under the direction of CEQ staffer Nick Yost. As with the earlier report, the implementation document, "A Global Future—Time to Act," had significant input from groups outside the government, including the arch-environmentalist World Wildlife Fund and the Rockefeller-funded Natural Resources Defense Council.

Yost describes the combined reports as a blueprint for a "world order based on global environmentalism." The fundamental assumption behind Global 2000, said Yost, is: "There are going to be too many people in the world. We must reduce population trends by some 2 billion people by the end of the century." Yost and individuals like David Barnhizer of the Natural Resources Defense Council and World Wildlife Fund in the United States, who had input into the report, say that all future policy must be aimed at reducing the population and stopping "dangerous" policies of industrializing the Third World along U.S. lines; such policies only lead to more "unwanted" people, said Barnhizer.

"Our resources are fixed and limited," Barnhizer told a reporter. "I am not just talking about energy, but about such things as food and water. Any development in the Third World must be counterbalanced by de-development of the advanced sector. If this is not done through rational planning, *it will be done through wars and famine.* But it must be done."

The demographics of genocide

The individuals who prepared Global 2000 talk of growing momentum in world population trends. They say that even with major population programs they will only be able to keep population down to 6.35 billion people by the year 2000. Officials in the State Department and representatives of the U.S. Association of the

Club of Rome say that such demographics will mean almost "certain conflict, famine, and destruction of the current social fabric." What is not said is that a 6.35 billion figure already takes into consideration the elimination of approximately 2 billion people through population programs or other means, according to the State Department.

Through extraordinary effort, these sources say that it might be possible to reduce population by another 500 million to a billion or more people.

The target date for full impact of Global 2000 programs is sometime in the next century. If its proposals are adopted, the world population will stabilize somewhere below 8 billion. "This would be a marvelous achievement," said a State Department official. The marvelous achievement would consist of having prevented *4 billion people from being born or otherwise eliminating them from this earth.*

"We have no choice in this," said a representative of the Club of Rome, Don Lesh. "The earth will reach a population saturation point beyond which human life becomes impossible." Other documents, effectively incoporated into the Global 2000 blueprint, state unequivocally that the creation of new resources through technology—new resources that could sustain additional population—is impossible. Roy Morgan, the executive director of Zero Population Growth, wrote in the December 1980 *ZPG Reporter:* "the frontier [scientific progress] has run out; relying on technological breakthroughs to bail us out is not the answer. Population has now far outstripped the ability of our limited resources to sustain an acceptable standard of living."

Yost and Barnhizer both admitted that what is being proposed is that the U.S. government "adopt a variation of what Malthus was saying" as its official policy.

If such ideas "sound foreign," said Yost, who remains at his post at the Council on Environmental Quality, "then the U.S. and its institutions, including its Constitution, must be significantly overhauled. . . . We must build institutions that look to the future—a future where we come to grips with scarce resources and a new global concern for environmentalism. . . . This is the new mission for America."

"We must translate our ideas [in the report] into actual policy," said Barnhizer. "We must not allow the development of the Third World to take place under past industrial-based programs. If American business is allowed to do what it does best, it will destroy the Third World."

The assets

To impose these ideas on the U.S. government and make them international policy requires the formation of a "conspiracy," according to Barnhizer.

Last week, under the direction of his boss at the World Wildlife Fund, Russell Train, Barnhizer pulled together a "very private" meeting of 15 to 16 people in the Washington offices of the Natural Resources Defense Council. Included on the attendance roster were seven executives from the World Bank, the international lending institution slated to dictate Third World development policy; an equal number of State Department officials "who fully agree with our goals"; several members of the U.S. Congress; and some "prominent private citizens."

It was decided to call heavily on some assets inside the new administration:

• **Secretary of State Haig,** whom Barnhizer and others have described as a "closet global environmentalist." Haig was reportedly won over to the doctrine of population and food control during his tenure as NATO chief of staff, where he worked closely with environmentalist NATO Secretary General Joseph Luns. NATO, according to Barnhizer, is one of the leading institutions supporting the Global 2000 doctrine: "They approach it as a security question for the West."

• **Undersecretary of State for Security Affairs James Buckley** has already given his assurances of cooperation, several sources report. In addition to Buckley, Peter McPherson, the newly named head of the AID program, is said to support the Global 2000 perspective, as does Elliot Abrams, the new undersecretary of state for international organizations.

• **Undersecretary of State for Oceans and the Environment Thomas Pickering,** whose department supervised the drafting of Global 2000, remains as a holdover from the Carter administration.

The central coordinating point for the conspiracy in the Congress will be the Congressional Environmental Study Conference. It is chaired by Rep. Pete McCloskey, the liberal Republican from California, whose office has recently been rocked by disclosures that one of his top aides, Chuck Fager, is a KGB "mole."

A meeting of the leadership of the conference last week, addressed by Russell Train and former ambassador Elliot Richardson, decided to make the Global 2000 report the centerpiece of its work. McCloskey, a self-described environmentalist, says that the U.S. Congress must force the nation to debate a "population policy aimed at lower population levels. . . . This implies a change in our relationship to the Third World." It was decided at the meeting that the "climate was not right" for the formation of a special congressional committee on Global 2000, though this might come later.

Several other members of Congress are key to the conspiracy:

• **Representative Richard Ottinger,** a Democrat from New York, has introduced legislation calling for the United States to adopt a national population policy which would create zero or negative growth. The bill also calls for the creation of an office of population policy within the executive branch. The bill, while having no chance of passing, will serve as a focus for debate on Global 2000.

• **Senator Claiborne Pell,** a member of the Club of Rome from Rhode Island, is expected to re-initiate efforts to have the U.S. join an international environmental treaty that would make all U.S. trade subject to "international environmental impact statements."

According to sources, a prominent senator will sponsor oversight hearings on the Global 2000 report. It is planned for the hearings to include participation from the Haig State Department and possibly even testimony by Haig himself.

'Outside support'

These elements within the U.S. government represent only one component of the conspiracy.

The Citizens Committee for the Year 2000 is described by Barnhizer as the elite corps of the conspiracy in the United States, a contention supported by its initiating list. The 11-member committee was created by Russell Train and Robert O. Anderson, the chairman of the board of Arco, World Wildlife Fund board member, and head of the Aspen Institute, which directs and funds environmental groups in the U.S. The committee also includes:

• **Elliot Richardson,** whose most recent contribution to the conspiracy was the negotiation for the Carter administration of the law of the sea treaty based on global environmental doctrine.

• **Cyrus Vance,** the former Carter secretary of state, who has reportedly told his closest associates that he is dedicated to creating a "new world order based on environmentalism." Vance, a director of the New York Council on Foreign Relations, oversaw the CFR's 1980s Project, which laid a groundwork for Global 2000.

• **Walter Cronkite,** the retiring TV newsman.

• **S. Dillion Ripley,** the head of the Smithsonian Institution in Washington, director of the World Wildlife Fund.

The committee is already handling major briefings, like those of congressional study groups.

The shock troops are being organized through a group formerly known as the Citizens Committee for Global 2000, which consists of more than 27 groups and tens of thousands of individuals. It is run by the NRDC, whose chairman is Laurance Rockefeller, and by Zero Population Growth, Inc., on whose board sits such individuals as former Attorney General Ramsey Clark.

A recent meeting of the leadership of the U.S. environmental movement, sponsored by the Audubon Society, decided to make the Global 2000 report's implementation the major focus of the environmentalist movement. A resolution was passed to provide major funding for a reorganized Citizens Committee. Planning for the mobilization of the shock troops is still in an early stage, according to Barnhizer, who is executive director of the Committee for the Year 2000 and works closely with the Citizens Committee.

The transatlantic connection

Barnhizer and Yost state that the United States is being targeted as an international example by global environmentalist networks outside this country.

Russell Train is a key interface to those networks. Train, the former head of the U.S. Environmental Protection Agency (EPA), helped create prototype environmental laws on chemical and other pollutants that are aimed at strangling industrial growth. Since 1977, he has served as the U.S. head of the World Wildlife Fund, the international environmentalist coordinating group. Its international board includes Prince Bernhard of Holland, the head of the Bilderberg Society, Prince Philip of England, and several other Black Guelph-

A death machine 100 times worse than Hitler's

In the bowels of Foggy Bottom, the headquarters of the U.S. Department of State, is a death machine that would make Hitler envious.

This highly efficient operation is run out of State's Office of Population Affairs (OPA) under the direction of Carter appointee George Benedict. Overall control is under Thomas Pickering, the assistant secretary for oceans, environmental, and scientific affairs, who is also a Carter holdover.

A spokesman for the OPA described its mission as "preventing as many people as possible from being born."

Under Benedict's direction, the office has disbursed its budget of about $190 million primarily in order to lower populaton in the developing sector. Working through governments in 22 nations, State has "achieved spectacular results in keeping population down" by lowering birth rates. "We speak of our success in terms of tens of millions of people," said a spokesman this month.

Benedict and his associates, most of whom are dedicated to the goals of Global 2000, have their work linked families. These feudal oligarchies are the real sponsors of the Global 2000 doctrine.

From 1977 to 1980, the World Wildlife Fund worked through a Geneva-based group, the International Union for the Conservation of Nature (IUCN), to draft a "World Conservation Strategy." That document contains the core of Global 2000's limited resources and population-control concepts. The IUCN, which Train advises, was founded by Julian Huxley, the one-worldist brother of drug-cultist Aldous Huxley and the founder of UNESCO.

Train is also a member of the board of trustees of the German Marshall Fund, a group which includes such individuals as Averell Harriman and banker David Rockefeller and is committed to policies of deindustrializing the advanced sector and preventing the development of the Third World. It was the German Marshall Fund, the sponsor of a myriad of population control projects, which funded the creation of the Brandt Commission, whose proposals are incorporated into Global 2000. The Marshall Fund is also the effective coordinating point for the international deployment of the Socialist International.

These international networks are now in a full, but low-profile, mobilization to make Global 2000 the central feature of world policy discussion. Sources report that the OECD, the leading economic organization of the advanced sector, will place Global 2000 at the center of its April conference. The Japanese, meanwhile, have just completed their own companion Global 2000 document, while the Canadian government is said to be commissioning a report.

A combination of Haig-Carter State Department and Socialist International operatives are reportedly putting pressure on various Third World governments, including Mexico and India, to force them to at least pay lip service to the doctrine. Members of the Citizens Committee further report that pressure is being applied to the Reagan White House itself to carry out the Carter pledge to discuss Global 2000 at this year's economic summit in Ottawa.

Using Socialist International channels around Brandt and Palme, as well as through individuals like Cyrus Vance, a dialogue has also been opened up with Soviet networks around Georgii Arbatov's IMEMO-U.S.A.-Canada Institute. While IMEMO-linked individuals in the U.S.S.R. have indeed spoken out against the environmental rape of Mother Russia, Soviet participation in the initial push around Global 2000 is viewed as uncertain by spokesmen for Sen. Claiborne Pell and others.

'Where Haig comes in'

At this moment, there is little or no support among the American population for the genocidal policies of Global 2000—a fact admitted by all but the greatest zealots among the conspirators.

According to a spokesman for Zero Population Growth, Inc., the lack of popular support is not an insurmountable problem. "Our strategy is to scare the hell out of the American people with our predictions while staging a coup of sorts in policy-making channels," said Mike Kitch. "We are going to present the ideas as vital to the national security—something unpleasant that must be swallowed. That's where Haig comes in—he can wrap this all in the American flag. We don't need the people's support, just their grudging acceptance of what Haig and others will do."

Kitch described plans for building a coalition of "blacks and socialists, so that the whole thing doesn't look elitist. We'll give ourselves a cold cream makeup job and hope people don't react too badly."

"I'm sure Reagan doesn't really know what is going on yet," said Kitch. "By the time he figures it out, we'll be well on our way."

down to a cost-efficient science. It costs a little more than $2-$3 per person over a several-year period to prevent someone from being born, they say. At slightly increased funding levels over the next decade, the programs will lower the number of people projected to live on the earth by some 500-600 million people.

Beyond that "it gets difficult to do this by planning," said a State Department spokesman. "It is not a simple thing. It's not a one-shot operation. People have a habit of wanting to procreate, you know."

Global 2000/Global Future recommends an immediate doubling in funding for OPA and its programs, which include funding for the United Nations Fund for Population Activities. Officials at State say that if the full scope of Global 2000 recommendations for controlling the growth of the Third World are adopted, it might be possible "to keep another billion or so people from cluttering up the earth."

Under the Carter White House, the work of this group was supervised by a special ad hoc committee of the National Security Council, run effectively by Special Ambassador Henry Owen. Brookings Institution operative Owen was the author of the little-noticed "population policy annex" of the accord signed by President Carter at last year's Venice summit, formally committing the U.S. and other Western allies to explore ways to reduce the world's population. With Owen gone, no one at NSC is clear about who will chair the ad hoc committee.

NDPC STATEMENT

The danger of U.S. fusion budget cuts

by Lyndon H. LaRouche, Jr.

From a Feb. 9 statement by the National Democratic Policy Committee:

The Office of Management and Budget's proposed cuts in the budget for fusion-research work typify a counter-productive bias. Unless this bias is corrected, more or less irreparable damage will probably result.

For example, the single largest and cheapest cut in the Federal deficit would be action to force the Federal Reserve to reduce interest rates. For every one percent increase in the interest rate, the federal debt service costs increase cumulatively by between $20 and $25 billion! The increase of the federal deficit caused by Paul A. Volcker's collapsing of the federal tax base is another major cut in the federal deficit accomplished merely by combined executive and congressional action.

It is unfounded, unacceptable and contrary to the Constitution of the United States, to support or tolerate the subversive proposal that the Federal Reserve System may enjoy independence from the government of the United States in matters affecting the general welfare of the nation. Section 1, Article 8 of the Constitution awards to the Congress both the *power* and the *duty* to: "regulate commerce with foreign nations, and among the several states, and with the Indian tribes."

The same Article obliges the Congress to "promote the progress of science and useful arts."

The Federal Reserve System exists by sufferance of Act of Congress, and may be altered, directed, or summarily dissolved by Act of Congress. That, and that alone, is the essence of the matter.

The Federal Reserve System exists only for so long as the people of the United States, through their representatives in the Congress, judge it to be convenient to the general welfare to continue the current practices, executive appointments or very existence of that institution. To entertain the subversive proposal that this private institution, the Federal Reserve, constitutes in effect a fourth branch of the Federal government, is an abomination. To permit that private institution to consort with foreign financial powers to dictate the condition of the general welfare of our nation independently of government is to condone a dissolution of the sovereignty of the United States.

Now that the new President is inaugurated, the time has come to act on the implications of his landslide election victory. It is time to bring to an end the great "environmentalist" hoax which has ruined us as an industrial nation over the period since 1967-68.

It is time to face the truth about the "environmentalist" hoax. This aggregation of irresponsible and also deliberately false arguments concerning the "environment" was launched with the issuance of a report authored by the London Tavistock Institute, with which the name of the celebrated Anatol Rapoport was associated. This report deplored the fostering of pro-science rationalist values among our people by the achievements of the National Aeronautics and Space Administration, and recommended curtailment of that and related scientific programs.

This report by the psychological-warfare division of a foreign power was reinforced by the emergence of a wide range of well-financed propaganda campaigns against continuation of technological progress both abroad and within our nation. Exemplary of those neomalthusian propaganda campaigns were the efforts of the World Wildlife Fund and the Club of Rome, as well as the curious proposal for transforming the United States from an industrial power into the "Clockwork Orange" world of a "Technetronic Age."

Lately, we are reminded often of the tens of millions of persons murdered under the direction of Albert Speer in the slave-labor system of the Adolf Hitler regime. Yet, faced with reminder of the lesson of tolerating the Hitler regime during the 1930s, we appear to sit bemused, unaware of an ongoing, "environmentalist" proposal to devote the coming 20 years to conducting genocide on the scale of billions of human beings. Worse, before the recent administration betook itself rather ungraciously from our nation's capital, it issued a report entitled "Global 2000," whose pages propose crimes a hundred times more extensive and more hideous than the evil promises of Hitler's *Mein Kampf.*

This nation requires an approximate minimum of 1,000 gigawatts of additional electrical-output equivalent of energy production capacity during the course of the coming two decades. Most of this must be nuclear energy production. On condition that we terminate the mass of sabotage accomplished legally through legislatures, courts and executive agencies, the required time for construction of nuclear plants can be reduced to between four and five years—rather tæn the ten to twelve imposed by environmentalist-caused red tape. Under those remedied conditions, nuclear energy is the most cost-stable, relatively the cheapest, and most desirable in environmental impact of any form of large-scale energy production.

All of this increase of energy capacity over the next two decades must be completed before commercial fusion reactors come significantly into the picture.

Taking into account world needs, the total required increase in energy capacity over the coming two decades, if we are to reverse trends toward genocidal famine and epidemic, must be between 5,000 and 7,000 gigawatts.

In rough terms, this means the need to regularly reprocess a charge of approximately one ton of nuclear fuel assemblies for each gigawatt. This means that up to 7,000 tons of fissionable fuel-charges must be maintained with aid of reprocessing by the end of this present century. Perhaps only 5,000 tons, assuming other-than-nuclear technologies take up part of the requirement.

If we compare the fuel requirements of such programs with the reproduction rates available in existing breeder-reactor designs, or in the second generation of fast breeders typified by France's Super Phenix or ongoing Soviet designs, breeder reactors are part of the spectrum of the fuel-supply problem, but are too slow in performance to begin to match overall requirements.

Dr. Edward Teller has proposed to construct a fission-fusion hybrid around the core of the "potato-reactor" design of High Temperature Gas-Cooled Reactor perfected by the Julich research laboratories in the Federal Republic of (West) Germany. He projects a ten-year start-up time for bringing such a developing fission-fusion hybrid on line. Consultation with other leading experts in the matter assures me that Dr. Teller's proposal is eminently supportable, and represents a significant improvement in efforts to solve the problem.

It is still grossly insufficient.

This leaves us with two problems not solved by breeder-reactor programs alone. First, there is the matter of the quantity of fuel required in the pipeline. Second, there is the not-so-insignificant matter of reprocessing thousands of tons of spent fuel charges annually.

Both problems require a shift of the total effort into dimensions outside both the breeder and fission-fusion hybrid. We must develop rapidly beam-accelerator technologies, already in development, which will accelerate qualitatively the process of developing appropriate fissionable fuel, and which will also provide us the "soft neutron" sources needed to destroy non-recyclable portions of the reprocessed nuclear wastes.

In any competent definition of categories of research and development, particle beam and fusion technologies are an indivisible unity of scientific specialization.

Any assumption that a practical trade-off exists between fission-breeder and fusion research programs is absurd. Just as fission energy development is needed to bring the economy over the hump into the period fusion technologies are commercially available, without immediate acceleration of progress in fusion research, it is virtually impossible to deal with crucial requirements of the fission development program.

Congressman demands control over Volcker

Declaring that "the high-interest policies over which the current Federal Reserve chairman, Mr. Paul Volcker, has presided have been a disaster for the American people," Rep. Byron Dorgan, a North Dakota Democrat, introduced legislation Feb. 4 that would for the first time ever, give Congress the power to remove a Fed chairman. Dubbed by Dorgan "the Paul Volcker Retirement Act of 1981," the bill, H.R. 1640, would require a three-fifths vote of each House to remove a Fed chairman.

"The policies of the Fed are counterproductive; they increase inflation, not decrease inflation," the freshman congressman declared in an interview with *Executive Intelligence Review.* "The Fed is creating havoc with small business and family farms which I represent. My feeling is that we need to shape the debate on interest rates and obtain accountability of the Federal Reserve and its chairman."

"High interest rates are breaking the back of the domestic auto industry, forcing over 1,600 auto dealers to close, and putting hundreds of thousands of auto-related workers out of work. Thirty percent of the home-builders in the country went out of business in the last two years, which resulted in another 757,000 building-trades workers being tossed out on the street. Family farmers are paying 45 percent more in interest charges this year than last year and they cannot afford it."

"If policies of the Federal Reserve System were truly 'wringing inflation out of the economy,' to cite the bankers' favorite metaphor, that would be one thing. But in practice, the Volcker Fed high-interest rates have done just the opposite. They have helped wrap inflation into the economy. . . . Worse, high interest rates mean the Treasury has to shell out more to finance deficits. These deficits, at the same time, grow larger, because when Volcker and company throw their wet blanket on the U.S. economy, tax receipts go slack. Then Treasury borrows more at the higher interest rates to plug the gap, and the downward spiral of self-defeating economic policy spins out."

Dorgan is seeking cosponsorship for his bill, now referred to the House Banking Committee. He anticipates support from Republicans since, he told *EIR,* "high interest rates are the antithesis of supply-side economics," and low interest rates will increase investment for new plant and equipment, the goal of supply-siders. Dorgan will urge President Reagan's support.

NASA's future under Reagan

Marsha Freeman outlines the funding options and argues that the space program is key to national security and prosperity.

Since the presidential election on Nov. 4, many Americans have been looking forward to a sorely needed revitalization of the nation's space program. Sen. Harrison Schmitt (R-N.M.) has taken the lead in Congress in trying to impress upon the new administration that the future economic, scientific, and military health of the country depends directly on its commitment to NASA and its space programs. The senator has meet with President Reagan and is re-introducing his National Space and Aeronautics Policy Act into the 97th Congress.

In the motivating section of that bill, Senator Schmitt states: "The retrenchment of United States' space and aeronautical activities since the early 1970s has resulted in a serious threat to our economic progress, our national defense, and to our leadership role in the establishment of the facilities of our civilization in space." The bill continues, "The gradual acceleration of well-managed space and aeronautical activities by the United States, state and local governments, public and private institutions, and industry will further benefit the Nation far exceeding the cost of such activities."

There is no question that the technological innovation spurred by the NASA Apollo project of the 1960s revolutionized our data-handling and processing capabilities, virtually created electronic and computer miniaturization, and led to improved productivity and new technology in all aspects of manufacturing industry, transportation, and agriculture.

The opposition

Who opposes returning the nation's space program to its former leadership role in economic progress?

Though the antigrowth, antitechnology extremism of the four-year Carter administration is being replaced by a commitment to get the U.S. economy back on its feet, there are radical proposals coming from the equally extreme Heritage Foundation. Under the guise of "free enterprise," the Heritage Foundation is recommending that the United States give up its most effective and precious scientific and technological resource, by turning important aspects of NASA over to "private industry." Certainly, if President Eisenhower thought that private industry could take mankind into space, NASA would never have been created.

Industry must certainly be increasingly more involved in commercializable aspects of the Space Shuttle and communications technology; but the focus of NASA and the set of laboratories and university programs that NASA has developed should continue to be in space science, education, and technology utilization.

There is no lack of important space programs to implement. Over the past four years, crucial programs that would teach us about our solar system as well as outer parts of our universe, have been systematically delayed or threatened with cancellation. These have included joint programs with the European Space Agency (ESA), which has invested significant amounts of money in these ventures.

In addition, therefore, to Senator Schmitt's call for the 1980s to be the decade to develop a world information system, the 1990s to create supportive capabilities for using the space environment, and the beginning of the next century to undertake further exploration of the solar system, NASA programs in all three of these areas, which have not gotten the support they need, should be upgraded immediately.

For example, the Solar Polar Mission, in collaboration with ESA, would give scientists a three-dimensional view of the sun for the first time in history. Yet, NASA has not gotten the funding required to keep the mission on schedule.

The Halley's Comet mission is still under debate, although the Western Europeans, the Soviets, and the Japanese plan to go ahead to get a close look at the comet when it approaches in 1986. After all, it is only within mankind's physical grasp once every 76 years.

The Origin of Plasma in the Earth's Neighborhood, or OPEN, mission is another possible undertaking, consisting of four satellites to monitor the energy flows and throughput in the near-earth environment. Such a system of measurements of energy input from the sun and ionosphere, energy storage in the earth's magnetic tail, and release of energy into the earth's atmosphere will give scientists data that will help determine both weather and climate on the globe. Delaying such a mission only delays receiving this vital information.

Postponement of the Galileo mission to Jupiter, the Venus and Mars programs, and scientific instrument deployments, such as the Large Space Telescope, will only throw the United States further behind the ambitious space programs being developed by every other advanced nation, and many nations in the developing sector.

There is no budget justification for cutting or delaying these space projects. Though the decade of the 1980s will indeed take man himself back into space in the Space Shuttle, we must also direct our attention to taking man beyond the protective system of the earth to explore other solar system planets and bodies. The technology exists, by and large, to do this, certainly by the year 2010. Can we afford such an ambitious space program?

Competent investment

No other area of government expenditure of federal dollars creates more economic growth and stability than the frontiers of science and technology. This was proven by the return on federal investment of dollars in the Apollo years, estimated conservatively to have been in the ratio of 1:14.

In conjunction with an aggressive fusion-power engineering program, already mandated in the Magnetic Fusion Energy Engineering Act of 1980, an upgraded NASA can restore the nation's economy to a real rate of growth in productivity. As Senator Schmitt stated in a recent letter to *Science* magazine, "'(Milton] Friedman's solution to the imbalance [between government and private R&D] would be catastrophic to the future of the country, its economy, and freedom itself. To advocate the abolishment of the National Science Foundation, the National Institute of Health, and federal support of higher education, is like treating a brain tumor with a guillotine."

If the NASA budget had only kept up with inflation since 1965, the budget today would be $14 billion. The fiscal year 1982 budget request that former NASA head Robert Frosch submitted, calling for a 21 percent increase to bring NASA up to a budget level of $6.7 billion, is a good beginning. The fight for excellence in U.S. space science, technology, and commercial exploitation will surely center around the budgetary process in the next six months.

House Science chairman looks to growth budget

EIR's Robert Zubrin interviewed Rep. Donald Fuqua (D-Fla.) last month on the future of the nation's space program. Representative Fuqua is chairman of the House Science and Technology Committee.

EIR: What type of space program do you think this country should have?

Fuqua: Well, I think it has to be an orderly, planned program and not one which is subject to a lot of ups and downs and layoffs, not a crash program. It needs to be a well-thought out program that takes care of the development of high technology, but at the same time, that we have a program of space sciences that we try to give maximum opportunity to private enterprise for the development of space industrialization and communications; a program that is certainly oriented toward human needs, that is, earth resources, mineral exploration.

In terms of technologies, they seem to follow when you set goals. . . . In terms of missions, those that have been announced in the budget this year, including the continuation and the purchase of the fifth orbiter of the Space Shuttle, we must get the Shuttle program moving and operational for many reasons, for many payloads that are waiting for launch. I think the VOIR [Venus Orbiting Imaging Radar] is a very important program. I would like to see us moving toward some type of space station, a large, manned structure in space; I think that is a logical step that we can utilize, possibly for the development of a solar-powered satellite.

EIR: What do you think NASA budgeting ought to look like?

Fuqua: I don't think there has to be a significant increase, I think there must be growth. Certainly there has to be compensation for inflation. I think we can accomplish a great deal with a budget of $6 to $7 billion. The shuttle will be coming off its spending curve hopefully this coming year. And we can devote some of those funds to other payloads, the space station, as I said, maybe a return visit to Mars—missions of that type.

EIR: In his ougoing statement, NASA Director Robert Frosch called for a funding increase by 20 to 25 percent.

Fuqua: I think you could justify that. My only concern is with the constraints we are facing with the budget this year, whether that will be an achievable goal. We are going to go for what was recommended in the budget last week by Frosch.

EIR: While the Schmitt bill does not have any concrete authorizations in it, it does say that Congress should commit itself to spending one-half of 1 percent of GNP on space over time. Would you support that?

Fuqua: Well, we would have to look at that, and the question of whether it should be ½ percent, or 1 percent or 0.7 percent or whatever, I think it would be good, after hearings and review by the administration with scientists and others, that we could establish some long-range goals. Say, if we did decide it should be ½ percent and tried to pursue that, and not be going up and down like a window shade, that would be a positive step.

EIR: Do you think that spinoffs from the space program can have any impact on helping to technologically revitalize U.S. industry?

Fuqua: Oh, I think it could. I wouldn't say it would be the sole thing, but I think it could help. Look at computers. I think computers really came of age through the space program, the development of microcomputers, miniaturization, pocket calculators, we wouldn't have any of that stuff without NASA. Used to be, you had to have a heavy adding machine, now you buy a pocket caculator for $15 and carry it around in your shirt pocket. And in using computers, we have also unlocked other avenues, for example, computer models, and using computers for medical diagnoses. All of these are spinoffs of the space program

EIR: What are you doing to see that the McCormack fusion bill passed last year gets its funds appropriated?

Fuqua: We're certainly trying to support that. I happen to have been one of the cosponsors of that bill last year and helped get it through. And I think fusion is very important, and I hope and trust that the administration thinks so too. Fusion is an opportunity for the United States to expand its energy supplies, and I think it is a viable alternative that we cannot afford to ignore.

EIR: What kind of response have you gotten from the new administration on this?

Fuqua: I have discussed it with [OMB Director] David Stockman and [Energy Secretary] James Edwards, and I have received encouraging words. I didn't ask for a commitment, but they have indicated their support for it, though at what level I don't know.

EIR: Do you think that NASA should expand its research for nuclear-propelled or fusion-propelled rocket systems for deep-space missions?

Fuqua: I think NASA is going to have to do something about propulsion systems for deep space. There are several types, ion drive, electric propulsion. We had the SNAP program several years ago before it got canceled. I think we have to look at all options for some type of propulsion system for deep space. In the budget this year, the SEPS [Solar Electric Propulsion System] program was recommended.

EIR: The Heritage Foundation recently put out a report in which they advocated that the space program be taken up by the private sector and that the government need not be involved. Could you comment on that?

Fuqua: Well, no, the whole space program could not be taken up by the private sector. However, there are some areas that can. We are approaching in the Landsat area the point where it can be turned over to private enterprise in a couple of years. I also think that the Space Shuttle, once it gets through its developmental flight, that it is a transportation system and it should be turned over to some type of group.

I have introduced a space industrial corporation bill that would start looking at ways that some type of corporation could be developed that would ultimately phase over to private enterprise, for the industrialization of space. I think they can do a better job. I think that NASA, being a basic research organization, needs to be an operational organization. They don't need to run railroads and a truck line. That's for private enterprise. Now, as to time frame, I do not think we have reached that point yet, but I think we are approaching it. And it's time to start talking about it, and making some kinds of policy decisions.

EIR: What kind of role do you see for cooperation with the Europeans and Soviets in space?

Fuqua: I think that we do have an opportunity to cooperate with the Europeans in many areas of space as we are in the space lab program. There are other programs that we can cooperate on with the Europeans, like developing satellite systems for regulating sea traffic, Seasat, and weather satellites. There is no way you can look at weather without looking at global weather. As for the Soviets, because of the continued military threat they represent to the United States, I think we ought to be very careful in those programs that we cooperate with them about giving up technology, or cooperating in programs that only benefit them and do not benefit us. The Soviets have had a lot of experience in space, and we do exchange information with the Soviets. There may come programs that we could mutually share.

EIR: Do you think that continuation of the space program is vital in terms of U.S. defense?

Fuqua: Yes I do, very much so. Particularly in the areas of communications and observation, reconnaissance and intelligence are very important for our defense effort. I don't want to see space filled with space rockets fighting each other, but I do think that we should keep abreast as the leader in the world of what is going on in space. To do otherwise is admitting a secondary role, and I don't think we can afford that.

INTERVIEW

Thurman demands Dem. Party revival

Last week, EIR *featured Part One of an interview with Georgia Democratic Party Chairman Marjorie Thurman, the new chairman of the Association of Democratic State Chairs. The interview, conducted by Anita Gallagher of the National Democratic Policy Committee, included Mrs. Thurman's comments on the potential for greater responsiveness to state and local party organizations on the part of the Democratic National Committee. The second and final part of the interview follows.*

Q: Have you looked at any of the new plans for delegate selection? DNC chair candidate Joe Crangle [based in upstate New York] has a plan, for example, that would select one-third of the delegates each by primary, caucus, and party officials.

Thurman: I have glanced over everything that has come in, but there is no way I would want to make a statement in favor of or against any that I have seen. It's going to have to be dealt with through a lot of debate and deliberation on what is practical and what is not. I think the first thing we are going to have to deal with in the new party administration is the fact that it didn't work, and where we go from here; everyone agrees that this delegate selection process did not work, and it's got to be redone.

Q: Will you put out frequent bulletins? How often do you think the state chairs will meet?

Thurman: I expect that we're going to meet very, very often. I don't think, with just 110 state chairs and vice-chairs, that we will get involved with a newsletter, but certainly we will put out memoranda to the state chairs and vice-chairs to keep them apprised of everything that's happening.

Q: I have heard that the Republican National Committee sends out something once a week to its members.

Thurman: I would love to see the DNC do that. We have had absolutely no communication from them for such a long time. We used to, many years ago, but not for the last four years. A national newsletter to everybody on the mailing list would be fantastic. But I would not do a newsletter for a 110-member team—I will keep them apprised by way of memoranda, and hopefully the DNC will have a newsletter.

Q: Will you spend a lot of time in Washington and a lot of time traveling?

Thurman: I have done a lot of traveling, and I don't think the new position will change my pace at all. I've given it all I've had all my life, and if anything, I'll give it even more now. I still have to practice law for a living, and I don't have anybody subsidizing me. My special interest is the party, and that's why I care to be bothered with this, and I have certainly done it under very adverse circumstances, probably for the better part of my career. But at this point in time, I think it is going to be nice, because there is no way that all the chairmen don't feel the same way I do about party-building—so it might be that politics is going to be fun, for a change.

Q: Bob Strauss is proposing a Democratic Advisory Council of 29 people that would include the Democratic congressional leaders and six DNC members. The *Baltimore Sun* says "This group will serve to pre-empt the expected proliferation of many other groups that will emerge to rebuild the party and define its policy."

Thurman: Do you know what that says? It says "forget the Marge Thurmans, the Chuck Manatts, the Patty Cunninghams, and all those other people down here, and let's just us take it over." I'm sorry, but you don't deal with politics from the top down, you deal with it from the bottom up. And if anybody forgets it, then they don't know where they're coming from, and I will fight like everything to oppose that.

Q: The National Democratic Policy Committee is very concerned that the party not continue to be associated with the economic policies of Jimmy Carter. We think this played a big part in the election defeat.

Thurman: I could not agree more. Now, I have no problem with the Democratic Policy Council; we've had one for years, and it hasn't been that active or that effective because the DNC represented nobody for the last four years except Carter himself. So I think it is good to have policy debate, and there is no way that those of us who are dealing with implementation could not participate. But our primary concern is to elect Democrats, and I am going to be fundamentally concerned with organization-building rather than policy at this point. I am perfectly happy with other folks out there talking about redefining issues. That is correct, that is splendid, and I would love to participate in it. But the number-one priority is getting our organization back together, because it is in bad shape at this point.

'Reagangate' gambits multiply

Scott Thompson reports on the new gameplan of bogus scandals against Labor Secretary Donovan and the President himself.

A trap with the potential to topple President Ronald Reagan has been set already, according to sources close to Walter Sheridan, the former head of the "Get Hoffa Squad" who is now chief investigator for Sen. Ted Kennedy (D-Mass.) on the Senate Labor Committee. The trap follows the same strategy used to watergate President Nixon.

Reagan and key advisers are to be caught in a coverup concerning accusations leaked to major media which purport to prove links between administration figures and organized crime through mere association. And Secretary of Labor Raymond Donovan, whose confirmation was held up for weeks based upon the lies of a convicted murderer promoted by Kennedy and Sheridan, is to be the first victim.

In an interview made available to *EIR*, a reliable source said: "Sheridan would not push Kennedy so far out front if he did not know he had a winner. Sheridan already has everything he needs to know. He is orchestrating selected leaks to play out his strategy.

"Sheridan will not try to prove that Donovan personally has direct ties to organized crime. If any evidence existed, Sheridan would have immediately gone with it. What he and Kennedy will do is catch Donovan in deliberately covering up information he has of various business ventures his company [Schiavone Construction], or companies he might be associated with, have made with organized crime enterprises. . . .

"What got Nixon was not what he did, but the coverup. . . . The question will immediately come up as to not only why Reagan picked Donovan in the first place, but why, despite the allegations, he confidently stood by Donovan."

New evidence

Sheridan and Kennedy have already taken the first major steps to lure the Reagan administration into this trap. On Feb. 6, only days after the FBI shot down all allegations and Donovan received Senate confiration, Senator Kennedy sent a letter to Senate Labor Committee Chairman Orrin Hatch (R-Utah) requesting new hearings on the basis of alleged shortcomings in the FBI's original investigation and new evidence.

According to press reports, the alleged discrepancies were first noted by a reporter for the *Record* in Hackensack, N.J. But sources close to Sheridan suspect that it was he who first leaked the story to selected New Jersey papers to lend credibility to Kennedy's request.

"No one knows organized crime in New Jersey better than Sheridan," a reliable source stated. "Whatever information has come out thus far in the press is only the part of the Sheridan wants to come out."

License to kill

An examination of Kennedy's so-called new evidence shows that it is all based upon the statements of members of the Federal Witness Protection Program, from which Attorney General Benjamin Civiletti selected hardened criminals to carry out his Abscam-Brilab "stings." Participants in this program are paid up to $90,000 per year, and have been granted immunity for crimes including murder if they produce convictions.

Among those FWPP informants Kennedy and Sheridan have marshaled for use against Donovan are:

- **Ralph "Little Ralphie" Picardo.** Though thoroughly discredited by FBI testimony and his repeated refusal to take a lie-detector test during Donovan's confirmation hearings, Kennedy states in his letter to Hatch that questions raised by the local New Jersey press "seemed to lend additional credence to the allegations of Picardo." Picardo's original charges include the claim that he served as the "bagman" for "payoffs" from Donovan to a now-deceased reputed crime figure to purchase "labor peace."

In February 1975, Picardo was convicted on charges of conspiracy to commit murder and murder in the second degree. He was sentenced to 17 to 23 years in state prison and confined in the Vroom Building, a maximum-security behavior-modification ("brainwashing") center in the New Jersey prison system. Counterterrorist experts have repeatedly traced the origin of Maoist and other local terrorist gangs to this center.

After nine months of "rewiring," Picardo was granted a retrial. Before it could take place the FBI "kidnapped" Picardo, telling U.S. District Judge Curtis Meena that they were merely taking him for a hand-writing sample. Picardo was whisked out of the state and sent from one prison to another.

Finally, Picardo escaped from a minimum security prison, but U.S. Attorney John Wlokdowski refused to prosecute him. Instead, he was granted bail. It was this "zombified" individual who suddenly remembered that he had once overheard Teamster Vice-President Tony Provenzano order the murder of Anthony "Three Fingers" Castellito in 1961. During the trial testimony, Picardo was called a "whacko" and "liar" by other witnesses.

• **Patrick Kelly.** Kelly recently told the *Washington Post* as he had earlier told the FBI, that he remembered Schiavone Construction from a number of conversations with organized crime figures, once in connection with "bid-rigging, several times in connection with the Genovese organized crime family."

Kelly has been on the FBI payroll since 1973. In 1976-1978 Kelly worked in the Law Enforcement Assistance Administration-funded Project Alpha, the model for the later Abscam "sting." Through Alpha, 40 business, labor, and political leaders in Hudson County, N.J. were entrapped by Kelly, who ran a string of dummy corporations for this purpose.

In testimony during one Alpha case, Kelly admitted that he used these same companies to "rip off millions" with impunity. According to a piece by Herbert Jaffe entitled "Informants Vital to 'Scams' " in the Feb. 10, 1980 *Newark Star-Ledger,* these crimes "were sanctioned, as long as the informants continued to provide data vital to Alpha and subsequently to Abscam."

In some instances those against whom Kelly testified had outstanding civil suits to recover the money which he had defrauded from them with FBI protection.

• **John J. Kenny.** Kenny is the source of Kennedy's latest claim that Schiavone Construction "may have illegally purchased 30,000 cubic yards of top soil which had been obtained from public property."

Thomas Bruinooge, one of Donovan's New Jersey lawyers, said on Feb. 8 that Schiavone's involvement in the deal was legitimate, but charged that Kennedy's resurrection of this 13-year-old matter had been "politically motivated."

Kenny, a onetime chairman of the Hudson County Board of Freeholders, was tried in 1973 on charges that he pocketed money from the illegal sale of county land. These sales, including that to Schiavone, were made through a front company, Duncan Land Reclamation Corporation, which presented the deals as totally legitimate to its customers. Schiavone's records were actually used to prosecute Duncan Land associates.

Kenny was also given immunity in the early 1960s when he testified at a federal kickback/extortion trial of former Jersey City mayor Thomas Whelan and others.

In his statement on the Duncan Land deal, Bruinooge said that Kennedy's charges "are designed to create an impression of mistrust and to weaken Donovan's ability to deal with the job." Mr. Donovan will not be distracted from his responsibilities as secretary of labor, and he will not allow this approach to affect him."

Presented with this "new evidence," Senate sources report that Senator Hatch told Kennedy and Sheridan to present their material to the FBI for followup. He added that there would be no further hearings unless the FBI confirmed these witness statements.

A number of other flanks have recently been openned in Reagangate with the same "entrapment/coverup" stamp as the operation against Donovan.

On Feb. 10 "leaks" carried first in the *Los Angeles Times,* a favored Justice County district attorney is investigating Michael Reagan, the President's eldest son by his first marriage. Michael Reagan is being accused of diverting funds invested in a gasohol development project for his personal use.

Among other points noted in press reports is that Michael and his partner, Richard Carey, allegedly exploited Michael's role as the son of a presidential candidate and also led investors to believe that Carey was the son of New York Gov. Hugh Carey.

The stage has already been set for charges of coverup in the case. On Feb. 11 the *New York Times* reported that Carey has spoken with President Reagan about the case in an effort to enlist his help in quashing the investigation. Moreover, the Los Angeles County DA has reportedly turned the case over to the Justice Department, raising the possibility of further "coverup" charges if Michael Reagan is not prosecuted.

This strategy is further augmented by the Westchester Premier Theatre skimming case in which Frank Sinatra is a defendant. The prime defendant in that case pleaded guilty Feb. 10. Sinatra's friendship with William French Smith has been used repeatedly for scurrilous attacks upon the attorney general.

Perhaps the wildest charge to date has been made in the Feb. issue of *Organized Crime Review*—a Reno, Nevada-scandal sheet published by an FBI-linked informant—which charges unnamed Reagan campaign staff with making a deal to win the Teamsters' endorsement. According to "sources," the deal involved the Justice Department dropping its emphasis upon labor racketeering to concentrate upon terrorism, KGB internal operations, and violent crimes.

In an interview, the publisher, Ryan Emmerson, claimed his original source was the same New Jersey paper cited by Kennedy in his request for new Senate hearings on Donovan. Emmerson's story was itself picked up by the Zodiac News Agency, a West Coast-based syndicate linked to the radical *Mother Jones* magazine and to the Washington, D.C.-based Institute for Policy Studies terrorist-coordinating center.

Capitol Hill Closeup by Barbara Dreyfuss and Susan Kokinda

Senate to discuss Third World ties

Senator Charles Mathias (R-Md.), has announced that the Foreign Relations Committee will hold hearings on Feb. 25 and 27 on "The U.S. Stake in the Global Economy: Issues in Relations with Developing Countries." Mathias said, "The purpose is of the hearings is to examine U.S. interests in the developing countries and to consider alternative strategies to advance U.S. interests."

The hearings will include panels on the following subjects: Implications for the United States of the increasing foreign debt of developing countries; strategic implications of developing countries' mineral resources; prospects for increasing renewable energy resources and energy conservation in developing countries; the economic implications of developing countries' population growth and migration patterns; and alternative strategies for the United States in the global economy.

Hearings on Iran deal planned

In an unexpected move, the Senate's Banking Committee chairman Jake Garn (R-Utah) announced that hearings on the U.S.-Iran agreement which freed the American hostages will be moved up from Feb. 24 to Feb. 19. The Banking Committee has had jurisdiction over aspects of the agreement since it passed the Emergency Economic Powers Act under which the financial aspects of the hostage release were negotiated.

Testifying at the hearings will be Harold Saunders, former head of the Carter State Department's Iran working group, and Robert Owens, legal adviser to the State Department. Two other panels are also scheduled, including representatives of the Bank of America and Citicorp, which are involved in the banking aspects of the agreement.

In a joint statement, Senator Garn and Senator Heinz (R-Pa.), who chairs the International Finance subcommittee, commented on the hearings, "There are many lessons to be learned from our conflict with the Iranian government and from any pieces of information which heretofore have been suppressed to ensure the safety of the hostages. It is appropriate for Congress and the American people to understand as much as possible about the details and implications of the agreement."

Antitrust subcommittee definitely abolished

Senator Strom Thurmond (R-S.C.), chairman of the Senate Judiciary Committee, defeated efforts by Sen. Charles Mathias (R-Md.), and committee Democrats to revive the antitrust subcommittee Jan. 27. Thurmond promised that he would hold hearings in the full committee on any Democratic proposals on antitrust legislation, but he definitely did not want a subcommittee devoted to the issue. "If you put it back to a subcommittee, I will be the chairman."

Senator Edward Kennedy (D-Mass.), who was chairman of the Judiciary Committee in the last Congress, and Sen. Howard Metzenbaum (D-Ohio), who chaired the now-defunct antitrust subcommittee, have pushed hard for two antitrust bills in particular. The first would have allowed consumer lawsuits against companies to be extended "down the corporate chain" to include those companies' suppliers and vendors. As a result, companies not directly involved in the alleged offenses could be held liable for large sums of money. The second antitrust bill was aimed at banning certain oil company mergers. Had Mathias succeeded in reviving the antitrust subcommittee, it is likely he would have pursued the antitrust issue in a manner similar to Democrats Kennedy and Metzenbaum.

Military assistance to drug enforcement bill

On Feb. 6, a group of senators led by Sam Nunn (D-Ga.) introduced S. 441, a bill to provide limited assistance by the military to civilian drug enforcement agencies. Companion legislation was introduced on the same day in the House by Rep. Billy Lee Evans (D-Ga.).

The legislation amends the doctrine of *posse comitatus* which prohibits the military from being involved in any way with civilian law enforcement. At hearings in December 1979 before the Permanent Sucommittee on Investigations which Nunn chaired, numerous witnesses pointed out that this doctrine prohibits the military from even informing civilian drug enforcement agencies when they pick up illegal drug flights into the country.

In introducing the legislation, Nunn said, "The thrust of the bill we are introducing is to expand the areas in which military-support services could be provided to civilian law enforcement, such as the sharing of information and the loaning of equipment and facilities. But we would continue to prohibit the direct involvement of military personnel in narcotics seizures, arrests, or other civilian law enforcement responsibilities." Cosponsors are Senators Chiles (D-Fla.), Mattingly (R-Ga.) Hollings (D-S.C.), Schmitt (R-N.M.), Dixon (D-Ill.), DeConcini (D-Ariz.), Johnston (D-La.), and Sasser (D-Tenn.).

Senator DeConcini, one of the cosponsors, has put forth his own resolution for the establishment of a Select Committee on Narcotics similar to the one being reconstituted in the House.

Fight over Nuclear Nonproliferation Act?

Capitol Hill sources have revealed that a major fight to change the Nuclear Nonproliferation Act of 1978 is in the offing. The act, better known as the Percy-Glenn bill after its two prime sponsors, effectively prohibits exports of U.S. nuclear fuel and technology by forcing importing nations to fulfill excessive and costly requirements. The bill represents the foreign-policy equivalent of crippling regulations imposed upon domestic nuclear power plant construction.

"We're hearing from a number of quarters that there will be a major fight on the act. Strategy sessions on the Hill are already mapping out who will introduce what amendments to the act," declared one aide involved with the issue.

The nuclear industry reportedly is gearing up for a fight, keyed to the early March release of a General Accounting Office evaluation of the Percy-Glenn bill's effectiveness. The GAO report was mandated by a provision of the act itself. GAO staff members assigned to the evaluation have reportedly visited 12 countries to interview officials of nuclear industries, utilities, and consulting firms.

Although the report is still confidential pending review by other government agencies, sources have indicated that it will both criticize and support the Percy-Glenn legislation. In particular, it will recommend changes on the grounds that the bill as now drafted has served as an irritant to U.S. allies.

Both Senators Percy (R-Ill.) and Glenn (D-Oh.) not only continue to back strict implementation of their bill, but Hill sources report they are working with closet environmentalist Alexander Haig to further limit nuclear-energy exports. Their efforts to direct international energy policy have recently taken the form of attempting to outflank Energy Committee Chairman James McClure (R-Id.), and Energy Secretary Edwards on the issue.

On Feb. 5, Senator Glenn sent a letter to President Reagan asking him to withhold sending the second part of the nuclear-fuel shipment contracted by the Tarapur plant in India. Glenn urged such action by claiming that India has proposed an "amicable end to its Agreement for Cooperation in nuclear matters." This statement was made despite the fact that Dr. Homi Sethna, chairman of India's Department of Atomic Energy, emphatically told journalists in early February that "we have an agreement which has the force of a treaty." Nevertheless, Glenn is demanding that before more fuel is shipped, India must detail what it will do with its nuclear fuels and waste products.

Report warns of credit constraint

The subcommittee on Consumer Affairs has just issued a report evaluating the effects of the Federal Reserve's Credit Constraint Program, put into effect March 14, 1980. Specifically, the subcommittee, under the direction of Rep. Frank Annunzio (D-Ill.), reviewed the actions taken by creditors to restrain lending as a result of the Fed's decision to allow them to impose more costly credit terms.

The study concluded that:"The Federal Reserve Board may have set up the Credit Program regulations in order to permit creditors to impose permanent, harsh new credit card terms on their customers. Had the Fed wanted merely to restrain credit it could have simply specified the changes to be made. However, then the creditors would have had to rescind the changes when the Credit Program ended. Also, then the changes would have had to directly relate to immediately restraining new extensions of credit.

"Although it was necessary, unethical and perhaps a breach of contract, 86 percent of the creditors who could do so, chose to apply drastic new credit terms retroactively to their customers' past purchases;

"Creditors used the Board's Credit Program as an excuse to impose new credit card terms to increase their profits."

National News

'Enterprise zone' panned in Boston

The Heritage Foundation's traveling series of conferences to promote "free enterprise zones" stumbled into Boston on Feb. 9, and failed to pull off any credible display of support. The attending bankers, realtors, and radical "community" groups of nearly 100 people sat through a series of speeches that defensively held to a bottom line that the proposed low-wage "free enterprise" shops might not be much, but, as Baltimore Mayor Schaeffer said, "We'll take anything at this point."

The speakers were already on the defensive, since *EIR* had circulated statements by banker Richard Hill of First Boston that ghetto populations were "economically unviable," which had produced outrage among local political and union groups. Conference participants who had earlier attended a private meeting on enterprise zones sat in fearful silence at the public event, though both Schaeffer and New York Rep. Robert Garcia weakly defended the plans.

A small businessman from Toledo pointed out that the program could only produce nonunion sweatshops, while First National's James Howell repeatedly avoided the labor issue.

U.S. support for credit 'disarmament'

Former Rep. Henry Helstoski of New Jersey was one of several signers to a telegram supporting West German Chancellor Helmut Schmidt's initiation of a call for a four-power interest-rate "disarmament" conference.

The telegram pledged that Americans who had campaigned for lower interest rates will "escalate our campaign immediately. . . . Your initiatives are critical to strenghten our mobilization for pending legislation in the U.S. Congress, modeled after proposals of Lyndon LaRouche of the National Democratic Policy Committee, to dump Volcker and to end his monetary policy. A selective credit policy, assuring affordable credit to productive economic sectors and penalizing speculative, inflation-causing investors, must be adopted. . . ."

Other signers of the telegram, the first from U.S. citizens to Schmidt, include: 1980 Democratic National Committee platform committee member Alice Riley; the president of UAW Local 1038 (Woodbridge, N.J.), Grace Salata; and the business manager of Plumbers Local 9, Thomas Sperling.

Budget cuts to cripple NASA, space programs

The Office of Management and Budget is proposing to cut $629 million from the fiscal year 1982 NASA budget, according to NASA sources. The cuts are 9 percent of the budget request.

Projects that would be junked include the Galileo mission to Jupiter, the Venus mission, a fourth vehicle for the Space Shuttle, and other space science programs.

Most immediately effected will be the Jet Propulsion Laboratory in Pasadena, California, which is responsible for NASA's planetary projects. During the Carter administration, JPL was forced into soft-technology research for the Department of Energy, to avoid having to lay off its scientific staff. The current proposed cuts will finish off the laboratory.

Former astronaut Senator Harrison Schmitt (R-N.M.) has withheld a statement pending the formal announcement of the cuts, but his office, as well as that of the Fusion Energy Foundation in New York, has received calls protesting against the cuts.

Congress has the power to restore cuts, but, NASA officials worry, moves to override will be blocked by Rep. Ed Boland (D-Mass.), whose Independent Agencies on Appropriations Committee has to approve NASA funding. Boland stated that, since Jupiter will still be there in 20 years, the cuts may as well proceed.

'Technetronic' future proposed for Detroit

A blue-ribbon commission of high-technology growth experts recently appointed by Michigan Gov. William Milliken is recommending a virtually total overhaul of the state's industrial economy. Comprised of such corporate luminaries as former Treasury Secretary W. Michael Blumenthal and Republican Party influential Max Fisher, the commission is emphasizing the quick enactment of legislation to facilitate attracting electronics, computer, and other high-technology firms into the state. This is seen as the centerpiece in "diversifying" the economy away from reliance on depressed heavy industry.

A parallel drive has intensified to permit foreign bank operations in Michigan and to create "free enterprise zones" throughout the state, including international banking facilities and expanded free-trade zones. Hearings on the enabling legislation are scheduled in about two weeks, with top state leaders lined up to introduce the bill.

Detroit Mayor Coleman Young has appointed a blue-ribbon "Budget Stabilization Committee" chaired by Fred Secrest, a retired executive vice-president of Ford. "Our job," said Secrest, "is to tell the mayor which unpleasant actions he has to take" to eliminate the huge $130 million deficit the city faces at the end of this fiscal year. Young has also just hired Lazard Frères as consultant to the city.

NDPC holds meeting 'to hang Volcker'

The National Democratic Policy Committee hosted a meeting of 150 to "hang Paul Volcker" for his interest-rate damage to the American economy, in Huntsville, Ala. on Feb. 9. As TV cameras and newsmen covered, leaders from the local American Agriculture Movement, and local political, business, and labor leaders demanded a swift end to Volcker's austerity regime.

The speakers' panel was led by Alabama State Sen. Bobby Denton, the sponsor of State Senate Resolution 3, calling for Volcker's removal and lower interest rates. Volcker's interest rates prohibit not only agriculture and industry, but also stifle American ingenuity, he said. With credit so costly, no profit margins are available for reinvestment in expansion of the country's technological potential.

Other speakers included Sam Darwin, a state board member of the Alabama Farm Bureau; Alvin Jenkins, a founding member of the American Agriculture Movement; and Nancy Spannaus, editor-in-chief of *New Solidarity* and contributing editor to *EIR*.

Press blacks out picket-line crossing

At 11:55 a.m. on Jan. 26, New York City Mayor Ed Koch became the first city mayor to cross a picket line in 50 years. The crossing came in full view of AP, the *New York Post*, and the New York *Daily News*, all of whom blacked out the incident.

Although Koch publicly disclaims any union-busting intentions, the facts of the incident speak for themselves.

Koch had been invited to speak on the Barry Gray radio program at WMCA radio, which was being struck by the AFL-CIO's National Association of Broadcast Employees Local 11. Local 11 executive board member Arthur Kent informed the mayor's office that his appearance on the program would require his crossing a picket line.

When Koch's office refused to promise that the mayor would honor the picketers, Kent called a press conference, to take place just before the mayor's arrival.

After the press conference broke up, reporters were invited to City Hall by mayoral press aides. AP and UPI have sent out wires on Koch's actions, but the wires were not run in any press. The liberal *Village Voice* has also refused to touch the story.

WMCA's president, Peter Straus, is formerly with the U.N.'s International Labor Organization, Voice of America, and still a member of the Council on Foreign Relations. He has refused to recognize Local 11 as the bargaining representative of WMCA employees.

Ramsey Clark: 'patriotism is refuge of scroundels'

In a Jan. 10 speech before 100 radicals at the Humanities Institute of Colombia, Md., former Attorney General Ramsey Clark praised anarchism and bloodshed in the name of "freedom," and called on his audience to ensure the U.S. supports "national liberation" struggles in the Third World and avoids the "mistake" of another Vietnam in El Salvador and southern Africa. The former attorney general did not mention Iran, where he had participated in a U.S. flag-burning demonstration shortly after the Iranian seizure of the U.S. embassy.

Clark emphasized three themes in his speech: that supranational entities, such as the World Court and United Nations, are leading to a world government; that scientific research must be contained as the premise for disarmament; and that what he termed "freedom" supercedes sovereignty.

"Culture is the lord of everything and freedom means cultural freedom." Clark then quoted 19th-century terrorist Nicolai Bukarin, and elaborated: "When survival becomes the issue, [then] democracy is too slow. . . . Freedom takes blood, as in the Reign of Terror" in the French Revolution.

When asked by a representative of the National Democratic Policy Committee why his actions in Teheran should not be considered treasonous, Clark replied, "I would have been proud to have led the demonstration . . . although I cannot claim to have led it. . . . The Iranian revolution . . . is very nonviolent." Clark's composure ultimately cracked and he shouted out (quoting Tory Samuel Johnson) "Patriotism is the last refuge of scoundrels!"

Briefly

● **ANTI-VOLCKER** resolutions are expected to be introduced shortly in the state legislatures of Connecticut, Arizona, Maryland, Missouri, Nevada, Oregon, Washington, and Wisconsin.

● **CHARLES T. MAIN** International, Inc. filed motions in Boston federal court Feb. 6 for a temporary restraining order and permanent injunction against further transfer of assets to Iran. The engineering firm is "challenging the constitutional validity" of the asset move, saying it voids due process and constitutional "equal protection." In a suit brought by H. Ross Perot, the judge ruled that Carter's executive action to unfreeze assets was questionable, since he was not President when the hostages were freed.

● **ROBERT KUPPERMAN,** the head of the Reagan administration's transition team on the Federal Emergency Management Agency (FEMA), is being touted as a likely replacement for Anthony Quainton at the State Department's Office for Combatting Terrorism. Based at Georgetown's Center for Strategic Studies, Kupperman is an expert on terrorist "crisis management."

● **EDWARD KOCH,** New York's mayor, in a meeting with President Reagan Feb. 3, not only supported the idea of a subminimum wage for youth, which labor leaders have warned would lower wage levels overall, but offered New York City as a prime target area for trying out the idea. Koch also suggested it be tried in nine other cities. Los Angeles Mayor Thomas Bradley also volunteered his city for the program. Gary, Indiana Mayor Richard Hatcher, president of the U.S. Conference of Mayors, opposed the whole idea of lowering wages for youth, warning that it would lead employers to throw adults out of work in favor of youth.

Energy Insider by William Engdahl

A Canadian blueprint for disaster

Trudeau's plan is nationalizing oil shares, driving production south, and locking up resources.

When Canada's liberal prime minister, Pierre Trudeau, announced his energy plan last October, more than the prices of oil stocks fell. The plan, a kind of "phased socialization" or Third World-style nationalization of non-Canadian energy companies, is slashing the oil and gas industry.

Under the new National Energy Plan (NEP), Ottawa will demand a 25 percent carried interest on every lease in the energy-rich Canadian Lands, which include some of the world's most promising new oil finds—Beaufort Sea in the north and Hibernia field off Newfoundland. This revenue will be taken by the state-owned Petro-Canada and will, in effect, make PetroCan a potential major oil corporation through government fiat. Trudeau is also using a set of exploration tax writeoffs and incentives under the Petroleum Incentive Program (PIP) to penalize frontier exploration by non-Canadian corporations. (Canadian-owned is defined as at least 50 percent controlled or owned by Canadians.)

The Trudeau plan calls for using the recently created government Petro-Canada Crown Corporation to buy up major oil and gas companies. PetroCan was the early-1970s brainchild of Maurice Strong, the U.N. official who ran the 1972 Stockholm Conference on the Environment, presided over the 1980 World Futures conference in Toronto, and chairs the International Union for the Conservation of Nature and Natural Resources.

The federal excise tax on natural gas sales will increase from 10 percent to 24 percent for an estimated $21 billion over the next three years. British Columbia is refusing to pay the tax, and others are now paying only under protest. Talk of western secession is rampant.

But the most dramatic impact of Trudeau's nationalization policy has been an unprecedented flight south to the U.S. by drilling and exploration companies, combined with a sharp cut in major companies' exploration budgets. Mobil Oil Canada, Ltd. slashed its 1981 capital budget by 46 percent; Canadian Hunter Exploration, Ltd. reports that they will drill 22 wells instead of 55 in Alberta's deep-basin area and now will not pursue new exploration ventures in Canada, because the NEP policy will phase out depletion allowances and cut revenues by up to 25 percent in the next three years.

I talked with the Canadian Association of Oilwell Drilling Contractors, who told me that, based on a nationwide poll of their members, 61 drilling rigs of a total of 561 have already moved south to be employed in U.S. oil development. By May, they expect another 60 to have left. By the spring thaw, furthermore, they expect at least 201 rigs to be inactive because oil companies cannot afford to use them under the new rules. All this will mean that over 50 percent of Canada's capacity to drill and service oil and gas wells will be inoperative by May 15.

The Trudeau plan will reduce overall oil and gas production by at least 24 percent, according to conservative calculations by the Canadian Petroleum Association, and will further cut new discoveries by 33 percent. The total additional cost of imported oil and gas needed to pay for this "energy self-sufficiency" program will be at least $182 billion charged to the Canadian economy by 1990. Alberta has already cut production to force Ottawa's hand; the CPA projects that only 55 percent of domestic oil will now be internally supplied.

The stakes in all this are high, to say the least. PetroCan is taking control of some of the world's largest oil and gas reserves. A consortium consisting of Mobil, Gulf, Chevron and PetroCan controls the new Hibernia field, which could contain 50 percent more recoverable oil and three times as much recoverable gas as Alaska's giant Prudhoe Bay fields, according to Gulf-Canada.

Dome Petroleum calculates that oil reserves in the northern Beaufort Sea and Mackenzie Delta alone are between 32 and 70 billion barrels, and could be producing by 1985. Both the Hibernia and Beaufort Sea areas are Canada Lands under the NEP, subject to 25 percent expropriation by PetroCan. And given the proclivities of PetroCan founder Maurice Strong to discourage economic growth, I suspect that his role in Trudeau's latest radical policy move has the malevolent intent of controlling the development of these vast new reserves.