EIR

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Strauss in Washington, plot to topple Schmidt?
Carter sacrifices economy in war on Europe
Campaign 1980: Who's on the Reagan bandwagon

Euro-Arab pact: Britain out of line

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EIR

From the Editor-in-Chief

French President Giscard d'Estaing arrived back from his historic visit to the Middle East last week and immediately picked up the phone to call his close friend, West German Chancellor Helmut Schmidt to report what he called "new and interesting developments" coming out of the trip. The result was a summit meeting in Hamburg between the two European leaders. Our Special Report this week takes you behind this story for a look at the triumph of continental European policy in the Middle East, the French initiative for a real Middle East peace including a Palestinian state, and the indications that the Franco-German alliance has received the backing of the Arab petrodollar holders for moving into the important Phase II of the European Monetary System.

It is no surprise that London is entirely up in arms at the French diplomatic coup. Historic Anglo-American preserves in the Persian Gulf, including Saudi Arabia, were successfully and peacefully invaded by French President Giscard. The British are screaming for a showdown with the French at the upcoming EEC summit meeting in Brussels. Our Contributing Editor Criton Zoakos has written a masterful article on this situation, examining the inner reasons for the Anglo-American reaction in their opposition to the emergence of powerful nation-state based forces in Europe *and* the U.S. Included in the report is an exclusive interview with the head of the National Bank of Paris, conducted in Mexico City by our bureau chief Josefina Menendez.

Elsewhere in this issue we direct your attention to a special contribution from our Contributing Editor Lyndon H. LaRouche, Jr. entitled: Carter Economics Enters into 'Weimar Hyperinflation'. LaRouche sharply analyzes the disastrous course of Carter economics, the 'below zero' condition the U.S. economy has now entered, and elaborates new concepts in the LaRouche-Riemann economic model developed by him and unique in its record of precise prediction of current economic developments.

Daniel Sneider

EIR Contents

Departments

1 From the Editor-in-Chief

5 InSight
Mr. Miller's confession

51 Dateline Mexico
More oil, no GATT, fewer candidates

60 Congressional Calendar

64 The Facts Behind Terrorism
Terrorists target 1980 campaign

Economics

6 Carter sacrifices economy in war on Europe
There is one obvious feature of the new Carter-Volcker package of high interest rates and credit restrictions: They will drive the U.S. economy toward levels of inflation not seen since 1920s Germany. Only slightly less obvious, the new measures are principally intended as the centerpiece of U.S. and British economic warfare against the European Monetary System nations.

8 What Volcker's measures will do to lending

13 Jimmy Carter's economy enters 'Weimar hyperinflation'
Contributing Editor Lyndon LaRouche examines the devastating consequences of Carter policy

19 Gold
A good time to buy

22 International Credit
Europe cornering petrofunds

23 Agriculture
The Fed threat to the farmer

24 Foreign Exchange

25 Trade Review

26 Business Briefs

Volume 7, Number 12 March 25–31, 1980

Special Report

Photo: SYGMA. Margaret Thatcher of Britain motions toward French President Valery Giscard d'Estaing (third from left) at the EEC's 1979 summit in Dublin.

28 A Euro-Arab pact: Britain out of line

After his breakthrough tour of the Middle East, where he won Arab petrodollars by promising to use them as an instrument of Third World development, French President Giscard held his third summit this year with West Germany's Schmidt. The British began to shriek in fear. A "reverse Waterloo" is coming.

34 What is the European Monetary System?

37 The historical issues behind the current world crisis

When the continental powers capitulated last December and and agreed to station U.S. missiles on European soil, Zbigniew Brzezinski hailed it as the biggest development since the 1648 "Treaty of Westphalia." Just so, reports Contributing Editor Criton Zoakos; the issue is that of the nation-state vs. "One World" efforts to resurrect a variety of Hapsburg Empire.

International

43 Strauss in Washington: Carter plots to topple Schmidt

West German Chancellor Schmidt enjoys popularity ranging above 55 percent; his chief rival, Bavarian Franz Josef Strauss, little more than 25 percent of those who will vote in the October election. But when Strauss visited New York and Washington last week for the highest-level series of secret meetings enjoyed by any foreign dignitary in memory, presidential candidate LaRouche uncovered a plan to bring the Bavarian to power, by means other than a democratic vote. An *EIR* exclusive.

46 Where he went, who he saw

47 The 'Great Green Hope' of Franz Josef Strauss

48 Middle East

French diplomacy's attack on Camp David

50 Latin America

Colombian dope pushers drive toward legalization

52 International Intelligence

National

54 Who's jumping on Reagan's bandwagon?

Until the Illinois primary, the Trilateral Commission/Council on Foreign Relations crowd were pulling out every card thay had in an effort to "stop Reagan."' But now, because the former California governor's victories have all but sewn up the nomination, the boys at CFR have jumped on board. The question is, if Reagan becomes a vehicle for the same old CFR policies in "conservative" garb, will his present mass constituency still want to put him in the White House?

56 "We'll make those Cubans break with the U.S.S.R."

58 Andrus manufactures 'corruption' scandal to halt U.S. oil leasing

Energy columnist William Engdahl reports on an unpublicized Interior Department action designed to reduce U.S. energy supplies.

62 National News

EIR on newsprint

Delayed shipments at our printers have necessitated printing this issue of EIR on newsprint. We will resume our normal appearance in the coming issue.

by Nora Hamerman

Mr. Miller's confession

Not since Nixon's Treasury Secretary John Connally uncoupled the dollar from gold in August of 1971—at the suggestion of Wisconsin Congressman Henry Reuss—have the various schools of monetarist economists been so candid about confessing their incompetence at running the economy, or so insouciant about prescribing more of the same "horse linament" that almost killed the beast.

Of course we are referring to the remarks that G. William Miller made on the CBS-TV interview show last Sunday, "Face the Nation." According to Mr. Miller, there is "no econometric model" that was capable of forecasting the catastrophic collapse the economy had undergone over the last four months, since his successor as Federal Reserve Board Chairman, Paul A. Volcker, decreed the first round of credit restrictions. "The economists have all been wrong," intoned President Carter's Treasury Secretary.

Miller vowed that the administration is committed to distributing a "fair share" of planned budget cuts to each sector of the economy that has failed to stop producing and consuming. "Austerity across the board" is the watchword to punish the U.S. population for the economists' failures.

Paul Volcker, in the meantime, has taken up the theme of New York City's Felix Rohatyn, stating that a "certain amount of pain is inevitable in this process." The credit squeeze will be in effect "as long as necessary and as short as possible." According to the Bank of England, which is calling the shots for U.S. policy anyway, this will be at least two years.

Mr. Miller and his fellow purveyors of austerity have not merely been wrong about the economy; they are also wrong in stating that no one was able to forecast the consequences of their behavior.

Last October this review, using the unique "Riemannian" econometric computer model developed by *EIR* together with the Fusion Energy Foundation on the basis of concepts put forward by Lyndon LaRouche, accurately forecast the impact of the credit restrictions to effect the "controlled disintegration" of the U.S. economy. We are now in the process of running the current measures through the model.

Sorry, Mr. Miller. Science does exist. And it is winning over a substantial number of the people whom you, Volcker, Reuss, and Proxmire are telling must undergo "prolonged pain," watch their jobs and businesses go down the drain, and turn American cities into medieval hellholes.

Part of what Carter and Co. will be confronting is the resurgence of the "anti-Volcker" movement that began last October. The legislatures of two key industrial states, Maryland and Pennsylvania, are considering resolutions demanding that Volcker cut the interest rates or step down.

More importantly, the issue of U.S. entry into the gold-backed new monetary system being shaped by West Germany's Schmidt and France's Giscard d'Estaing is fast becoming the "hottest" issue of the 1980 presidential campaign. As the late President de Gaulle's economic adviser Jacques Rueff noted, pegging the currency to gold is a vital prerequisite for investment in the kind of high-technology development projects which are absolutely essential to getting the world's economy moving again. The gold backing will give stability to the dollar, assuring investors that over the long term their initial dollars will not be eroded by monetary instability.

Creating that kind of long-term, low-interest credit for high-technology industry and agriculture is the only way to stop inflation, by making certain that real wealth grows at a faster rate than interest.

It's not very complicated in principle. If Miller, Milton Friedman, Rohatyn and the other austerity hacks cannot grasp this solution, it is because their primary loyalties to the "British System" of pain-and-agony economics have made their species of "economist" irreparably stupid.

Carter sacrifices economy in war on Europe

by David Goldman

The flood of criticisms directed at the Carter-Volcker "anti-inflation" package of March 14 has established beyond doubt in the minds of the public and legislators that the effort will not be successful in containing inflation. However, as banking community sources in the best position to evaluate the content of Fed chairman Paul Volcker's actions state, the credit control measures are not designed to reduce inflation.

They are designed for a domestic purpose, but also a foreign purpose. On the one hand, the measures will prepare the stage for full-scale use of the Credit Control Act of 1969, the most totalitarian piece of legislation currently on the books, along with other wartime-level controls. But equally important, as the British financial press has emphasized, the Volcker package is intended to impose a deflationary regime on Western Europe, and freeze current European plans to advance the proposed European Monetary Fund.

The effects on the continent

"The most immediate effects will be on the international markets, where they will make a significant contribution to slowing down inflation," writes the London *Times*. "The measures will reduce...speculative pressure...Although no conscious decision has been taken by the other nations of the West, they have all been forced into adopting the anti-inflation monetary policy in line with the U.S. example."

While the content of the *Times's* statement is false, the *Times* is not lying about Volcker's intent. The actual impact of so-callld anti-inflation measures in the U.S. on Europe has been to touch off an interest-rate war which, over the past year, has nearly doubled the interest rates, and consequently the rate of inflation, in the European Monetary System nations.

West Germany's interest rates have risen from 6 percent a year to about 11 percent, both Belgium and France's to 14 percent, all of which makes capital investment and growth in living standards more difficult for industry and consumers in those countries.

Contrary to what happened in the United States, however, the Germans in particular have taken deliberate, tough measures to ensure that hyperinflation does not cause a decline in the heavy industry export area on which their national economic survival is based.

Credit expansion for export credits, and for the industrial investments which will produce German exports, has continued, especially as the Germans have sought and received heavy financing from the Arabs for their equity markets. This is the "inflation" the London *Times* is concerned about.

Why U.S. inflation and interest rates will rise

Judging from the yield curve on Certificates of Deposit, which falls from 17.75 percent on 90-day certificates to 15 percent on 120-day certificates, the market expectation is that U.S. interest rates will peak within six months. Astute observers such as U.S. Trust's James

O'Leary believe that interest rates will not peak; O'Leary, Paul Volcker's old colleague from the trustees of the elite Ditchley Foundation, is correct on the point.

The recession the American economy is now entering is not an ordinary recession, but a Schachtian process in which capital goods production rises for military or energy-autarky investment while consumer goods production falls, and real economic resources are transferred out of the consumer sector. This ensures continued high interest rate levels and high inflation rates. As Volcker hinted in March 18 testimony, the opening of the Credit Controls Act can only be the beginning; much more drastic measures will be required.

The fact that overall industrial output rose during 1979, largely due to a 6 percent real increase in purchases of business equipment, despite a 10 percent drop in production of consumer durables, should be sufficient warning of the shift into non-productive capital goods expenditures (defense, synfuels, etc.). As Lydia Schulman's analysis (see below) demonstrates, credit—inflationary credit—will continue to be available to those industrial ventures demanded by government spending or regulatory programs.

For other industries, the result will be a chain of bankruptcies that will bring on a full-scale depression.

'Guessing who will go'

Incoming Chase Manhattan chairman Willard Butcher is announcing that the banks will carry out this policy even if it results in their own destruction. We have to be "as flinty-eyed and hardnosed as possible," and "learn how to say no," Butcher told an American Bankers Association meeting in Atlanta March 18.

Other bankers privately conceded that the deflationary policy will start sending a lot of companies under. "We sit around and guess who will go," said one. "The partners here are talking about a lot of mining companies, financial services companies, suppliers and warehousing companies who carry inventories on credit. This time the toughened marginal reserve requirements will bite."

But as some associates of Volcker admit, the Carter administration will have to prepare to impose any measure necessary, no matter what the cost to the country, in order to try to prevent the Europeans from realizing their alternative. After the primaries are over in three months, Carter will extend the measures and take control over every aspect of the economy, said one source. This is a polite way of describing a fascist economy.

The European danger

Writing in the current issue of *International Finance*, a bank newsletter, Chase Manhattan economist Douglas L. Bendt says, "Despite the drawdowns of the past year, foreign holdings of U.S. public debt are still substantial"—i.e., down to almost $100 billion from a June 1979 peak of $142 billion. "Billions of dollars of U.S. national income continue to flow abroad to pay the interest. But more importantly, the United States has surrendered a certain degree of control over its monetary affairs to foreign central banks."

In less staid language, bankers are concerned that the Fed's lack of control over its own liabilities and, much more importantly, Europe's evident ability to control the recycling of the estimated $120 billion 1980 OPEC surplus, place both the Treasury and themselves in grave danger.

Volcker's deflationary exercise will produce a banking crisis domestically, by putting some financial intermediaries against a wall; it will also make more onerous the almost unmanageable job of financing an $80 billion-plus non-oil developing countries' payments deficit during 1980. With the London Interbank Offered Rate, the key Eurodollar barometer, now at 19.5 percent, the volume of developing sector interest payments to be refinanced this year will exceed $80 billion.

The Fed requires all the flexibility in the world to handle both crises simultaneously, all the more so if European banking estimates are correct that the presently strong dollar is due for a sharp fall at the end of the second quarter. Bankers fear simply that the Fed cannot juggle all these balls at once.

The fears are entirely justified. The Arab world has no intention of following the Federal Reserve's standing advice (courtesy of Governor Henry Wallich) to invest in the debts of Third World countries.

The bulk of the petrodollar surplus will be invested instead in European government securities, equities, and bank deposits, and thence recycled into export financing (although, perversely, some spillover may aid the Federal Reserve in the form of European reserve purchases of Treasury securities). Ultimately, the new European-Arab financial relationship closes a circle which excludes the United States financial system at the point of greatest crisis.

Offensive against West Germany

There lies the great danger to Volcker. He and the British are desperate to stop the Arab-European political combination which could finally put the European Monetary Fund into operation as an instrument of technology transfer to the developing sector. The Carter administration and British policymakers are concentrating their financial warfare on West Germany, both because of its vulnerability as a NATO-occupied country, and because it is West Germany's economic weight on which the EMS depends. So, the Carter-Volcker crowd has, on the one hand, virtually announced that it is backing Franz Josef Strauss for the next Chancellor of West Germany. On the other, it is aiming its biggest economic guns at this U.S. creditor.

The *Financial Times* of March 18 elaborates the approach: "This time because of the less buoyant world economy and particularly the LDC (less developed countries) situation, they will find (increasing exports) more difficult. The Germans can finance a balance of payments deficit for a short time, but what if it's a long time? The question is whether the measures taken by the Germans, the loan from OPEC, etc. will have enough effect to attract a capital inflow.

"That question is doubly delicate in the light of the Carter measures. The Bundesbank president warned of the dangers of interest rate warfare; Schmidt certainly has no desire to get involved in such warfare in an election year. But it may not be so easy for either of them to resolve this dilemma."

The backfire effect

There is no question that the Volcker measures have hurt both Germany and France. But the likely result of this escalation will be to drive them even more rapidly and firmly into establishing their own financial arrangements with the Arabs, which are open to the Soviet Union as well.

To the Germans and French, after all, this is not simply a matter of an economic chess game. Giscard and Schmidt took the action of establishing the European Monetary System in the belief that the collapse of the world economy was dragging the world dangerously close to war, that economic collaboration between East and West to develop the developing sector was the only way to build conditions for a lasting peace.

If anything, the Carter administration's sabre-rattling postures over Afghanistan, and moves toward Hitler-like economics in the United States itself, have hardened the European leaders' conviction.

Volcker is imitating Hjalmar Schacht, Hitler's financial plenipotentiary, in attempting to control the American economy through the Reichsbank, and accepting the proposals of Schacht's leading exponent in the economics profession, Milton Friedman, in placing a straight limit on credit expansion. However, Schacht had the benefit of Bank of England loans and sympathy in running his autarky.

As Jacques Rueff pointed out, Schacht's policy was set up for him by the 1931 Standstill Committee on German payments. Volcker, who must juggle a shaky reserve currency against both domestic and international financial crises, and try to crush the European economics, has no such luck.

The program

What Volcker's measures will do to lending

by Lydia Schulman

"You can kill a lot of sheep with incantations if you add a little poison, and the three percent surcharge on the discount rate is poison." This is how American Enterprise Institute economist Gottfried Haberler, quoting Voltaire, evaluated the new package of credit tightening measures decreed by President James Earl Carter on March 14.

Other economists polled by the *Executive Intelligence Review* said that they believed that the nine percent "volunary" limit put on bank business loan expansion for the rest of the year—the part of the new package dismissed as mere incantation by Mr. Haberler—will immediately result in the rationing of scarce supplies of credit to competing borrowers.

All told, the view among bankers and credit market observers is that the new credit curbs will cause a severe credit crunch, which will immediately impact upon residential and commercial construction, the auto and other already weakened consumer industries, and the financial institutions themselves.

As Dr. James O'Leary of U.S. Trust explains in the interview printed below, phase one of the Volcker strategy—the package of interest rate hikes and other credit restraint measures imposed by the Federal Reserve chairman last Oct. 6—resulted in the demise of functioning capital markets in the United States. From December through February, many corporations who were closed out of the bond market turned to the commercial banks to lock up short-term credit lines instead.

This shift is reflected in the accompanying chart, in the surge of commercial and industrial loans in December after November's negative growth, and also in the continued growth through the March 7 reporting week (these figures, it should be noted, are not adjusted to even out seasonal fluctuations in loan demand, nor do they include substantial loan operations of foreign banks operating in the U.S.).

Phase two of the Volcker strategy is to put the clamps on further bank loan expansion, "turning off all escape routes," in Dr. O'Leary's words. With the inflation rate currently running close to 20 percent annually, the 9

Domestic commercial and industrial loans on the books of large commercial banks (in millions of dollars)

Industrial classification	Net change during III Qtr. 1979	IV Qtr. 1979	Nov. 1979	Dec. 1979	Jan. 1980	Feb. 1980	Outstanding Jan. 30, 1980
1) Total domestic loans*	7,066	3,189	−1,389	3,403	168	1,800	138,056
2) Durable goods mfg.	2,689	1	− 616	737	na	na	23,721
3) Nondurable goods—total mfg.	1,503	298	− 714	826	na	na	19,211
Food, liquor, tobacco	535	314	− 57	252	na	na	4,963
Textiles, apparel, leather	328	−686	− 241	−266	na	na	4,153
Petroleum refining	6	705	− 309	805	na	na	3,206
Chemical and rubber	179	209	− 61	87	na	na	3,744
4) Mining	673	317	− 195	495	na	na	12,244
5) Trade—total	685	230	− 332	−192	na	na	24,230
Commodity dealers	−58	275	− 330	273	na	na	2,118
Wholesale and retail	743	−44	− 3	−465	na	na	22,112
6) Transportation communication, other public utilities	1,434	1,070	327	618	na	na	18,058
7) Construction	309	−133	16	56	na	na	5,757
8) Services	1,108	1,040	142	475	na	na	19,776

* Lines 2 through 8 do not add up to total
Source: The Federal Reserve

percent ceiling on business loan expansion portends a sharp contraction in nominal Gross National Product.

The Credit Control Act of 1969

The recent actions taken by the administration and the Federal Reserve imply even more ominous developments. along the lines of the squeeze imposed by former Fed chairman Burns in the third quarter of 1974. In imposing the "voluntary" curb on business lending, the 15 percent reserve requirements on new consumer credit card extensions, and other measures, Carter invoked the Credit Control Act of 1969. The invocation of this act, which gives the president and the Federal Reserve sweeping, wartime authorities over the U.S. economy, means that we are moving into a period of mandatory controls of all types, strict allocation of credit, labor, and resources in the economy, a new depth of cuts in living standards, and other measures associated with a military economy.

The Credit Control Act of 1969, which was inspired by the congressional Joint Committee on Defense Production under the chairmanship of Sen. William Proxmire (D-Wisc.), awarded the U.S. president standby powers to direct the Federal Reserve to cut off credit selectively for the purpose of combating inflation, and, if necessary, of gearing up the economy for war. The act, in fact, grew out of plans drafted by the Office of Emergency Planning for standby credit controls on consumer credit and other mechanisms for ensuring the defense production capabilities of the economy in the event of conventional or nuclear war. The Credit Control Act was originally pushed through Congress in the inflationary climate touched off by the nonproductive defense spending associated with the Vietnam war and aggravated by the tight money policies adopted by then Federal Reserve Chairman William McChesney Martin.

According to U.S. Trust's Dr. O'Leary, it is probable that Volcker will establish a new policing mechanism—

patterned after the national committee which administered credit controls during the Korean War—to supervise the new constraints on bank lending.

George McKinney, economist at Irving Trust, expects that the current voluntay restraint program will be supplemented by a major step in the activities of the bank examiners—which he termed "a subversion of the examining process." According to Mr. McKinney, the Credit Control Act is one of the most absolute acts in force in the country.

Volcker's measures

An aide to Congressman Henry Reuss (D-Wis.), who in his capacity as chairman of the House Banking Committee has long been a staunch supporter of credit controls, predicted that the Federal Reserve would successfully keep the banks in line through "moral suasion and threats." "If the Fed sees that some bank is making loans above the voluntary limits, it can become rougher at the discount windows [a major source of the banks' relendable funds in recent months—ed.]. There is no real way that the Fed can refuse a bank loan at the discount window to allay liquidity problems. However, if the authorities see a bank making loans in excess of the new limits, the next time the bank comes to the window, the Fed will subject it to much tougher questioning to determine whether the bank intends to use the funds for relending purposes. Banks want to have the bank examiners on their side." Under the new rules, banks can borrow at the Fed only four times a month, and large commercial banks which have been borrowing excessive amounts are subject to a 3 percent surcharge on the 13 percent discount rate.

Three of the measures imposed March 14—discount rate surcharge, the reserve requirements placed on bank credit card loans and the higher reserve requirements placed on supplemental borrowing from the Eurodollar market—are designed to discourage additional lending by jacking up the cost of funds to the banks. The added costs will put a severe dent in bank profitability. Banks have been losing money on their consumer loans for months; now they will lose more. Banks have simultaneously seen their portfolios of Government securities depreciate daily. This becomes a problem when a bank liquidates these assets to free up funds for lending. Many banks are making the decision to liquidate government security holdings and take a loss now, on the expectation that government bond prices are going to fall still lower.

The decision to place a three percent surcharge on the discount rate rather than raise the rate will especially hit the regional banking system. Usury laws in force in many states tie the rate that banks can charge on loans to business and consumers to the discount rate. Since the discount rate is nominally being held at 13 percent—although the banks' actual cost of funds is well over 17 percent—the regional banks are being put in a vise from which many of them will never emerge.

The "Omnibus Banking Bill"

The next phase of the banking system and credit restructuring in the works is waiting in the wings in the form of the sweeping banking "reform" bill known as the Omnibus Banking Bill. This bill, which is the long-term pet project of Rep. Reuss and Sen. Proxmire, chairmen of the banking committees of their respective sides of Congress, is expected to pass the House and Senate shortly and be on President Carter's desk for signing by March 31. According to banking committee staffers who helped to draft the bill, it provides the Federal Reserve with the tools to address the present inflation crisis. Most importantly, the bill greatly enhances the power of the Federal Reserve by forcing all U.S. financial institutions, including non-member banks, savings, banks, credit unions, etc., to hold interest-free reserves with the Fed for the first time in history. In one swoop, the Fed's authority to control money supply and credit growth by raising reserve requirements will be extended from 5,600 financial institutions at present to 40,000.

'We're going to see a tremendous credit crunch'

In the following interview, Dr. James O'Leary, chief economist of U.S. Trust, commented on the impact of the credit curbs announced by President Carter on March 14.

EIR: Is the credit control aspect of the package announced by President Carter March 14 strong enough to significantly cut loan expansion?

O'Leary: That is the really important part of the package. I think it will be very effective. The measures taken last fall have almost closed down the availability of capital in the mortgage and bond markets. What the Fed is doing now is putting a highly significant limiation on the expansion of bank loans. We are entering into a period of real tightening and contraction of the *availability* of credit. There will be rationing of credit. As Mr. Volcker said, he is leaving it up to the banks to decide who gets the credit; market forces are working to determine this. A lot of credit lines were entered into over the last couple of weeks. Now where new credit lines are being sought, the banks realize that they will have to adhere to increasing pressure from the Fed.

EIR: Does the Federal Reserve have the powers to hold the banks to the 9 percent annual limit on the rate at which they are allowed to expand their loans to business?

O'Leary: Most banks will be very scrupulous. There will probably be some policing mechanism set up that will periodically check to see if the banks are staying within the limits ... I was part of the national committee that was set up to watch over the banks when this type of effort was made during the Korean War. A pattern similar to that will develop. A committee structure of bankers will be instituted to see how well the banks are doing. There is no one more scrupulous than bankers...

Mr. Volcker set up the measures in a way that no one will attempt to escape. He anticipated businesses trying to borrow elsewhere—in the commercial paper market, the Eurodollar market. Having put foreign banks under the same constraints, he turned off all the escape routes. [Foreign banks operating in the U.S., which account for around 20 percent of the loans to industry, were called down to Washington along with the U.S. bankers on March 17, and are subject to the same 9 percent "voluntary" limit on business loan expansion.]

We're going to see a tremendous crunch. With the first round of measures Volcker affected both the availability and cost of credit, and forced borrowers in the capital markets back to the banks. Now with the limits on bank lending we could see a very severe crunch ... It is wrong to think that higher interest rates won't come out of this.

EIR: What are the international implications of the U.S. going into a severe recession now?

O'Leary: Our recession will have an impact on our trading partners. This is all pretty well anticipated by the OECD and other forecasters. The danger is that in the climate we're in, with some of our industries like auto already so depressed, there will be a new hue and cry for trade sanctions. That's where the problems lie.

By next Labor Day, when the economy will clearly be in a recession, the Fed will have to decide how tight to keep monetary policy. They're going to have to be very careful, because they could provoke something much worse.

If by that time there hasn't been any improvement in inflation, Carter will have to decide whether to go to direct wage-price controls. This might seem like a bad route for political reasons, but Carter might just figure that there would be something to gain politically by taking strong measures to fight inflation. He might decide to forget about the labor vote and the inner city vote and go for what has traditionally been the Independent and Republican vote.

The victims

Who is going under in Carter's sacrifice?

by Richard Freeman

In his March 14 address on the economy, President Carter stated that his new program of budget cuts, credit rationing and oil import fees, were not intended to collapse the economy, nor to affect the auto and housing industries, because these industries were going to be "protected." Either Carter was severely misinformed, or deluded, because it is precisely his policies that will hit the most credit vulnerable sections of the economy, with auto and housing in the lead.

Indeed, Carter's budget, and Volcker's credit policy leaves only one question unanswered: will the industries producing for Carter's military build-up program or the shift to synthetic fuels and pollution control measures, be brought down in the general collapse that the President's program will touch off? Carter hopes not. Indeed, the treasurers of some large companies, such as International Telephone and Telegraph, report that they are not planning to make cuts into their capital spending. IT&T's treasurer reported March 19 that it will simply go to Europe—where half of IT&T's operations are run from, to borrow money which IT&T will then bring into the U.S. The telephone and electronics company giant is planning on increased electronics orders from military as well as commercial aircraft (which are gearing up to meet fuel efficiency standards) to keep it going.

But there are general laws of economics and it is nearly impossible to maintain one part of an economy in health, when other sections are in radical decay. The experiment of Finance Minister Schacht in Germany in the 1930's showed that the protection and build-up of a core of military and synthetic fuel related companies within the framework of credit controls and fiscal conservatism meant cannibalization against other sectors of the economy, introducing fundamental imbalances that were not possible to correct. The Schachtian solution to this problem is well-known in the volumes written about the Nazi war economy and concentration camps.

In any event, the first phase of the Carter high interest rate policy leaves little doubt that Carter's hit list in the consumer and credit-dependent sectors of the economy will be devastated by his and Volcker's latest measures:

Housing. According to the National Association of Home Builders (NAHB), the latest Carter policies will further wipe out the housing industry. NAHB economist Bill Young stated March 19 that "housing starts this year will be a little above 1 million units, which is only half 1977 and 1978 levels." Young explains that the Volcker measures come at a critical time." In the winter months, not much building goes on. But it is in the spring and early summer that homebuilders concentrate on their major building. Now, they are postponing those building starts."

Young's NAHB has just completed a study showing that in today's market, only 3 to 4 percent of the population can afford to buy a new home. A normal rule of thumb for home mortgage lenders is that the principal, interest, insurance and taxes for maintaining a house should come to no more than 25 percent of a family's income. The cost of financing a new house, at today's market prices, now takes for most families anywhere from 30 to 35 percent of their income.

The reverse side is that homeowners, who are interested in selling their homes are not finding any market.

From the standpoint of the homebuilder, the problem is not just that his prospective purchaser can't afford the house, but that he can't afford to build it. Homebuilders normally take out loans at a bank for materials purchase, at between 2 to 4 percent above the prime rate.

As a result, in February, housing starts fell another 6 percent to the 1.33 million units annual range and the projections are for below 1 million units by June. Carter's recent budget, by lopping off $10 billion from the off-budget mortgage repurchase agencies, such as Ginnie Mae and Fannie Mae, just means that a circulation of mortgage on the secondary real estate market becomes harder to do, further driving up mortgage money. Yet overlooked in Carter's attack on the housing market is what revenues the federal government is losing. According to the NAHB, the reduction of housing starts this year from their 2 million annual level in 1977 and 1978 to a projected yearly level of 1.1 million this year, will cost the country as a whole $6.7 billion in tax revenue.

Auto. The big four automakers—GM, Ford, Chrysler and AMC—have already seen their car sales levels plummet to a 7.7 million units per year level in the first 10 days of March, down 14 percent from last year's levels. Yet matters could get worse. "Carter said he didn't want to affect car sales, but he is going after discretionary income and that includes automobile purchases," said Richard Hayden, auto analyst for Goldman, Sachs investment bank March 20. "The 10 cents a gallon oil import fee tax will take $11 billion from the auto driver." Hayden added that "auto sales may go down to 7.0 million on an annualized basis." Some analysts are saying it could even go lower.

A frightened Ford Motor company is frantically lobbying to stop more auto imports—which have risen from 21 to 30 percent of the U.S. auto market—as its sole solution to the problem.

Yet the demise of the auto industry is already crunching rubber, glass and steel industries, which ship between 15 and 30 percent of their product to the auto industry. In addition, 200,000 auto workers are now on permanent or indefinite layoff.

Steel. Steel production in the first week of March was down overall from last year's levels by 12 percent at 2,503 net tons per week.

Overall, the steel industry provides 40 percent of its shipments to housing and the auto industry and must be hit by further drops in these two industries. The saving grace for steel is the fact that the nearly $150 billion that the collapsed auto industry needs for pollution control devices over the next 10 years as well as "alternative energy" and military resource demands for steel has kept the market from plunging further.

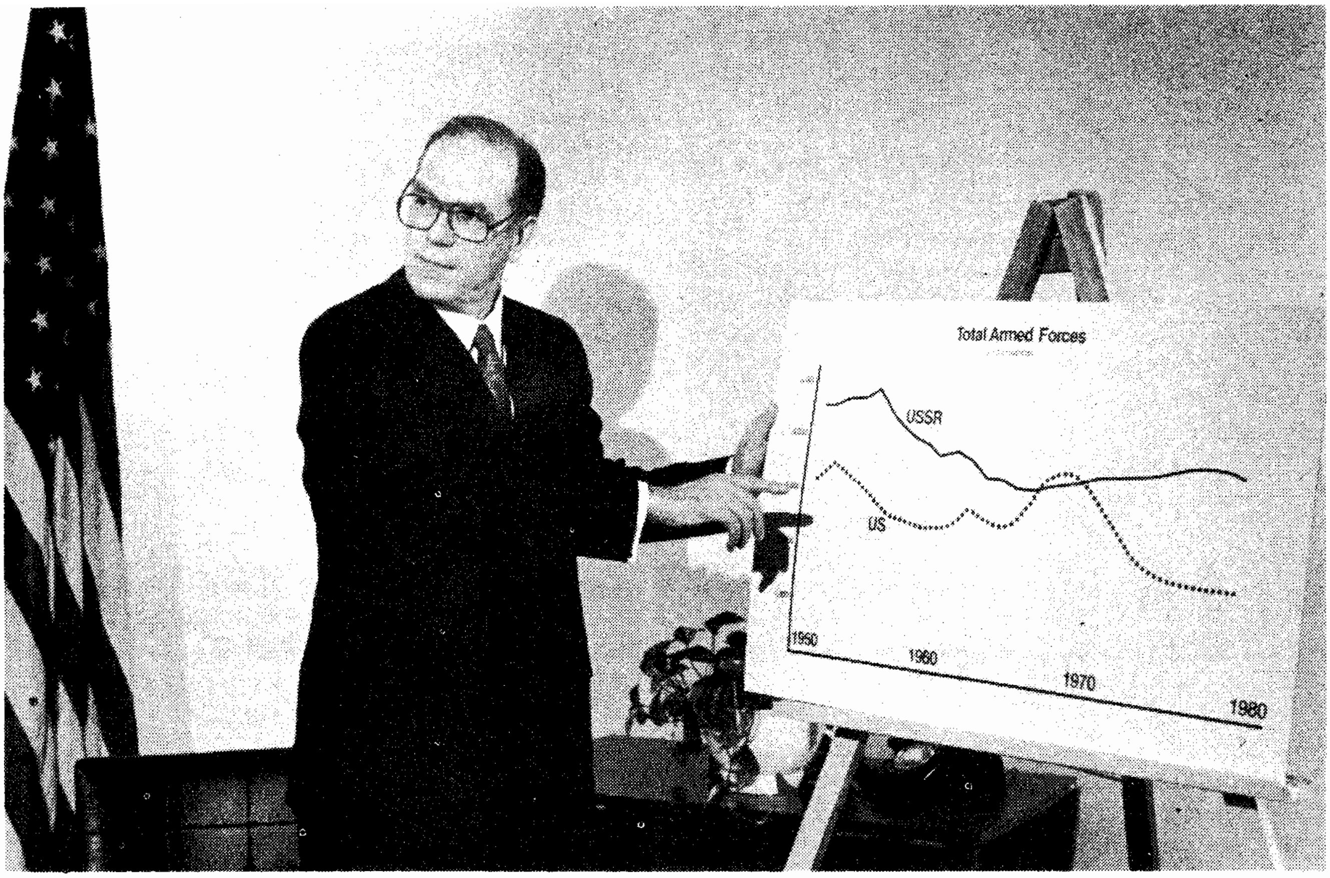
Rubber. The rubber industry is completely under siege. Firestone Tire and Rubber Company announced March 19 that, ostensibly because of an increased demand for radial tires, it will close five tire factories and a synthetic rubber plant by October, idling 7,265 hourly and salaried workers. Firestone announced that for its first quarter, ending Jan. 31, it had losses of $13.8 billion.

In January, Uniroyal announced the closing of two of its five tire plants, resulting in the loss of 3,300 jobs.

Retail Sales. At a private briefing for 200 retailers March 20, Volcker told the industry to drop dead. Volcker stayed only a few minutes at the meeting to answer questions, then haughtily left and told Nancy Teeters, a Fed Board member, to handle questions from irate retailers.

Describing the at times near-riotous conditions at the meeting, one retailer told the press: "I think they (the Fed) just opened all the cages at the zoo." Retailers will be faced with the requirement that 15 percent of retail store extended new credit above the volume of outstanding credit extended on March 14 must be placed in a non-interest-bearing account. The early spring months is when retail sales traditionally pick up following the post-December hiatus. Sears Roebuck and Montgomery Ward, the nation's two largest retailers, announced they will raise charge account fees for the more than 44 million charge accounts they have outstanding.

In the face of what the tighter credit restrictions would do, the Fed's Teeters could only maintain "We undoubtedly have not thought through every problem..."



NSIPS

Lyndon LaRouche, during a nationally televised half-hour television address in January, documented the effects of American economic decline of the relative military capabilities of the United States and the Soviet Union.

Jimmy Carter's economy enters into 'Weimar hyperinflation'

by Lyndon H. LaRouche, Jr., Contributing Editor

Computer analysis shows that President Jimmy Carter's new round of "fiscal austerity" measures has pushed the U.S. economy into the "threshold area" of a "Weimar-style hyperinflationary spiral."

Although some leading Manhattan investment-banking circles have hinted at such a possible condition during the past two weeks, mathematical proof was delivered over the past weekend.

Either Carter and Federal Reserve Chairman Paul A. Volcker soon reverse their policy-initiatives announced last week, or their so-called anti-inflationary measures will move the U.S. economy into a condition like that of 1922-1923 German hyperinflation.

The initial report on the computer analysis of this new round of "austerity" measures will be published in next week's issue of the *Executive Intelligence Review.*

The talk around Wall Street

An echo of the opinion among best-informed Wall Street circles was published in the March 13 *New York Times.* That article added: "After 15 years of blunders" [i.e., since President Johnson's and Fed Chairman William McChesney Martin's failures of the middle 1960s] "there's no basis for having any confidence in the system [of fine-tuning through monetary policy measures]. . . ."

Some of the higher Wall Street echelons have been discussing their own estimates with the *Executive Intelligence Review* during the past week. That discussion is prompted by financial experts' recollection that it was this publication which, alone, correctly predicted last October the now-experienced inflationary and depressive effects of the "fiscal austerity" measures which Carter and Volcker enacted at that time.

The *EIR* at that time reported the results of its computerized analysis. It projected that Carter's "fiscal austerity" measures would accelerate the rate of inflation—just as has occurred. It predicted those measures would cause a collapse of the construction sector, and also cause a drop of more than 20 percent in the automobile sector by late February. It projected a further, post-February decline in industry sectors "upstream" from their construction and auto industry customers.

Based on that experience, some leading investment-bankers are presently warning insiders that the new "anti-inflationary" round of Carter's and Volcker's "fiscal austerity" will accelerate inflation to higher rates than ever before, and are estimating that a new major bankruptcy, like that of the Penn Central in 1970, might send the whole U.S. economy into a depression-collapse worse than that of the 1930s.

Leading European circles are fearful that Carter's latest blunders might even bring down the entire world economy. In response to this, leading members of the European Monetary System are thinking out loud of an immediate implementation of the Carter-prohibited "phase II" of the European Monetary System, the European Monetary Fund, as the only visible defense of the world economy against what is widely seen as Carter's economic and monetary insanity.

The current computer analysis

The current computer analysis being made by the *EIR* is a qualitatively upgraded version of the study completed last October.

The added improvements involve a qualitative refinement in the basic parameters used. These improvements were specified by Contributing Editor LaRouche immediately on receipt of advance-notice of the contents of Carter's and Volcker's impending announcements.

Technically speaking, the improvements in basic parameters of the economic "modelling" are as follows.

The basic parameter is a four dimensional phase space which is composed of the following variables:

(1) Average energy-flux-density through (a) combined productive sectors, and (b) for each of the 25 subsectors of the basic "model."

(2) Average energy-flux-density for each case distributed among gross (S) and net (S′) profits, direct labor costs (V), and combined costs of productive capital (C), to derive a ratio, $[S'/(C+V)]$ in dollar-equivalent terms.

The derived parameter corresponds to Helmholtz's "free energy" parameter for thermodynamics. Using Riemannian analysis for the determination of changes from a phase-space of one physical geometry to a new phase-space of a different physical-geometric characteristic, the 25 subsector "model" then projects two kinds of conditions resulting from the sort of measures initiated by Carter and Volcker this past week.

(1) Changes in economic-activity rates occurring within the phase-space of the initial physical-geometric characteristics.

(2) Defines the approximate point of change to a phase-space of different physical-geometric characteristics.

In the case defined by the application of the Carter-Volcker measures to the current condition of the U.S. economy, the phase-space change to which analysis is properly most alert is the point of contraction at which the "free energy ratio," as indicated, converges on and falls below "zero."

It is such a passing-through "zero" value for that "free-energy ratio" which defines a passing-over into an economic domain of physical-geometric characteristics analogous to the hyperinflationary "whirlpool" of the 1922-1923 economy of Weimar Germany.

The conclusion is, allowing for margins of error in governmental and other present data on levels of output and profit-ratios, that the U.S. economy is now entering, or may have already passed below the critical "zero" value.

That estimate, derived from the computer analysis, cross-checks with observation of the way in which the U.S. economy is behaving at this time. The month-to-month movements in the economy over the past two months, most emphatically, are of that distinctive quality peculiar to an economy which has passed below the "zero" value, into the degenerative phase-space analogous to the cited Weimar case.

Carter's grave policy-blunder

By comparing the contents of the 1975-1976 policy-papers, written under the included direction of Cyrus Vance, Zbigniew Brzezinski, and W. Michael Blumenthal for the New York Council on Foreign Relations, with the Carter administration's policy-decisions of the post-January 1977 period, we prove with certainty that Carter is merely a puppet of the Trilateral Commission.

We also prove, in the same way, that Carter's administration is clinging hysterically to the doctrine of "controlled disintegration" of the U.S. dollar and economy demanded in those policy-papers. It was the adherence to exactly such "controlled disintegration" doctrines which characterized the collapse of the U.S. dollar under the direction of W. Michael Blumenthal, Anthony Solomon, and G. William Miller prior to the past summer. Miller's replacement at the "Fed," Paul A. Volcker, publicly avowed his own dedication to the "controlled disintegration" doctrine, speaking to an audience in Britain, a short space before his appointment by President Carter.

Therefore, up to a point, the rise of U.S. inflation from about 5 percent, at the time of Carter's inauguration, to about 13.5 percent before the austerity measures of last autumn, represents a deliberate wrecking of the dollar and economy by the Carter administration—just as Vance et al. "promised" in their 1975-1976 policy papers.

Therefore, although a majority of U.S. citizens—and many leading West Europeans—regard the consequences of such Carter administration policies as downright evil, up to the point of last autumn's 13.5 percent reported inflation-rate, all of the collapse of the dollar and the U.S. economy was in fact the intended outcome of Carter's economic, monetary and energy policies. The comparison of the 1975-1976 with the indicated sorts of other, corroborating evidence, proves this judgment beyond competent dispute.

The problem for the Carter admnistration now is that, since the so-called anti-inflationary measures of last autumn, the U.S. economy has passed over to a state of "uncontrolled disintegration." For that reason, we must regard the present downward-spiralling of the U.S. economy as a result of a gross miscalculaton by the Carter administration and that administration's principal advisors.

If one imagines that this evidence has caused many of Carter's advisors to propose corrections to the failed policies, one is leaping to the wrong judgment of those advisors. Many of those who share the estimate of the cited *New York Times* article of March 13 are now saying, in effect: "Very well, let the collapse of the economy happen. Let it collapse; we will pick up the pieces after the collapse has occurred."

That also appears to be the policy of the campaign-organization of Governor Ronald Reagan, judging from an analysis of his address to the Chicago Council on Foreign Relations on the eve of the Illinois primary election. The present group of top-level Reagan advisors on foreign policy and economic policy are representatives of the top layer of Georgetown University's hard-core "Friedmanites." They are dedicated, in fact, to going to more drastic austerity than even Friedman has recommended publicly so far; they are hard-core supporters of the Nazi-economic Mont Pelerin Society, all committed to the proposition recently stated by London's Friedrich von Hayek: that Friedman's austerity is much too soft.

The small businessmen, farmers, trade-unionists, and professional strata now rallying as an "American nationalist" force of "middle America" behind Reagan's campaign have reason to be dismayed. At present, Reagan's economic policy is even much worse than Carter's.

Harvard's 'bubbleheads'

The *EIR's* analysis took this occasion to compare the results of its own evaluations with a report by Harvard Business School's Robert Stobaugh and Daniel Yergin, published in the *Foreign Affairs Annual Review* for 1979.

Those writers argued, as has ultra-liberal Republican John B. Anderson, that government-mandated increases in energy prices would be counter-inflationary.

Those authors stated: "Can this be done? We think it can, with substantial investments in conservation measures encouraged by federal financing—and the removal of institutional barriers. The result will not only be a higher GNP, but much less inflation than if we send these dollars abroad to pay for oil and ever-increasing prices not just because our supplies might be limited to that, but because meeting this goal through productive conservation is the best way to promote positive economic growth."

They add the arrogant and incompetent assertion: "Conventional economic analysis would dismiss this notion as fanciful. Our reply is that such conventional analysis is increasingly and distressingly distant from reality."

The authors' argument is as absurd in fact as their momentary twinge of a sane conscience, the word "fanciful," might imply. Unfortunately, like the fad of "flaggelationism" which seized half-psychotic masses in Western Europe during the course and aftermath of the fourteenth-century bubonic plague, the lunacy of a current fad is no sure guarantee against its momentary popularity. What the misguided authors are proposing is the current policy of not only the exotic Mr. Anderson, but it has been the direction, as well as the current viewpoint of Carter administration policy.

The entire history and prehistory of the human species combines to prove conclusively that increases in the energy-flux-density, as well as the amount of energy man commands per capita, are the bedrock on which the mere survival of any nation or culture depends. A zero energy-growth policy in a modern industrial society means a very rapid, and accelerating devolution of that society.

The case of American agriculture provides the easiest, most direct sort of illustration of that point. As we graph the percentile of the total labor force required to supply essential farm products needed by the entire population from the 1790s, the first U.S. Census, to the present time, we find a very rigorous sort of correlation between the net energy-flux-density ratios per acre and per farmer and the decline in the percentile of the labor-force required to produce sufficient nourishment for the entire population.

Let us assume, for the sake of neatly rounded illustrative figures, that a farmer with modern implements can produce as much as 20 farmers using horse-drawn equipment. That means that each of the latter farmers can earn only one-twentieth of the combined costs of the farmer employing modern, energy-intensive equipment. What sort of lunatic statistician can conjure images of "economic growth" from such devolutions in technology?

That does not take into account the energy-flux-density ratios represented by fertilizers, pesticides, and so forth.

One must conclude that the only "reality" which can be invoked by authors Stobaugh and Yergin is the "reality" that the Carter administration and other dominant influentials of the moment have committed themselves hysterically to the sort of nonsense which the authors are defending.

The computer rebuts Harvard

The qualitative measures of the Stobaugh-Yergin process may be described:

Although, in the two-dimensional phase-space described by the four parameters used in the *EIR* analysis, a phase-space spanned by energy throughput and economic output, an actual growth in output can be achieved with less energy, that hypothetical possibility leaves open the question: How might this be accomplished?

It could be accomplished, even hypothetically, only by an increase of sufficient magnitude in the Helmholtzian "free energy" ratio, the energy-flux-density correlative of increases in the output-ratio $[S'/(C+V)]$. Such could occur only through very substantial increases in high-technology capital-formation rates in the economy.

The Harvard authors presume a change in internal composition of output, favoring low-energy, labor-intensive production categories—at the expense of the more-productive capital-intensive forms. The Harvard authors have introduced to their schema, wholly arbitrarily, the axiomatic assumption that, in some miraculous fashion, "less is more."

For example, analyzing the surface of the four-dimensional phase-space defined by the four parameters listed above, we are forced by analysis of post-1974-U.S. economic data to the conclusion that the U.S. economy has been deteriorating in a fundamental way over the course of that period.

Economic throughput and economic output

In the two-dimensional phase spaces described by the parameters of energy throughput and economic output, it would appear from the graphs that an actual growth in output can be achieved with less energy. It could, under a policy of very substantial increases in high-technology capital-formation rates in the economy, that would lead to an increase of sufficient magnitude in the "Helmholtzian" free energy ratio (S')—the two key parameters of a four-dimensional phase space.

But Carter's policies do not. The graphs in fact show a shift, a phase change of the U.S. economy toward more labor intensive production methods and more non-goods-producing activity. The costs incurred by the administration's low-energy policy have already exceeded the economic free energy available for investment in productive capital formation. As S' declines below zero, there is a passing over into an economic domain of physical-geometric characteristics analogous to the hyperinflationary whirlpool of the 1922-1923 economy of Weimar Germany.

If we view the economy as analogous to an engine, in the sense of physical thermodynamics, the U.S. economy is to be described over this recent period as on a path toward drastically lowered thermodynamic efficiency. Viewing this actual decay in the manner its results are reflected on our four-dimensional surface, we see that the rate of decay of the U.S. economy's thermodynamic efficiency has been accelerating since the summer of 1979.

The correlatives of the accelerating decline of the U.S. economy's thermodynamic efficiency are, most essentially, these:

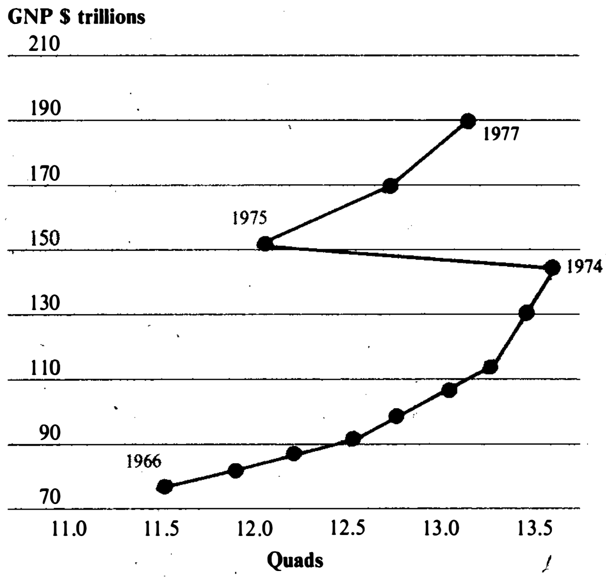
(1) Capital formation in all sectors has been "flat" over the past period.

(2) Of the capital formation which did occur, a large portion was plowed into nonproductive "pollution abatement." This, which often lowered the energy efficiency of affected sectors, represents a deduction from capital formation totals, to determine a true net rate of capital formation.

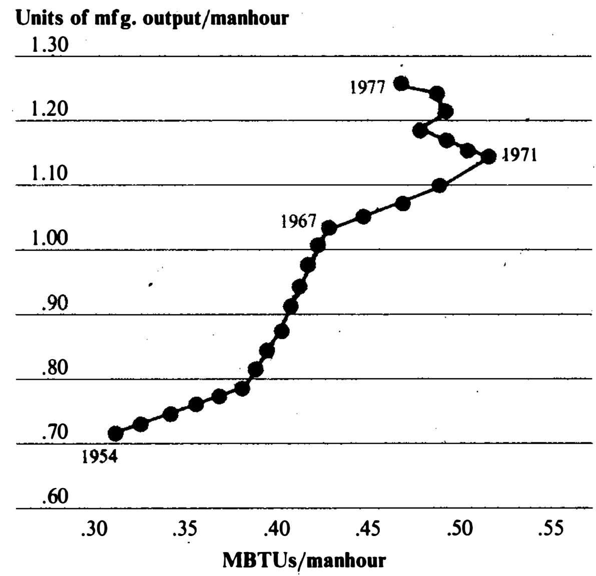
The net capital formation has been in fact negative.

These facts are concealed behind continued official adherence to the incompetent Gross National Product

Energy content of the GNP



Manufacturing output/manhour vs. energy flux density, 1954-1977



measure of "growth." In addition to actual tangible output of wealth, GNP includes pure economic waste, as well as those private and public rises in debt-service, in administration, and in services, which are, at best, overhead-burden costs, rather than actual contributions to total economic output. If combined waste, debt-service increases, administration and services are properly defined, as nonproductive overhead cost-burdens, a tax on gross profits earned by production, then a true picture of the economy is obtained.

On the principle that it is "an ill wind that blows nobody good," one finds some probably unintended merit in the output of another pair of Harvard gentlemen. We refer to the October 1978 "Energy Prices and the U.S. Economy, 1972-1976," by Dale Jorgenson and Edward Hudson. This source is useful for its compilation of data concerning the substitution of labor for energy—and vice versa. Such data is useful as a source of first approximations of the correspondence between energy-flux-density and output, in building a data-base for the four-dimensional phase-space "model."

Those authors calculate a 3.2 percent drop in the GNP, and a 2.64 percent rise in the demand for labor over the indicated period, as a result of rises in energy-prices. (This implies the reverse relationship, that gains in productivity of labor lag behind the required increases in energy needed to make such gains in productivity possible. For example: if existing technology had been used to improve labor productivity during the period, using "off-the-shelf" equipment for increasing capital-intensity, it is indicated that 82.5 percent of the increases in energy-intensity would have been realized as gains in productivity. That indication correlates with the historical evidence of energy-productivity correlations.)

Those authors' cited figures for labor substitution grossly understate the losses in efficiency the economy must suffer under such a continuing policy.

As (S′), or Helmholtz "free energy," declines along a four-dimensional surface of the form cited, the deductions for various forms of waste reduce the available free energy toward zero.

For example, as we noted above, there are the aggregate demands for various forms of "energy-saving" (therefore, less energy-efficient, less productive) investments, military spending, synthetic fuels plants (representing a sharp drop in energy efficiency), and other costs caused by the Carter administration's low-energy policy. These costs have already exceeded the economic free energy available for investment in productive capital formation. As (S′) declines below zero, these costs then become an absolute deduction from the productive sector.

The formal, rigorous statement of this matter is summarily as follows.

Such a regime, of continuously lower usable energy, or, negative capital formation, cannot continue without passing through a *singularity* of a sort analogous to a rarefaction wave in a thermodynamic system. All thermodynamic systems—and the U.S. economy is such a system—are characterized by areas of singularity. In such areas, an extreme change in energy content will produce phase changes (e.g., rarefaction), eliminating the "smoothness" of the functions characterizing such systems.

In the case of the present state of the U.S. economy, the relative size of the productive subsector is falling at such a rate, relative to the nonproductive sector, that the usable free energy has not merely turned negative. Each further reduction in (S') demands and causes additional deductions from the productive sector.

The U.S. economy has already passed the phase-change threshold, to the effect that none of the functions which previously served to more or less adequately characterize the economy now make practical sense.

This fact makes horrifyingly foolish the assumptions of Jorgenson and Hudson—as well as the more absurd contentions by Stobaugh and Yergin. It is worse than absurd to assume, given present, factually established realities, that the kinds of effects cited by Jorgenson and Hudson are merely one-time adjustments.

Yet, Jorgenson and Hudson insist that the devolutions of the economy caused by "labor substitution" are "one-time" effects, rather than permanent trends. Once the economy has adjusted to the new labor and productivity conditions, they continue, "there will be no further energy-induced pressure for further changes. Continued changes will occur only if there is a secondary wave of induced price responses."

The final sentence of that quotation situates Jorgenson and Hudson well within the policy-doctrines of Nazi Finance Minister Hjalmar Schacht. The reasoning is illustrated readily, as follows:

Returning to the hypothetical substitution of 20 men with horse-drawn equipment for one farmer with modern, tractor-related equipment, either the 20 accept sharing-out one-twentieth each of the income of the farmer with the energy-intense modes, or the result is an "induced price response": a rise in inflation-rates, in proportion to the loss in productivity! If this price-increase is efficiently resisted, then we have a case of purely Nazi economic policy.

Otherwise, Jorgenson and Hudson introduce the assumption that a 16 percent drop in energy consumption will produce only a 3 percent decline in GNP.

The following calculations are very rough, but they suffice to expose the wild absurdity of Jorgenson's and Hudson's argument—even without resorting to our more sophisticated analytical apparatus.

During the postwar period, the percentile of the U.S. labor-force employed as productive operatives (aggregately in agriculture, manufacturing, construction, mining and related, and transportation) has declined from the range of 60 percent to a recent 38 percent. It is that 38 percent (1979 estimated) which produces the entire wealth of the U.S. economy. The remainder is either waste or overhead-burden costs.

Using the 1972-1976 ratios adduced by the Harvard authors, a 30 percent drop in energy-throughput—at the 82.5 percent ratio derived from their data—means a 24.75 percent labor-substitution within the realm of the 38 percent of the labor-force employed as operatives. This means that 47.40 percent of the labor-force is indicated as needed to accomplish the output equivalent to 1979's 38 percent. Assuming that substitutional labor policies meant that the 47.40 percent produced as much gross profit as the 38 percent—which is impossible—that means, a greater than 36 percent decline in real product—all added to the amount of the negative free energy.

Whence, then, do Jorgenson and Hudson derive their optimistic 3 percent figure for a 30 percent decline in energy-throughput? It could only come from their desire to be overheard saying the sort of nonsense which would not enrage the Carter administration's sponsors.

In fact, the effect of the "conservation" they describe is a down-spiral which goes "off the charts" long before a 30 percent reduction in energy-throughput is reached. The analogy is the Weimar hyperinflation of the early 1920s. In other words, exactly the results into which the continuation of Carter's economic, monetary and energy policies are now bringing us.

Such Harvard professors! One thinks of Jonathan Swift's writing of the savants of that fanciful floating island-state, the savants strolling, bemused, sometimes too close to the edge of the island. They are saved from certain death chiefly, according to Swift, by those faithful students, bearing inflated pig's bladders, who gently buffet the savants with the bladders to turn their steps from a perilous next step. It was in the same, fanciful, floating island that the credulous were educated by swallowing lessons written on a form of cracker. Apart from the useful data, the argument of Jorgenson and Hudson has approximately the same merit for imparting knowledge as those edifying crackers of Jonathan Swift's account.

Either we force Carter and Volcker to reverse their lunatic policies quickly—and team up in support of the golden alternatives proposed by our European Monetary System allies, or ... the next step downward for the falling U.S. economy is as big a giant step as one might imagine. Going down that step will break a lot of necks.

Laffer economics

Why Ronald Reagan's gold plan is all wrong

by David Goldman

Republican presidential front-runner Ronald Reagan has done the United States a service by raising discussion of the need to return to a gold-backed monetary system, a point made emphatically at the outset of the primaries by Democrat Lyndon LaRouche. However, the policy drafts Reagan has received to date are incompetent or worse, entirely missing the point of what makes a return to gold necessary.

These drafts include a paper by California professor Arthur B. Laffer entitled "Reinstatement of the Dollar: A Blueprint," and a piece inserted into the March 6, 1980 Congressional Record by a Reagan supporter, Rep. Jack Kemp, entitled, "Restoring the U.S. Dollar Through Reform of Our Monetary Policy and Federal Reserve System." The latter piece was written by Louis Lehrman and originally published by Morgan Stanley, the blue-chip investment bank.

Laffer, widely known for his argument that a lowering of tax rates would by itself produce an economic boom generating more tax revenues than the federal government lost through the cut, is the recognized Reagan advisor on the subject. He would do well to read the late French economist Jacques Rueff's proposals on the subject of gold-backed monetary systems. Rueff proposed a return to gold as a means of eliminating the now trillion-dollar Eurodollar market, the pool of short-term claims on the United States that is responsible for most of the world's inflation. Rueff intended to use gold to rejuvenate capital investment in industry and launch a major drive for Third World investment.

The point is not gold *per se*, Rueff made clear in a 1958 policy paper at the outset of de Gaulle's Fifth Republic, but the international policy with which it correlates, in that case the Gaullist plan for high-technology investment and high standards of living, including a project of developing the Sahara region. The problem is to convince potential investors that when the loans come due, the currency will still have the same value, Rueff specified—and that is where pegging the currency to gold becomes necessary.

Laffer's "free market" approach

What Laffer proposes, on the most simple-minded of "free market" criteria, could have either of two effects. On its own merits, it would produce a deflationary collapse of the American economy. Or, given the willingness of the European governments to take matters in hand, it would make America a financial protectorate of the European Monetary System. The latter alternative would be much preferable to what the Carter administration is doing now, but hardly what this country should be reduced to.

Laffer proposes to let "the market" decide what the gold price will be by suspending all Treasury and Federal Reserve interventions in the market for three months, and then fixing the gold price wherever it lands. Then, if the United States Treasury has to pay out more gold than it takes in as dollar-holders demand gold, the fun begins. If gold holdings fall below a certain point, the Federal Reserve will, by law, reduce the amount of credit available to banks, known as the monetary base.

This supposedly will tighten credit at home and encourage people to accept dollars (rather than gold) because there will be fewer dollars. The more gold the Treasury loses, the more the Federal Reserve decreases the money supply—until the Federal Reserve cuts the monetary base by one percent per month.

This is a specific form of lunacy associated with the overtly profascist doctrines of Milton Friedman, who proposes to set statutory limits on money supply growth by law—a formula for a zero growth economy. Laffer proposes to use the straight Milton Friedman formula in the event that holders of dollars want to turn in their dollars for gold. And, under the Laffer plan, not only central banks, but every speculator in the woodwork could present dollars and get gold.

Set-up for deflationary collapse

Since Laffer does not even suggest what should be done with the trillion-dollar Euromarket bubble, his plan is a set-up for the biggest deflationary collapse the U.S. economy has had since the gold outflow crisis of 1893. The Eurodollars are cigar-coupon money, as Lyndon LaRouche characterized them, backed by nothing. The $115-billion requirement for Third World debt refinancing during 1980 ensures continued spectacular growth of the market merely to service the existing Third World obligations to the Eurodollar market requires that the growth of this mass of worthless claims will continue. Chase Manhattan Bank projects a $1.2 trillion Eurodollar market by the end of 1980. Merely fixing the gold price at a market rate one morning three months from now will not solve this problem. Under the Laffer plan, Federal Reserve liabilities may be presented per gold, but the Eurodollar expansion has turned Fed liabilities into confetti money. Even if it did, it would merely confirm the inflationary mess on the Eurodollar market, leaving the dollar and the Treasury gold holdings open to further runs in the near future. There is no reason why anyone should hold Eurodollars instead of gold.

The alternative is that the Europeans will intervene to handle the Eurodollar problem before America goes off the deep end. The European central banks—as they have planned—can issue gold-backed bonds, soak up existing Eurodollars into a central pool inside the European Monetary System, and "dry out" the inflationary markets. In conjunction with this, the European central banks could fix a market price for gold and, by agreement with the Soviet Union, a major gold-producer, keep the price there. Then, EMS loans would be issued to developing countries for development, expanding world trade and investment. The dumb U.S. would sit there with its "gold standard," while American monetary policy was run, in effect, out of Bonn and Paris.

Laffer's paper ends with dreams of glory, such as, "Throughout history, it has been the world's premiere economic and military power that has put its strength behind the maintenance of a stable world currency. The United States abandoned this element of global leadership when it unhinged the dollar from gold. ... An element of cohesion would be returned to the Western Alliance, which, along with the present monetary system, threatens fracture and disintegration." In fact, the dollar might return to a stable world role—but only as the result of a benevolent bankruptcy conducted by our European creditors.

Solving the Eurodollar problem

In contrast, Jacques Rueff, and later General de Gaulle, proposed to set a higher gold price, sufficient to enable the United States to take over these foreign balances accumulating in the Eurodollar market. Their objective was to stop the United States from flooding the world—as it is still doing—with worthless dollars, and use the dollar to finance world trade and development instead. Now, since the U.S. is so retrograde on these matters, Europe may use gold to accomplish the same end, through the European Monetary System. France and Germany have defined what must be done. A LaRouche presidency could do it. On the current track record, Governor Reagan could not.

Gold by Alice Roth

A good time to buy

The price is down for several reasons; but for political reasons, it will soon go back up.

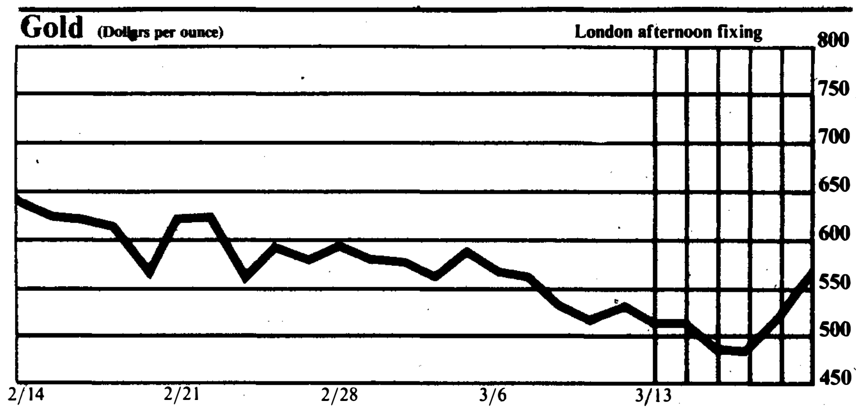
After peaking in early January at $875 an ounce, world gold prices have been drifting steadily downward. In the immediate aftermath of Carter's latest "anti-inflation" package, gold really fell out of bed, plunging as low as $470 in New York trading on March 17. Two days later, after investors had a chance to scrutinize the Carter package more closely, it rebounded to $551.

The recent softness in the gold market is due to the sharp rise in U.S. interest rates which has 1) increased the cost of carrying gold futures contracts to prohibitive levels and 2) diverted funds which would have otherwise gone into precious metals speculation into high-yielding, short-term dollar securities. Although the gold market slump has badly frightened some American "gold bugs," Swiss bankers—who keep close tabs on how the oil-rich Middle East nations are investing their petrodollars—say this could be the last opportunity to buy gold "cheap." According to one Swiss source, those wealthy Arab investors who spearheaded last year's gold boom, have not been shaken in the least by the recent spate of price weakness and are holding on to their hoards.

Their reasons are not too difficult to discover. Leading U.S. bank economists already concede that U.S. consumer prices will continue rising at a 15-20 percent annual rate for the next six months, even with a severe recession. This build-in inflationary tendency will be heightened immeasurably should the Carter administration use its newly-adopted credit control powers to prop up selected major corporations through Schachtian industrial "restructuring." With the U.S. heading towards a hyperinflationary/depression fiasco, the dollar should make the Argentine peso look like a stable currency.

Meanwhile, European governments, with France and West Germany in the lead, are offering OPEC nations enlarged opportunities to invest their burgeoning surpluses in European national currencies—or even the European Currency Unit (ECU)—with the proviso that the funds will be used to finance expanded European exports to the Third World. The Franco-German negotiators could sweeten their offer by throwing in gold guarantees to protect the OPEC investors against any new upsurge in European inflation and to secure funds at lower-than-prevailing interest rates. Thus, both OPEC and European governments will have a vested interest in maintaining a relative high valuation of gold in the coming months. What would be a reasonable price under such a scenario? *EIR* researchers have shown that a price of $400 an ounce would be sufficient to cover South African production costs in all but the most marginal mines, even if miners' wages were substantially increased and more capital-intensive mining technologies were employed. However, as the last year's events show, gold tends to prediscount new inflation as well as political crises well in advance. Dresdner Bank's Hans-Joachim Schreiber, believes OPEC seeks a gold price about 15 to 17 times the price of a barrel of oil.

With world oil prices currently running at about $30 a barrel, this places a floor under the gold price of somewhere between $450 to $510 an ounce. If OPEC continues to be paid in depreciating dollars, it's a pretty safe bet that gold will be pushed up to compensate for that loss.



Europe cornering petrofunds

For entirely political reasons, the coveted petrodollar surplus of OPEC is undergoing diversification into predominantly European securities

Economics has become politics in Europe this week as that continent maps countermeasures to the lethal U.S. credit policies of recent months. The run-up of interest rates to the 20-25 percent mark may have caused a rush of speculative money out of Europe and propelled nation after nation to hike its own interest rates. But unlike the Carter administration, Europe, led by France and Germany, do not seek an uncontrolled crash brought on by wiping out credit availability in order to "solve" the world economic crisis. Rather, they have concrete plans which center around the use of Mideast petrodollars for dealing with balance of payments, problems and lagging economies.

The central issue was put succinctly by the Mideast manager at a prominent European corporation who reported that French francs are being very much sought after, which, he said, "makes very little financial sense in itself, but it makes a great deal of political sense."

OPEC nations flush with surplus petrodollars have two choices: rush after the highest interest rates for a short-term killing, at a cost of total financial chaos in the near future; or use their funds according to political criteria and bring long-term financial stability.

Put bluntly, France's Giscard d'Estaing and Germany's Schmidt are out to corner the petrodollar market. In the aftermath of Giscard's extremely successful Mideast tour, and with the increasingly close relations between France, Germany and the Middle East, they are very close to doing just that. France is already rumored to have been promised many lucrative deals, including the report that the Saudis will place a $1.5 billion order for the new Mirage 4000 warplane.

In Germany, rumors are widespread of efforts to line up Saudi and other OPEC funds to spur German exports and meet balance of payments needs. In this country unused to trade deficits, the 1979 deficit caused by high oil pries has brought a sharp response. Bundesbank head Otto Poehl, German Chamber of Trade and Industry head Otto Wolf von Amerongen, and outgoing Krupp head Petry, among others, have all called for Germany to launch a major export drive comparable to the post-1973 one. Petrodollars will be needed to finance any such drive.

One possibility being discussed is that Germany could bill some of its imports in deutschmarks, perhaps pay with deutschmarks, and get the German government to guarantee financing by OPEC of German exports to Third World countries. Such recylcing would boost German exports, provide needed goods to the LDCs, and circumvent the difficulty of certain banks that have already reached their country lending limits with many LDCs.

This week, the German Finance Ministry's number two man Lahnstein is in Riyadh, Saudi Arabia arranging a DM 10 billion sale of German bonds to the Saudis, a move which may become a paradigm for large-scale Saudi and Arab financing of the French and Germans. Kuwait is reported to be turning the Arab bank consortia (UBAF, UBAE, BAII, etc.) into vehicles for recycling more petrodollars into Europe, and to be creating new banks with French, German and Swiss partners.

Looking to the longer term, Guido Brunner, head of the Energy Commission of the EEC, proposed in a speech to the Spyarkassen Coloquium March 17 that a conference of finance ministers and central bank presidents be set up between the EEC and OPEC. Brunner said he hoped such a meeting could set up the mechanisms for issuing a massive European Currency Unit-denominated loan to the EEC to be taken up by OPEC. The loan would be available to cover country budget deficits, and also balance of payments deficits.

Some of the means no doubt remain to be worked out. But the Arab holders of petrodollars recognize that the stability and long-term arrangements sought by Europe are also in their own best interest and that they will use "political" reasons to decide between interest rates and petrodollar funding of Europe. This prospect is causing sleepless nights in London and Washington, which had counted on drawing the lion's share of the petrodollar bonanza to themselves.

Agriculture by Susan Cohen

The Fed threat to the farmer

Auto has collapsed, housing has collapsed and other sectors are hit hard by Paul Volcker's measures. Now it's the farm economy's turn.

Farm bankers and agricultural economists contacted in the immediate aftermath of the Federal Reserve's announcement of the credit control measures in the new Carter administration "anti-inflation" plan bit their tongues and insisted that they could not fathom what the implications of the restrictive measures might be for the regional banking system and the agricultural sector. The Fed moves last week could very well precipitate a catastrophe in the farmbelt.

Take the Fed's Tenth District, in the midst of the Farm Belt, for instance. The Kansas City Fed's mid-February agricultural credit survey reported that as of January 1, 1980 rural banks had "less liquidity than expected," adding that district bankers looked forward to the establishment of a paid diversion program to bring some needed funds into the area during the first quarter. They got no diversion program and a grain embargo instead. The latter virtually put a halt to anticipated cash receipts, as marketings slowed or stopped. Inventories piled up at country elevators and on farms, where despite the price recovery in the national and futures markets, prices have remained weighted down by local supplies. This has pushed up loan demand throughout especially in the Minneapolis district where the grain embargo was preceeded by transport strikes that shut down the ports for months before the winter cold froze them shut.

Farm loan interest rates picked up at least 4 points over 1979 alone. For a typical farm operation that needs $200,000 in operating loans per season, that means a nearly $10,000 increase in operating costs for interest charges alone in a single season.

Now, just since January 1980, the interest rate pack leader, the prime rate, has been pushed up another five points. The general inflation rate set by the spiraling cost of credit will push up production costs, cutting income and making additional credit a necessity—at a time when banks are forced to "restrain" it— directly because they don't have it, or by pricing it out of reach.

Historically dependent on the local deposits for loan funds, regional banks have been chronically strapped for cash since 1976, as the farm sector experienced repeated financial difficulties, and have become increasingly dependent on money-center funds. Once net sellers of federal funds as a group, the percentage of net buyers of federal funds among regional banks had risen from 10 to 18 percent between mid-1978 and March 1979. In 1978 the rural banks introduced a new six-month money market Certificate of Deposit—which within a year after its first offering made up 5.7 percent of total resources for the agricultural banks, and has since nearly doubled.

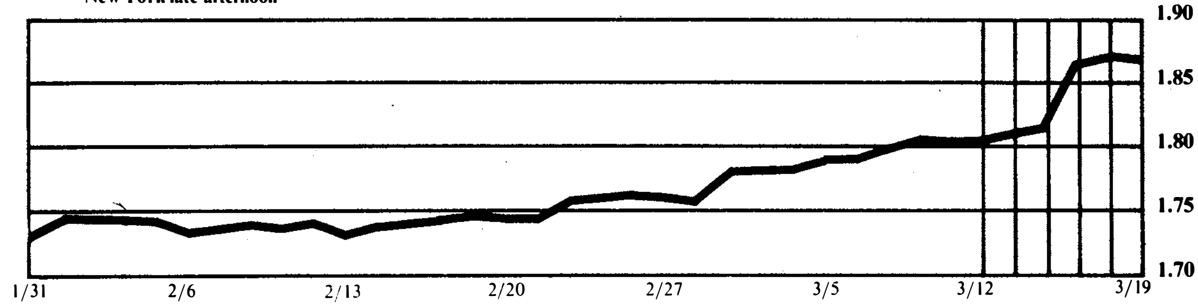
Money-center funds act as conveyor belts for the interest rate hikes into the regional banking system, which until now has run on a track several notches below money center rates structures. Forced to pay the going rate for these funds, the banks have no choice but to pass along the charges to their borrowers.

Furthermore, now it is precisely those resources—bank funds above and beyond deposits, or the so-called managed liabilities—which are one of the prime targets of Mr. Volcker. The new Fed measures raise the reserve requirements on these funds from 8 to 10 percent, and lower the base on which these requirements are imposed by at least 7 percent. Also, for the first time, nonmember banks are required to keep a 10 percent reserve against managed liabilities on deposit at the Fed.

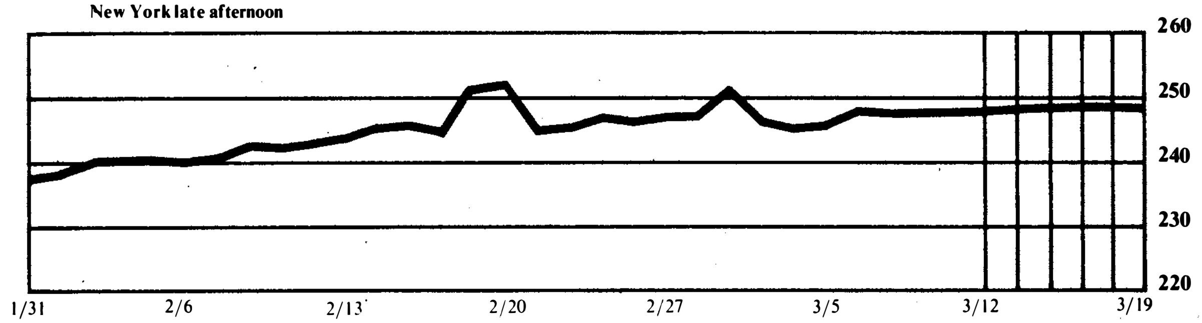
The immediate effect of the measures will certainly be to put even more pressure on the Farm Credit System— the cooperative system of Production Credit Associations, Federal Land Banks and Banks for Cooperatives that, as a whole, have direct access to money markets, raising funds there through bond sales. The System will have a relatively surer access to loan funds, albeit at the going rate. Already for the past six months, PCA lending has been running at 25 percent greater than year-earlier levels. As of January total loans outstanding at the PCAs were up 22 from a year earlier. Qualified observers worry that controls may be applied to FCS, crimping its ability to raise funds.

Foreign Exchange

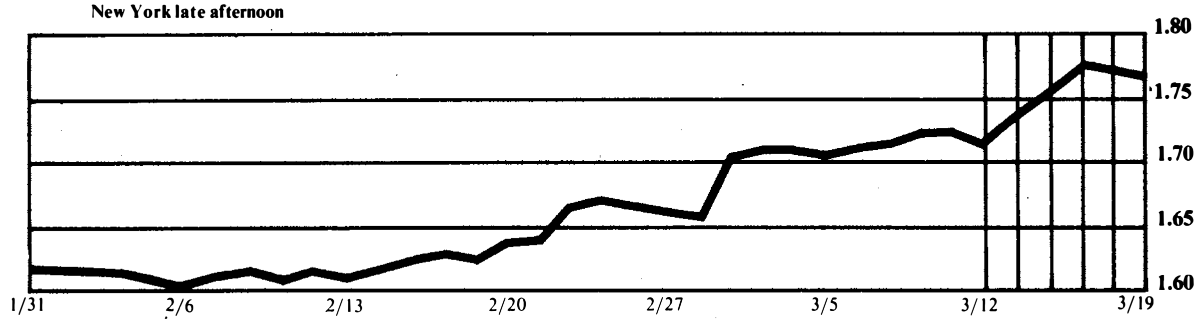
The dollar in deutschmarks
New York late afternoon



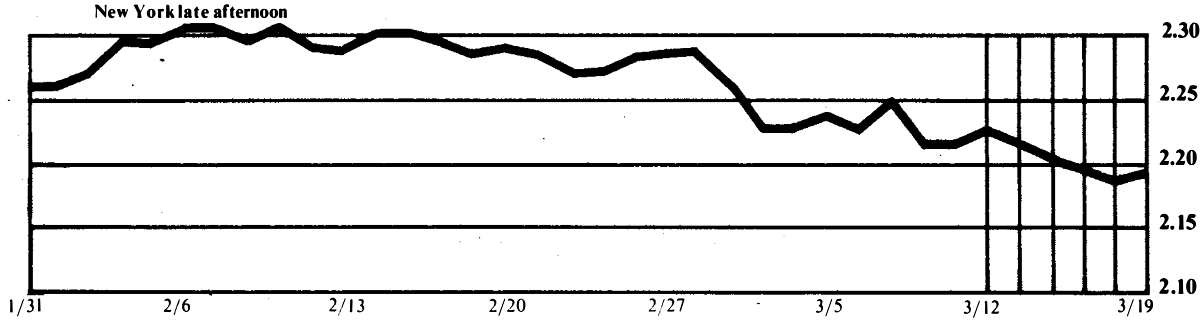
The dollar in yen
New York late afternoon



The dollar in Swiss francs
New York late afternoon



The British pound in dollars
New York late afternoon



Trade Review

NEW DEALS

Cost	Principals	Project/Nature of Deal	Financing	Comment
437 mn	Australia from U.S.	Australia's Ansett Airlines will buy from Boeing five 767s, twelve 737-200 series twinjets (with options on a further four), and four long-range	Eximbank	
406 mn	Ireland from France and Sweden	CIT-Alcatel of France and L.M. Ericsson will supply the Irish government with telephone switching equipment as first part of ambitious modernization program.	Heavily financed through low-interest bilateral loans from France to Ireland in 1979; also European Investment Bank (EIB) and EEC	Contract awarded to high bidder
225 mn	Italy/Indonesia	Nuclear cooperation deal between the Italian nuclear agency CNEN and the Indonesian national atomic agency BATAN. A reactor research center, consisting of a heavy water research reactor and a number of laboratories will be built in Indonesia.	Partly by Italian government	Signed
210 mn	Egypt from U.S.	Guardian Glass will build a plate glass factory in the Egyptian town of Ramadan ($150 mn); Chemtex Fibers of New York will build a polyester manufacturing plant near Alexandria ($60 mn)	U.S.A.I.D. for Guardian Glass; Bank Misr for Chemtex	Close to final approval
110 mn	Soviet Union from France	E.T.P.M. and U.I.E., both based in Paris, will supply the Soviets' first endeavor in deep-water oil drilling. Another $100 mn in Soviet orders for the two companies are expected to follow.		Contract awarded to French over British and U.S. bidders
15-20 mn	France from U.S.	CII-Honeywell Bull will purchase central processing units (CPUs) from Floating Point Systems, Inc. of Portland, Ore.		Contract signed
Not available	W. Germany/Poland	Credits for raw materials extraction projects, Polish imports of steel fibers and spare parts.	500 mn DM credits	W. German Economics Minister Lambsdorff in Poland negotiating

Business Briefs

Foreign Exchange

Carter measures destabilize currency markets

The latest ratchet in the U.S. interest rate spiral has created heavy pressure on some leading Western European and Japanese currencies as tens of billions of dollars in interest-sensitive funds are being drawn into short-term dollar securities. Foreign central banks have been forced to respond by increasing their own rates, heightening the danger that the rest of the industrialized sector may catch the "U.S. disease."

• *Belgium,* which raised its central bank rate from 12 to 14 percent on March 19 to stop an outflow of funds. Banking sorces estimate that the Belgian central bank spent a record $660 million in foreign exchange market intervention during the week ended March 14. Finance Minister Gaston Geens and other top officials have vigorously denied rumors of an imminent Belgian franc devaluation.

• *Japan,* whose cabinet adopted a new seven-point "anti-inflation" package on March 19. The new Japanese measures included a 1.75 percent increase in the discount rate to 9 percent, cutbacks in public works projects, and hikes in electric power and gas rates by an average of 50.8 percent and 45.3 percent respectively.

• *Italy,* where some commercial banks raised their prime lending rates by a full percentage point to 20.5 percent in the wake of credit tightening measures announced by the government last week. The Bank of Italy has so far resisted pressures to hike its discount rate, presently at 15 percent. The Italian central bank has also had to support the lira in recent days.

Meanwhile, the Bank of England, which had previously shown some resistance to higher rates because of the problems which this would create for the government debt market, has now closed ranks with Washington behind the Carter-Volcker policy. In a speech on March 19, British central bank chief Gordon Richardson warned that interest rates would remain at high levels in Britain for the next two years. Chancellor of the Exchequer Geoffrey Howe is expected to unveil an extremely austere budget on March 26, eliminating the cost-of-living escalator on unemployment benefits, sickness benefits, and child allowances.

Labor

Debunking the "productivity–labor" myth

Robert A. Georgine, president of the Buildings Trades union, told a business audience in New York last week that the productivity problem could never be solved if businnss and industry leaders continued to fixate on the "labor factor." Georgine spoke at a briefing sponsored by the American Productivity Center.

"Many more things affect construction productivity than labor and what's in the bargaining agreements," he said. Georgine called "looking only at the labor factor" a kind of "knee-jerk activity," and warned that the productivity issue should not be used as "a scheme to get people to do more work for less." In fact, he stated, "in most cases labor is the smallest part of the problem." He emphasized that use of larger and more energy-efficient machinery was the type of remedy required; he also called for better training, new work techniques, better scheduling, etc.

Georgine was seconded by John D. Macomber, president of the Celanese Corporation, and others. Macomber stated that the country has to get away from "the idea that productivity is labor," and pointed to capital and raw materials as two things more important than labor in the productivity equation.

The Budget

William Proxmire: not to be out-axed

Before the ink dried on the Carter administration's announcement that it was cutting $13 billion from the 1981 budget, Senator William Proxmire was given nearly a page of the *Washington Post* to insist that the Carter axing-job "does not go nearly as far as needed." Protesting that it is "impossible to list all of the thousands of programs that could reasonably be trimmed," Proxmire managed nonetheless to itemize a few of the main targets on his list.

In his first, "Unjustified Under Any Circumstances" category, Proxmire cites several billions of patent flab in the form of consulting and so-called public relations expenses, and in the same breath outlines a monumental hatchet job on the nation's transportation infrastructure. User fees are to be enforced on all "waterways, highways and airports"; the highway trust fund should be slashed by $1 billion; 52 water projects should be canceled—including the critical Tennessee-Tombigbee waterway, the Central Arizona project and the Bonneville unit in Utah; the Clinch River Breeder should be scrapped; and the Small Business Administration eliminated—among others.

In the second, "Marginal Programs," category, Proxmire prescribes a $2 billion cut in the CETA job programs, one of the keys to keeping city populations alive as the cities have been stripped; cutting nearly $1 billion from education programs; cutting more than $1 billion from health programs; $1 billion each from Defense and Foreign

Aid; and, finally, targetting NASA for "the deepest cuts in any government agency."

Lastly, in the category of "Emergency Adjustments," made, as he states, in the spirit of 'equality of pain,' Proxmire calls for a cap on federal pay raises and a halving of federal retirees' cost-of-living benefits.

Total cuts equal at least $32 billion—almost three times the Carter plan.

Trade

New Soviet trade guidelines

On March 18, the Carter administration announced new guidelines effective immediately for U.S. exports to the Soviet Union. On the advice of his National Security adviser, President Carter opted for "stiffer criteria" among the several optional approaches under debate since the Afghanistan flap began. "The new guidelines impose tighter controls in such areas as computers and software, manufacturing technology and materials critical to the manufacture of high-technology defense goods," stated a Commerce Department spokesman.

Following the Soviet action in Afghanistan, Carter suspended more than 700 export licences for advanced equipment sales to the Soviet Union. Under the new guidelines, most of these suspended licenses will be permanently revoked. Many individuals in both the State and Commerce Department are reported to have argued that the guidelines would harm American trade interests more than Soviet interests.

Not only is the administration giving up the richly promising high-technology Eastern export market being eagerly pursued by Europe and Japan. The policy will have very specific effects stateside. The final disposition of the case involving Occidental Petroleum's multi-year agreement to exchange American superphosphates for Soviet ammonia is one example. With the superphosphates embargoed, should the Soviet Union return the favor by withholding ammonia shipments in retaliation, American farmers could face doubled prices for ammonia fertilizers this season.

Energy

Carter nuke policy: new leaks

The Carter administration's "containment" strategy against the spread of nuclear energy sprang several new leaks this week. It appears that the administration's own abstention from nuclear power development is still failing to catch on with any other nation. On the heels of the announcement that Italy has supplied Iraq with some sophisticated nuclear technologies, which might also be applicable to producing A-bomb fuel, comes a report that Italy will be supplying Indonesia with a nuclear power capacity.

Even more worrisome to Washington: France, Germany and Switzerland are upping their commitment to helping Brazil and Argentina go nuclear. Kraftwerke-Union's Van Wel is in Buenos Aires to work out final details so the KWU-Argentina nuclear deal can be immediately implemented. The Swiss Sulzer company has just followed the Franco-German lead in ignoring "U.S. concerns" by agreeing to supply Argentina with a heavy water plant. Meanwhile, Brazil and Argentina are conducting high-level talks on a joint nuclear project. These developments have so upset the Carter administration that U.S. "proliferation expert" Gerald Smith was dispatched on short notice to Argentina, where he hopes to intercept the Van Wel mission.

Briefly

● **FIRST PENNSYLVANIA BANK** may have less than six months left in business, according to a confidential report now circulated by a Philadelphia brokerage house. A well-placed New York bank analyst agrees: "This bank is the number one candidate for a major bankruptcy. Former Chairman John Bunting abruptly resigned last year amid speculation of financial difficulties.

● **INCOMING CHASE** chairman Willard C. Butcher told an Atlanta audience March 19 that "selective lending was good lending." Endorsing Volcker's latest credit stringency package, Butcher advised an American Bankers Association conference to be "as flinty-eyed and hard-nosed as you can."

● **KARL-OTTO POEHL,** the new President of the Bundesbank is turning out to be Chancellor Helmut Schmidt's man, enthusiastically backing German bankers' plans to finance a major export drive. Poehl is a Bundesbank "outsider," with a journalistic and Finance Ministry background. Bankers see a reversal of former President Emminger's policy of restraining commercial bank lending activities.

● **MILTON FRIEDMAN** appears on top in the jostling to get Ronald Reagan's ear on economic policy matters, according to sources in the Reagan camp. Tax cutter Arthur Laffer, whose proposal to restore gold backing to the dollar has advisors like Friedman and former Treasury Secretary Bill Simon furious, is still seen as Friedman's junior. His mentor Robert Mundell, now at Columbia University, was Friedman's protégé at the University of Chicago.

A Euro-Arab pact: Britain out of line

by Vin Berg

West German Chancellor Helmut Schmidt and French President Valery Giscard d'Estaing held a seven-hour, closed-door meeting at Schmidt's private residence in Hamburg March 16. It was their third summit conference this year. They did not issue any joint communiqué. They did not issue a state resolution. But the uproar the meeting provoked, particularly in the British press, is adequate indication. The world has reached a strategic turning point of far-reaching implications.

The two leaders used their meeting to lay the foundation of a new world monetary system. The surest sign is that Chancellor Schmidt, when he emerged to field inquiries from the press, featured the point that he was in full agreement with Giscard d'Estaing's recent call for "self-determination" and statehood for the Middle East Palestinians.

The extraordinary summit had occurred hot on the heels of the French president's breakthrough tour of the Middle East. In each Persian Gulf state, Giscard called for a global peace settlement through negotiations that must include the Palestine Liberation Organization, and also ensure Israeli security within pre-1967 borders. In return, France and West Germany were placed on the receiving-end of the coveted petrodollar surplus of the Arab OPEC nations, petrodollars Giscard also vowed to turn into an instrument of peace, by recycling them into large-scale projects for the industrialization of the Third World.

In that lies the foundation of a new world monetary system. A Franco-German alliance has taken over a "traditional Anglo-American preserve," winning the oil-rich Persian Gulf nations to the cause of world peace through world development.

Not since President de Gaulle vetoed Great Britain's bid to enter the

Photo: Sygma

European Economic Community in 1962, and signed a Friendship Treaty with West Germany the same month, have British cries of protest been so shrill. The "grand design" of Europe, defeated by the British so many times, is back, in greater force.

The Franco-German consultations centered around three topics: First, the consolidation of the European initiative for Middle East peace, to replace the bankrupt "Camp David" policy of the Anglo-American governments; second, the inauguration of the European Monetary System's "phase 2," the European Monetary Fund, a gold-backed fund for international development-credit issuance, supported by OPEC petrodollars; and third, measures to ensure the continuation of detente with the Eastern European nations and the Soviet Union.

Each of these policy goals brings France and West Germany onto a collision course with the Thatcher government in London and the Carter administration in Washington, a collision course from which they have not been deterred, even by massive Anglo-American political threats, blackmail and economic warfare.

A 'reverse Waterloo'

Schmidt and Giscard are plotting Great Britain's "Waterloo," shrieked the *Sunday Express* in London. The Franco-German alliance has consolidated itself on the very eve of a March 29 European Economic Community summit in Brussels, where Prime Minister Margaret Thatcher will find herself compelled to defend her refusal to make Britain's promised financial contributions to the community. France, for one, has expressed itself ready to throw Britain out of the European Community if Thatcher does not capitulate.

"At the EEC summit," writes the *Daily Express*, "the stage has been set for a miniature replica of Waterloo. The snag for our side is that if Margaret Thatcher and Giscard d'Estaing actually fight in Belgium, the Prussians this time will be on the Frenchmen's side."

Every member of the British elite knows that Wellington did not win the Battle of Waterlooo. The Prussian cavalry of Bluecher did.

The London *Financial Times* denounced France's "extraordinary and dangerous" behavior in trying to turn the budget dispute with Britain, "an important housekeeping issue," into "a major political battle." The Italian daily *Repubblica*, with more than desultory connections to British financial interests, complained that Schmidt and Giscard are behaving like "business partners" more than heads of state.

London's fear of a "reverse Waterloo" is apt. Britain's 1815 defeat of Napoleon was a turning point in history.

It set back the development of republicanism and industry in continental Europe for decades and ensured a British imperial stranglehold over the Middle East and the Third World in general. That now stands to be reversed.

Giscard's Mideast initiative

French press reports on the Franco-German summit emphasize the discussion of Giscard's 10-day Persian Gulf tour. Giscard broke with the past decade's trend in Middle East diplomacy by endorsing the Palestinian rights to nationhood, and in the process, emerged as the spokesman for Arab interests in the West. Country after country welcomed his barely veiled attack on the "Camp David" strategy. Equally important, he premised the new European-Arab relationship on "building bridges" between the great scientific and cultural traditions of progress that Arab, Moorish-African and European civilizations have historically shared.

At the March 16 summit, Giscard won Helmut Schmidt's full and unconditional backing for this policy, according to *Le Figaro* analyst Paul Marie de la Gorce.

While in the Gulf, Giscard signed cooperation agreements running into the billions of dollars, allocated to a series of industrial agreements that included nuclear energy development,, large-scale infrastructural projects, agricultural modernization projects featuring fertilizer production, and both state-to-state oil sale and oil-for-technology accords.

The diplomatic coup d'etat, however, was achieved in the concluding visit to oil-rich Saudi Arabia. The reception committee for the French president was virtually unprecedented, including Crown Prince Fahd, but also, all the sons of the founders of the Kingdom of Ibn Saud now in the government. No communiqué was issued with King Khaled, but the royal family reception followed by the King's impromptu praise for the French president clearly indicated that the *New York Times* was correct in speculating that this one-time preserve of Washington and London had been won over to Europe.

Additional confirmation came almost immediately. Reports appeared in the French press that Saudi Arabia was financing the development of the French Mirage 4000 fighter bomber with $1.5 billion. Then, an estimated 5-10 billion deutschemarks of West German state securities were directly placed with the Saudis after negotiations this week in Riyadh.

Swiss and Saudi sources now report an acceleration of this wholly political diversification of monetary reserves into French francs, that interest in French and German stocks,bonds, treasury bills, trade, and deposits of petrodollars is intense. The Arabs are using all available investment channels to strengthen the financial position of their new European allies.

Until now, it was the view of London financial circles and their key allies like America's Federal Reserve chief, Paul Volcker, that Europe could be forced to break up the European Monetary System in the face of massive pressures from the United States to increase interest rates to 25 or 30 percent and beyond. By madly jacking up U.S. interest rates, Mr. Volcker has attempted to impose a deflationary policy worldwide.

West Germany, whose oil bill has unbalanced its payments account, was to be forced to increase interest rates in the face of Volcker's measures to prevent speculative outflows from the deutschemark. This combined with domestic opposition led by former Bundesbank chief Otmar Emminger, was aimed at forcing Giscard and Schmidt to continue postponing the "phase 2" European Monetary Fund. Deprived of this major institutional instrument for financing trade and development, Europe could be step by step reduced to abandoning the "Grand Design" policy.

This was miscalculation.

Emminger's successor at the Bundesbank, Karl-Otto

London's press decries the Franco-German alliance

The British press responded to the Hamburg meeting between West German Chancellor Schmidt and French President Giscard d'Estaing with outrage—and some trepidation over what that meeting portends for the upcoming summit of the European Economic Community. Here are some samples:

Sunday Express, March 16.
Ted Heath's paragraph in history depends on it. Germany owns it. France runs it for her own profit. At least half of you would say let us get out of it tomorrow. I refer of course to the EEC, where the stage has been set for a miniature Waterloo. The snag for our side is that if Thatcher and Giscard actually fight in Belgium, the Prussians this time will be on the Frenchmen's side.

The Observer, March 17.
The attempt to pry Schmidt away from his unhealthily close relationship to Giscard has failed miserably.

The Times, March 16.
A violent collision between Britain and its EEC partners appears to be unavoidable unless Mrs. Margaret

Poehl, declared in a major policy speech last week that the way to get Germany's current accounts back into the black is to undertake a major new export drive. Warned Poehl, "Hitherto unheard-of interest rate escalation has led to worldwide recession, and dampened our exports. We cannot deal with foreign price increases by restrictive monetary policies at home, nor compete with U.S. interest rates. An interest rate war could lead to the collapse of the world economy."

But the overriding question was how to ensure the solvency of potential export buyers, how to finance the drive at both ends. The French alliance entered with Arab petrodollars in tow.

The Bundesbank is now being joined by the Swiss, as well as the French central bank, in taking the steps required to handle a massive inflow of petrodollars. As Giscard and Schmidt met, the Finance Ministers of the European Community nations were meeting in Brussels to prepare for the upcoming summit. They announced that a ministerial-level EEC organ had been created and empowered to negotiate with the Third World on matters of energy, food and international finance—meeting the conditions laid down one month go by Saudi oil minister Yamani for continuing development of Euro-Arab cooperation.

It is into this summit that Mrs. Thatcher must now attempt to introduce her strident claims that it was "unfair" that her derelict country should contribute such large payments to the community's budget. At the last EEC summit meeting in Dublin, where she initiated the confrontation, her personal conduct earned her the lasting enmity of European leaders. And the ensuing British behavior, seeking to sabotage continental policy has alienated the whole continent.

Mrs. Thatcher has committed a very bad mistake. Only days ago, Gaullist party leader Jacques Chirac told the French Assembly that Britain's membership in the EEC had been a "test." Britain has failed the test. As the London *Observer* characterized the situation: "Our attempt to break the unhealthily close relationship between Chancellor Schmidt and President Giscard d'Estaing, has miserably failed."

Thatcher is prepared to scale down her claim for a reduction in the size of Britain's net contribution to the EEC budget and to accept that the issue cannot be resolved in isolation from other Community disputes....

Full British participation in the European Monetary System has also been mentioned as a possible bargaining counter. But only the Germans seem to be pressing for it strongly, while the French last week set conditions for British participation calculated to be unacceptable....

The Times, March 17.
According to one view of diplomacy, things never go so well as when the British and the French are at each other's throats, nails sharpened. That is the normal and natural state of affairs, given the clash of national temperaments and interests, which ought to prevail, so it is said, between the Foreign Office and the Quai d'Orsay....

M. Rene Monory, the French Economics Minister, came up with the brilliant deduction that since the last EEC summit in Dublin the rise in oil prices had made Britain much richer.

Whitehall was quick to point out that all that glitters is not oil. 'Have a look at the French gold reserves,' it was suggested in a discreet aside, 'if you want to know about getting rich quick.....

Chancellor Schmidt, of West Germany, though not noticeably sympathetic to the British attitude, has been talking again to Lord Carrington, the Foreign Secretary. The other member states will take their line from the two major powers.

Financial Times, March 17.
Editorial entitled "The Threat to Europe": The behavior of the French government over the British demand for a substantial reform of the Europe Community's budgetary system is becoming more and more extraordinary, and more and more dangerous... Since last week's Cabinet meeting, ... it almost looks as if the French government is deliberately attempting to escalate the conflict with Britain, and thus risk turning what should be an important housekeeping issue into a major political battle....

French nationalism has always taken satisfaction from the fact that the common agricultural policy is the Community's only major policy. But even the French must be aware of the old business adage that it is dangerous to drive too hard a bargain. In 1965-66 General de Gaulle asserted that national vital interests should take precedence over Community interests. Unless the budgetary issue is sorted out rapidly, the very notion of mutual Community interests may be gratuitously undermined. ... It would be very unwise for the French government to underestimate the lengths to which the U.K. government might be provoked.

European-Arab diplomacy

The following is a grid of diplomatic activity between continental Europe and the Arab world since the beginning of this year.

Jan. 6-9: West German Economics Minister Lambsdorff is in Kuwait, the United Arab Emirates and Saudi Arabia. In Riyadh, he delivers a personal letter from Chancellor Schmidt to Crown Prince Fahd.

Jan. 8-10: Chancellor Schmidt is in Madrid for discussions with Prime Minister Suarez on the Middle East. Schmidt proposes to Carter that he listen to Suarez's views.

Jan. 14: West German Foreign Minister Genscher meets with the ambassadors of the Gulf States and Iraq in Bonn.

Jan. 16: Schmidt meets with his closest advisers, the "Clover Group," in Bonn to discuss the Middle East and Afghanistan.

Jan. 17: The Schmidt government issues a declaration on the crucial importance of reviving the Euro-Arab dialogue.

Feb. 3-5: Schmidt and French President Giscard meet in Paris.

Feb. 4: Schmidt tells *Der Spiegel*: "It is their [the Arabs'] oil—we have no right to raise a claim on that."

Feb. 8: West German Defense Minister Hans Apel, at a meeting of the Wehrkunde military group, warns against Western protectorates in the Persian Gulf, endorses economic aid instead.

Feb. 9-11: Iraqi Foreign Minister Hammadi is in Bonn, proposes a Mideast nonalignment charter and long-term oil contracts. Bonn approves Iraqi initiative for reviving Euro-Arab dialogue.

Feb. 13: Spain's Prime Minister Suarez is in Amman, Jordan where he calls for a rapprochement between the PLO and Israel.

Feb. 14: Saudi Oil Minister Yamani, in an interview with *Die Zeit*, calls for long-term oil for technology contracts and for an "in" for OPEC dollars on Western capital and investment markets. Apel, in an interview with *Quick* magazine, warns against any attempts to find a military solution for the Mideast.

Feb. 22: West German Finance Minister Matthöfer meets his Saudi counterpart in Geneva.

Feb. 28: Schmidt government declaration stresses urgency of a Mideast settlement. Cypriot President Kyprianou is in Paris.

March 1: Giscard travels to Kuwait for a two day visit, meets with Sheik Said, the Crown Prince, Prime Minister and Emir Sheik Jaber.

March 3: Saudi Foreign Minister Feisal is in Bonn. Giscard is in Bahrein where he meets with Prime Minister Sheik Kalifa and Emir.

March 4-6: Schmidt is in Washington for meetings with President Carter. Giscard travels to Qatar, meets with the Emir Sheik Khalifa, then to the United Arab Emirates, meets with the head of state Sheik Zayed and then to Jordan.

March 6: Egypt's Prime Minister Khalil is in Paris on a private visit. He meets with Prime Minister Barre and Foreign Minister François-Poncet.

March 7: Hans Apel, in Saarbrücken for a military meeting, warns of "new tensions between Israel and some of its Arab neighbors.

March 8: Genscher is in Awan for a meeting with Egyptian President Sadat. He endorses Giscard's statement on the Palestinians.

March 8-9: Giscard meets with Jordan's King Hussein.

March 10: Giscard travels to Saudi Arabia to meet with King Khaled and Crown Prince Fahd.

March 11: Schmidt phones Giscard to arrange Hamburg summit for March 16. Giscard speaks of "new and highly interesting aspects."

March 12: At a Bonn press conference, Schmidt says that "for many Arab and Islamic countries, the problem of what they call Zionism is more urgent than Afghanistan."

March 13: Bundesbank lifts ban on foreign purchase of two to four year bonds; press speaks of role for OPEC dollars. Ireland's Prime Minister, on an official visit to Paris, meets with Giscard.

March 14: Soviet Ambassador to France Stepan Chervonenko meets with Barre. Pakistani diplomat Agha Shahi mets with François-Poncet in Paris.

March 16: Schmidt and Giscard meet in Hamburg and talk about a "new EEC initiative for the Middle East" and announce the "revival of the Euro-Arab dialogue." India's Foreign Minister P.V.M. Rao meets with François-Poncet on North-South dialogue and the Middle East.

March 17: King Hussein of Jordan calls on Europe to launch an initiative in the Mideast to prevent a new war.

March 18: Soviet Union and France sign a 535 million franc contract to build two factories for oil forage platforms. The two nations had just signed a new financial protocol.

Exclusive interview

France's Calvet: 'Maximum for Mexico's industrialization'

Jacques Calvet Olmers, President of Banque National de Paris, the largest in France, and long-term collaborator of President Valery Giscard d'Estaing met with Mexican President Jose Lopez Portillo and other Mexican government, banking and industrial leaders during his March 16-21 visit to Mexico.

In an exclusive interview with the Executive Intelligence Review's *Mexican correspondent, Josefina Menendez, Calvet stressed that Mexico has all the preconditions for becoming what he called a "pole of industrual development" in the Latin American area.*

Calvet's visit is undoubtedly one of many top-level contacts leading up to the visit of the Mexican President Lopez Portillo to France in May. It also shows the importance France places on Mexico. Calvet served as managing director for Giscard when the later was Finance Minister. Although the Banque National de Paris is state-owned, Calvet stressed that his visit—and his comments—were made as a private banker, and not as a diplomatic representative of the French government.

As may be foreseen in Calvet's enthusiastic wish that Mexico have "the maximum success in its industrial development," his visit will probably be translated into a major increase in Mexican-French economic cooperation.

In his interview with EIR, *the president of the world's fourth largest bank spoke of Giscard's efforts to stabilize the world monetary system and explained the possibility of gold as a solution.*

Later at an open press conference Calvet Olmers underlined the fact that the current high interest rates restrain economic development, even in the advanced sector since credit destined to productive investment costs more.

Q: Mr. Calvet, when you accompanied President Giscard through the Middle East, and before that to Africa, he spoke of a "trialogue" between Africa, the Middle East and Europe. Would this be extended to include Latin America?

A: Well, you would have to ask that of Giscard himself. ... Our President seeks to find the basis for international organization in different regions, in different countries. What our president is doing is a great effort, something quite necessary at this moment when the world is full of danger, when the forces of violence rear their ugly heads all around us.

It is important to remember that President Giscard was the one who spoke of a "trialogue" before anyone else; Giscard initiated the European Monetary System. And on this basis I can tell you that I know the importance that Latin America has for President Giscard. He will do everything possible to foster world stability, and for that it is impossible to brush aside a region as important as Latin America.

Q: Mr. Calvet, President Giscard's trip to the Middle East has again placed on the table the launching of Phase II of the European Monetary System, that is financing of technology transfer. (This possibility is seen as a solution to the international crisis in which we are living.) What proposals on this do you bring for the Mexican government.

A: ...Your question is very important, but I would prefer to wait for what our President says. What I can tell you is that his trip to the Middle East was carried out in the context which I laid out in answer to the last question: as part of the efforts of President Giscard to bring stability to the entire world.

Q: Do you think that Mexico can be an adequate partner in dialogue for Europe and in particular France?

A: ...We certainly take into account the extreme importance Mexico's future has for the world. From what I have been able to see, and what I have realized during my stay here and my talks with various Mexican officials, Mexico must become a particularly important pole of economic development for Latin America as a whole. I think that for Europe and especially for France, Mexico should be an especially prominent economic partner in the coming years. An important partner not only because of its oil, but because of its vibrant industrial development, made possible by the efforts of the men and women of Mexico and the effectiveness of the organization and methods of the Mexican government and Mexican organizers.

Q: Mr. Calvet, can you explain to us whether the remonetization of gold at this moment could contribute to the stability of the world economy?

A: Of course, this could give greater stability to the international monetary system. Gold has not lost its real value because gold constitutes part of monetary reserves, but I don't believe that gold as a metal is the only possibility for stabilizing the monetary system. ...The problem is knowing whether the balance of forces of the various governments and the large banks are willing to collaborate to find a solution to this problem. *That* is the real problem.

What is the Franco-German European Monetary System?

by Alice Roth

On March 13, 1979, the European Monetary System (EMS) was officially launched when every European Community government, except Great Britain, agreed to (1) establish a system of stable currency parities within Europe and (2) form the nucleus of a new European central bank by pooling 20 percent of each nation's gold and dollar reserves in a common fund. At the time, most U.S. and British financial press commentators either downplayed this development or predicted the early demise of the EMS within a matter of months, if not weeks. One year later, however, the EMS is not only still alive but well on its way to establishing itself as one of the world's leading financial superpowers and perhaps the core of a new world system.

The EMS holds the gold

The eight member nations of the EMS together control over one-third of the world's monetary gold. Valued at current market prices of $500 an ounce, these gold holdings are worth nearly $202 billion, compared to the $132 billion in gold reserves held by the U.S. Treasury and $56 billion controlled by the International Monetary Fund. The real significance of the EMS gold holdings, however, is not their sheer magnitude but how European governments may potentially *use* them to counteract the effects of the Carter administration's incompetent austerity policies, now threatening to plunge the U.S. and the world into a prolonged depression.

How did the EMS come about and why has the average American citizen heard so little about it? The formal origins of the EMS can be traced back to the Bremen summit of European Community (EC) heads of state held on July 6-7, 1978. At that conference, French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt stunned the British by fighting for and winning EC approval of a bold plan to create "a zone of monetary stability in Europe." A top Bonn official characterized the plan at that time as "the seed crystal for an institution that will replace the World Bank and International Monetary Fund."

The "Grand Design" conception underlying the EMS was actually outlined much earlier with the 1967 publication of Pope Paul VI's "Populorum Progressio." In that document, the Pope called for an international development fund which would mobilize Western advanced technology and productive capacities to industrialize the Third World. This conception was further elaborated in the 1975 "International Development Bank" proposal by noted international economist Lyndon LaRouche, in which LaRouche proposed that the leading Western, Comecon, and Third World nations negotiate a new gold-based international monetary system which would extend credits for Third World development. LaRouche called for the dissolution of the International Monetary Fund and World Bank, which, he charged, were contributing to the disintegration of the world economy by imposing harsh "conditionalities" on Third World economies and favoring labor-intensive "development" projects which only perpetuate backwardness. High-level French government officials today regard LaRouche as one of the chief "intellectual architects" of the EMS.

As a result of Anglo-American armtwisting, implementation of the most important feature of the original EMS program—the formation of a full-fledged European central bank, the European Monetary Fund (EMF), which would have the ability to extend long-term credits to countries outside of the European Community—has been postponed until after the fall 1980 West German elections.

Despite this setback, the EMS has racked up several important accomplishments since its formal founding one year ago. First, it has succeeded in establishing relatively fixed currency exchange rates within Europe, as a necessary first step toward reestablishing fixed parities vis à vis the U.S. dollar. It is widely recognized now among international financial circles that the so-called "floating rate" system which has prevailed since August 1971 has encouraged speculation and disrupted world trade and investment. Under the EMS system, the European central banks jointly intervene to insure that currencies fluctuate by a margin of no more than 2.25 percent against a specified central rate (6 percent in the case of Italy).

Second, by pooling 20 percent of member countries' gold reserves, the Europeans have partially monetized gold—a major defeat for U.S. Treasury and IMF officials who fought to "phase out" the metal's monetary role in favor of SDR funny money. The value of the pooled gold is recalculated every three months by EMS officials based on the average of the London gold fixings over the previous six months.

The EMS gold as well as the pooled dollars has been used as reserve backing for issuances of European Currency Units (ECUs), a kind of currency which does not circulate in private hands but is used to settle imbalances among the European central banks. Since the price of gold has more than doubled in the last year, the EMS has been able to create many more ECUs than originally planned and, if the member countries were to pool all of their reserves, the amount of gold-backed liquidity potentially deployable by the EMS would be truly enormous.

Meanwhile, French President Giscard's trip to the Middle East has opened up the possibility that the late 1980 timetable for implementing "Phase Two" of the EMS may be accelerated. According to French government sources, Giscard may have discussed with Arab nations ways in which the $120 billion OPEC petrodollar surplus might be recycled through the European Monetary System rather than through the traditional London-New York banking channels. In return for placing their funds with the EMF, Giscard could offer the Arab oil-producers special low-interest, gold-backed bonds. The petrofunds could then be used to finance Third World development projects at interest rates substantially lower than those usurious ones presently prevailing in the U.S. Giscard has indicated that he plans to discuss the problems of Third World indebtedness and the petrodollar surplus at this weekend's meeting with Schmidt in Hamburg, West Germany.

The U.S. view

Defending International Monetary Fund policies

by Don Baier

While paying lip service to the EMS as a "technical" measure for European exchange rate stability, the Carter administration has always opposed it as a potentially serious threat to the International Monetary Fund.

Only a month after the Bonn summit, in September 1978, C. Fred Bergsten of the State Department delivered an ultimatum that the EMS "must not mean circumvention of the IMF agreement strengthening of the Special Drawing Right in a reformed currency system, not obstruct in any way the demonetization of gold or the intensification of exchange rate surveillance by the Fund, not circumvent the Fund as chief lender of conditional international liquidity, and not result in any additional controls on currencies."

As often as Schmidt and Giscard have stressed the EMS as a system designed to restore the dollar to its former strength as a reserve currency for international trade, U.S. officials have responded with hymns of praise for SDR paper funny money, and Treasury Secretary G. William Miller publicly stated in Saudi Arabia last year that America was looking forward to the day when the dollar could be replaced by the SDR. Indeed, until the onset of a succession of international crises, when the administration apparently decided that a plunging dollar on the foreign exchange markets was a threat to its "aura of power" diplomacy, the U.S. policy was semi-officially characterized as "talking down the dollar"; and even then strong Franco-German pressure was required to force the administration into undertaking dollar support measures on the foreign exchange markets.

As Bergsten's remarks above indicate, the administration's biggest fear is that "Phase II" of the EMS, in which the European Monetary Fund will provide the loan capital for large-scale investment to industrialize the Third World, will spell doom for the IMF and its policy of forcing developing nations to scrap industry and destroy their labor force's living standards through the imposition of loan "conditionalities."

Therefore, highly placed sources have reported, the Carter administration has told European governments that full implementation of the EMS constitutes a "national security" issue for the U.S.A.

The British view

Out on a limb as faction fight erupts

by Don Baier

Isolated from continental Europe, and with its "special relationship" to the Carter administration a distinctive foreign policy liability, the Thatcher government in Great Britain is once again mooting the possibility of joining the European Monetary System. During the past week, a sharp factional debate on the EMS has surfaced in the British press.

On March 10 the British *Guardian* reported "a strong lobby building up in the Bank of England and the Foreign Office in favour of full participation in the EMS." Endorsing that perspective in its editorial, the *Guardian* scored "xenophobic opposition from the Treasury" and British banking circles, arguing that "it would surely be better for Britain to be fully involved in negotiations which would vitally affect our national interest" than to be left on the outside, looking in, suffering "a deep suspicion of Britain's motives and objectives among our EEC partners."

Weighing in with the opposite viewpoint, the *Times* of London argued March 13 that "the real motive for setting up the EMS is as obscure as ever," and complained that "Herr Schmidt is trying to revive the political element in the EMS, while for some months there has been a vague promise that President Giscard is planning a monetary initiative for this year's world economic summit in Venice." Considering that the British press has heretofore largely confined its anti-EMS propaganda to "economic" objections about "interference with the free market" or, alternately, to dismissing the EMS as a "technical" irrelevancy, the *Times* confession that it has a "political" purpose of global significance constitutes a shriek of dismay.

Britain's factional debate, real enough as far as it goes, does not go very far. Since its inception, the British have done everything possible to wreck the EMS, most especially to forestall American cooperation with it. It is well understood in London that a Europe which functions according to the Franco-German conception as a "superpower for peace" will terminate Britain's cherished role as arbiter of world events, able to divide Europe and play the Soviet and American superpowers against each other in the interests of maintaining oligarchical control over the world economy.

Thus the EMS debate in Britain has been an argument over whether the government should attempt to "bore from within," or continue its opposition from without. Lord Carrington, Thatcher's Foreign Secretary, and former Tory Prime Minister Edward Heath are generally regarded as the standard bearers of the "European" or "realist" grouping, and Industry Minister Keith Joseph, a strict disciple of economist Milton Friedman and Prime Minister Thatcher herself as the leaders of the "rule or ruin" group.

The bad news for the Thatcher government is that Europe, led by France, has given no sign it will make the slightest accomodation to Britain's wishes whichever line the government takes. On March 12 French Economy Minister Monory announced that France would not allow Britain to join the EMS on the same terms it had granted Italy, which permitted the lira to fluctuate in a wider range against other EMS national currencies. British advocates of joining the system had publicly hoped for such a concession.

Moreover on the same day the French officially asserted they would not even agree to discuss Britain's contribution to the European Economic Community's budget when the Common Market countries meet on March 31, unless stiff procedural conditions were met. Mrs. Thatcher has been insisting for months she will extract budget concessions from the EEC amounting to a European subsidy for Britain's bankrupt economy. Indeed Thatcher journeyed to Paris earlier this month to attempt what the press described as a "seduction of the French." And the British press was suddenly filled with suggestions that continental Europe, West Germany's Schmidt in particular, was so anxious to include Britain in the EMS they might grant concessions on the EEC budget if Britain agreed to join.

But on March 17, when British Finance Minister Howe gave an impassioned speech pleading for a cut in poor Britain's contribution to the budget to EEC finance and foreign affairs ministers, he was greeted with a long silence followed by an immediate move to the next agenda item. Britain then announced unilateral plans to cut its contribution by one third.

In response, the head of the Gaullist Party Jacques Chirac stated that former President Pompidou allowed Britain into the EEC as a "test" which she has clearly failed, adding weight to the calls for Britain's expulsion from the EEC.

But short of Britain granting real political concessions to the "ideological" Franco-German policy of peace and economic development—perhaps, as Schmidt has suggested, by agreeing to lower North Sea oil prices for continental Europe—it is hard to imagine a scenario by which Her Majesty's government could mount a successful "Trojan Horse" candidacy to gain entry into the EMS.

The historical issues behind the current world crisis

by Criton Zoakos,
Contributing Editor

When the NATO Summit of last Dec. 12 voted up a resolution providing for the introduction of some 600 new theater nuclear weapons, Zbigniew Brzezinski, in a moment of private mirth, hailed that development as "the most important event since the Peace of Westphalia of 1648!" This statement is only accurate if it is viewed against the background of the full extent of the present world crisis and especially against the background of the motivations which drive the powerful behind-the-scenes individuals who have led the world to this crisis with a desperate determination.

To summarize the world crisis as it stands at the moment of writing: Washington, as the place where the instruments of world power are centered, has collapsed, in the sense that the entire array of programs for which the Carter administration had been put in the White House is now lying in ruins.

The China card policy has collapsed as the wily mandarins around Deng Xiaoping took complete control over China's affairs at the last, meticulously prepared Central Committee meeting, where long term policies were put in place, policies which will be pursued on the basis of Peking playing both its "American card" and its "Russian card" for a long time to come.

The "Islamic fundamentalist" policy of the Carter administration has also collapsed formally with the March 10 statement of Ayatollah Khomeini on the matter of the U.S. hostages in Teheran. That maneuver by Khomeini was the product of patient intrigues and deals between the mullahs and the KGB and British intelligence-run networks of the Iranian Communist (Tudeh) Party on the matter of the coming Majlis elections in Iran. To the astonishment of Zbigniew Brzezinski, the most outspoken sponsor of "Islamic fundamentalism," the Soviets have displayed the hitherto unsuspected ability to subvert, turn around and direct religious fundamentalist movements which were originally organized and deployed as pawns against Soviet policies. With this demonstrated ability of the Soviets to coopt the religious fundamentalist weapon, Washington's entire strategy of the Arc of Crisis is no longer operative.

The "Camp David' strategy of creating a joint Israeli-Egyptian military policing force for the purpose of keeping continental Western Europe out of the Middle East and Africa, has also collapsed as the Israeli government of Menachem Begin appointed to the post of Foreign Minister Mr. Yitzhak Shamir, the outspoken speaker of the Knesset who tirelessly campaigned against Camp David from 1978 onward.

The economic strategy of the controllers of the Carter administration has also collapsed into a nightmare of runaway hyperinflation whose chief characteristic is that every anti-inflationary measure of the government results in yet-higher rates of inflation. The combined Volcker-Carter measures since October 1979 have produced the result, in March 1980, of a situation in which the Central Banks of England and the United States have to choose between bankrupting the U.S. Treasury and bankrupting the British Exchequer. Or between bankrupting those two and the commercial banks of New York and London. Or between these types of bankruptcies and a formal declaration that the International Monetary Fund and the World Bank are defunct.

Consequences of Washington's collapse

Dr. Brzezinski's evocation of the Peace of Westphalia on the occasion of the Dec. 12 NATO resolution was meant to indicate, as he explained, that just as the Peace of Westphalia had relegated the Hapsburg claims of "Holy Roman Empire" to the junkheap of history and had introduced into the arena of history the Richelieu-Mazarin concept of the sovereign nation-state, so also, according to Dr. Brzezinski's reckoning, the NATO resolution would in turn relegate the notion of the sovereign nation-state to the museum, and replace it with what he affectionately calls the "just and equitable new world order," or "One World government" for the unsophisticated.

At the time, Dr. Brzezinski was not too far fetched—after all, the West European governments, with their decision to have the Pershing II missiles deployed on their soil, had in fact capitulated to a military policy that no sovereign nation-state ever allows itself to entertain: the policy that their national territory can be used for tactical nuclear warfare fought by third powers. In this instance, the NATO resolution was tantamount to West Germany, Italy, Denmark and so forth allowing the United States and the Soviet Union to fight proxy nuclear wars on their national territory. In this sense, the historical principle of the Peace of Westphalia had been violated by the NATO resolution.

What happened between Dec. 12 and now which accounts for the collapse of Washington? The Soviet action in Afghanistan, of course. But its importance is not where most observers ordinarily locate it. The Soviet action in Afghanistan unleashed a process in continental Western Europe which today presents us with a full scale resurgence of European nationalism in the world political struggle. France and the Federal Republic of Germany, acting in coordination, are fast capturing all the political assets of the Middle East until recently held in the hands of London and New York-Washington. West Germany and France, proclaiming that the Washington-London leadership of the alliance is proven bankrupt, are now actively pushing a drive to take over the leadership of the West, based on an entirely different founding principle from the one originally proclaimed in the aftermath of the Second World War. The principle of a "Western order, liberal and universal" is being scrapped.

The case of the London Economist

The underlying historical issues contested during the current world crisis are not ordinarily discussed in public by the principal grand strategists who, behind the scenes, set policies of which the events reported to the public are mere shadows. Brzezinski's reference to the Peace of Westphalia, though precise in terms of the world historical issues involved, is exceptional. Another even more exceptional such public statement is a major essay, published in the current issue of Lord Rothschild's London *Economist*, authored by Mr. Peter Jay, former U.K. Ambassador to Washington, son-in-law of former British Prime Minister Jim Callaghan and a British policy insider known for his spokesmanship of a strategic perspective widely identified with the assassinated Lord Mountbatten, the Queen's cousin. Peter Jay's policy paper, "Europe's Ostrich and America's Eagle," is an exceptionally candid and exceptionally desperate revelation, an unveiling, of some of the less sordid mental processes now racing inside the heads of those policy makers who have brought the world to its present crisis.

Ambassador Jay's policy essay makes the following principal strategic arguments: **First,** the cohesion of the "West" is in jeopardy as a result of the recent resurgence of European nationalism; **second,** if "continental European nationalism" is not reversed, the "cohesion of the West" will collapse and continental Western Europe will be "free at last" to choose its own way of dealing with the Soviet Union, to be "red or dead"; **third,** if the offensive of "European nationalism" is not reversed, the decade of the 1980s will witness the emergence of a "European Reich," based on the European Monetary System, dominated by economic nationalism, political centralism, military self-assertion, "eroding and in the end destroying the bonds and so the benefits of the west"; **fourth,** if this new "European Reich" emerges out of the EMS, it will cause the reemergence in the United States of nationalist forces (which he calls "the isolationists") for the first time since they lost their battle to "Roosevelt and Churchill in 1941," referring to the Atlantic Charter conference off the coast of Newfoundland.

These eventualities, according to Ambassador Jay, must be prevented if what he calls "the West" is to survive. Americans, especially American conservatives, will be astounded to discover what the gamemasters of London, the very statesmen who drafted the 1941 Atlantic Charter, meant by the term "the West," or, in their favorite phraseology, the "Western order, liberal and universal." To quote Peter Jay:

> The shape and cohesion of the west were created in the 1940s out of the lessons of the 1930s, reinforced by the new threat of Soviet power. Among those lessons were:
>
> • That unbridled nationalism is the world's most dangerous force.
>
> • That the world needs a framework of law and institutions ["One World Government"] under which disputes can be conciliated in the full light of world opinion and within which pacific nations can feel secure while belligerant ones will be effectively deterred from seeeing to acquire territory by force.
>
> • That, failing conciliation and deterrence under law, collective security is the best defense against any aggressor.
>
> • That economic nationalism—protectionism, autarky, mercantilism—not only damage prosperity, but also reinforce political nationalism and engender friction between nations.
>
> These lessons informed a new international philosophy, based on the principles of the rule of

Former British Ambassador to the U.S., Peter Jay

To quote Peter Jay: "The shape and cohesion of the West were created in the 1940s out of the lessons of the 1930s, reinforced by the new threat of Soviet power. Among those lessons were that unbridled nationalism is the world's most dangerous force."

> international law and the sovereignty of the nation state *under it*, of the conciliation of disputes, of collective security, of liberal trade and payments, of cooperative global management of a flexible and stable currency system and of capital aid for postwar reconstruction and for new development.
>
> ...These new principles were embodied in the characteristic institutions which defined the postwar political and economic order: the United Nations and its agencies; the World Court; the Bretton Woods twins—the International Monetary Fund and the World Bank; the General Agreement on Tariffs and Trade; the Marshall Plan and the Organization for European Cooperation and Development; and the North Atlantic Treaty Organization.

For the first time do we see in a mass circulation publication the formal admission of a former senior British official that all the postwar institutions of "the West" from NATO to the IMF, were designed for the purpose of taming and emasculating the historical institution of the nation-state. This ought to give food for thought to the uninformed American conservative. "The West," under the pretense of defense from the "Soviet menace" has been nothing but a *liberal* organization of affairs, whose principal enemy from the beginning was the destruction of nation-state and nationalism, and this includes NATO, the purported champion of our national freedoms!

Scales ought to start falling from many an eye when we pursue Ambassador Jay's slanderous discourse on specific nationalisms, viz. American nationalism which he slanders as "isolationism" and European nationalism which he slanders by misidentifying it with Schacht, Mussolini and Hitler!

Peter Jay on American nationalism:

> The American isolationists were finally defeated in the early 1940s by enlightened East Coast leadership and Japanese folly. They stayed defeated after the war by a combination of Soviet folly and the same internationalist outlook among the prevailing political establishment in Washington. But they were never exterminated; and they can always draw sustenance from economic adversity...etc. In short, America's involvement in Europe, like every other American policy, rests on a balance of political forces within the United States that is neither God-given nor immutable.

Peter Jay on European nationalism:

> The whole political history of Europe from the collapse of Christendom to Hitler's war has been an exercise in the most sustained and unbridled nationalism the world has known. Despite the contrary theorizing of every political philosopher from Plato to Plamenatz (excepting only some minor nineteenth-century Germans and, perhaps, Hegel) the nation—its needs, power, glory and wealth—has consistently predominated in political priorities over both the individual and the international community. Nationalism is indeed Europe's characteristic political genius, now alas exported to every corner of the globe...

On the basis of this spurious theorizing, Peter Jay comes to immediate strategic issues at hand, namely the European Monetary System and the EEC under the leadership of France and the Federal Republic of Germany. He falls very little short of calling them Nazi:

> ...it was only by creating a united Europe, or at

least a superstate in western Europe, that the old nationalist soul could expect to operate in the big new global league. If the ghosts of Frederick the Great, Queen Elizabeth, Napoleon and Hitler in politics, or Colbert, Joe Chamberlain, Schacht and Mussolini in economics were ever to be freed in the world of the late twentieth century, it could only be by forging a state of the size and with the resources of Western Europe as a whole ... the development of a European Monetary System (EMS) with or without aspiration to an eventual EEC currency bloc and even a single currency, undoubtedly owes to the growth of European self-consciousness as such.

What is going on here!!!

Of course the peace of Westphalia

Frederick the Great, Queen Elizabeth, Colbert yes, they can be viewed as spokesmen of Europe's "old nationalist soul." But Hitler? No! Schacht? No! Mussolini? No! In fact there exist to this day official British documents in which the British government, and most emphatically Winston Churchill, publicly proclaim that Hitler and Schacht are Britain's best defense against German nationalism, as that German nationalism was best expressed by Hitler's archenemy General Schleicher; also documents which proclaim Churchill's great satisfaction with Mussolini's success in subordinating Italy's national interests to the global strategies of the British Empire.

So, let us once again clarify the issues of nationalism, the nation state and the bearing it has on the current world crisis.

It is true that Europe's political genius is nationalism. But not in the sense that the freaked-out former British ambassador indicates—not in the sense that European history is mindlessly swept by nationalist passions, but in the sense that Europe, the historical Neoplatonic-humanist faction in European history, invented nationalism *as an instrument to a higher moral purpose.* European history in fact, is the history of an unfinished struggle that has been going on since the assassination of the last Babylonian king, the *Egyptian agent* Nabonidus circa 700 B.C., between two factions, later identified by the eponyms "Platonic" and "Neoplatonic republican" for the humanist faction, and "Aristotelian-oligarchical" for the bestialist faction.

Apostolic and Patristic Christianity emerged as the Neoplatonic political challenge to the oligarchical bestiality of the Roman Empire. Later, the current of Saint Augustine of Hippo within the Christian Church launched a great civilizing drive among the Western and Northern European pagan clans and through the Irish monk Alcuin launched the great effort of Charlemagne to civilize Europe despite the corrupt Roman oligarchy's grip over Church policy. During the twelfth and thirteenth centuries, the Neoplatonic humanist forces of Europe were rallied around the great Hohenstaufen emperors and around Roger Bacon's faction within the Church in a life-and-death struggle against the bestialist traditions of the Hildebrand Papacy and its allies the same old Roman oligarchy, the Normans, the Anjou and Plantagenets.

When the humanist forces went down in military defeat, the humanist cause was carried back east, in the desolate ramparts of the Paleologue Dynasty of Byzantine Emperors. For over two centuries, the Paleologues, in their rapidly shrinking domains in Constantinople, Sparta and the environs of ancient Troy, led and cultivated a profound intellectual and philosophical renaissance whose unique fruits were the revival of Plato in practical political affairs carried out by the great Platonist Georgios Gemistos Plethon, the close friend of Cosimo de Medici and teacher of Marsilio Ficino.

It was because of Plethon's and the Paleologues' policy of launching a system of humanist nation-states throughout all of Europe, including Russia, France, England, Germany and Italy, that the Guelph-dominated Papacy conspired with the Turkish Sultan Muhammed II and the pro-Turkish Aristotelian Orthodox Patriarch Gennadios to effect the conquest of Constantinople by Turkish nomad hordes and the destruction of the Paleologue dynasty.

Two of Georgios Plethon's surviving works, *De Rerum Peloponnesiacorum Oratio I and II*, constitute the foundation of all strategies that were later followed by others to establish nation states and national economies. In fact, these two works constitute the political-philosophical foundation of the tradition of national political economy as later developed by Colbert, Richelieu, Alexander Hamilton, Mathew and Henry Carey and Friedrich List.

When the Paleologues went to Byzantium to continue the work of the defeated humanist Hohenstaufen kings, the Papacy installed the evil House of Hapsburg, originally a bunch of minor Swiss nobles, to the throne of the Holy Roman Emperor. With the defeat of the Paleologues, two major events occurred which changed the course of European history: the entire network of Plethon's neoplatonic scholars, statesmen, military officers and clergymen moved from Byzantium to Western Europe, predominantly Italy but also France and there, drawing on the rich soil cultivated by the great Dante Alighieri, helped launch the Italian nation state. At the same time, the Bourbon kings of France, in order to minimize the damage done to civilization by the fall of Constantinople, organized one of the most ambitious rescue operations in history, ordering that every piece of

Zbigniew Brzezinski

According to Dr. Brzezinski's reckoning, the NATO resolution would in turn relegate the notion of the sovereign nation-state to the museums and replace it with what he affectionately calls the "just and equitable new order," or "One World government" for the unsophisticated.

writing, from private correspondence to state documents to literary and scientific works that existed in Paleologue Byzantium to be hunted down, rescued from the Turkish occupiers and shipped and centralized in Paris. As a result, to this very day Paris still is the primary source for anyone who wants to do historical research on Byzantine history.

This way, the French throne inherited the entire legacy of Paleologue statecraft, including the little known and absolutely exceptional documents, the "Legacies" or "Last Wills" of each Paleologue Emperor to his successor, written in Attic Greek metered verse, explaining the application of Platonic statecraft from Plato's *Republic*, the *Statesman* and other dialogues. This Platonic and Neoplatonic legacy formed the core of political weapons that the French throne used in its protracted struggle against the House of Hapsburg and Hapsburg possessions in Spain, the Netherlands and Burgundy. The French kings, despite military inferiority, defeated the Hapsburgs because they systematically employed Plethon's program for organizing nation states, national economies and national cultural efforts. The Peace of Westphalia, of 1648, Dr. Brzezinski's point of reference for the current world crisis, in fact represented the conclusion not merely of the Thirty Years War but the conclusion of a 200-year struggle between the French humanist forces and the bestial Hapsburgs. The Peace of Westphalia, being the first in the history of mankind to recognize in legal form the sovereignty of the nation state, represented, on the matter of principle, a total neoplatonic-humanist victory against the bestial Hapsburgs.

This is how the notion of the nation state was created in human affairs.

The "nationalist genius of Europe" is that that continent was fortunate to be graced by exceptional shepherds of men who developed the creative insight that in order to accomplish the great task of bringing morally and culturally backward populations forward into the light of culture and civilization, the mediation of the institution of the nation state is necessary. The nation state was conceived initially and still is today the institution which organized great numbers of people around great moral goals. The nation of the United States, woven out of so many ethnic and previous national strains, is a true nation, in fact a special nation among nations, because of the particular purpose around which the organizers of the nation—Benjamin Franklin's international conspiracy and Washington's, von Steuben's and Lafayette's Society of Cincinnatus—organized the American population. The purpose and therefore the soul of this nation, as spelled out in the Constitution and other founding documents, is to provide a framework of a constitutional republic and a federal government within which the potential of the citizens for creative contributions in the domains of science, technology, industry and the arts can be fostered to the maximum. The larger purpose of the American republic, as founded, was to provide for the establishment of a system of such humanist republics, nation states around the world.

The former British Ambassador goes into a shameless public freak-out for fear that this potential for American nationalism may again be unleashed, and may yet link up with the "nationalist genius" of our European allies, France, the Federal Republic of Germany and the European Monetary System. What would suffer from such a course of events?

Is Peter Jay's concept of "the West" viable?

The liberal, viciously antinationalist post-Atlantic Charter world of the IMF, the World Bank, the United

Nations, NATO, the "bridles" of the nation state will come apart, no doubt, if the half-dormant forces of American nationalism—those forces that Ambassador Jay scornfully slanders as "isolationist"—break through in this election year. And if these forces have the good sense of joining with, and leading "Europe's genius for nationalism," the EMS, nothing will be left standing of this corrupt, sodomic liberal world to which Ambassador Jay is accustomed. But his world will not collapse because of the imminent erupting of the forces of nationalism. On the contrary, these recent stirrings of what Peter Jay calls "nationalism" are only reactions, hasty responses to the fact that his "Western order, liberal and universal" has been coming apart at the seams since at least 1967.

Liberal economic doctrine and its opposition to the Colbertian-Hamiltonian-Listian economic outlook brought about the present world economic crisis. Systematic liberal opposition to science and technology has brought about the threatened collapse of the American economy, following the British collapse. Liberal military and manpower policies have turned NATO into a joke among nations. Liberal educational and juridical practices have brought about the scandalous degeneration among those layers in British and American society which are traditionally expected to think through social problems and provide leadership. So, Peter Jay is complaining that the spirit of "nationalism," in Europe and in the United States, is challenging the leadership of the "Liberal order."

But liberalism proved its bankruptcy long before it was challenged.

The question for the American people, during this election year is, what new international arrangement will replace the bankrupt "liberal order" of the IMF, the World Bank, the United Nations, NATO etc. And of course, there is the great bogeyman of the "Soviet menace."

The Soviet question, which was understood by President Eisenhower more than any other elected official in our postwar history, is best analyzed within the context of the long sweep of European struggles. Official Soviet mythology for the masses notwithstanding, the dominant, though not the only, impulse in Soviet policymaking is not "Marxism-Leninism" nor class struggle, but rather the historical interests of the Russian nation state as augmented into the Soviet nation state. The London *Economist* and the London *Times* among other mouthpieces of the Royal Institute had the good sense to remark, after Christmas of 1979, that, to everyone's surprise, the Soviet leadership is acting more in accordance with classical Russian state policy precepts than according to the "Marxist" profile. The origins of the Russian state go back to Ivan the Third and his wife Zoe Paleologue. Ivan the Terrible, the scourge of the boyar oligarchs, was a Neoplatonic statesman, a nation builder in the Paleologue tradition. So was Boris Gudonov. Peter the Great was in the Neoplatonic tradition of the Paleologues as augmented by the great Leibniz. Alexander II, who allied with President Lincoln against the Confederacy was in the same tradition. The great Count Witte was also in the Neoplatonic Leibniz tradition. Lenin of the Rapallo Treaty and Stalin who secretly prided himself as a "Leibnizian" were of the same tradition.

Ironically, the present military advantage that the Soviet Union holds over the United States is the result not of any "Marxist-Leninist" principles, but precisely the result of the Leibnizian nation state outlook which is hegemonic in the Soviet military-scientific community as exemplified by their Siberian Academy of Sciences. It is also ironical that Ambassador Jay's concept of the "West," which as a matter of fundamental principle repudiates the policies of economic "nationalism" also holds that eternal hostility with the Soviet Union to be a necessary permanent policy for "the West." The Soviets are attaining military advantage by pursuing "economic nationalist" policies. Mr. Jay's "West," by repudiating such policies on principle is rapidly being condemned to military emasculation.

Great Britain and our own Eastern Establishment are faced with an insoluble paradox: if they are steadfast to their liberal, antinationalist principles, they will not be capable of leading "the West" against the Soviet menace. If they are forced to accept the leadership of "European nationalism" within "the West," they may find that as French and German "nationalism" have ascertained, peaceful coexistence with the Soviet nation state is not, in principle, incompatible with their "nationalist" interest, although, one may allow, tactical turns of each nation's interests may on occasion conflict.

The solution to such a future problem is likely to be, to Mr. Brzezinski's great horror, some 20th century version of the Peace of Westphalia, a concord of sovereign nation states, a world system of humanist republics, commonly pursuing the task of developing the Third World by means of science, technology and industrialization. This is precisely the policy by which France and Germany snatched the entire Arab world from under Brzezinski's nose. This is also the policy that the Soviets applied, in concord with the West Europeans, in India and Pakistan. Increasingly, indications are emerging that the Soviets are about to play their "China card" on the basis of exactly the same policy, i.e. by allowing Peking to play its "Russian card" in terms of pursuing capital equipment and raw materials.

If, in the coming months, the forces in the tradition of Richelieu-Mazarin carry the day, as in 1648, then the Jesuit-trained Brzezinski, like his cherished Hapsburgs, will once again find himself on the losing side.

EIR Exclusive

Strauss in Washington: A plot to topple Schmidt

Contributing editor Lyndon Hermyle LaRouche, Jr., March 17 denounced what he described as "an ongoing Carter administration plot to bring down the government of a Western European ally, the government of German Chancellor Helmut Schmidt."

LaRouche, a candidate for the Democratic presidential nomination, explained that he had pieced together the evidence concerning the plot chiefly from placing the recent, "red carpet" treatment of visiting Bavarian Franz-Josef Strauss "under close observation." LaRouche explains his findings as follows:

It was the overwhelming opinion of Carter's advisors, during and after behind-door discussions with Strauss, that Strauss himself had no chance to challenge Schmidt's enormous popularity with West Germany's voters. Therefore, the Carter officials involved concluded that the only way in which to topple Schmidt during 1980 was to take a twofold approach. First, bring on such a deep economic downslide that this would produce instability in the West German political situation. Second, deploy the West German "environmentalists" as the flanking weapon to bring down the Schmidt government.

Many Carter officials, including Undersecretary of State David Newsome, have been identified as involved in this plot. Newsome's and other names were independently volunteered, without prompting, in the course of a survey of about a score of high-level personalities who were either directly involved in the planning meetings, or in advising those who were.

Although Chancellor Schmidt has strong personal support among about 80 percent of West Germany's voters, his party, the Social-Democratic Party of Germany, has fewer seats in parliament than the principal opposition, the coalition of Christian-Democratic and the Bavarian Christian Social Union parties. For this reason, the Schmidt government depends upon its coalition with the marginal German liberal party, the Free Democrats of Foreign Minister Hans Dietrich Genscher.

Historians would draw an analogy to the coalition between the Social-Democrats and Hjalmar Schacht's Liberal Party back during the late 1920s of the old, pre-Hitler, Weimar Republic of Germany. Schacht, acting on orders from London at that time, pulled his Liberal Party out of support for the government, and thus started the process of destabilization leading into Schacht's later placing of Nazi Adolf Hitler into power. Obviously, the plotters advising the Carter administration have that past bit of history prominently in their recollections now.

Genscher is no Schacht, of course. But pulling down the liberal party—Genscher's Free Democrats—would mean the fall of the Schmidt government's coalition. By using the West German "environmentalists," the so-called "Greenies," which the Bilderberger crowd created and controls, to bring the Free Democratic vote below 5 percent in a number of individual states of the nation, Schmidt could be brought down.

I share the estimate of those who consulted with Franz-Josef Strauss during Strauss's visits to Washington and New York City. Although Strauss has lost his acceptability as a joint chancellor-candidate of the opposition parties, the Christian Democrats have produced no truly acceptable candidate of their own so far—and no improvement in this situation is immediately in sight. The group around Carter's advisors have come up with a flanking approach to this particular problem. The plan, according to all sources consulted, is to build a package around Leisler Kiep and Franz-Josef Strauss, in which Kiep will function like Strauss's own "Henry Kissinger." It is my information that the U.S. ambassador to West Germany is being used in the plot, and that Carter's advisors are thinking of using elements of U.S. military intelligence, rather than the Central Intelligence Agency, in support of the West German "environmentalists."

Carter's personal involvement

It ought to be well known that Jimmy Carter has a deep and growing personal hatred against Chancellor Schmidt. That is not the reason that the Trilateral Commission and Bilderbergers are being deployed against Schmidt at this moment; but, Carter's personal hatred against Schmidt does give the Trilateral boys in Washington and New York City a clearer field for the present plotting.

This requires one qualification. I would tend to place Carter in the same political camp as a former intimate crony of the Carter household, former British ambassador Peter Jay. I would suggest a glance at Jay's ten-page diatribe in the March 8 London *Economist* for hints of the policy motives behind the Carter moves against Schmidt at this time.

That isn't exactly the political camp of Franz-Josef Strauss. Strauss is part of the combination including the Order of the Golden Fleece, the Pan-European Union, the Hans Seidl Stiftung, and the Mont Pelerin Society—the side of Sir Keith Joseph, Friedrich von Hayek, Milton Friedman and General George Keegan's crowd in our own intelligence establishment. However, the crowd Jay works for hates the Mont Pelerin crowd much less than they both hate the Giscard-Schmidt alliance. The Fabians and the Mont Pelerin Society gangs are making a Hobbesian sort of alliance against a Schmidt considered a common foe.

Who's Franz-Josef Strauss?

Strauss, the joint chancellor candidate of the CDU/CSU opposition parties in the Federal Republic of Germany, is head of the Christian Social Union (CSU) and Minister-President of the state of Bavaria. A harsh critic of detente with the Soviet Union and Eastern Europe, he advocates an arms buildup for Europe and trade sanctions against the U.S.S.R.

Strauss is a close friend and associate of feudalist Otto von Hapsburg, pretender to the throne of the Austro-Hungarian Empire. Hapsburg heads the Pan-European Union, a party which aspires to abolish the nation-states of Europe and replace them with a "Europe of the Regions." Strauss interceded last year to grant Hapsburg, an Austrian citizen, West German citizenship so that he could run on a CSU ticket in the June 1979 elections to the European Parliament. Chancellor Schmidt described Strauss's action on Hapsburg's behalf as "bizarre."

Strauss received a Jesuit education at a gymnasium and then university in Munich, and is associated with the "geopolitical" circles created in Europe by Albert Haushofer and Jesuit Father Edmund Walsh. Strauss held the posts of Minister for Special Tasks, Atomic Questions, and Defense during the 1950s under Chancellor Konrad Adenauer, and was Minister of Finance from 1966-69 during the "Grand Coalition" government.

During recent years, we have watched the Carter administration continue Henry Kissinger's project for overthrowing the government of Pakistan and murdering the former head of that government, Bhutto. We have watched the Carter administration, in its support for the Muslim Brotherhood of Ayatollah Ruhollah Khomeini, overthrow the governments of, first, the Shah, and then, that of Prime Minister Shahpour Bakhtiar. We have watched the Carter administration deliberately orchestrate the taking of U.S. citizens hostage by the Khomeini dictatorship. We have watched the Carter administration declaring its affection for that "Islamic fundamentalism"—the Khomeini dictatorship—which has committed and continues to commit acts of war and terrorism against the United States.

Now, we witness that same Carter administration caught red-handed in attempting to use its "environmentalist" Khomeini-like forces in West Germany in a project for overthrowing the government of Chancellor Helmut Schmidt. Anyone who continues to support Carter under these circumstances must be either blindly misinformed to the point of utter ignorance, or simply downright immoral.

'The greenies can destroy Helmut Schmidt's coalition'

The following interview was made available to EIR. The speaker, not a member of the Carter administration, has access to high-level policy discussions on European matters in the administration.

Q: Franz Josef Strauss is getting a very big welcome in the United States. Does the administration plan to advance Strauss's campaign for Chancellor?
A: I was not at the meetings with Strauss...I had private discussions with David Newsome at the State Department...Strauss is a right-winger. I don't think there is much we can do. Schimdt is very strong. He has strong support. The most we can do is send Ralph Nader over there to facilitate the Greenies, but we don't have the capability anymore. You would do it through techniques of clandestine placing of newspaper articles, scandalous releases, damaging reputations, releasing information on spy-linkages of important candidates, as has been done in the past.

This is CIA dirty tricks stuff...we don't have that capability anymore. It's being restored, but we don't have it right now. The Greenies can destroy the SPD-FDP party coalition. They're the best route to get at the present German leadership. This is what Strauss is fighting for...

Q: Would the Green Party go for Strauss?
A: You must understand that the Green Movement is going beyond the nuclear issue. That's no longer becoming the rallying point for the movement...It represents more of an "alternative" for the German people—for the "discontented"...The German economy is undergoing strain. What is happening here as a result of Volcker's credit measures is affecting Germany more...Strauss is now beginning to address the German people on the growing inflation problem...

'The Germans, you know, are allergic to inflation'

The following interview, made available to EIR, is with a participant at the Georgetown Center for Strategic and International Studies meeting with Franz Josef Strauss.

Q: I understand that the meeting at the Georgetown Center discussed the "French problem" as well as West Germany.
A: Yes, Strauss was very hard on Giscard ... He strongly criticized the Paris communiqué and especially the phrase, "detente will not survive another setback" ... "Detente has not survived," he insisted instead. Strauss criticized the "independent Europe" idea of Giscard and Schmidt and stressed a different kind of independent Europe—as a "second pillar of the Atlantic" ... In public, Strauss is too careful to attack Giscard, although when he went to Paris he made it very clear that American solidarity is the most important thing, despite special relationships between Schmidt and Giscard.

France has been a problem for Germany historically. It has always been conscious of its "great *gloire*" ... "the nation" ... and tried to keep its national identity in a greater Europe. What is most disturbing to us is that the French still have a close relationship to their former colonies ... much closer than Britain. They act like a superpower because of this...which represents a problem for Europe.

Q: What are Strauss's chances in the October elections?
A: Between the opposition and Schmidt there is a very small but genuine chance of winning back the government for the opposition ... The national situation is grave and the economic developments are getting worse. There are signs in Germany that its economy is undergoing strain ... growth is reduced and inflation is gaining ground. Strauss will capitalize on this. Germans are particularly vulnerable psychologically to inflation problems, especially after the experience of the 1920s... They're allergic to it.

Where he went, whom he saw

On the day that West German opposition figure Franz Josef Strauss arrived in New York, Chancellor Helmut Schmidt left. Zbigniew Brzezinski told a press conference that the Carter-Schmidt talks had not been a great success. However, added the national security advisor, "the U.S. has a friend in the opposition party of West Germany." Strauss's treatment in the United States was "red carpet" throughout the following itinerary:

New York

March 7-9: Partially known. During his stay in the city, Strauss is known to have met with U.N. Secretary General Kurt Waldheim and with the editorial board of *The New York Times*; he was interviewed by local television. He delivered a policy address to the New York Council on Foreign Relations, predicting that the decade of the 1980s would be "a period of tense and all-out conflict among nations for the control of energy and raw materials."

March 10: Strauss breakfasted with Dr. Henry Kissinger at his private New York residence; he lunched with David Rockefeller, held a second afternoon meeting with Kissinger, and then met with representatives of the "umbrella" Zionist organization, the Conference of Presidents of Major Jewish Organizations, in the evening. Inside sources report that the "very private, completely closed" Strauss-Zionist meetings expressed unrestrained anger at the Franco-German initiatives for Mideast peace and arrived at consensus that the Schmidt government must be replaced.

"The greatest threat to the world is the possible emergence of a new European superpower," said one participant. "We must stop it. We must have Strauss as Chancellor in West Germany. We must have a massive rearmament program for the U.S. that will reunite the West and break up this 'independent Europe' idea."

Later that evening, Strauss met yet again with Henry Kissinger; in attendance were New York Senator Jacob Javits among others.

Washington

March 11-13: Strauss met with the Washington Post editorial board and publisher Katherine Meyer Graham. He also met with representatives of the Trilateral Commission in the Carter administration, including Treasury Secretary G. William Miller, Defense Secretary Harold Brown, and Secretary of State Cyrus Vance. He met with State Department undersecretary David Newsome, with National Security Adviser Zbigniew Brzezinski, Federal Reserve Board chairman Paul Volcker, AFL-CIO head Lane Kirkland, members of the House and Senate Foreign Relations Committees, the Senate Armed Services Committee, and with President Jimmy Carter.

The itinerary was highlighted by a "semi-private" meeting at Georgetown with officials of the National Security Council, the Carnegie Endowment, the Heritage Foundation, and Georgetown's Center for Strategic and International Studies (CSIS). The participants at this high-powered meeting included:

David Aaron—National Security Council, Brzezinski aide.
Fritz Ermat—National Security Council, Mideast Desk
Brent Scowcroft—former chairman, National Security Council
Helmut Sonnenfeldt— Brookings Institution, former State Department aide to Henry Kissinger.
Robert Strausz-Hupe—Former U.S. ambassador to NATO; currently resident in Munich, West Germany.
Walter Slocomb—National Security Council
Peter Kreisberg—National Security Council
Richard Smyser—Chairman, China Affairs, Georgetown CSIS
Frank Sullivan—Senate Armed Services Committee aide.
Robert Blackwell—National Security Council, European Desk.

Accompanying Strauss on his trip and participating in this and other meetings with him were Alois Mertes, foreign policy spokesman for the Christian Democratic Party Fraction; Walter Leisler Kiep, Christian Democratic leader and Trilateral Commission member from West Germany; Manfred von Nordheim of the Konrad Adenauer Stiftung, a West German think-tank. Also in attendance were representatives of the Carnegie Endowment for International Peace, whose head, Leslie Gelb, was recently a State Department undersecretary; representatives of the International Communications Agency, formerly the U.S. Information Service; representatives of the Heritage Foundation, whose head Edward Fuelner was just named director of the U.S. branch of the Mont Pelerin Society; and representatives of the Aspen Institute, the controlling agency over environmentalist movements in both the United States and Europe.

The 'Great Green Hope' of F. J. Strauss

by Ranier Apel

The result of the Baden-Wurtemberg state elections in West Germany, giving an increased vote of 5.3 percent to the environmentalist Green Party, seems to conform to a Georgetown Center for Stratetic and International Studies script to "let the greenies gain, so that Franz Josef Strauss can win the national elections in October." The environmentalist gains are to come at the expense of Chancellor Helmut Schmidt's Social Democrats, according to the scenario, but more especially from Schmidt's government-coalition partner, the Free Democratic Party, forcing them out of the coalition, and Schmidt out of the government.

Spokesmen for this scenario to topple Schmidt, such as Kiel professor of political science, Werner Kaltefleiter, have published their views in widely circulated newspaper analyses. Kaltefleiter believes that it will be possible for Bavarian Christian Social Union leader Strauss to become Chancellor if the Green Party is able to cut into the vote of the Social Democrats and Free Democrats' constituences so that the latter is reduced to less than the five percent of the vote required to participate in a coalition government.

The Green Party can stay below five or slightly above five percent. In either case, as Kaltefleiter himself wrote in the West German daily *Die Welt* March 18, a Green Party in the Bundestag would turn things upside down, and open up the possibility of "new kinds of coalitions." Strauss would be able to govern with a minority government tolerated by the Green Party caucus, or would even form a coaltion with them.

The latter trend is confirmed in interviews given to *EIR* by Mrs. Noelle-Neumann, a member of a prominent public polling institution, who said that the general trend of the greenies is toward "conservative outlooks." Strauss, of course, leads West Germany's extreme rightwing.

Where are the CDU votes?

While the West German press in general is suggesting that the greenies will steal Social Democratic and Free Democratic votes, better informed newspapers such as the *Frankfurter Allgemeine Zeitung* take note of the fact that one of the most striking results of the Baden-Wurtemberg elections is that the Christian Democratic Union (CDU), the main opposition party, lost 3.4 percent of its votes as compared to the 1976 elections. This reveals some of the specific characteristics of the Green Party "surprise" phenomenon.

The 5.3 vote for the greenies in that state was to a large extent orchestrated through a shift of votes from the CDU to the greenies. This might sound strange to political observers who would rather tend to believe that if there is any viable option for Strauss to win by aid of the greenie "fourth" party, he must see to it that the Christian Democratic allies of his Christian Social Union do not lose any votes to other parties. How else could he hope to gather the necessary 46 or 47 percent of the total vote in the Oct. 5 national elections?

Recent public opinion polls show that while Strauss's popularity is around 25 percent, Schmidt's is at 55 percent or more. It would therefore seem risky for Strauss to allow his own constituency to drift away to the greenie side.

There is no doubt that the Social Democracy, weakened programatically by 10 to 12 years of liberalization under chairman Willy Brandt, has lost votes to the Green Party, especially from young voters. This goes for the Free Democrats, too. As for the Christian Democracy, however, this has been considered the party of industry, of technological progress, and of nuclear energy since the late Konrad Adenauer's chancellorship. How is it possible that this party could lose votes to the opposite side of the political spectrum, the greenies?

In fact, ever since Franz Josef Strauss pulled a successful coup to become the joint chancellor candidate of the Christian Democracy and Christian Social Union in the summer of 1979, an oligarchical, antitechnology current formerly underground in secret associations like the Anthroposophical Society has come publicly to the fore in the Christian Democratic Union. Appealing to small shop-owners, state officials, general "petit bourgeois" and backward-farmer outlooks, spokesmen for this strata include Walter Leisler Kiep, Kurt Biedenkopf, Ernst Albrecht and Manfred Worner among CDU leaders. The Malthusian outlook of these currents has determined the CDU's policy since Strauss took the number one position, placing the Christian Democratic Union, for the moment, on the same side of the political spectrum as the greenies, quite susceptible to losing or shifting votes to them.

This CDU degeneration is best demonstrated in a press release issued by Kurt Biedenkopf in Dusseldorf March 18. Said this CDU leader: "The Green Party is welcomed as a new competitor on the political scene ... a vital new element in our parliaments ... We promise them a fair chance in the Ruhr state elections..."

Biedenkopf's statement is the more revealing in that it is well-known in West Germany that the hard-core of the Green Party is composed of former members of the avowedly neofascist National Demokratische Partei (NPD). The NPD was created in the 1960s, and then quickly disappeared after it had been employed for a similar "shift the votes" operation at that time.

The big test

The first big test for Strauss's great green hope will be the May 11 elections in the industrial-heartland state of North-Rhine Westphalia. In this state, a dense network of SPD-linked trade unions and industrial organizations has, with the exception of a few green spots, reduced greenie political organizing to a very low profile.

With his statement of welcome to the greenies, Biedenkopf is surely intending to build a bridge for them into the Ruhr, but this might heavily backfire on the CDU. If the Schmidt forces recognize the big opportunity this Biedenkopf move opens up for the Social Democrats, and if the Schmidt forces rid themselves of spokesmen for the greenie ferment within the SPD itself (Hans Eppler, Klause Traube and others), Schmidt could even win an absolute majority in this year's elections ending dependence on the weak Free Democrats.

The SPD in the Ruhr should in fact be able to hand a devastating defeat to the Christian Democratic Union in that state. As all leading polls show, Schmidt is approaching voter approval ratios of above 50 percent, while Strauss is heading down to between 25 and 30 percent. With Strauss and Biedenkopf performing their machinations a little too openly, Schmidt should produce a deep break in traditional CDU constituencies that feel deprived of a candidate of their own this year.

There is no reason for Schimidt to hesitate. The international climate featuring his alliance with France's Giscard d'Estaing, and Giscard's Abab petrodollar-holding friends, has permitted the financial and industrial machine of West Germany to find the financing and political clout to defy the environmentalists and the British and U.S. governments alike by announcing its intention to launch a major export drive. Schimdt has the advantage. Those behind Strauss and his new green friends do not.

One Georgetown strategist admitted as much in a recent interview. The CIA has lots of dirty tricks capabilities. But not in West Germany at present, he stated, "We can't do it right now." But if Schmidt and his forces hesitate to exploit the "favorable moment," the CDU, with help from U.S. "dirty tricks," might be able to shift enough of its own votes to the Green Party to raise them to the 4.9 percent or more that would wipe out the Free Democrats. In that case, the Schmidt government falls, and the consequences could make the world a very unpleasant place in which to live shortly thereafter.

MIDDLE EAST

French diplomacy's attack on Camp David

by Nancy Coker

French President Giscard d'Estaing's recent diplomatic initiatives for securing a comprehensive Middle East peace settlement is a direct and deliberate challenge to the Camp David "partial peace" plan of the Carter administration.

In an effort to counter France's peace efforts, Secretary of State Cyrus Vance and British Foreign Secretary Lord Carrington have decided to bring down the hardline government of Israeli Prime Minister Menachem Begin and replace it with a less instransigent regime capable of salvaging the Camp David peace process, now blocked largely because of Begin's refusal to make concessions on the critical question of Palestinian autonomy.

This week, Carrington held an extended strategy session in London with a delegation of top British and French Jewish community leaders led by Alain de Rothschild to reaffirm British support for Camp David and to pledge that London will not interfere with the pact. The Zionist leaders with whom Carrington met are the same ones who control the puppet strings of the faltering Begin coalition and of Begin's probable replacement, opposition Labour Party leader Shimon Peres.

France: a new reality

In moving to dump Begin, Britain and the United States are, responding to the "new reality" that France's Middle East diplomacy has imposed upon them. This new reality dictates that unless some kind of Anglo-American Middle East intiative is consolidated that is capable of shoring up Camp David and throwing Europe's peace drive off balance, the United States and Britain will be locked out of the Middle East.

Backed by Socialist International leaders Willy Brandt of West Germany and Chancellor Bruno Kreisky of Austria, the Vance-Carrington faction of Anglo-American "realists" is negotiating with Zionists both inside and outside Israel to topple Begin and install a Peres government. Peres's job would be to make more concessions to Egypt and the Palestinians and, in so doing, somehow salvage the Palestinian autonomy talks before the scheduled May 26 deadline.

The autonomy talks are now in jeopardy because of Begin's intransigence on the issue.

As a result of the Vance-Carrington operation, Begin's government is rapidly disintegrating, and the Peres option is gaining momentum.

At a press conference March 17, Peres announced that five to six parliamentary members of Begin's coalition are preparing to jump ship and join the opposition, which might be enough to topple Begin. Already Peres is negotiating with several leaders of other political parties currently part of the governing coalition, such as the National Religious Party and the Democratic Movement for Change. Defense Minister Ezer Weizman is threatening to quit government, as are Deputy Prime Minister Simcha Ehrlich, Interior Minister Yosef Burg, and Finance Minister Yigal Hurvitz.

According to the French daily *Le Figaro*, former Foreign Minister Moshe Dayan has emerged from retirement and is playing a behind-the-scenes but central role in the Anglo-American-sponsored power play against Begin.

To build up Peres's image, Peres is being portrayed as a statesman capable of "delivering" Camp David or some variation thereof. Peres has claimed that he has won some sort of "commitment" from Jordan's King Hussein on negotiating a peace with Israel. When pressed to elaborate, however, Peres last week stated, "I can't give details."

The Israeli press is egging Peres on. Last week the liberal daily *Haaretz* published a poll predicting an absolute majority of 62 parliamentary seats for Peres's Labour Party if elections were held today.

Economic holocaust

Unless Israel decides to link up with France's peace efforts—something that would be very much in Israel's national interests—the government of Israel, whether it be led by Begin or Peres, is heading for economic disaster and most probably war.

At this point in time, the catastrophic state of the Israeli economy is playing right into the Peres power play by spreading disillusion with the Begin government. Strikes and violent demonstrations are hitting industrial, farm, and professional layers as inflation soars over 120 percent and budget cuts hit home. Even the Israeli defense budget has been cut back six percent, leading nervous Israeli military officials to speculate about the danger of Israel losing its superiority to growing Arab military power.

In an interview with the *Baltimore Sun*, Israeli military spokesman Col. Yacov Even stated that Israeli living standards must fall to maintain the defense spending. "This will be accompanied by very serious social and political problems, conflicts, even riots," Even admitted.

Predictably, Begin, backed by the more extremist factions in his government, is already preparing for military confrontation as his "last-ditch option" in the face of Europe's successful peace efforts and the failure of Camp David.

The possibility of an Israeli military move is being widely discussed in European and Arab capitals. In a recent interview, King Hussein warned of an Israeli strike east against Syria or Jordan. The alternative, said Hussein, is a European initiative for peace led by France, hammered out at the United Nations with the involvement of the two superpowers.

In Kuwait, Palestine Liberation Organization Chairman Arafat warned that a new war is being planned against Syria—not directly, but through Lebanon, where tensions are rising. Leading French sources also report that Israel is considering a desperate military action to halt what it sees as a European-Arab convergence.

Begin's growing desperation is reflected as well in his direct onslaught against the French.

The French President's visit to the Middle East, said Radio Jerusalem and the Jewish Telegraph Agency, is a "unilateral policy that will endanger Israel" and will "create danger for Giscard himself."

To underline the warning, Begin is mobilizing his Zionist supporters worldwide against France. In Paris, Begin's Likud Party networks are planning a 100,000-strong demonstration, and French intelligence sources are carefully watching a secret office of the Anti-Defamation League that just opened in Paris that includes operatives of the Mossad, Israel's foreign intelligence agency.

Combatting Europe

According to the *Jerusalem Post*, Israel's newly appointed foreign minister, Yitzhak Shamir, is working closely with Begin "to mount an Israeli campaign ... to combat the European initiative."

In addition, Shamir, a professional assassin for the Stern gang during the 1940s, has wasted no time kicking off a worldwide offensive against Europeans and Americans who buck the Begin government's policies of expanding settlements on Israeli-occupied Arab territory and of keeping the Palestinians out of peace negotiations.

Special Israeli intelligence teams have been sent to Europe, and Israeli diplomats have been instructed to protest loudly to governments, creating a climate in which Israeli-inspired terrorism can be "justified" as an authentic expression of "Jewish outrage." Shamir, in a series of interviews, declared that Israel would no longer abide by the U.S.-Israel "special relationship," but would instead act on its own. The Austrian government, which has officially recognized the Palestine Liberation Organization, was told that it had "sided with an organization whose hands are stained with blood and who openly desire the destruction of Israel."

LATIN AMERICA

Colombian dope pushers drive toward legalization

by Cynthia Rush

Information received by *EIR* this week confirms that the terrorist M-19's takeover of the Dominican embassy in Bogota, and the crisis it has generated in the surrounding region, has brought Colombia very close to legalizing its vast marijuana trade.

For all his weaknesses as a national leader in Colombia, President Turbay Ayala has steadfastly refused to legalize marijuana consumption or production—as demanded by Conservative Party leader Alvaro Gomez Hurtado and numerous other prominent figures. As documented in the Special Report just published by *EIR* ("Iran Comes to Latin America: The Bogota Embassy Takeover"), Gomez is deeply implicated in orchestrating the embassy takeover and the corresponding scenario to "Iranize" Colombia, the Caribbean and Mexico. In the case of Colombia, his aim is either to pull a coup against Turbay or so politically weaken the nominally "democratic" regime that Turbay will have no option but to legalize.

Since the market for an increased marijuana flow is the United States—primarily the youth of the United States—these plans should be of grave concern to all Americans.

A measure of the success that Gomez Hurtado's allies have had to date was the announcement made by Defense Minister Gen. Camacho Leyva within days of the Feb. 27 embassy takeover. Camacho said that 3,500 troops now stationed in the marijuana-growing region of the Guajira Peninsula would be removed from the region, supposedly to be replaced with special units of the national police. The 3,500 troops had been sent into the Guajira as part of the government's national antidrug effort.

The significance of the decision to withdraw troops cannot be underestimated. In mid 1979, sources close to the Turbay administration told *EIR* of the Colombian President's estimation that unless he received a strong commitment of aid from the United States—a commitment which was not forthcoming—he could not long resist the "pot lobby's" demands to legalize.

The decision has been met with euphoria by pot lobby leader Ernesto Samper Pizano of the prestigious banking association ANIF—which indicates that the government may have reached the point Turbay warned about. When asked to comment on the decision, Samper told the press that it meant "defacto legalization" for the country.

Press hype builds

Complementing the troop withdrawal, over the past week and a half the Colombian press has published a major series of articles promoting marijuana legalization. Exemplary is that published March 16 by a columnist for the conservative magazine *Guion*, Enrique Caballero, which not only calls for legalization but offers elaborate detail on how a scenario for Iran-style social upheaval would emerge in Colombia.

Caballero, a member of one of Colombia's most prominent oligarchic clans, chastises Turbay for repressing the drug trade just to please the United States or to save its "hippie" drug-consuming youth. More significantly, he warns the government that if it *doesn't* legalize, it could face uprisings of enraged peasants whose "prosperous" marijuana cultivation has been "repressed" by the armed forces' antidrug units. Making an analogy to the 18th century "Comunero Revolt" when Colombian peasants rose up to protest Spain's monopoly of tobacco and other products, Caballero warns that "then, as now...these events occured in a pre-revolutionary social climate."

Colombian Anti-Drug Coalition responds

In light of this offensive, Colombia's Anti-Drug Coalition announced that it will launch a major organizing and educational campaign to halt the legalization drive. Coalition president Fausto Charris, well known for his efforts to unite both the American and Colombian populations in the battle against drugs, explained that the Coalition will organize at schools and universities as well as publish a special pamphlet on what legalization would mean for the country. "We will seek the collaboration of the National Anti-Drug Coalition in the United States to make every Colombian and American aware of what is at stake here," Charris stated recently.

The Colombian Anti-Drug Coalition has played a crucial role in exposing the ties of ANIF president Samper Pizano to domestic financial entities suspected of laundering drug monies, as well as to the U.S. "pot lobby," represented by the National Organization for the Reform of Marijuana Laws (NORML). Samper's call for legalization, based on the argument that de facto marijuana legalization already exists in the United States, has also received major buildup this week in such "respected" daily papers as Bogota's daily *El Tiempo* as well as in the leftist magazine *Alternativa*. Samper's book on why marijuana should be legalized will be published shortly in Colombia.

More oil, no GATT, fewer candidates

Lopez Portillo defied many kinds of pressures to reject an international tariff agreement, and to order the nation's oil company to "produce, produce, produce."

March 18, the forty second anniversary of the oil nationalization and the birthday of Petroleos Mexicanos, was a day of political surprises on the Mexican political scene.

Insiders see it as a day that went a long way in defining the battle for who will take the '82 Presidential election. And that will define a lot about what kind of Mexico will welcome in the twenty first century.

President Jose Lopez Portillo announced at the celebration that Mexico will not join the GATT, the General Agreement on Trades and Tariffs, a question which had been under intense study for well over a year.

Many foreign investors who were totally dumbfounded by the unexpected "no" on the GATT question, were encouraged by the announcement at the same rally of a decision to increase oil production from 2.25 million barrels per day up to 2.5 for starters. This 10 percent hike lifts the ceiling determined at the beginning of the President's term, and makes further decisions for increases more a matter of bureaucratic adjustment than transcendental political action. After months of debate on the subject, this decision carried the weight of a major policy shift.

Against the increase were a highly mobilized crowd of antidevelopment environmentalists, leftists and intellectuals, and a group of patriotic "go slow" economists and officials.

Though rumor had it for weeks that the President had decided to join the GATT, and brutal pressure by the "Iranization" environmentalist crew against increasing the oil output looked threatening, the underlying coherence between the two decisions is clear.

In the last State of the Nation address, Lopez Portillo defined his economic policy as a continuation of his "alliance for production." "Produce, produce, produce," he said, is the only way to beat inflation.

This philosophy, or shall I say this sound economic theory, so opposite from the monetarist depression tactics coming out of President Carter's anti-inflation program, is what underlies Lopez Portillo's new definitions. He has decided to protect the nascent domestic industries which agree to "produce" and up the oil output to expand the country's development potential.

Lopez Portillo explained that joining the GATT "is not in our interest, and not in agreement with our global development plan." Mexico will expand its trade through bilateral deals instead of under the treaty. The President's May trip to France and West Germany, and a possible visit by Japan's prime minister late in the year, will define future bilateral relations, word has it.

But the major fallout from the historic decisions will be felt internally, since the decision on who the PRI candidate and sure next President will be is taking shape. In the Cabinet there were winners and losers in both the oil and the GATT debates. And in Mexico, losers don't become President.

In the Cabinet the GATT battleground is bloody. Secretary of Commerce, Jorge de la Vega Dominguez was the key promoter of entering the GATT. Finance Minister David Ibarra Munoz was strongly against.

De la Vega, once considered one of the frontrunners in the race, has been given a strong jolt, at best. Counting the Cabinet Ministers (from which the President historically picks his successor) who won on both counts, however, seriously narrows the field.

Jorge Diaz Serrano, head of PEMEX, and the target of the most brutal campaign by a broad spectrum of environmentalist leaning opposition, seems to be coming out strong.

While no President has ever come from PEMEX, PEMEX has never been the center of all economic and political planning before this term. Diaz Serrano is considered a member of the Cabinet, and as hundreds of thousands cheered the President's speech at the anniversary celebration, and chanted the Presidents' name, the oil workers led up another chant—for Jorge Diaz Serrano.

International Intelligence

EUROPE

Chirac tells British: 'Shut up or get out'

Great Britain should be told to "shut up or get out" of the European Economic Community, Gaullist party leader Jacques Chirac told a French TV audience March 17. The EEC's main institutional policy, its common agricultural policy, he said "is directly challenged by Great Britain."

"The best solution," he declared, "is to say to the British: 'You do not accept the rules of the Community. You wanted to join a club, you refuse to pay the entrance fees, you refuse to play by the rules of the game, you have no 'fair play' in this affair; consequently you must leave the Community."

Chirac added that such a solution would only be possible provided there was a "deep agreement" between France and West Germany on it.

Terrorism, dirty tricks against Giscard

The Zionist lobby and related political networks have mobilized their forces in France, launching a wave of terrorism, assassination attempts, and political dirty tricks against the government of Giscard d'Estaing. This follows by days Giscard's highly successful trip to the Middle East which pulled the rug out from under the Camp David accords.

Tuesday afternoon, March 18, the offices of French Minister of Cooperation Robert Galley were sprayed with machine gun fire by an organization called "Direct Action," and which claimed to be protesting the government's "preservation of the prosperity of neo-colonialist trade in merchandise and labor." There is no doubt that the attack was meant to kill, as bullets flew all over the offices in which Galley had just moments before been meeting with guests. The Ministry of Cooperation deals predominantly with Africa, though its involvement covers all Third World countries.

On March 17, the BETAR—a notorious paramilitary Zionist organization which has members in France also—organized a demonstration in front of the French embassy in Tel Aviv calling for "self-determination of the Corsican people." The public signal for such activities had been given only days before by Annie Kriegel, a former member of the Communist Party who participated in the Jerusalem conference on terrorism,in the pages of *Le Figaro*. Her article warned Giscard that his call for Palestinian self-determination would lead to calls for Corsican, Brittany and other regional autonomy, and that it might even mean his forced resignation.

Various political figures in the UDF, are also attacking Giscard's Middle East diplomacy, and, most significantly, his leading the fight against Britain in the EEC.

LATIN AMERICA

U.S. admiral threatens Caribbean intervention

The United States must arm Caribbean nations against Cuban and Soviet "expansionism," according to the Commander of the U.S. Atlantic Fleet, Admiral Harry Train. Speaking to the press this week while in the Dominican Republic, Train raised the spectre of U.S. military intervention in the region as an imminent possibility.

"I can't determine," Train said, "if in a possible revolt or revolution in a Caribbean or Latin American nation, the North American fleet would intervene to help such nations were they to ask for help. If there is a confrontation it is very possible that nations will ask their neighbors for help, if they see that there are foreign dangers. ...That we do not call military intervention."

Mexican bishop declares support for M-19 terrorists in Colombia

Mexican bishop Bergio Mendez Arceo this week compared the M-19 terrorist seizure of the Dominican embassy in Colombia to the action of Moses leading his people to freedom, according to the Mexican daily *Uno Mas Uno.*

"The guerrilla is a Moses," declared Mendez Arceo. "(Moses) had a mystical revelatory experience and saw with clarity that the uprising of his people was God's answer" to their repression. "The invulnerability of the embassies was once unquestionable. But finally (the guerrilla) has begun to use them" as a weapon against the "repressor state."

Mendez Arceo, known as the "Red Bishop of Cuernavaca" throughout Mexico, has been named by top-level intelligence experts as one of a handful of Jesuit and Jesuit-linked clerics who serve as controllers of terrorist movements on the Latin American continent.

U.S.S.R.

Gromyko hits "fraud" of U.S. policy

Soviet Foreign Minister Andrei Gromyko lashed out at U.S. government policy in an unusually strongly worded speech delivered to visiting Hungarian Foreign Minister Puja on March 17. The Carter administration, he said, "spreads fraud concerning Soviet foreign policy. They commit fraud against their own people, against world public opinion, and against one another. ...They compete at it, they send their emissaries to all corners of the globe where they perpetrate their fraud—in large doses in one country, in smaller doses in another, but nevertheless, it is all fraud."

" Gromyko also denounced the United States for declaring virtually the whole world its own "sphere of interest," including countries that border on the U.S.S.R.

Soviet official outlines conditions for withdrawal from Afghanistan

The Soviet Union is willing to hold talks on the future of Afghanistan, provided that the Kabul government, all neighboring states, and the United States are also present, declared Valentin Falin, head of the Soviet Communist Party Central Committee Information Department in an interview March 18.

Speaking to a correspondent of the Italian Communist Party daily *L'Unita*, Falin said that these conditions are essential because only a halt to the present "undeclared war" being waged against Afghanistan by U.S.-backed agents from neighboring countries would make a Soviet troop withdrawal possible. "When this interference stops," he said, "the government of the Democratic Republic of Afghanistan and its army will no longer need Soviet military help to guarantee the security of its borders...the use of the territories of various countries for the training and deployment of bands of saboteurs against Afghanistan must be stopped."

Asked about proposals for the "neutralization" of Afghanistan, Falin said that the U.S.S.R. was willing to discuss "true and concrete" neutralization, but warned against "illusory positions which confuse cause and effect in what happened in Afghanistan." Afghanistan was a nonaligned country before the April 1978 revolution, and remains one today, he asserted.

MIDDLE EAST

Syria wages campaign against Muslim Brotherhood

The Syrian government of President Hafez Assad has begun an official, nationwide crackdown against the secret society known as the Muslim Brotherhood. According to President Assad, the Brotherhood, which has assassinated dozens of Syrian officials over the past eight months, is acting on behalf of American and Israeli intelligence.

The Syrians announced plans this month to establish a national armed militia of 800,000 to 1 million men to defend Syria against the threat posed by the Muslim Brotherhood gangs and other armed groups linked to Muslim fundamentalists and to the Israeli-linked Lebanese Falangists.

In a March 7 address to a Damascus rally, Assad declared that the United States is directly supporting the activities of the Muslim Brotherhood. It was the first time that the Syrian president directly accused the U.S. government of attempting to destabilize Syria. In the speech, Assad declared that he considered himself to be a devout Muslim and that the Muslim Brotherhood "gang" was not Islamic. "But they do not want to accept my Islam," he said. "Maybe I need a certificate of good conduct from their masters in Washington. To do that I need to go to Jerusalem to submit to the Israelis as Sadat has done."

Two days later, speaking to a gathering of Syrian workers and farmers, Assad warned that the Brotherhood is planning a general assault against Syrian society.

Assad added that such "reactionaries" are capable of undermining the nation's goals and that "we are also capable of fighting and killing for our basic national and progressive goals."

Briefly

● **INFORMATION CHIEF** for the Soviet Union, Valentin Falin, declared that a "fundamental shift" has occurred in the foreign policy of the United States. Falin made his remarks in an interview with the Italian daily *Unita*, organ of the Italian Communist Party. The U.S. foreign policy shift does not depend merely on the uncertainty of the U.S. political process in an election year, said Falin, but is a more fundamental "turn for the worse." In view of the special role of Europe, "where detente was born," the nations of the continent must carry forward detente, especially in terms of long-term economic cooperation.

● **SABURO OKITA,** Japan's Foreign Minister, flew into Washington this week for talks with Vance, Brown, Duncan, Brzezinski and Special Trade Representative Askew. On the agenda: Japan's defense budget and pressures on Japanese car manufacturers to move plant facilities to the U.S. or face protectonist measures. Okita said yes on the cars but delivered a polite refusal to push arms buildup in the present Tokyo political climate

● **MOSSAD,** the Israeli intelligence agency, was reponsible for the destruction by bombing of a $300 million nuclear power system that France had constructed for Iraq, a leading Mossad official told the West German weekly *Stern* early this month. The power plants were blown up last year just before they were to be shipped to Baghdad. The Mossad official's boast was coupled with a reminder that Israeli secret service men have frequently operated in France. In a famous 1969 case, Israeli agents stole five warships out of the French port of Cherbourg, after President de Gaulle had refused to sell them to Israel.

Campaign 1980

Who's jumped on Reagan's bandwagon?

by Kathleen Murphy

Ronald Reagan's sweeping victory in the March 18 Illinois primary has finally put to rest all the frantic discussion in the Eastern Establishment media about "how to stop Ronnie." Even the *Washington Post* and *New York Times* are openly acknowledging that, at least for now, Reagan has the GOP nomination sewn up tight.

However, the fact that the same Trilateral Commission-Council on Foreign Relations apparatus which Reagan and his base have been vigorously attacking have suddenly decided to stop tearing Reagan apart should give his supporters and interested political observers alike reason to wonder. Is it possible that the CFR liberals have all of a sudden undergone some miraculous Damascus Road conversion?

Why the CFR can live with him

Up until the Feb. 26 New Hampshire primary, CFR policy was to deny Reagan the nomination for the simple reason that the former California governor was the only GOP candidate with an actual, grass-roots base.

But then, something unexpected happened. Borrowing from material already published and widely circulated by Democratic candidate Lyndon H. LaRouche, Reagan switched strategy about two weeks before the primary and began to hit hard against his chief rival, George Bush, for his connections to the Trilateral Commission and other "blue blood" institutions. The success of this move was amply demonstrated in the primary results: Reagan trounced Bush, the CFR media favorite, by a better than 2 to 1 margin.

What had the CFR most alarmed about these developments wasn't Reagan's attacks on their Trilateralist brothers per se, but the fact that in doing so, Reagan was responding directly to a sudden, startling, and unparalleled popular upsurge against the Eastern Establishment.

Precipitated by several factors, including the collapsing economy and a series of humiliating foreign policy reversals, the U.S. population is undergoing a phenomenal political transformation. Fed up with the idiots who have been dictating America's decline into third-rate status, the "silent majority"—that 70 percent which believes that America means technological progress, industrial growth, and basic standards of personal morality—is in virtual revolt against the liberals running things in New York and Washington and is gravitating toward Reagan as a symbol of their anger.

As even the *New York Times*, *Christian Science Monitor*, *Wall Street Journal*, and *Newsweek*, among many others, have been forced to admit, the Trilateral Commission in particular, and the Eastern Establishment in general, has become a mass political issue capable of determining the outcome of the November elections.

To the extent that this unorganized and relatively uneducated movement orients toward positive economic, monetary and foreign policy alternatives, such as those offered by LaRouche, then no matter who becomes President, the CFR,s hold on U.S. policy will be greatly weakened.

The lock on Reagan

Faced with this prospect, the CFR did a hasty about face, opting for a full-back position based on: chucking its opposition to a Reagan nomination; moving to secure complete, top-down policy control over the campaign;

Ronald Reagan is riding high, high enough that the Council on Foreign Relations is climbing on board. At left, Reagan's "advisors," General Daniel Graham and Roger Fontaine.

and attempting to use Reagan as a figurehead for manipulating this nascent nationalist, antiliberal movement into an hysterically jingoistic, unwitting base for "conservatively" package CFR policies.

One indication of the CFR's reorientation came with the simultaneous decision about three weeks ago by several key right-wing Zionists, including members of the Coalition for a Democratic Majority, to back Reagan.

Over the last month, Reagan's campaign apparatus has been effectively captured, at least at the top, by a network of advisers drawn directly from the CFR and, more particularly, from institutions run by the one-worldist Jesuit order. Most are members of the CFR; many have close ties to Henry Kissinger.

Unfortunately, Reagan has never demonstrated the intellectual independence that would shield him from this influx. As one former adviser, ousted by this group because he wasn't pro-Zionist enough, commented this week: "Reagan is like Eisenhower, in that both are totally dependent on their advisers, except that Ike understood what his advisors were saying, while Reagan doesn't."

Under their influence, Reagan is being steered into an increasingly dangerous policy stance, an American version of British Prime Minister Margaret Thatcher, as exemplified by his well-received speech to the Chicago Council on Foreign Relations March 17 (see excerpts below).

Reagan's speech originated at a meeting of his chief foreign policy and defense advisers hastily convened at the Atlanta airport March 10 by campaign major domo William Casey. Presiding was Fred Ikle, former director of the Arms Control and Disarmament Administration and now an important hawkish spokesman for the Republican National Committee. Other participants included:

Richard V. Allen, issues coordinator for Reagan on foreign and defense policy. Allen worked under Henry Kissinger at the National Security Council during the Nixon administration. A graduate of Notre Dame, Allen also attended the University of Munich and spent time at the Georgetown Center for Strategic and International Studies and the Hoover Institution—which has functioned as Reagan's key thinktank. Allen was policy coordinator for the Nixon campaign in 1968 and ghost-wrote an article over Richard Nixon's byline in a 1967 issue of the CFR's journal, *Foreign Affairs*, advocating the "opening to China." Allen also founded the Committee on the Present Danger along with James Schlesinger.

Daniel Graham, the former head of the Defense Intelligence Agency. The retired general was a member of the utopian "Team B" intelligence project launched by then-CIA director George Bush. Together with General Keegan and Joseph Churba (former director of the U.S. Air Force's Mideast intelligence unit), Graham serves as the key link between Reagan and the Zionist movement, and as adviser on Middle East policy.

William Casey, a product of the Jesuit indoctrination he received at Fordham University. After law school, Casey joined the Office of Strategic Services (OSS) where OSS head, the Jesuit-trained William Donovan, took him under his wing. Casey joined the law firm of Leonard B. Hall. Long a power in Republican politics until his death last year, Hall got his political education straight from the paradigmatic liberal, Anglophile Republican, Teddy Roosevelt. Hall grew up on Roosevelt's Oyster Bay Estate; his father was Roosevelt's personal secretary. Casey is a former chairman of the SEC and Eximbank. In recent years, he has been receiving regular briefings from Robert Moss, a right-wing British Tory who runs the Rothschild-owned *Economist* Intelligence Servie.

Roger Fontaine, based at Jesuit Georgetown University's Center for Strategic and International Studies (CSIS), along with Henry Kissinger. Fontaine styles himself a Latin American expert. In a book he co-authored for Nelson Rockefeller's Commission on Critical Choices, Fontaine called for direct military intervention into Latin American countries, including Mexico and Panama, under the guise of beating back Communist aggression. Fontaine is the author of Reagan's North American Accord proposal and, in an interview this week, he called for the U.S. to adopt a "new Monroe Doctrine" for south of the border.

Richard Whalen, an advisor to President Nixon. Whalen also spent time at CSIS. As a former editor of *Fortune,* Whalen worked with *Time-Life* Chairman Hedley Donovan, the Trilateralist who now functions as senior adviser to Jimmy Carter.

Robert Strausz-Hupe, a leading advocate of supranational institutions and regional blocs. Now based at the University of Pennsylvania's Foreign Policy Research Institute, Strausz-Hupe is a former Ambassador to NATO. He has spent the last six months in Munich, according to informed sources, helping coordinate Franz-Joseph Strauss's electoral challenge to Chancellor Schmidt.

William Pillsbury, a Rand analyst, Pillsbury advocates a close military alliance between the U.S. and China.

Richard Pfalzgraf, heads the FPRI (Foreign Policy Research Institute). When Alexander Haig retired from NATO to launch his unofficial presidential campaign, Pfalzgraf offered him a base of operations at the institute.

Despite Reagan's strident anticommunism, it is clear from interviews with these advisers that the candidate is being used not so much as a hard-line against the Soviets but as a mouthpiece for the Anglo-American establishment's chief target at this point: the European Monetary System, the institution established by West German Chancellor Helmut Schmidt and French President Giscard d'Estaing to rescue the U.S. dollar and foster global trade and economic development.

Evidence for this is abundant. Several of Reagan's key advisers are closely implicated in the current operations to replace Schmidt with the Jesuit-trained Franz Josef Strauss in October's West German elections. Reagan advisers met in closed-door strategy sessions with Strauss when he was in Washington earlier this month. Robert Strausz-Hupe reportedly set up a recent meeting between Reagan and Strauss.

Reagan insiders are also part of the effort to orchestrate an international mobilization by the Jewish community against Giscard.

Moreover, Reagan's proposal for a North American Accord to unite the energy and possibly military resources of Mexico, the U.S. and Canada parallels the moves to create a "Europe of the regions"—"i.e., destroying the existing nation-states and replacing them with fragmented, powerless ethnic and linguistic communities—pushed by the same oligarchical Otto von Hapsburg networks behind Strauss.

This geopolitical foreign policy perspective has a domestic economic parallel in Reagan's anti-big government rhetoric, his emphasis on simple tax cuts, deregulation and limits on federal spending. This antidirigist thrust is coherent with an anti-EMS position. In actuality, Reagan's conservative shibboleths come straight from economist Milton Friedman, an open admirer of the decidely coercive economic measures imposed on Germany, with known results, by Nazi Finance Minister Hjalmar Schacht. Friedman is also an advocate of the racist genetic doctrines of William Shockley—a fact which doesn't phase Reagan's Zionist supporters.

Although the CFR-Jesuit nexus appears to have put a tight lock on Reagan's policy, the fight for Reagan's base is still undecided. Discussions with Reagan's organizers in the field reveal that after the initial euphoria when the hated liberal, John Sears, was booted out of the campaign, dismay is setting in at the grass roots. As one Southwesterner put it: "I thought we'd seen the last of Henry Kissinger when the Ford balloon deflated. But now it looks like Reagan has managed to attract a whole bunch of Kissinger clones."

Reagan advisor

'We'll make those Cubans break with the Soviet Union'

The following is an interview with Roger Fontaine, one of Ronald Reagan's chief foreign policy advisors.

Q: How do you think the North American Common Market idea that Reagan has endorsed will find its way into the campaign?

A: Brown and Connally have wanted a Common Market, not Reagan. He wants an accord, not a Market. The Market can't work because Mexico and Canada won't accept it. The Mexicans are anxious to talk about economic ties linked to energy and immigration and *this* is what Regean has in mind. Reagan will push the accord idea in the campaign. I also expect to see in the presidential race a lot of time spent on the *Cuban* role in Latin America, this in fact will be an issue of first-level importance. To get a sense of this, you should look at Reagan's speech in Chicago yesterday, where two pages were devoted to Central America and the Carribbean. I felt out the Governor on this, and he went with it.

Q: Who's advising these days on foreign policy, Latin America, and so forth?

A: I'm one of his advisers on foreign policy. I don't talk to the Governor personally all that often, but I do talk to Dick Allen frequently on Latin America. I drafted the Caribbean parts of his speech in Chicago. In the Caribbean, and Central America, we see a highly sophisticated Cuban policy, a Cuban-Soviet attempt to move in the region. The example that shows how the thing works is *Grenada.* That country had a March 13 Marxist coup, and the government progressed in a pro-Soviet direction to the extent that Grenada voted with the Soviets on Afghanistan!

I hope this whole question will be developed in the campaign, that we will support strongly what I regard as a 'Monroe-Doctrine-plus'. Or, what could be called a 'Truman Doctrine' for the Caribbean. That policy is a good idea because even a Democratic administration a la Truman could implement it. What it would be is a friendly government asking for assistance, as Greece did in 1947, and then we could aid them as we did Greece.

Look, the El Salvador situation is not the only one that is blowing up. Guatemala is moving in the same direction. Honduras in six months will be like El Salvador now. Probably Trinidad will go the same way. Jamaica will also change, but this will be different. There will be an election in October, and I think Manley will lose, and be released by a JLP government, which will be pro-American and pro-Western. There, in Jamaica, we should be ready for a major economic policy, to make Jamaica, in effect, like Greece was, the mainstay of a new Truman Doctrine for Latin America.

I'm very hopeful Reagan will make all this a big issue in the campaign. As he told his Chicago press conference after the speech: as the campaign heats up, he'll be addressing the issues more and more.

Q: Do you want to see Cuba blockaded?
A: That should be one of the options. Before that we should: a) pull out our diplomats, and send theirs out of Washington; b) have aerial surveillance of the island; c) shut off their tourist dollar flows, which are substantial; and; d) tear up the fishing agreement with them. Then, we will have communicated, 'We're getting serious.' They'll be put on notice that they either break their military alliance with the Soviet Union, or pay the price. The price will be that we will throw help into UNITA against the Cuban-backed groups in Angola and we will help the Eritreans and Somalians against Ethiopia. This will be a lead to a blockade action. We should turn the screws tighter and tighter against Castro, and then come in with a substantial carrot. Look, the Cuban economy is in extra-special shambles, not just shambles, but extra-special shambles. Fidel has frankly admitted it, in his speech of December, 1979. What he said then is an expert analysis, the best thing he's come up with in 15 years. This economic disaster gives us opportunities to help Cuba out, if Castro plays the game, and we should go all out with this kind of policy.

Q: Would this American policy toward this area, in terms of the North American Accord idea, provide an answer to the collapse of American posture in the Middle East?
A: Absolutely! Look, it makes no sense to be the neighbor to another Saudi Arabia and not to act upon it. We had some real energy experts work on this, under the overall coordination of Dale Tahtinen. The reason why the Accord should be looked at is that neither Canada nor Mexico will subscribe to the Common Market, and for good reason: they would be totally submerged by the U.S. What Reagan is headed for is to set up, with Mexico, a very strong and very special relationship.

For example, 1) we should keep the U.S. wide open to Mexican exports, especially since most of these exports come from U.S. investments in border industries, and so on, and 2) on the energy side, there's a god-awful debate inside the Mexican government over whether to pump more oil or not. A key crowd inside PEMEX wants to go up to 4 million barrels right now, against a low-production tendency among the left and in the bureaucracy. If this debate is resolved in the right direction, we could eventually get 2 million barrels a day from Mexico whereas right now we only get 600,000.

Q: But wouldn't Reagan's gunboat-diplomacy tones alienate the Mexicans?
A: No. The Mexicans are, for example, very worried about Guatemala, more so than most people realize. They may attack us publicly if we act in that situation, but privately, they will approve. The problem up till now is that the Carter administration has gummed up everything. They don't understand what is known: that there is a traditional charade whereby Mexico must seem leftist vis-a-vis the U.S., but in reality act in their own interest. Carter's people have never grasped the meaning of this charade.

The other concern about Mexico is the fact that Lopez-Portillo will only be in office till 1982. So we must get things done in 1981, since for most of the end of his term, as is traditional in Mexico, the incoming president begins to run things before he gets elected.

Q: Some people are concerned that the Council on Foreign Relations and the Trilateral Commission are providing Reagan with advisors.
A: I know Bill Casey, for example, and he ain't no liberal. He's put the campaign in good shape. His CFR connection isn't that important. A recent survey I saw, which I think the CFR put out, showed that most of their members are more conservative than people think. All this Trilateral-CFR stuff from the right-wing is overblown.

Andrus manufactures 'corruption' scandal to halt U.S. oil leasing

by William Engdahl

One of our readers, a small independent oil producer in the Rocky Mountain area, has brought an extremely dangerous situation to my attention. After reviewing the facts of the case and probing into the darker recesses of the Departments of Interior and Justice, I decided to postpone my originally scheduled sequel on the environmentalists' war against energy production to give this immediate attention. I think you will see why.

Two weeks ago, Interior Secretary Cecil Andrus abruptly suspended all oil and gas-lease bidding for "noncompetitive" federal lands across the nation. This includes 97 percent of federal land leasing. In effect, Andrus has ordered that no new oil and gas wells are allowed to be drilled in the United States. Why? Andrus charges "corruption." We've checked. The charges are phony.

Assume for the sake of argument that you are Interior Secretary in the present administration with vast regulatory authority over federally held lands, primarily in the underdeveloped Western states. Again assume, just for the sake of argument, of course, that your intent is to prevent economic development of the immense untapped resources in this region including agriculture, uranium, oil and gas production. You are offered a credible cover to rationalize this intent: You are looking after the sanctity of the environment; pristine, unsullied nature is your constituency.

Your first act in office is to propose invoking an 80-year old unused federal regulation restricting irrigation to plots of no more than 160 acres. You are the firm defender of the bucolic "family farm," that brutal labor-intensive vestige of the last century, over and against the evil of "agribusiness." Of course, you carefully omit that American agribusiness has enabled the American farmer to become the most effective and economic food supplier to the entire world, with the potential to eliminate starvation and malnutrition from the face of the earth. But man is not included in your environmental calculus.

Your next move is to halt progress on scores of federal hydroelectric and dam projects in the Western lands, using the rationale that they are a waste of taxpayers money.

But, this is not enough to guarantee success of your plan to halt economic growth. The area has become one of the fastest-growing regions for discovery of oil, gas, and uranium to fuel industry and fertilize agriculture. How can we stop this. The nation has been told by your colleagues in the Department of Energy and the White House that we are in a desperate energy shortage. If you can pull this one off, you might qualify for the George Orwell "1984 Doublespeak Award." After all, it's embarrassing to the President's conservation pitch for all these oil producers to be uncovering large new oil fields when he is trying to convince the nation there is none to be had. Let's try an old-fashioned corruption scandal.

Andrus's action

And that's exactly what Cecil Andrus, Interior Secretary, has done. On Friday, February 29, Andrus abruptly suspended oil and gas lease lotteries throughout the nation for an unspecified time citing "indications" of widespread abuse of the lottery system. The Andrus order, taken on advisement by his Bureau of Land Management (BLM) chief, Frank Gregg, on "advice" from the U.S. Attorney in Denver, suspends the lotteries. The official BLM statement declares, "until the Department determines whether the system can be reformed to correct the abuses or...concludes that it is necessary to convert on-shore leasing to an all-competitive system."

The charges sound appropriately chilling and sinister: "The U.S. Attorney in Denver, Colorado has asked that we make no comment on the ongoing criminal investigation except to say that indictments for wire fraud, mail fraud, fraudulent statements and conspiracy are expected." So declares a March 7 memo obtained from the BLM, issued by Gregg.

We did a little digging and talked with a few friends in the business who are trying to produce energy amidst this Catch-22 thicket. What we found is instructive.

Criminal indictments for conspiracy and violation of the Constitution are indeed in order. Cecil Andrus, former Gov. of Idaho, who takes orders from the anti-growth Aspen Institute and has opened the doors of the Department to refuse from such pious-sounding organizations as the Sierra Club, Friends of the Earth, Environmental Defense Fund and Natural Resources Defense Council, is indictable under the laws of this land. Frank Gregg, his hand-picked hatchet man heading the vitally important BLM, is indictable, as is Assistant U.S. Attorney Rod Snow of the Denver office, coordinating the "anti-crime strike force" unit with BLM Special Agent John Deans, referred to within the Interior Department as "Group A." The framers of our Constitution mandated that the government exists to provide "life, liberty and the pursuit of happiness" to the citizenry, and to "ensure the progress of manufactures." The natural law conception of pursuit of industrial and scientific progress is established and embedded firmly in this mandate. Every cabinet official is sworn to uphold this Constitution.

Andrus, anticipating a flood of criticism over his move, added that the move to suspend all oil and gas leases "only applies to non-competitive leasing," and that so-called competitive bidding will continue. What he did not say was that only 3 percent of all federal leases are "competitive" and a whopping 97 percent are "non-competitive." Here's how it works:

The U.S. Geological Survey (USGS) determines whether federal land is competitive, that is, likely to produce oil or gas. This land is then auctioned to the highest bidder, normally major oil companies or large "independents" such as ARCO who can pay large sums for development rights, often only to keep the oil and gas undeveloped and out of a glut market that presently exists. Non-competitive land is designated by the USGS to be less likely, i.e. more risky, for producing oil and gas. This land is leased for a nominal fee to private producers and a percentage on any earnings paid to the federal government over the term of the lease.

Federal land leasing in the Rocky Mountain and Southwest United States is a life and death economic issue. In states such as Wyoming or New Mexico over 60 percent of the land is federal.

With choice lands outpriced by the major producers such as Exxon, Mobil and ARCO, most small to medium-size independent producers have gambled or "wildcatted" on these less desireable federal "non-competitive" leases. These independents are responsible for more than 80 percent of all drilling within the U.S. last year. They are the risk-takers in a high risk industry. On average, only 1 in 9 wells is a strike, the other 8 dry holes. One well's cost can easily run over $1 million depending on depth. With soaring interest rates, increasing numbers of the more than 10,000 independent producers are finding it impossible to drill for the abundant oil and gas that exists, making the Schlesinger "prophesy" of an energy shortage self-fulfilling.

What Andrus is charging behind all the "criminal conspiracy" rhetoric is nothing more than a common practice of forcing smaller independents to scramble for these less desireable lands by enrolling for leases under the names of several persons, such as members of their family to enhance chances to obtain land otherwise unavailable. This "crime" is the flimsy pretext for Andrus to impose his remarkable stop order. This, despite the fact that Andrus proposed regulations last fall to deal with these problems and never enacted them. Senator Malcolm Wallop cited this in an attack on the Interior's capricious actions that are "putting the whole nation's energy problem at jeopardy because they haven't been able to deal with a few specifics."

Last June, Andrus introduced legislation, blocked in Senate subcommittee, to increase competitive leasing on some 100 million acres of federal land from present levels of 3 percent to more than 50 percent. There is strong evidence to suggest that the current "nacht und nebel" tactics of Andrus and the Justice Department are keyed to pressure the Senate to move on his bill.

Peyton Yates, a prominent independent producer from New Mexico has accused Andrus of "using that situation to pressure Congress to come up with legislation he has pending." Indeed, in its March 7 intradepartmental memo, Instruction Memorandum No. 80-342, on the lease suspension, BLM director Gregg declares that "The Department will also renew its efforts to secure the passage of legislation similar to S-1637 (Andrus bill)."

Let's be blunt. There is a little game afoot here. The name of the game is drive producers out of business whether in energy, industry or agribusiness. Because independent oil producers as a group are locked into actual production and development of oil and gas far more than major oil companies, whose profits can swell merely through withholding supply; majors have little to lose by Andrus's action. But the nation has a lot to lose if this sector of the energy industry goes under. The indepdent producer who put me on to this remarkable story mused that the world no longer "worked" according to rational laws. "I am increasingly coming to the conclusion," he told me, "that our own government is a greater threat to our way of life than the Soviet Union."

The more significant point is that the actions of the likes of Andrus are entirely lawful and deliberate. It's the logic of a "zero-growth ecology." As any competent physicist will tell you, nature abhors a zero-growth or steady state system. So do we.

Congressional Calendar by Barbara Dreyfuss and Susan Kokinda

Members vie to balance budget

Led by House Budget Committee chairman Robert Giaimo (D.-R.I.) and having the apparent support of House Majority Leader Jim Wright (D.-Tex.), Democrats on the House Budget Committee presented a plan on March 19 which would cut the federal budget by $16 billion rather than the $12 to $14 billion which President Carter has proposed. In addition, Giaimo is considering several proposals which would increase revenue by $3.5 billion, thus leaving the 1981 budget with a small surplus. One possibility is a 5 percent surcharge on upper-income taxpayers, possibly on those earning more than $50,000 per year.

The cuts proposed by the House Budget Committee's Democrats were similar to those worked out during meetings of the congressional leadership and the administration prior to the President's March 14 message. They include cutting $1.7 billion in federal revenue sharing for states, major reductions in federal jobs, cuts in anti-recession aid to cities, reduction in the strategic petroleum reserve, delays in welfare reform programs and large reductions in federal highway programs. In addition, Giaimo is proposing cuts in defense spending in areas that do not affect preparedness.

Meanwhile, on the Senate side, Senate Banking Committee chairman William Proxmire (D-Wisc.) welcomed Federal Reserve Board chairman Paul Volcker's invitation to slash the budget even further in hearings before the Banking Committee on March 18. Senate Republicans issued a "Statement of economic principles" on the same day which pledges full Republican support for a balanced budget in 1981 and thereafter.

Senate committee kills balanced budget amendment

By a vote of 9 to 8, the Senate Judiciary Committee voted to kill a proposed constitutional amendment to balance the budget. The amendment, sponsored by Arizona Democrat Dennis DeConcini would have required the federal government to live within its income except during a state of declared war or when three-fifths of the members of both House and Senate approved deficit spending. Maryland Republican Senator Charles Mathias and eight Democrats comprised the vote against the amendment. They argued that amending the Constitution is a serious and relatively permanent matter which is now unnecessary since Congress and the President are exercising fiscal restraint.

Mathias is, in addition, the sponsor of legislation which would statutorily mandate Congress to balance the budget—that is by simply passing a bill rather than a constitutional amendment, thereby making modification of the procedure possible in the future. Other senators and members of the House have adopted a similar approach of either mandating a balanced budget or limiting federal spending to a certain percentage of the gross national product. While the constitutional amendment approach is dead, Congress is not yet finished with the idea of a self-imposed straitjacket on the federal budget.

Another intelligence reform bill introduced

Rep. Les Aspin (D-Wisc.) introduced the "Intelligence Activities Act of 1980" on March 18, and staked out the extreme liberal position in the battle ongoing over the issue of congressional oversight and control over the intelligence agencies. While the administration wants a "blank check" in regard to congressional oversight over covert activities, Aspin's bill would mandate prior notification of the relevant committees by the CIA prior to the carrying out of covert activities. The Omnibus Intelligence Reform Legislation introduced by Sen. Walter Huddleston (D-Ky.) of the Senate Intelligence Committee has already run into trouble with the administration of this issue, but Aspin does not think even the Huddleston bill is tough enough. In describing his position, Aspin said, "With regard to the timing of notification, Huddleston is ambiguous; Moynihan (referring to a bill introduced by N.Y. Sen. Daniel Moynihan) requires notice 'as soon as possible,' while my bill requires advance notification."

Motivating his approach, Aspin said, "A number of covert actions blew up in our faces in the past because they were terrible ideas to begin with. They were put together by a handful of true believers who prevented anyone who might question their judgment from having a say. The Nixon administration, for example, set up the 40 Committee to oversee intellignece operations. But when the White House had an inspiration it thought some members of the Committee might find less than inspiring, it simply bypassed the Committee. That's how we got Track II in Chile, and how we first helped and then cynically shut off help to the Kurds."

With the administration and Congress apparently deadlocked over this crucial issue, it appears unlikely that, should legislation actually make its way through Congress this session, the President would ever accept it.

Attacks on Western Europe building in Congress

In testimony before the Senate Foreign Relations Committee on March 18, former Secretary of Defense Clark Clifford attacked Western Europe's "reticence" in supporting the sanctions taken by the United States against the Soviet Union, in the wake of the Soviet incursion into Afghanistan. He attacked our allies for conducting "business as usual" and warned that Moscow "was deriving substantial comfort from this division within the alliance." Clifford's remarks were echoed by members of the Foreign Relations Committee.

This was the first public outburst of a developing thrust on Capitol Hill, which is emanating especially from Ronald Reagan's conservative supporters—a thrust whose end result will be the undermining of the governments of West Germany's Helmust Schmidt and France's Giscard d'Estaing. This began to surface immediately following the visit of Schmidt's electoral opponent, Franz-Josef Strauss, the leader of the Christian Socialist Union, to the United States during the week of March 10. In a background meeting with top Capitol Hill staffers, especially those affiliated with Georgetown's Center for Strategic and International Studies, on March 13 Strauss played up the line that Germany and France are tilting away from NATO and toward the Soviet Union. Along with overt attacks on Western Europe, conservative Republicans are foolishly playing into the undermining of Schmidt by curbing their natural animosity toward Germany's "Green Party," a group of environmentalist terrorists who are being used to try to bring down the Schmidt government and pave the way for Strauss.

Windfall profits conference report passes House

President Carter's proposal to impose a $227 billion windfall profits tax on domestic oil production passed the House of Representatives on March 13, by a vote of 302 to 107 after beating back a Republican attempt to return the bill to Conference Committee and change the bill so as to lessen the tax burden on independent oil companies. The Republican attempt was rejected by a vote of 227 to 185.

After ten months of stop and go activity, the bill's final hurdle is the Senate floor, where Oklahoma Republican Henry Bellmon is now threatening filibuster if the tax on independents is not eased. As of March 19, the bill was being debated on the Senate floor without a time limit, with a filibuster still pending. Independent oil men have been lobbying Capital Hill for several weeks with the slogan, "If you like OPEC, you'll love the windfall profits tax." They are arguing that the tax will curtail domestic production while letting the major multinational oil companies continue to manipulate both the price and the supply of most of America's oil.

Bill to break up the networks being considered

Sen. Robert Dole (R-Ka.) is considering introducing legislation which would break up the major networks under existing antitrust precedents, according to Capitol Hill sources. Apparently disgusted by the way the three major networks are manipulating the current presidential race, which Dole just dropped out of, and frightened by the implications of such control over the U.S. political process, Dole's staff is researching the feasibility of a legislative thrust to break such control.

National News

Carter ballot status challenged in District of Columbia

Preparatory to hearing a challenge to President Jimmy Carter's ballot status in the upcoming May 6 Washington, D.C. presidential preference primary, the D.C. Board of Elections voted 2-1 to uphold an interpretation of petitioning rules which requires 2,000 valid Democratic signatures to be filed with the Board. In District One, the Carter campaign filed 1,300 signatures, of which more than 550 are those of unregistered voters, Citizens for LaRouche has alleged.

Citizens for LaRouche, the campaign committee of Democratic presidential candidate Lyndon H. LaRouche, also charged that the Carter petitions contained obvious forgeries and signatures of individuals who had signed the petitions as many as six times.

The Carter campaign's chagrin on learning of the challenge apparently resulted in heavy pressure being applied to the D.C. State Democratic Committee. Its chairman, Robert Washington, immediately reversed four months of oral and written interpretation of the requirements and swore that only 1,000 total signatures were required. "It's all a big misunderstanding," he told the press. Further court action is expected this week.

White House pushing homosexual "concept of the family"

"Unethical, illegal and highly questionable methods" are being used by the White House coordinators of regional conferences that are to lead to a conference on the American family sponsored by President Carter's office in Washington in late June. The preparatory conferences have become forums for homosexuals, environmentalist groups, and zero-population-growth fanatics who have been advancing all sorts of "alternative family concepts," according to Rabbi Emanuel Weldler of Westchester, who attended the New York State preparatory meeting. "Radical women's groups who do not represent the broad spectrum of American women espoused positions that are contrary to the traditional religious values and chose to subvert the legitimate meaning of the family to millions of Americans." When he tried to protest, conference coordinators refused the Rabbi speaking time.

In an interview, Rabbi Weldler attacked the controllers of the conference as "Malthusians," and attacked their predominant view that "a piece of grass is more important than a human life. These people harken back to Parson Thomas Malthus, the ideologue of the Dark Ages."

The White House Conference on Families has been chosen by the Washington based Zero Population Growth organization as a key focus of its national activities. The latest edition of the *ZPG Reporter* calls upon its adherents to use the White House conference on families as "a contest to define the American family." ZPG supports "people who have a broader definition of what a family is, and a greater acceptance of the many family forms that people are choosing today." Apparently, the White House coordinators of the conference also support this viewpoint.

Trilateralists unveil Anderson's third party

The purpose of John Anderson's campaign for the Republican presidential nomination was made clear this week when the leading Eastern press reported that Trilateral Commission member Anderson is "raiding the GOP" in preparation for a radical-environmentalist "third party" bid later in the year.

The *New York Times* devoted the majority of its editorial and op-ed space March 20 to Anderson's "third party" try. Editorially, the *Times* commented "There is talk of an independent movement, a Center Party, a Third Force, made up of people unsatisfied with both sides of a Carter-Reagan race, and fastening mostly on John Anderson, the Illinois Republican who appeals to many Democrats and independents."

Meanwhile, on the op-ed page of the *Times*, William Safire writes "There is no chance on this earth that John Anderson will ever be the presidential or vice-presidential nominee."

"Of the Republicans, that is," Safire continues. "But that is not to say that John Anderson may not be the nominee of a third party...."

"A fascinating run could be made by a man who appeals to many as a sort of Kennedy with rectitude, or a flakeless Jerry Brown."

As if all this were not enough for one edition, the *Times* also carries an op-ed eulogizing Anderson by John B. Oakes. "If as expected, his own party fulfills its death wish by nominating Ronald Reagan, there will be a lot of frustrated people out there who still would vote for Mr. Anderson."

Carter policy alienates Europe

In a series of public statements this week, leading spokesmen for the New York Council on Foreign Relations (CFR) made clear their alarm at the fact that the current confrontationist Carter administration foreign policy (the CFR's own) is causing America's European allies to set an independent course.

Speaking at New York University, CFR spokesman McGeorge Bundy laid out the issue, saying, "What Carter knows and has not fully told Americans, is that the Middle East oil problem is only in part a question of U.S. dependence on the oil cartel. What is of far more importance to the American people is the greater dependence of their closest allies—the Western Europeans and Japanese—on foreign oil." With the fact of French President Giscard d'Estaing's recent successful Mideast initiative clearly in mind, Bundy reported that the Carter Mideast policies of force and bluff are now "the politics of image and not of reality." To keep the Europeans in the fold, Bundy advocated that the U.S. moderate its stand to show "more respect for the interests of oil-producing nations," and that the U.S. act to discourage Israel from "its deeply mistaken course" in the occupied areas.

Writing in the March 20 *Washington Post*, George Ball, another high ranking CFR spokesman, was even more explicit. In a column entitled "So tell it to the Europeans," Ball puts it on the line. After calling Carter policy "jerky," and comparing it to "a kazoo and a flute blowing simultaneously in different keys setting European teeth on edge," Ball adds with alarm, "those defections (Giscard's initiative) from the American policy line are only the beginning of a process; unless America moves frontally to halt Israel's settlements policy and stops fainting like an 18th century heroine at any sign of Israel's displeasure, we shall find ourselves alone with Israel against the rest of the world, while our allies negotiate separate arrangements that destroy any hope of a common Middle East policy."

Environmentalist move to shut down nuclear plant

What is possibly the most outrageous proposed legislation that has ever received ballot status in the United States has just been cleared for placement before the voters in the state of Maine. A petition calling for a referendum closing an operating nuclear power plant, the Maine Yankee Nuclear Power Station, a reactor that has been operating successfully since 1972 received the necessary 55,000 validated signatures. The reactor currently provides Maine with over 35 percent of its electrical energy; shutting it down and replacing it with oil-produced electricity will all but bankrupt the state.

The signatures to validate the referendum were gathered by 1,500 antinuclear environmentalists over the past few months who descended on Maine from all over the East Coast. An even larger contingent of environmentalists is now scheduled to go door to door with antinuclear misinformation.

Spokesmen for the Fusion Energy Foundation have announced plans to contact pronuclear groups in Maine to work out a battle plan to defeat the referendum.

An army of dummies?

The volunteer army has come under fire recently from a number of circles. Its failure is being cited as a major reason behind moves toward reinstituting the draft.

Last week an aide to Rep. Les Aspin (D-Wis.), one of the principal supporters of the volunteer army, offered the following rather outspoken defense of what he termed "an excellent project with some minor flaws." It is absolutely true, the aide told a reporter, that the volunteer army has "attracted the lower percentiles on the IQ scale." But there "is absolutely nothing wrong with that. It is what we wanted and intended. We want the dummies, the C students or lower to do our fighting. They can be highly motivated and make good soldiers, as long as you point them in the right direction. We don't want to have too many F students because they couldn't find the right hill to attack even if they were in front of it. But we don't want A students either. They create problems because they aren't always willing to take orders. You can't have an army with too many independent, creative-minded people. The idea is that people have to accept that our fighting is going to be done by a bunch of dummies...."

Briefly

● **MANY WASHINGTON** D.C. residents will be out of town next week, attending the annual meeting of the Trilateral Commission in London, England. The purpose of this meeting is to choose the next President of the United States. A similar meeting back in 1976 chose unknown Jimmy Carter to the U.S.'s highest office.

● **CARTER'S PRIMARY** vote totals appear to be rising in inverse proportion to the population's opinion of his policies. In the aftermath of Carter's large victory over Kennedy in Illinois, for example, a Harris poll shows that 81 percent of Americans (or 170 million people) think that Carter is a bumbling incompetent on domestic economic policy. This dramatic increase in Carter's incompetence rating is seen by many as a direct response to the President's recent "anti-inflation initiatives.

● **PRESIDENT CARTER** in a recent speech subjected almost every part of federal government expenditure to massive budget cuts. He did, however, omit (no doubt inadvertently) to cut one, but that problem has now beeen corrected. In a recent vote, the House Budget Committee voted 15-12 to cut $14 million from the White House budget.

● **WILLIAM PROXMIRE,** the Senate Banking Committee chairman, "predicts" that New York City will not receive any of the federal aid President Carter promised it. In lieu of adequate financing, Proxmire, whose committtee oversees New York's finances, advises Mayor Koch to force a transit strike. Proxmire, who jogs to work every morning in Washington, says "A lot of people would be running to work there, and a lot of people would be walking to work."

Terrorists target 1980 campaign

The terrorist apparatus internationally is gearing up with an eye to convention time.

On March 15, members of the FALN Puerto Rican liberation movement invaded the offices of the Carter for President campaign in Chicago and the Bush for President campaign in New York, tying up the people inside and spray painting on the walls the slogan "Statehood means death" signed FALN and FARP.

On March 16, Puerto Rican nationalists met at the Washington Square Methodist Church for a session on liberation and the 1980 presidential campaign.

According to the upcoming issue of *Investigative Leads*, the twice-monthly counterintelligence report, there has been a shift in the belief structures of terrorist groupings which coheres with the shift of the center of international terrorism to Iran, and with the ongoing attacks on the republican institutions of the American political and economic system. "The 'workers struggle' idea is being augmented by fighting for 'tribal rights' or 'cultural liberation'."

The Puerto Rican liberation movement has been one of the chief beneficiaries of the soft stand on terrorism taken by, in particular, Attorney General Benjamin Civiletti. Of note is President Carter's September 1979 pardon of four Puerto Rican terrorists: Lolita Lebron, Oscar Collazo, Irvin Flores and Rafael Cancel Miranda, all imprisoned for life..

These releases led quickly to the proliferation of clandestine Puerto Rican terrorist groups; including the Armed Forces of Popular Resistance (FARP)) and the FALN.

Beginning January 1980, these four terrorists have been on an international tour, renewing affiliations and overall coordination with the Muslim Brotherhood and national liberation movements in the United States and Latin America. Between Feb. 5 and 21 they traveled through the U.S. holding public and private meetings. The organizer of the tour was Chicago lawyer Michael Deutch, a prison organizing specialist involved in terrorist recruitment and legal defense.

Investigative Leads provides some background facts on the Puerto Rican terrorist movement:

Fact: Puerto Rican terrorism is connected to the Centro Intercultural de Documentacion (CIDOC) of Jesuit priest Ivan Illich. Illich in the 1950s worked in Puerto Rico to profile the population for creating radical organizations based on national liberation. In 1974, he helped prepare for the first Puerto Rican Solidarity Day event that brought together such known terrorists as MIRA founder Marciso Rabell Martinez and representatives of Resistencia with the Young Lords, the Revolutionary Union, the Communist League, and others. Funding came in part from the World Council of Churches' Program to Combat Racism .

Fact: Organizations like the World Council of Churches and the National Council of Churches, the Center for Constitutional Rights (William Kunstler), the National Lawyers Guild and the American Friends Service Committee are the coordinating bodies recruiting, deploying and safehousing terrorists. For example, in November 1976, the New York police busted the apartment of FALN leader Carlos Alberto Torres. Torres and Oscar Lopez Rivera , both sought by the FBI in connection with numerous bombings in New York and Chicago, were part of the Episcopal Church Hispanic Commission (ECHC). The Commission operated out of the National Council of Churches' center in New York.

Fact: Puerto Rican terrorist leaders Vicente Alba and David Perez were deployed in part out of the Lincoln Detox Center in connection with that center's deployment of the Black Liberation Army. The BLA in the early 1970s was responsible for numerous shootings of police officers.

Fact: There is a direct connection between the Puerto Rican deployments and the terrorist command center in Iran. The National Council of Churches is the principal mediator, coordinating the travel of members of domestic terrorist organizations to and from Iran. The Puerto Rican movement's association with Muslim Brotherhood networks in the United States includes the June 1977 riot in Humboldt Park in Chicago which was a joint operation of the Puerto Rican National Liberation Movement and the Muslim Brotherhood's Iranian Student Association.