EIR

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The Voyager mission transforms science
The labor policy behind the synfuel program
German industry demands action from Schmidt

Policy fight for the new administration: the careers that Reagan can end

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From the Editor

Will the Reagan Administration make a clean break with the policy-making circles of the New York Council on Foreign Relations and the Trilateral Commission? This is a question being asked by the constituencies that gave Ronald Reagan a mandate for change as well as by the Anglo-American elite that run those institutions.

Were President-elect Reagan to decide on the basis of his own political philosophy, Trilateral Commission Executive Director Henry Kissinger and the clique of antigrowth Friedmanite advisers who adhere to Fed Chairman Paul Volcker's tight-money policies would be shown the door. Not a few political careers, long overdue for retirement, would be ended.

Unfortunately, there are those within the Reagan camp who believe the President-elect owes a campaign debt to Mr. Kissinger. Such a debt could be paid with a dinner invitation.

Ronald Reagan campaigned hard during the early primaries against the Trilateral Commission, the Eastern Establishment institutions, and the anti-American polices they represent. Reagan's personal hatred for Henry Kissinger is no secret.

This week our Special Report examines these questions. *EIR*'s economics editor, David Goldman, and United States intelligence director Konstantin George directed this investigation, which details the fight against Volcker's policies, the maneuvers of Henry Kissinger to take over foreign policy or impose his own lieutenants on the administration, and the battles in Europe to influence U.S. policy.

I'd also like to point out our special treatment of Paul Volcker's latest actions in our economics section, "A Revolution by Fiat: The Fed's IBF Decision."

The Federal Reserve's announcement Nov. 19 that it will establish International Banking Facilities allowing U.S. banks to operate like offshore banks means that U.S. cities, starting with New York, will be turned into centers of speculative arbitrage, not business lending. And the regional banks will be destroyed in the process.

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Special Report

Former Secretary of State Henry Kissinger.
Photo: Philip Ulanowsky/NSIPS

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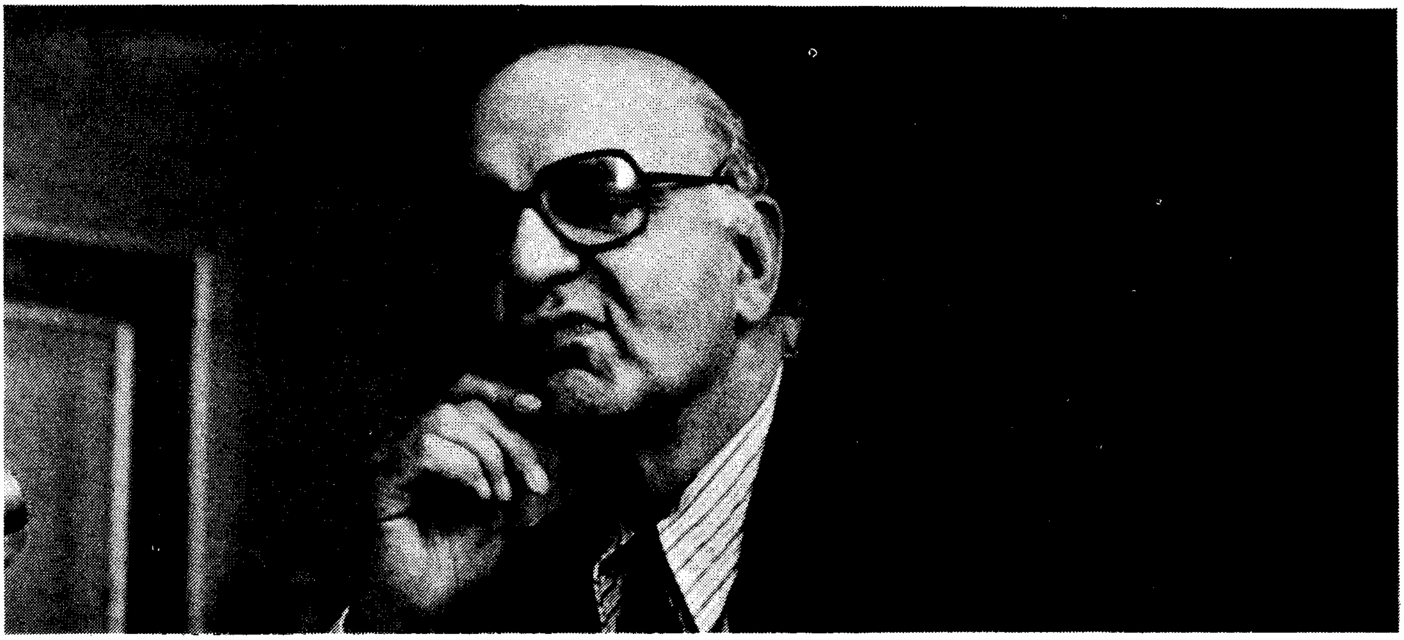


Editorial

NASA and national security

As the Voyager 1 spacecraft sped past Saturn Nov. 12 and headed out on its infinite journey beyond the solar system, it left behind a wealth of scientific data which has already begun to overthrow accepted theories of physics and celestial mechanics.

Meanwhile, among Americans gathered before their television sets to watch the results from 1 billion miles away, an excitement and joy over man's infinite potential, not seen since the Apollo moon shots of a decade ago, was rekindled.

The flawlessly executed Voyager flyby was a technological achievement for America which ranks with NASA's finest hours.

The Voyager 1 space probe has opened new vistas for science, providing more direct observational data about the nature of the universe than all of man's previous researches taken together. The evidence recorded by Voyager shows that the movement of celestial bodies cannot be explained by scientists working within the framework of the reductionist Newtonian system.

Voyager has also uncovered information about hydrocarbons that is extremely important for identifying the origins of life on Earth. The discoveries regarding hydrocarbons, complex molecules of hydrogen and carbon, will also provide a major boost to organic chemistry.

Following the results of the NASA probe, Democratic political leader Lyndon H. LaRouche, Jr. issued a proposal for the "Earth-forming" of Titan, Saturn's largest moon, now known to possess an atmosphere comparable to that of the Earth in its earliest stages of evolution.

"With aid of the new plasma physics technologies now emerging on the horizon, by early during the next century, we should have developed breakthroughs in applied relativistic physics needed for rapid intrasolar transport of vehicles carrying pioneering human populations, and for transforming a cold body such as Titan into a habitable environment," LaRouche said.

"However, the proper development of a new technology requires the kind of leading political support which President John F. Kennedy gave to support the NASA effort," the Democratic political leader continued. "Objectively, Earth can begin the 'Earth-forming' of Titan beginning the geophysical year of 2057-2058 A.D. provided we dedicate ourselves to such accomplishments beginning now," LaRouche said.

The Voyager mission reminded us all of the America dedicated to limitless progress and the necessity of scientific discovery.

Over the past decade, NASA budgets have been slashed, scientists have been idled, and U.S. military preparedness has collapsed along with the educational level of the population. Soviet expertise and broad-based scientific education has allowed them to outrun America in key military-related fields.

As the nation looks forward to a new administration, let us ensure that the triumph of the Voyager mission sets the tone for the decade of the 1980s. That means tripling the current meager budget of the space program. Inspiring our youth to dedication, to scientific excellence, and to the necessity of progress is the only way to guarantee the nation's security.

The near-perfect techological feats of the Voyager mission and the public enthusiasm it inspired, gives cause for encouragement that these national goals can be met.

Dr. Bruce Murray, director of the Jet Propulsion Laboratory from which the flight was directed and monitored, summed it up this way: "In the middle of the 1970s we became distracted as a people. We who created a society based on excellence and achievement lost that concept. We dropped the ball. The real question is: Do we want to continue in the path of excellent? Do we want our children to do things for which they can take pride? If we intend to excel, to do things we can be proud of, space exploration should be among them."

A revolution by fiat: the Fed's IBF decision

by David Goldman

The Federal Reserve approved, pending a 60-day comment period, the New York Clearing House bankers' proposal to establish "International Banking Facilities" (IBFs) in a unanimous Nov. 19 decision. Although the first IBFs will not come into operation, under the plan, until October 1981—despite the impatience of IBF advocates like New York Governor Carey—the Fed decision is a public signal of an *attempted coup against the American banking system.*

Once in motion, the IBFs will effectively draw the entire American deposit market into the Eurodollar pool, the $1.2 trillion mass of offshore funds that turns over every month. The technical features of the change can be summed up in one characterization: the plan will replace what Americans know as *banking* with British-style *arbitrage*. The ability of most of America's 14,600 banks to create *risk assets* anticipating economic growth will give way to a funding system that excludes investment in economic growth from consideration.

New York Federal Reserve Bank President Anthony Solomon, a leading proponent of the IBF plan, argued in a supporting brief made public by the Federal Reserve that the International Banking Facilities will contribute to Federal Reserve control over the Eurodollar markets. The IBFs permit American banks to accept deposits without reserve requirements—as in the Eurodollar market—through their head offices on American territory. Moreover, American banks will be able to establish IBFs in states now forbidden them for domestic banking functions. Supposedly, the banks will only be able to accept deposits of foreign origin, which would otherwise end up at their Cayman Island branches. Therefore, Solomon argues, the IBFs would bring offshore funds back to head office facilities, where they would be subject to closer monitoring.

The opposite is actually the case: the IBFs would turn control over the American banking system and the bulk of power to create money over to the Eurodollar market. The Fed has already hinted that it will enable U.S. corporations to make deposits in IBFs, against which the recipient bank will hold no reserves. Earlier, the Fed had given out assurances that only the foreign offices of U.S. corporations could use the IBFs. In return, the corporations expect to obtain loans at lower interest rates, because their bankers will not have to put reserves up against their deposits.

Rapidly, the bulk of large corporate banking will shift into the reserve-free Eurodollar channel. To a significant extent this is already in process. American corporations are borrowing directly from the Eurodollar market, or using their foreign subsidiaries to obtain dollar loans intended to fund domestic American operations, because the cost of funds is marginally cheaper in the Eurodollar market. The IBFs would open a new window for this sort of circumvention of reserve requirements, even if American corporations' head offices were excluded. By including U.S. corporations, the Fed is giving a green light to the end of reserve requirements on lending. *This makes a farce out of the Federal Reserve's much-discussed concern over controlling the monetary* *aggregates.*

Reserve requirements are a central bank's only weapon against unlimited money creation by the banking system. Banks create money as much as the national bank does, by re-lending deposits that result from previous loans. The "banking multiplier," now about 2.5 in the American banking system, describes the ratio between the "monetary base," including creation of new money by the central banking authority, and total deposits. The multiplier in the Eurodollar market, where there are no reserve requirements, is at least 6—more than double the U.S. multiplier—according to Federal Reserve Governor Henry Wallich.

In supporting briefs presented to the Fed's Board of Governors by the Reserve City Bankers Association (the money center bankers' club) and the American Bankers Association in May and June, the IBFs are represented as a harmless means of bringing business to the United States that would otherwise be conducted in some Caribbean offshore banking center. But the IBF plan is revolutionary in content. Only a handful of major banks among the 14,600 now in business can afford the foreign staff and facilities to conduct Eurodollar business. Bringing Eurodollar-type operations back to banks' head offices makes it possible for hundreds more banks to get into the game. The IBFs would force the next tier of regional banks to join in and play by the rules set by Citibank and Chase Manhattan. And because Citibank can operate IBFs in any state that permits it, they will be competing with Citibank on their own home ground.

The picture for smaller banks

In related measures, the Fed is creating the conditions for a wave of mergers in the banking system which would—in *Business Week* magazine's recent prediction—reduce the number of significant banks in the United States to fewer than one hundred. The provisions of the Monetary Control Act of 1980 phased into effect last week show unambiguously what the Federal Reserve has in mind. The Monetary Control Act ordered 8,000 small regional banks who previously worked outside the Fed system to put up reserves against deposits by Fed standards starting last week. Simultaneously, it reduced reserve requirements on banks with checking accounts in excess of $400 million from 16 percent to 12 percent. The result is a shift in the reserve costs of the banking system from large commercial banks to small commercial banks.

The Fed also took the opportunity to raise interest rates another notch. Before the 8,000 small banks came on board the Federal Reserve system, the federal funds rate was trading at about 15½ percent—the basis for a 16¼ percent prime rate. The entry of the new banks produced a temporary surge in demand for federal funds (excess reserves borrowed and lent overnight among banks), largely for technical reasons. On Monday, Nov. 17, the funds rate hit 19 percent and then, as expected, began to fall. But Fed Chairman Paul Volcker only permitted the rate to fall to 17 percent, a 1½ percent increase in the most important short-term interest rate. This augurs a prime lending rate in the range of 18 percent by early December.

From the standpoint of the arbitrageur, this represents no significant problem. The "profitability" of most American banking operations on the Eurodollar market is unrelated to interest rates: commercial banks borrow at whatever the London dollar rate happens to be and lend to borrowers at a "spread" above that rate. The fact that a majority of American banks' loans merely provide developing-sector debtors with the means of paying principal and interest on previous loans has nothing to do with the bookkeeping profit on such loans.

The phaseout of commercial banking

What is most dangerous about the Eurodollar takeover of the American banking system is the extension of this practice to American lenders. As *EIR* reported in a Nov. 11 forecast of 1981 economic performance based on results of the LaRouche-Riemann econometric model, more than 50 percent of the proceeds of new loans to industrial companies during the second quarter of 1980 represented refinancing of debt service. With the rise in interest rates from an 11 percent prime to a 16 to 18 percent prime, that proportion will increase to more than 100 percent by the beginning of 1981—forcing corporations to reduce inventory and lay off workers in order to meet debt-service requirements. Those large commercial banks with continued access to the "bottomless" reserve-free pool of Eurodollars will show profits—as they did during the second quarter collapse, when similar conditions prevailed. But the majority of banks depend, instead, on deposits generated by their customers' flow of income. If that income collapses in a second-stage economic downturn, the regional banks will be against a wall.

In summary, the Federal Reserve is destroying the conditions under which commercial banking—the creation of risk assets—can compete against mere arbitrage. It is enhancing the position of the arbitrageurs on the regulatory side, and destroying the position of commercial banks through actions that directly impact the national economy. *EIR* warned in a Sept. 29 survey entitled "The Undeclared War Against American Banking" that the IBF plan in context of continued monetary austerity would destroy the resistance powers of the majority of American commercial banks, no matter what Congress did. Now war has been declared.

Philadelphia conference finds little support for IMF plan

Half-way through the second annual Conference on International Monetary Reform hosted by the Group of 30 in Philadelphia Nov. 14-15, a largely American audience of businessmen and bankers was asked to give a show of hands as to whether they supported international monetary reform, or preferred to keep the current monetary system as it is. Bank of American chief economist Robert Heller gave the call for the vote, and then announced, "The nays win. The audience is overwhelmingly in favor of keeping the system as it is."

Heller's humorous gesture had a deeper meaning. In a recent interview with *EIR*, Heller reported that one of the more fortunate results of the Reagan victory in this election is that the U.S. government will reverse the Carter administration's support of international monetary reforms based on giving more power to such "globalist" agencies as the International Monetary Fund (IMF). Heller and his associates expect that the conservative layers around Reagan will move to bring monetary initiatives back under the control of the U.S. government.

Reports from Washington are that one of the ways the Reagan team aims to achieve this goal is by stabilizing the exchange rate of the U.S. dollar on the basis of an export promotion program which is being designed by the new Senate Banking Committee chairman, Utah Republican Jake Garn.

Reserve roles

What the audience in Philadelphia had voted against was a set of proposals, most clearly enunciated by Johannes Witteveen, former managing director of the IMF, for replacing the U.S. dollar as the chief global reserve asset in favor of an increased role in reserve management for Special Drawing Rights (SDRs), the IMF's unit of account.

After Witteveen left the IMF in 1979, he was offered the chairmanship of the Group of 30, a team of economists brought together by a Rockefeller Foundation and Ford Foundation grant. Since then, the Group of 30 has hosted a number of "roadshow" events to stir up business and government support for creation of an IMF "substitution account," the SDR pool which would be used to soak up surplus dollar assets held by governments worldwide.

Last spring, the Interim Committee of the IMF, which is influenced by a number of Third World governments, rejected proposals for formal creation of a substitution account and it looked as if the unpopular proposal had been put to rest. The Carter administration, however, kept publicly plugging for its creation, as shown by a speech delivered by New York Federal Reserve Chairman Anthony Solomon at the October conference of the National Foreign Trade Council.

There is little chance that a formal substitution account will come into being. However, during 1981, Witteveen reported, the IMF will attempt to expand SDR-denominated transactions with the international private banking system. David Lomax, a top banker from Britain's National Westminster, reported in Philadelphia that since September, when the IMF reduced the currency basket on which the SDR's value is based from 16 to 5 currencies, British banks have set up computerized accounts which are giving SDR-denominated portfolio packages to central bank customers.

A sensible proposal

What the Group of 30 argues is that the advantage of pumping SDRs into the international financial system, in contrast to buildup of liquidity in dollars, marks, yen, or any other national currency, is that the volume and allocation of SDRs can be "managed" by one central, internationally-based institution. Currencies, in the final analysis, are always subject to the interests of sovereign governments. At an early point in the Group of 30 conference, Frederick Heldring, Deputy Chairman of Philadelphia National Bank, motivated the apparent contradiction between global and national interests as follows: "How do you get anything done in a world in which no one is in charge?"

In reality, the SDR is not only different from a national currency, whose value is based in real terms on the ability of a national economy to generate economic wealth in real terms; but the SDR has been chiefly used by the IMF as a political instrument for subjecting governments to IMF policy dictates. In recent months, the IMF has come under heavy public denunciation by Third World and European governments for attaching such harsh austerity terms to SDR-denominated loans to deficit countries, that in several cases—Turkey being the most recent—IMF programs have provoked severe political repression and coups.

A sensible proposal

Heldring's question was more than answered by the only sensible presentation delivered during the two days of proceedings. Dr. Kurt Riechebächer, chief economist of Germany's Dresdner Bank, asserted that all of the problems in the current world financial system—inflation, overindebtedness, low growth rates—are attributable to the collapse of investment in the advanced industrial countries. Even development in the Third World, Riechebächer noted, is ultimately dependent on the generation of surplus from investment in the industrial nations.

"[I]f we want to understand . . . the fundamental conditions for economic growth," Richebächer argued, "we must think in physical terms and not in money terms. The real problems lie below the monetary surface, and they cannot be solved by financial gadgets." Asserting that the advanced sector had "underinvested" across the board, he added, "Speaking of capital formation has its great difficulties in our time, because both these terms are shrouded in great ambiguity. . . . Let me, therefore stress one distinction of absolutely crucial importance: namely the distinction between bits of paper, all coming from the printing press, like money, government bonds, or Special Drawing Rights . . . and the realities of capital in the form of productive plant and equipment . . . and the realities of capital formation, representing the current additions to the real capital stock already in existence."

To get economic growth adequate to meet debt payments in the Third World, Riechebächer suggested that what needs to be examined is "the capacity of the industrial nations to export surplus investible resources, meaning resources in excess of the requirements for their own economic growth." To finance such expansions of capital, he proposed that Western governments had to seriously examine the avenues for cooperation with the oil-producing nations. The oil surplus, hovering around $100 billion annually, he stated, should be seen as "the forced savings" extracted from oil consumers, savings which are otherwise lacking in the industrial countries due to spreading economic downturn and reductions in living standards. Savings, he reiterated, using the examples of postwar Germany and Japan, are the motor force of capital investment. In this connection, Riechebächer characterized the U.S. and Britain as nations which had lost "economic dynamism," due to the shift of investments in these countries away from productive capital formation into inflation-generating service sectors.

The impact of American influence

One of the most remarkable things about the Philadelphia conference was that for the two-day period that this writer was present, the name of U.S. President-elect Reagan was not mentioned once from the podium. The Group of 30 has been attempting to create a climate in the international banking community in which a Reagan administration is assumed to have "no policy" on global monetary relations.

The effort to give this impression was most obvious in the presentation by William Hood, a Canadian professor currently with the IMF's research division. Hood reviewed the history of the IMF since its founding, emphasizing one single point: the influence of the IMF in recent years has grown as a direct result of the diminution of American economic and political power over the last decade.

Referring to this shift of influence as a "diffusion of power," Hood noted that when the U.S. was the center of Western affairs, the dollar had a fixed exchange rate against all other currencies. "I therefore count the breakup of the fixed-rate system" in 1976 at the Jamaica economic summit "as one of the major consequences of the diffusion of power," he stated.

As long as fixed exchange rates are not restored, he intimated, the IMF still has the opportunity to expand its power on the basis of the SDR. The "IMF is very much concerned with exchange-rate and reserve management," he reported. "Instability associated with the diffusion of power induces countries to turn to the Fund" for help in restoring stability.

We can only conclude from this perspective that if currency shakeups of the magnitude of those in recent weeks continue during 1981, the IMF will see itself in position to compete for world influence with the resurgent nationalist movement in the U.S. which could restore American influence.

Finland: an industrial nation on the move

by John Hardwick

The author, who is editor-in-chief of the Swedish magazine Energi och Utveckling *(*Energy and Development*), recently toured Finland.*

Expanding trade with the East, productive young industries, and an offensive industrial policy and a spirit of growth, are the factors accounting for the Finnish economic upswing that has begun to attract international interest.

Soon, however, Finland will have to take another step forward. To continue its present pace of development, Finnish industry will have to expand to other areas of the world, especially into the Third World. And, while its trade with the East is growing, Finland is beginning to put out feelers toward Western Europe. In the view of many industrialists, Finland will not be able to afford to remain outside the European Monetary System and the European Monetary Fund, because its industry needs the new markets offered by the developing sector, and export financing is already felt as a major bottleneck.

Finland, with the highest rates of GNP growth for the second year in a row, industrial production growing at 7 to 10 percent a year, low inflation and manageable unemployment, has attracted the interest of economic observers throughout the world. What accounts for the Finnish boom?

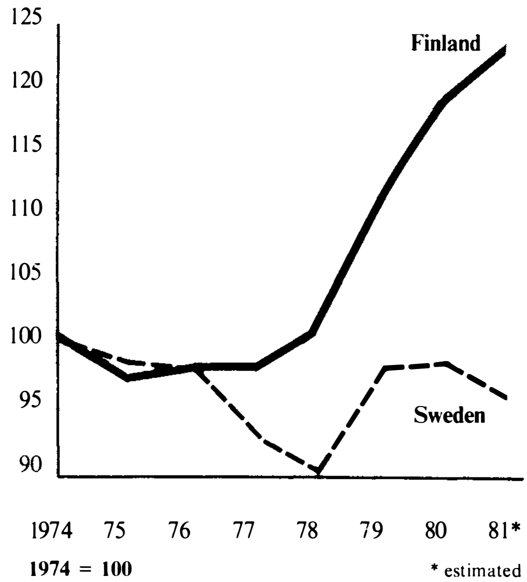
Figure 1

Consumption trends in Finland and Sweden

	1976	1977	1978	1979
Private consumption				
Finland	+0.9%	−1.4%	+2.6%	+5.0%
Sweden	+4.0	−0.9	−0.7	+2.3
Public consumption				
Finland	+5.6	+4.1	+5.0	+3.7
Sweden	+4.4	+2.6	+3.1	+3.9

Figure 2

Industrial production in Finland and Sweden



One myth in widespread circulation gives credit for Finland's recent upswing to a tough austerity policy which the country allegedly sustained from 1976 to 1978. However, the facts belie the argument. A comparison between Finland and neighboring Sweden illustrates that both private and public consumption during this period actually grew much more in Finland than in Sweden, where there was no industrial growth at all.

In truth, Finland has thrown out the austere Keynesian and monetarist policies and has, instead, staked out a course which bears a strong resemblance to the "Japanese model." Industrial development has been assigned first priority. The Finnish government has outlined a program of general corporate tax relief and investment subsidies, while giving special emphasis to the pioneering role of state-owned industries.

One example of a state-owned corporation taking the lead in advanced areas is the large Valmet Company. Valmet initiated a large part of the automation drive in Finland, and it has been a leader in starting up operations abroad. A Valmet tractor plant in Brazil, for instance, is the second largest such factory in Latin America. Similarly, Valmet's high-technology paper machines are currently in use throughout the world. Given Valmet's role, it is interesting that its president, Matti Kankanpää, has expressed a great deal of interest in the prospect of Finnish membership in the EMS.

Finland's achievement of an ideal neutrality has been decisive in the country's economic performance. President Urho Kekkonen has developed very profitable relations with the Soviet Union. The respect that Kekkonen has won internationally for his policy is something that Finnish industry is prepared to capitalize on in its new export drive.

Trade with the U.S.S.R.

It is the stable and expanding trade with the Soviets that has served as the engine for Finnish growth, especially in shipbuilding and metalworking. The Soviet Union is Finland's biggest trading partner, with about 20 percent of its shipments going East.

Ironically, it was the Finnish reparations deliveries after the war which gave birth to the modern Finnish iron and steel industry. By the time these deliveries were ended, relations with the Soviets were firmly established, and normal trade began to satisfy many of the Soviet economy's requirements.

One outcome of this relationship is the Finnish-Soviet agreements to exchange Soviet oil and natural gas for Finnish technology, something of an Eastern mirror of proposed EMS-OPEC trade arrangements. Finland is highly dependent on foreign oil, importing some 60 percent of its needs. Two-thirds of that oil—and a full 100 percent of its natural gas—comes from the Soviet Union. Under the provisions of Finland's contract with the Soviets, these oil imports are to be paid for, not with foreign exchange, but with technology: more ships, paper machines, and electrical equipment.

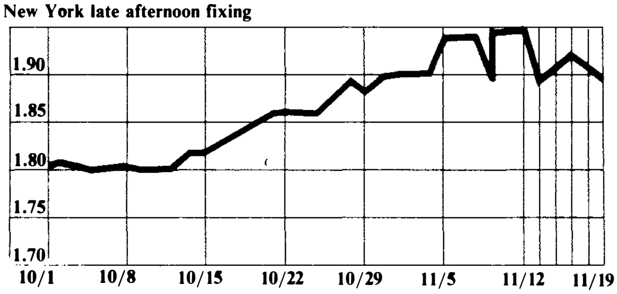
For Finnish industry, therefore, every increase in the country's oil bill means guaranteed additional orders for its industry. The result is a climate for stable investments.

Cultural climate

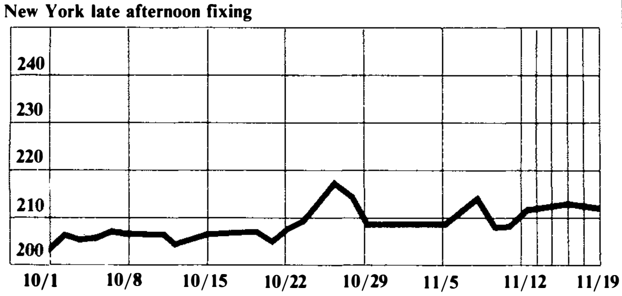
Finally, there is one feature of the Finnish scene which, although difficult to measure, deserves to be mentioned among the reasons for Finland's successes: the country has preserved a moral sense of purpose. Problems that afflict other Western nations—drug abuse, pornography, youth counterculture, environmentalism—are relatively absent in Finland. It has not been easy for Finland to avoid these afflictions—understandable with liberal Sweden next door. But, as the president of a large private Finnish corporation explained, the Finns have learned to "sort out" the mixed flow coming from Western Europe and the United States. "We take the good—your technology and so on," he said. "And throw away all this 'new age' nonsense. There is only one big mistake we made. We imported the Swedish 'comprehensive school' system. But now we're in the process of getting rid of that."

Currency Rates

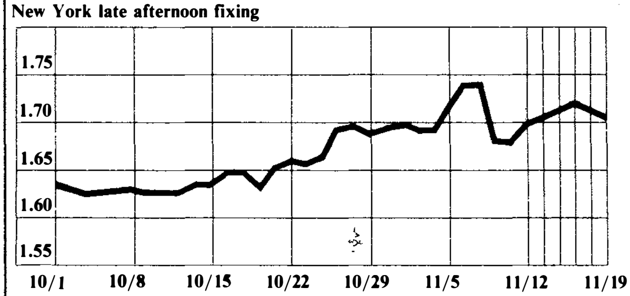
The dollar in deutschemarks
New York late afternoon fixing



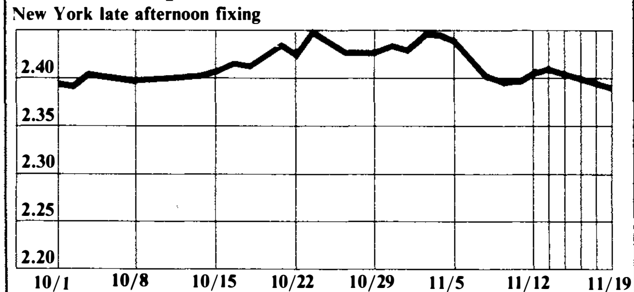
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Banking by Kathy Burdman

The Proxmire-Reuss years are over

Senate Banking Committee Chairman Jake Garn plans a halt to the liberals' banking deregulation.

Senator Edwin "Jake" Garn (R-Utah) assumes control over the key Senate Committee on Banking, Housing and Urban Affairs in January. Garn brings with him the promise of a clean-sweep reversal of a five-year undermining of the U.S. banking system by the liberal Wisconsin Democrats Sen. William Proxmire and Rep. Henry Reuss.

Proxmire lost his Senate Banking chairmanship in the Republican sweep, while Reuss is retiring as House Banking chief, believing the sweep will render him "totally ineffective," *EIR* has learned.

Garn, the 58-year-old conservative former mayor of Salt Lake City, plants to "scrap completely" the Report on the McFadden Act and the Douglas Amendment prepared by Carter's Domestic Policy chief Stuart Eizenstat, which Proxmire and Reuss were expected to write into law in January, aides told *EIR*. That legislation would have abrogated important sections of those two regulations protecting the nation's regional banks.

Proxmire and Reuss, who were respectively chairmen of the Senate Banking and House Banking Committees since 1975 and 1974, have spent years forcing through the Depository Institutions Deregulation and Monetary Control Act signed in March 1980, aimed at reducing the size of the U.S. banking system and cutting back net credit to the U.S. economy.

As an immediate reversing action, Senator Garn will advise Reagan to scrap the Eizenstat report on the McFadden and Douglas laws because "he's against interstate banking, period," his aides said. "Garn doesn't want the McFadden Act touched, not for metropolitan areas as Eizenstat planned, or at all. He doesn't want to touch the Douglas Amendment, at all."

In addition, Garn plans a quick series of oversight hearings on the Proxmire/Reuss deregulation act which will question the deleterious effects of the act on U.S. banking and the economy. How is it affecting the survival of the Savings and Loans? How is it affecting mortgage lending? How does this affect the economy? will be some of the probing questions, aides say.

In addition, particular hearings will be scheduled on the "performance of the DIDC," the Depository Institutions Deregulation Committee set up by the act and headed by Paul Volcker. The hearings will question whether the DIDC has acted "competently" in its speed of the deregulation "given what Volcker has been meanwhile doing to interest rates," one aide said. "I did not expect the DIDC to do what it is doing," Garn told the *Washington Post*. "They are not following our intent of gradual change, a subject of considerable dismay."

Most important, Garn intends to address the strategic question of "the challenge posed to U.S. banks by the non-bank financial intermediaries" which have sprung up over the past 10 years, aides said.

Out of $1.8 trillion in U.S. consumer loans outstanding, fully one-third are made by non-banks such as General Motors Credit Corporation, Sears, the major credit-card companies, and brokerages like Merrill, Lynch. Commercial paper, brokered by the investment banks, accounts for a quarter of the $400 billion in industrial loans.

Deregulation proponents like Citibank Chairman Walter Wriston say that if U.S. banks were fully deregulated, that is, if Citibank could expand nationally, they could compete.

"Garn doesn't want to go the Wriston route, but he is very concerned about the future of bank lending," aides say. "For now, we're standing pat. But if we continue to stand pat, the banks lose ground," and a new banking policy is needed.

In fact, banks have been driven out of the banking business, not due to protective regulations, but due to the stagnation of the U.S. economy, in which the net new demands for productive credit, which banks exist to create, has stagnated. Nonfinancial intermediaries such as the commercial paper dealers and stock brokerages have gained through recycling of "excess credit" in the economy, excess because the economy is so weak that the demand is not there.

The Garn Banking Committee will have to find a way to expand the entire banking pie by expanding the economy. The first step, in my opinion, is to call for an immediate halt to Federal Reserve Chairman Volcker's interest-rate squeeze, and to look into proposals for reform of the Fed system.

Under the credit knife

An update on the effects of Chairman Volcker's interest-rate policies on farmers and farm banks.

In early September Dawson Ahalt, chairman of the USDA's World Food and Agricultural Outlook and Situation Board, told *EIR* that if interest rates were again above 15 percent during the critical February to March period of this year, "It would be good-bye Charlie—not just for farmers, but for the whole economy!" Ahalt was sure that it wouldn't happen.

All the figures are not yet in for 1980, but a few key parameters tell enough of the story to indicate the urgency of reversing the Volcker economic policy before the spring planting. Many producers will not be able to withstand another planting season at 15 to 20 percent interest rates.

The drop in net farm income this year from about $31 billion in 1979 to approximately $25 billion reflects the fact that production costs ran up faster than farm prices—by an estimated 12 percent and 6 percent respectively. It also masks wide regional discrepancies due to the impact of the heat and drought. Many producers were left with nothing to market at any price.

The drop in net income, moreover, impacts the larger, more productive and highly leveraged farm operations most seriously. These farms—about 20 percent of all farm units, with annual sales of $40,000 and more—produce more than 80 percent of the total U.S. farm product. They do not enjoy the volume of off-farm income and nonfarm income that gives resiliency to the small, part-time farms.

Last spring, when the prime rate went up to 20 percent, most farm bank loan rates jumped by five percent or more to the 15 to 18 percent range. For the typical producer, who needs $200,000 in operating loans annually, that meant an instant annual $10,000 boost in operating costs for interest charges alone.

Not tied as tightly to the money markets (though this is breaking down) rural bank interest-rate structures are less volatile. They don't rise as quickly, but they don't come down as quickly either.

Two main factors have so far prevented a sheer blowout in the farm sector as a result of the Volcker measures. On the one hand, the USDA has channeled about $1 billion in disaster assistance loans into the farm sector. And the Farmers Home Administration (FmHA) has approximately doubled its outlays from an anticipated $3 billion to about $6 billion in low-interest emergency credits.

This patchwork is complemented by self-imposed austerity on the part of producers who immediately reduced capital expenditures. As indicated in the American Bankers Association (ABA) annual farm credit survey, regional bankers overwhelmingly experienced a sharp drop in intermediate-term borrowing for machinery and equipment during 1980. Farm equipment sales literally plunged by 30 percent during the first half of 1980. Year-end estimates are for a net 15 percent reduction in equipment sales this year.

The predicament shows up in the fact that the regional commercial banks are presently "flush" with funds and desperately looking for borrowers. This was the subject of anxious discussion at the recent ABA Agricultural Bankers conference in Dallas. "No matter how good the outlook is for next year," Arkansas banker Marlin Jackson told the gathering, "my farmers are getting clobbered by the 15 percent interest they'd pay on a tractor loan."

In a report on the subject, the *Wall Street Journal* described a Kansas cash grain farmer with 2,000 acres who insisted that he doesn't have the cash flow to "even think about" a new $60,000 combine. Don Pagel told the *Journal* he's holding out for 10 to 12 percent interest rates. "If the money coming in can't cover the interest payments," he said, "I'm just not going to spend."

Bankers in turn are worried that if they can't attract new loans, they won't be able to pay competitive rates on the increased deposits and will lose them to the money-center banks. But that's not their only concern. While every index of farm loan quality, according to the ABA survey, has deteriorated over the past year—renewals, refinancings, delinquencies, and losses have all jumped, while repayment rates have dropped—all bankers report that their farm loan portfolios are of the same or better quality than their business loan portfolios.

Gold by Alice Roth

Collateralized loans part of system

Even while bankers and financial officials attack gold, they admit it is being remonetized.

Philippines Minister of Finance Cesar Virata warned bankers and economists attending the Group of 30's international monetary conference this week that increased use of gold constituted an underlying threat to monetary stability. "Production of gold," Virata stated during the opening dinner address of the Philadelphia event, "is in five countries. We shouldn't be dependent" on these nations for our monetary resources.

At the same time, Virata then suggested that "a gold element" be added to the currency basket which makes up the valuation of Special Drawing Rights, the fiat currency issued by the International Monetary Fund.

Is there a contradiction in Virata's apparent warnings of the strategic instabilities that may result from monetizing gold, and his apparent support of keeping gold in the system?

In recent months, the Philippines has been in the forefront of developing countries which have acquired gold through their central banks to stock up their reserve position as the value of gold rises. The Philippines has also been prominent among countries which have since "doubled" the effective value of these gold holdings by acquiring currency loans using their gold as collateral.

During 1979, gold purchases by Third World countries contributed substantially to a stocking up of reserve positions, which are now being gradually drawn down. As *EIR* reported in October, evidence suggests that the volume of loans issued against gold as collateral has risen quite rapidly. We pointed out that around August, the Federal Reserve had changed a long-term policy of reporting gold transfers from foreign accounts to New York banks as "gold imports," and that this was probably done to provide greater confidentiality to a growing number of foreign customers accruing loans against temporary gold transfers.

It should also be expected that such collateralized loans will continue to be an important feature of international monetary relations. During 1980, the stockup of Third World nations' reserves contributed to warding off debt repayment crunches which otherwise would have led to an increase in the already rising numbers of reschedulings.

During the recent monetary conference, David Lomax, group economic adviser for National Westminster Bank in London, explained why traditional opponents of gold are pulling in their horns in their objections to monetization. "Events have overtaken the [monetary] system," Lomax stated in answer to a question on the emerging role of gold. "Gold is being remonetized to a certain extent behind the ECU," the European unit of account used to perform transactions in the European Monetary System. Then Lomax added, "gold is becoming important in assessing countries' credit-worthiness," a highly unusual admission from a British banker, considering that the London financial community has also published reams of attacks against the "barbaric metal" in recent months.

The London financial community is being pragmatic. Continuing heavy purchases of gold by Arab and other central banks has created a climate where major banks would be slitting their own throats not to jump on a gold bandwagon periodically in designing their own operations.

For example, William Hood, a top researcher from the International Monetary Fund, which officially has opposed gold remonetization, had the following to say in answer to a question on gold's increasing use, during the conference: "I would say that gold is a pretty valuable asset." When he was asked to elaborate, Hood shook his head and sat down.

The integration of gold into global monetary relations was shown again this week. Despite rising U.S. interest rates, which put a heavy burden on investors who borrow dollars to purchase gold, the price of the metal rebounded Nov. 19 to its Nov. 6 levels. As gold rose $9 to $628.24 in one day on the London market, dealers attributed the rebound to heavy Middle East buying through Switzerland, and an overall bullish stance toward the metal based on the weakening of Eurodollar interest rates, which are now sitting below the U.S. prime rate. In New York, gold rose even more precipitously, with a $12 gain in one day to $630.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
Over $1 bn.	Saudi Arabia from U.S.	Bechtel will build petrochemical complex in Yanbu, Saudi Arabia for Saudi govt.-Mobil joint venture. Plant will be brought in as large prefabricated modules. It will produce 540,000 tpy polyethylene resins and glycol using processes licensed from Halcon of New York.		Bechtel and Halcon announced contracts.
$966 mn.	South Korea from France	Korea Electric Co. signed contracts with Framatome of France for nuclear steam supply systems including PWR reactors for 2 nuclear stations already under construction. Total cost $2.2 bn. Cogema of France signed for 10-year supply of natural and enriched uranium. Framatome committed itself to supply Korea with enrichment technology, to be contracted later.	4.1 mn. francs at 7.6% for 15 yrs. with 7 yrs. grace	Korean govt. noted advantages of "diversifying sources of nuclear technology" now mostly from Westinghouse.
$890 mn.	East Germany from Austria	Voest has won contract for East German Greenfield steel plant. *Financial Times* says Voest beat stiff competition thanks to political goodwill and commitments to buy E. German products.	Austrian state export credit line.	
$105 mn.	Nigeria from West Germany/Sweden	Expansion of Sokoto cement plant in northern Nigeria to 600,000 tpy to be performed by Orenstein Koppel and Michael Thomas of Germany. Cementa of Malmo, Sweden, will manage plant operations.		Contract awarded.
UPDATE				
$5.3 bn. of $10 bn. project	U.S.S.R. from West Germany	Siberian-Western Europe natural gas pipeline project. *Der Spiegel* reports Deutsche Bank is leading consortium of 20 German banks for loan of German portion of the project. To be repaid with gas deliveries.	$5.3 bn. in deutschemarks for 10 yrs. at 7.5%	Terms on biggest East-West deal not confirmed.
$79 mn.	U.S.S.R. from U.S.A.	200 Caterpillar pipelayers designed to lay 1,000 ton pipe sections of the Siberian-Western Europe natural gas pipeline.		Carter admin. cleared deal; to be signed soon.
$325 mn.	Egypt from West Germany/Austria/France	Full material for 120,000 telephone lines. This is first part of $1.8 bn. contract signed in 1979, which had been delayed pending Austrian Siemens and French Thomson-CSF providing the same soft credit terms as the consortium leader, Siemens of Germany.	Averages 5.5% on deutschemarks.	

Voyager mission to Saturn transforms Newtonian physics

As of now, one sure conclusion can be drawn from Voyager 1's trip to Saturn: God has run rings around Sir Isaac Newton. Some specialists are trying to shoe-horn the recorded facts into the structure of Newtonian mechanics. But Saturn has presented remarkable anomalies to the physicist. Among the big surprises was the discovery of many new rings. Where before scientists believed there to be a half dozen, there are as many as a thousand differentiated strands swirling around the planet in at least 95 clearly demarcated divisions. Three new moons were discovered, bringing Saturn's known lunar complement to 15. Titan, the moon believed to possess a methane atmosphere, was discovered to have a 90 percent nitrogen atmosphere, the remainder being methane saturated with hydrocarbons comparable to the early chemical-reducing phase of the Earth's evolution.

Reported Dr. Bradford Smith, head of the Voyager camera team: "We may have to develop a whole new breed of celestial mechanics to account for the newly revealed Saturnian mysteries." The following are among the foremost phenomena to be explained:

- The most famous gap in the ring system, called the Cassini Gap after its 17th-century discoverer, is not a gap at all, but an area filled with additional rings, presenting the picture of a multigrooved phonograph record.
- A newly discovered F-ring, whose existence had been inferred from the earlier Pioneer spacecraft's visit to Saturn, lies farthest out from the planet, and is actually two rings or strands would around each other like a braid or double helix.
- As the rings swirl around Saturn's gaseous cloud-tops—the planet has no definite surface—linear structures rise up like "spokes" from the planet, spanning the rings, remaining stable for hours at a time, then dispersing.
- Two of Saturn's moons are orbiting in the same path but at different velocities; although long occupying the common orbit, they have not collided.

When first confronting these phenomena, one NASA scientist described the display of ring-and-lunar interactions as a set of "nightmares" for Newtonian celestial mechanics. The fundamental proposition of Newtonian physics is that any complex, multibody system can be reduced to the included interactions between pairs of bodies. From the Newtonian standpoint, for example, the solar system is not a system at all, but a summation of the two-body relationships of the planets to the sun.

Similarly, Saturn's ring-moon system does not constitute anything higher in order than the presumed net effect of two-body interactions. Sum them all up, taking account of the way moon-moon, moon-planet, moon-ring, and ring-planet relationships may modify each other. Once eletromagnetic "perturbations" are thrown in, everything that can be said about a multibody system is said.

Thus, prior to Voyager 1's investigation, scientists explained the Cassini Gap on the basis of "gravitational resonance," which explains the rise of a complex order on the basis of concentrations or depletions of two-body gravitational forces. Any particles orbiting in the Cassini area will be revolving about twice as fast as the farther-out moon Mimas, and so, every second orbit will line up with Mimas eventually being pulled out of that area into a ring orbit, and leave a "gap." But Voyager 1 revealed the existence of rings in the Cassini Gap, albeit of less density than continguous rings.

Classical resonance theory, confronted with the *multiple-density differentiations within* the gap area, can explain the area only "on a gross level," one NASA office stated.

Another instance is the explanation attempted for the newly discovered F-ring—gravitational "shepherding." The ring's particles, small rocks and ice, are like "sheep" maintained in the ring-formation "flock" by two "shepherd" moon located on either side of the ring. The faster-moving moon on the inside of the ring toward the planet exerts gravitational force on those particles that might tend to drop out toward the planet, giving them energy to stay in the higher-ring orbit. The moon outside the ring, away from the planet, would exert an oppositely directed force, shepherding the particles back down into the ring orbit.

But there are only two "shepherds" for this very unruly flock. What the F-ring's double-strand braiding? Are the particles electrically charged? And what of the other rings? Where are their shepherds? If a "shepherd" thesis explains only one feature of one ring (but not other features), and cannot explain any features of other rings, can it be any explanation at all? "Too many divisions," one NASA specialist entered in his notebook as the ring system first appeared on the data screen. "They're in the wrong places to agree with classical resonance theory. We need more satellites. Need to find some embedded large particles." But no missing moons or large embedded particles have been found.

Turning to the "spoke" phenomena periodically exhibited, these linear structures appear to rotate with the electromagnetic field of Saturn itself, and so could represent certain ring-particles temporarily lining up above or below the plane of the rings, like iron filings before a magnet. But why do they arise, and who do they disperse? What could cause electromagnetic force to temporarily take precedence over gravity—and then give way to it again?

A startling mystery is represented in the two moons traveling in the same orbit, but at different velocities. The inverse square formulation of the law of gravity states that gravitational force increases with the decrease in the square of the distance ($K = 1/r^2$). As the faster moon closes in on the slower one, it should gain energy and accelerate into a collision. They should have smashed each other to bits long ago. Some underlying causal process not within the purview of Newton's law proves to be operative at precisely the point that Newton's law should be inexorable, the point of approaching collision.

Kepler's alternative

What Newtonian reductionism denies is that in a multibody system there can be an inherent, multibody collective effect, qualitatively different from simple two-body effects and their combinations. In fact, the preponderance of evidence from Saturn—and not only Saturn—is that a lawful ordering of the parts by the geometry of the whole is the sort of premise required for a new celestial physics.

Such an approach was taken by Johannes Kepler when, a generation before Isaac Newton, he sought to discover the laws of planetary motion in terms of a solar-system-as-a-whole rigor. For Kepler, there was a single underlying "plan" that determined the relative positioning, velocity, and general behavior of the planets, in a way that could not be reduced to nine separate two-body systems. For precisely such reasons, Kepler, although his laws of planetary motion would permit any freshman schoolboy to deduce Newton's laws, himself formulated no "law" of gravity.

Classical mechanics, inclusive of the inverse square formulation, resulted from a lowering of scientific outlook imposed by Newton's bowdlerization of Kepler's actual achievements. Kepler formulated three basic laws of planetary motion on the basis of a single physical hypothesis; Newton adopted Kepler's laws in simplified form, discarding the physical hypothesis and abandoning the entire causal problem.

Kepler's hypothesis stated that "Motion is dispensed by the sun in the same manner as light . . . a measure of the attenuation of which may be derived from the proportion of the circles [orbits] themselves." A solar force field acts causally on the planets, attenuating with distance. From this, he was able to establish that in equal times, an orbiting planet sweeps out equal areas of "space" between it and the sun; that such orbits are not circular, but ellipses with the sun at one focus; and his Third Law, that the squares of the planets' periods of revolution (t) vary directly with the cubes of their mean distance from the sun (d).

$$t_1^2/t_2^2 = d_1^3/d_2^3$$

But Kepler's concern was to reduce the three laws to one, thus proving "the harmony of the spheres." Does there exist an underlying ordering principle—perhaps inherent in the solar force field itself—that would comprehend the solar system as a single system?

Kepler was able to prove that the distances of the planets treated as radii of concentric circles correspond to a certain ordering of the five regular Platonic solids; he also proved that the relative angular velocities of the planets were *harmonic*—closely corresponding to the mathematical ratios of different string lengths producing notes that harmonize. These are not laws, but powerful geometric and harmonic correlations, in truth, signifying a well-defined mathematical relationship, in respect to which there must exist some underlying causal necessity.

Let us suppose that the solar system originated as a vortical mass of plasma, as Kepler's hypothesis—and the evidence from Voyager 1—suggests to the plasma physicist. In that case singularities arising in the plasma to form *planets* will occur in specifically determined regions of plasma temperture, density, and frequency, much as a vibrating string yields nodal points at certain specific, and often *harmonic* frequencies.

In plasmas, very hot ionized gases, the tendency is to go from less-ordered to more-ordered states in which, intense concentrations of electromagnetic energy, called solitons, form out of nearly uniform fields; filament-like threads twist out of uniform plasma; closed field structures much like smoke rings appear. Plasma behavior cannot be explained on the basis of Newtonian physics.

Business Briefs

Agriculture

USDA economists bet on 1981

Farmers will be in better shape in 1981 than 1980, USDA economists have told the 1981 Agricultural Outlook conference in Washington, D.C.

The cheery picture, according to economist Dean Hughes, who echoed other speakers at the four-day session, is based on "projected increases in their incomes and real estate values and the almost negligible chance that a credit squeeze will reoccur."

USDA proections for a 1981 net income level of between $27 and $31 billion, if they materialize, would just barely bring net income back to the 1979 level.

Hughes grounded his predictions on the assumption that the renewed interest rate spiral will turn back down by the end of the year as demand for credit drops.

World Trade

Japan lifting export sanctions against U.S.S.R.

By Jan. 20, Japan may have totally lifted its post-Afghanistan economic sanctions against the U.S.S.R. The latest development in the quiet step-by-step relaxation was the announcement Nov. 14 that the Japan Export-Import Bank will resume issuing suppliers' credits on deals to the U.S.S.R. For now, the limit per deal is $100 million. Government sources have indicated that Western Europe's failure to adhere to the Carter-imposed sanctions was the major factor in the relaxation process.

Japan's business community is gambling that incoming President Reagan will totally lift the sanctions. It is believed that when ruling Liberal Democratic Party leader Susumi Nikkaido visited the U.S. to meet with Reagan advisers before and after the election, he raised this issue, among others.

In the last four weeks, the Soviets have offered Japan up to $3 billion in project deals that will go to European firms if Japan maintains the sanctions. With car exports under heavy pressure from both the U.S. and Europe, the business community is urging the government to accelerate relaxation of the sanction.

Domestic Credit

New bank act raises fed fund rates

The implementation of features of the Monetary Control Act of 1980 gave cause to Federal Reserve Board chairman Paul Volcker to raise the rate on federal funds this week.

Nine thousand financial institutions joined the Federal Reserve System the week of Nov. 10-14 under the conditions specified in the act, to bring the total number of member banks in the system to 14,000. "Many of these smaller banks tended to hoard federal funds," reported one analyst, "and thus they caused the demand placed on these funds to grow. This pushed up the cost of federal funds."

The new reserve requirements imposed on the smaller banks did *not* cause an increase in federal funds demand pressures. While many of the smaller banks had to pay for new reserve requirement balances for the first time, this was offset by the fact that the Monetary Control Act of 1980 reduced the reserve requirements on demand deposits from 16.25 percent to 12 percent.

"The reduction in the reserve requirements on demand deposits lowered the reserves on large money center banks," reported Elliot Platt of Donaldson, Lufkin, Jenrette investment bank. "The net effect of the reserve requirement changes, both the lowering of the demand deposit requirements and the imposition of requirements on the small banks, was to inject about $3 to $4 billion into the banking system."

While small-bank hoarding of federal funds probably reduced the supply of fed funds by about $3 to $4 billion, the change in reserve requirements added $3 to $4 billion. Thus, the amount of net funds in the fed funds market most likely remained unchanged.

Why did the federal funds rate rise from an average of 13.99 percent for the week ending Nov. 7 to being at 16.79 percent on Nov. 18?

Fed chairman Paul Volcker apparently used the confusion generated around the entry of 9,000 new banks into the Federal Reserve Board System to go ahead and push up interest rates, by posting a very high rate for federal funds. This made the cost of banks funds more expensive, and forced an upward movement in the prime lending rate.

Technology Transfer

Exim chief advocates nuclear exports

John Moore, president of the U.S. Export-Import Bank, told interviewers that he hopes U.S. nuclear exports will rise dramatically under the Reagan administration.

Moore's efforts to get financing for a revival of U.S. nuclear sales abroad are getting full backing from the office of Republican Senator Jake Garn, to be the chairman of the Senate Banking Committee. Associates of Garn report they are working on detailed proposals to allow Eximbank to stock up its capital base, both through borrowings from the private market, and through liberalized access to the discount facilities of the Federal Reserve.

In a discussion held during the joint annual conference of the Atomic Energy Forum and the American Nuclear Society in Washington, D.C. held this week, Moore stated, "We hope the new administration will quickly and carefully review nuclear export questions and move to clarify and speed up . . . procedures" of approval for such exports. "I believe," Moore stated, "that American nuclear suppliers can meet the challenges of selling in tomorrow's export market and, for their own survival, they must. . . . The market potential for nuclear power is enormous."

Moore noted that Eximbank's resources could be strained by nuclear export financing needs. Garn's staff is now working on this problem.

Associates report that Garn wants to free Eximbank from the congressional appropriations process, where it is often hobbled by restrictive legislation. Eximbank must be allowed to borrow freely on the capital markets as well as get loans at "special discount rates" from the Federal Reserve, they insist.

At the same time, the Utah Republican wants to reverse the politically motivated constraints imposed on trade relations in recent years. His staff is planning a comprehensive review of all laws which impose political regulation on trade, including the Foreign Corrupt Practices Act and constraints on East-West trade.

Foreign Exchange

Deutschemark gains medium-term strength

A sharp rise in Eurodollar interest rates permitted the dollar to recover some lost ground against the deutschemark during the week of Nov. 17. However, foreign-exchange analysts see the deutschemark as the stronger currency in the medium term.

The increased confidence in the deutschemark is partly based on widely circulated reports that the Saudi government has agreed to invest $9 billion in instruments denominated in deutschemarks, to help finance West Germany's large current account deficit. According to a source at the New York Federal Reserve, the Fed expects such a Saudi-German deal to be concluded, although the figure of $9 billion may be overstated.

The Bundesbank president, Karl-Otto Poehl, visited Riyadh last week, giving rise to speculation that the purpose of his trip was to negotiate a loan package. This was denied by West German Finance Minister Hans Matthöfer, in a Nov. 17 press conference. Matthöffer stated that it would be his own role to negotiate such matters.

The West German government's new determination to defend the deutschemark was underscored by Chancellor Helmut Schmidt's public remark that he thought the deutschemark was undervalued relative to the British pound sterling but that "this should correct itself" in the coming months.

It is highly unusual for heads of state to comment on foreign exchange parities in this fashion. Moreover, Schmidt said this on the day Prime Minister Margaret Thatcher was visiting with him in Bonn.

The pound has shown some weakness since it reached a $2.45 high against the dollar earlier this month (see Currency Rates).

Oil Diplomacy

Reagan: PEMEX gas stations

President-elect Ronald Reagan revealed that he has suggested to Mexican President José López Portillo in one of their meetings over the past year that PEMEX, Mexico's state-owned oil company, enter the U.S. retail gasoline distribution market.

"A PEMEX distribution network is a plausible question, since Shell operates here, and that is also a foreign company," Reagan stated in an interview granted to the West Coast Spanish magazine *Imagen* last week.

In an interview with the Mexican press the next day, Jorge Díaz Serrano, head of PEMEX, confirmed Reagan's initiative. "We are studying the proposal," Díaz Serrano said; "the problem that we foresee is that the fiscal systems of the governments that have made similar proposals to us are so severe . . . that so far we have not found an attractive proposal." Mexico has discussed such arrangements with Spain, Japan, and several other countries.

Briefly

● **PAKISTAN** is expected to get $1.7 billion from the Internatonal Monetary Fund (IMF) as part of a debt rescheduling package. This is the largest loan to a developing country in the IMF's history. Following months of negotiation, the IMF preliminarily granted the loan, although Pakistan will not devalue its currency.

● **THE WORLD BANK** has announced plans to float two large loans denominated in Japanese yen in early 1981. Completion of the loan deal hinges on implementation of Japanese central bank plans to lower interest rates in December.

● **ARGENTINIAN** banks are a "barrel of rotten apples," according to the Nov. 18 London *Financial Times*. "British banks have been given the impression that the Argentinian authorities will not be unhappy to see further collapses among the country's smaller private banks," the *Times* reports. "They have been assured, however, that international . . . creditors will not suffer loss. . . ." Internal debt to Argentine banks is estimated at $3.5 billion.

● **CITIBANK** has received approval from the Comptroller of the Currency to move its credit card operations from New York State to North Dakota. This will allow Citibank to charge higher interest rates on its credit card operations.

● **THE HEADS** of Germany's five leading econometric institutes, a group known as the "Five Wise Men," have issued their 1981 projections for the German economy. They say growth will be at zero levels for the first six months, bringing unemployment to the 1 million level. If wage austerity is practiced for that period, growth will resume, at about a 2 percent annual level for GNP, for the final months of the year, they claim.

EIR Special Report

The U.S. policy fight and the careers Reagan can end

by Konstantin George

The U.S. election provided landslide evidence that the American public wants a clean break with the policy-making circles around the Council on Foreign Relations and the Trilateral Commission that have steered America's perilous decline. In simple English, the election was a demand for a break with eight years of Kissinger and four years of Carter-Volcker.

Reagan's victory put a welcome end to the career of Trilateral President Jimmy Carter and his Trilateral cabinet crew. In the crucial transition struggle now being waged, President-elect Reagan is within reach—there are solid indications to this effect—of terminating the public careers of Trilateral Commission Executive Director Henry Kissinger and Fed Chairman and Commission member Paul Adolph Volcker.

It is an open secret that Reagan's trusted inner circle of political friends and supporters, and the anti-Carter forces in organized labor, want to keep Kissinger out of government and oust Volcker. A purge of Kissinger and Volcker would represent milestone battles won. The overall war for the shaping of the general policies and staffing of the new administration has, however, just begun. To sum up the point on Kissinger, keeping Henry the individual out of government is one thing; keeping Henry out of treasonous mischief is quite another.

There are two general problems Reagan and his circle will have to confront, involving Kissinger and his allies and underlings. In the first case, there is a pattern, replete with documentary evidence, showing that Kissinger and his friends, in active policy alliance with the lame-duck Carter administration, are striving to explode existing international and domestic crisis situations, and create as many new ones as possible, in order to "box in," option-wise, the incoming Reagan administration. The mode of behavior parallels that of the Buchanan administration, which used its own lame-duck period to render the secession moves irreversible, leaving Lincoln no choice

Will Henry Kissinger's proxies be allowed into the Reagan administration?

but to go to war to preserve the Union.

The crisis rampage involves the following operations: 1) Feverish pre-inauguration destabilizations by Anglo-American networks in Poland linked to Brzezinski and Kissinger, destabilizations designed to sacrifice Poland as a pawn to a Russian invasion. The ensuing international situation would place Reagan's inauguration under a frightening cloud, with the Paris-Bonn-Moscow war avoidance axis severed. Reagan would be locked into a cold war that neither he nor the leaders of continental Europe, Valéry Giscard d'Estaing and Helmut Schmidt, were guilty of fomenting.

2) The Carter administration's all-out offers of support to, and actual support of, Khomeini's Iran in the war against Iraq. The ongoing threat is to have Iran strike in kamikaze fashion and disrupt Arab oil facilities in the Gulf. In the middle of this ugly blackmail game against France, Germany, Japan, and President-elect Reagan (an oil crisis for an Inauguration Day present), where is Henry? In Paris, huddled for talks with Iranian madman Khomeini's lieutenant, the would-be butcher of the hostages, Ayatollah Beheshti.

3) The Carter-Kissinger Trilateral carnage in economic and international monetary policy. Both before, and especially since, the election, Volcker has gone on an unprecedented binge, causing skyrocketing interest rates and waging economic warfare against Europe.

Kissinger's mischief works in other ways as well. Even should Kissinger himself be out of the official running, Henry's clones abound, ready and poised to assume positions of influence in the new administration. Foremost among them is Alexander Haig, former NATO supreme commander, widely considered the front-runner for the post of secretary of state. As a patriotic former Foreign Service officer told this author, too many people believe that "while Kissinger is unacceptable, Haig would be the least of all possible evils."

Yet it's a matter often repeated on the public record that Haig has always acknowledged Kissinger as his mentor. If that weren't enough, then there's the saga of Haig's meteoric career, from desk job to desk job, leaping over the heads of hundreds of combat officers, on account of Henry's patronage.

In 1979, Haig was the preferred presidential option of Henry Kissinger, Kissinger's Georgetown circles, and pro-Thatcher American Tories. This grouping, centered around the "English Speaking Union" crowd and Georgetown University's Center for Strategic and International Studies, was out to "stop Ronald Reagan at all costs." That year, Kissinger went on record offering his "special advice" in Haig's bid for the presidency.

What the "destroy Ronald Reagan" crowd couldn't do in the election campaign, when the voters rejected all the Eastern Establishment GOP candidates, including Trilateral member Bush, they are now trying to ram through during the transition period.

I. ECONOMIC DIPLOMACY

Volcker's interest-rate war to set the international stage?

by David Goldman

Ronald Reagan began his presidential campaign at the Republican convention last July with a speech that included a pledge of currency stability and a preference for a "monetary standard," a coded reference to get gold backing for the U.S. dollar. But if the U.S. Federal Reserve continues its actions of the past several weeks, the new President will step into a major foreign economic crisis—coincident with a probable renewed downturn of the national economy.

In an effort to "discipline" Western Europe, in the words of a senior Federal Reserve official, the Federal Reserve began what the French call bluntly "interest-rate warfare" against the European Monetary System. The object, as detailed by Fed officials in background discussions with *EIR*, is to force Eurodollar interest rates up to the point that funds would flow out of the German mark—the pivot currency of the two-year-old European Monetary System—and into the dollar.

Although freely described by Fed officials, the content of the foreign side of Federal Reserve Chairman Paul Volcker's interest-rate policy is little discussed in the American press. It is a virtually daily topic of commentary in *Handelsblatt*, *Le Monde*, and other European journals, however.

A pre-emptive move

In effect, Paul Volcker has set out to pick a fight between the United States and Europe which neither Ronald Reagan, nor French President Giscard and West German Chancellor Schmidt, want. The action is more political than monetary. Paul Volcker, former strategic planning chief at Chase Manhattan Bank and (until he became Fed chairman) a board member of the elite Anglo-American Ditchley Foundation, is profoundly committed to the postwar special relationship with Great Britain.

Reagan's own philosophy would point, instead, to what has been mooted to be a "Washington-Bonn-Paris" axis, bypassing London, and also leaving behind the intensely anglophile international financial institutions, such as the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development, and the General Agreement on Trade and Tariffs.

As former British ambassador to Washington Peter Jay put it in a recent *Economist* commentary, the issue is the resurgent nationalism expressed in Reagan's landslide electoral victory against the postwar "internationalism" of the IMF and similar institutions. A committed internationalist, a public advocate of "controlled disintegration of the world monetary system [as] a legitimate objective for the 1980s," Paul Volcker is conducting a pre-emptive strike against what he and his faction in the U.S. and Britain expect to come from a Reagan administration.

In the beginning of November, following a spectacular rise of Eurodollar rates into the 15 percent and higher range, the West German mark fell from about DM 1.9 to the dollar to DM 1.96 at the worst. However, the mark suddenly recovered with help that the Fed had not anticipated—massive purchases of marks by the Saudi Arabian Monetary Agency. On Nov. 12 the SAMA made its first *daily* purchase of about DM 3 billion, effectively establishing a "floor" under the German mark, in the estimation of surprised Fed staffers. The West Germans also began negotiations with the Saudis for a special credit facility of about DM 9 billion, in addition to the planned borrowing of ECU 10 billion projected by the European Community for next year. West German Bundesbank chief Karl-Otto Poehl went to Saudi Arabia last week, and the West German finance ministry played the foreign exchange market rumor mill brilliantly, alternately feeding background out to the German media and demurring that anything unusual was in the works.

The announcement that West Germany would play hardball on the foreign exchange markets came early in November from the dean of West German finance, Deutsche Bank Chairman Emeritus Hermann Abs. "Anyone who says that the German mark is undervalued," Abs told the press, "is both stupid and irresponsible."

At a London press conference Nov. 17 with British Prime Minister Margaret Thatcher, the German chancellor himself told reporters that the British pound was overvalued against the German mark, immediately provoking a slide of that currency to below $2.40. The British pound is largely sustained by short-term capital inflows seeking high interest rates for short periods of time, and is continuously subject to runs on the part of speculators who might, simultaneously, decide to cash in their winnings. "Helmut Schmidt is not above trying to provoke that scenario," said an American monetary official.

The dollar and the Euromarkets

But the bigger danger is that the same scenario could hit the American dollar. Unlike Britain, the American dollar has merits as an investment currency in the long term, and domestic U.S. financial and tangible investment is attractive to investors who hold strong European currencies. But the United States, after six quarters of uninterrupted falling industrial productivity, is now sliding into a worse trade-deficit position. Despite the severe recession, which would have in the past implied lower import demand, the U.S. will show the third $30 billion trade deficit in a row during 1980. The deficit in 1981 could be worse. If the Federal Reserve's monetary policy keeps interest rates at around their 1980 peaks for any significant length of time, the American economy will turn down again sharply, and the dollar will be in very bad shape.

However, a fall of the dollar to DM 1.70 or even lower does not, by itself, imply a fundamental crisis in the dollar sector. What is much more dangerous is the consequences for the world payments system of the Fed's high interest-rate policy.

Next year's payments deficits of non-oil-producing less-developed countries and weaker industrial nations (e.g., the Mediterranean countries) will exceed $120 billion, even presuming that there is no increase in the price of oil. The financing of these deficits, the majority of which are the debt service on $350 billion of commercial loans, depends on the interest-rate situation. Every 1 percent rise in the London Eurodollar six-month rate adds $3.5 billion to the deficit figure. If the Federal Reserve maintains dollar interest rates at a plateau above 15 percent or so for several months, the resulting increment to the world payments imbalance may be sufficient to provoke defaults or reschedulings on too broad a scale for comfort.

Ultimately, the parity of the dollar against other major currencies depends on the rate of profit of dollar investments compared to the rate of profit available in competing currencies. Dollar-sector investments in the Eurodollar market are principally *arbitrage*, that is, borrowing short term and lending short term at some interest-rate differential. A very large portion of the $1.2 trillion Eurodollar market, or about $400 billion, represents interbank loans, whose profitability depends on fine gradations of interest charges between different borrowers.

A portion almost as large is an arbitrage operation disguised as international lending: Eurodollar banks borrow at the London interbank offering rate (LIBOR), and lend to their developing-sector debtors the sum these countries owe by way of principal and interest on preceding loans. The loan is made at LIBOR plus a "spread," usually between 1 and 2 percent in the case of LDC borrowers.

The borrowing country immediately "repays" its previous debts with the proceeds of the new loan. The Eurodollar bank then makes a fictional profit based on the "spread" net of administrative costs.

Once the viability of this paper is questioned, the entire fraudulent game collapses, and the imputed "profit" due to the spread between the banks' own cost of funds and charges to borrowers is greatly outweighed by the prospect of involuntary moratoria or defaults on loans. At this point the bookkeeping rate of profit on Eurodollar lending will collapse.

Two options

There is no firm basis for predicting the likelihood of such a development. However, the Federal Reserve is playing a brinksmanship game, partly to persuade the Europeans to abandon what is still an ambitious loan program to finance their exports to the LDC's. If the Fed takes the credit system over the brink, the consequences for the dollar are incalculable. The result may be exchange controls of a type more drastic than Britain maintained until recently.

Whether the Federal Reserve and banks who share its views have evaluated this possibility, and would rather see a "Fortress America" fall-back position than a Washington-Bonn-Paris axis, is difficult to say.

However, these are the two paths that lead out of the present situation. The President-elect has the choice of working with the European Monetary System to restabilize the dollar, which means ultimately working off American foreign liabilities through *net exports*, or accepting the worst consequences of "controlled disintegration." Mr. Reagan faces an oil slick put down by the Carter Federal Reserve chairman. He will have to think fast to avoid the worst consequences of his predecessors' mistakes.

The rush to provoke a showdown between Reagan and Europe

by Vivian Zoakos

As West German Chancellor Helmut Schmidt arrived in Washington this week for talks with Carter and Reagan, continental Europe found itself facing efforts from various quarters to lock the new U.S. administration into policy showdowns with its allies. While the outcome is by no means predetermined, the lineup has become quite clear.

The British Foreign Office and its sympathizers in the NATO command and the Kissinger faction of the Republican Party intend to maintain and intensify the current Anglo-American "special relationship"—shaped around economic austerity and East-West confrontation.

Continental Europe, for its part, has quietly pursued economic cooperation with the U.S.S.R. and the Arab oil producers, and looks to a comprehensive settlement of Middle East questions as a means to that end.

The Chancellor and French President Valéry Giscard d'Estaing have welcomed the Reagan victory and expressed their desire for improved relations with Washington—in a Nov. 16 interview with ABC's Issues and Answers, Schmidt stated: "I have the feeling of a new decisiveness in the American nation."

The initiatives Schmidt and Giscard have taken over the past four years in response to the policy disaster in Washington under Carter would inherently appeal to the partisans of growth within the Reagan camp. They include support for Iraq and its plans for rapid industrialization of the Middle East; strengthening the dollar and world trade through a new monetary system based on gold; and the "Gaullist" approach adopted by Eisenhower's second administration to dealing with the Soviet Union, especially on economic matters.

Maneuvering to preempt the establishment of a close collaborative relationship between the incoming administration and the Franco-German alliance, British Foreign Secretary Lord Carrington in a front-page interview in the *International Herald Tribune* published Nov. 14 announced the U.K.'s intention to use its influence to "delay" a European diplomatic initiative on the Middle East. At the same time, the issue of the NATO budget is being heated up as a wedge to press West Germany toward NATO's counterpolicy for the Middle East, the "rapid deployment" scenario for superpower brinksmanship in the region.

In discussions Nov. 17 between Schmidt and British Prime Minister Margaret Thatcher in Bonn, disagreements came to the fore over Thatcher's insistence on the "special relationship" between London and Washington, according to German reports. Schmidt proposed a four-way summit meeting among himself, Giscard, Thatcher and the new Reagan administration, along the lines of the 1979 summit in Guadaloupe; Thatcher, apparently averse to the potential influence of "the continentals" on the new American president, emerged from her talks with Schmidt to tell the press that her schedule is too full for the next eight months to include even the possibility of such a meeting.

As the Europeans see it, their survival depends on a continued flow of Arab oil and petrodollars for deficit financing and capital investment; and their prosperity requires expanded new markets based on the European Monetary System's potential for underwriting transfer of technology to OPEC and the Third World. Therefore, Europe has cautiously proceeded in its dialogue with the Arabs, and the heads of state of the European Community (EC) will meet early this month to discuss launching an independent initiative for Mideast peace.

The EC, to which Britain belongs, is one arena where Carrington hopes to force his "delay." The initiative was the subject of a heated disagreement in Paris this week between French Foreign Minister Jean François-Poncet and Henry Kissinger, where François-Poncet declared, according to Radio Jerusalem, that France favors recognition of the Palestine Liberation Organization, and if the rest of the EC refuses to make such a move, France will do it alone. France has responded immediately to Carrington's interview; when a senior government official leaked through the Nov. 15 issue of *Le Figaro* that political cooperation will not be increased by halting initiatives and hinging action on the United States.

The Kissinger formula on all this was summarized Nov. 18 by syndicated columnist Joseph Kraft from Washington, in a commentary titled "Plain Talk for Schmidt." "Among the losers in the American elections you can count the European allies: they no longer have Jimmy Carter to kick around," Kraft wrote. "Without Mr. Carter as an excuse, the the Europeans either have to acknowledge the differences with the United States on fundamentals or modify some of their independent positions. The test of which way Europe goes begins with the visit of Chancellor Helmut Schmidt to Washington this week. . . .

"As befits his central role, the Chancellor has played a lead part in the allied assault on President Carter. . . . He intimated that because of Mr. Carter, Europeans have had to strike out on their own in dealings with Russia and the Near East." Now, however, "the French and Germans intend to continue to work out a Near East settlement outside the Camp David process, and an understanding with Moscow outside the Big Two framework. Americans, in these conditions, owe the Chancellor some plain talk."

Military questions

This "bipartisan" pressure on Europe and on Reagan policy was elaborated by Reagan transition team member Alexander Haig, the former NATO supreme commander and one of Reagan's candidates for defense secretary. Speaking to the annual Heinz Seminar in the Senate Caucus Room on Nov. 13, Haig characterized Europe as the main threat to U.S. security, on the grounds that West Germany in particular is "not contributing their share" to NATO, and rebuked the Germans, French and Japanese for "actively competing with us for markets at home and abroad." The seminar, which was cosponsored by Georgetown University's Center for Strategic and International Studies and Sen. John Heinz III, a former sponsor of Haig's presidential aspirations, included Zbigniew Brzezinski, who demanded that Europe "support the Camp David accords" and "join the United States in creating a security framework in the Middle East" through NATO.

General Haig's fulminations followed the recent announcement from Bonn that, owing to economic difficulties, West Germany (like Italy, Belgium, and Denmark) will be unable to meet the 3 percent increase in defense spending agreed upon by NATO members. Schmidt has repeatedly asserted that his government has always lived up to its defense obligations, while, he says, the real problem is the failure of the United States and Britain to maintain conscripted armed forces. Schmidt's political associate, Social Democratic leader Hans-Jürgen Wischnewski, was quoted Nov. 18 by the German press bluntly commenting that a 3 percent


President Giscard and Chancellor Schmidt.

increase is meaningless; if there is a crisis, the defense budget might be raised by 15 percent, and if not it might stay at current levels.

Other German spokesmen point to the fact that the Carter administration had to fudge its own bookkeeping for fiscal 1979 in order to show a 3 percent defense increase for fiscal 1980, and that U.S. outlays are bloated by the huge proportion of salary payments for the All-Volunteer Army.

Economic entente not dead

The West German view of these military questions is put in a larger perspective by the fact that, despite the Carter administration's strictures against any such dealings, a consortium of 20 West German banks is moving forward with a giant project to build a natural gas pipeline from western Siberia to Western Europe. For the first phase of the project, a $5.3 billion credit was recently negotiated; the pipeline is expected to reach double that amount by the time it is completed, making it the largest single business deal concluded thus far between Eastern and Western Europe.

The German credits will be repaid in the form of deliveries of 40 billion cubic meters of natural gas annually to Western Europe starting in 1984, of which 12 to 15 billion cubic meters per year will go to the Federal Republic. According to West German news reports, the initial loan will be at 7¾ percent interest rates.

A challenge to the President: Friedmanism or economic growth?

by Kathy Burdman

Federal Reserve Board chairman Paul Volcker is presenting the incoming Ronald Reagan administration with an economic fait accompli: a full-scale U.S. recession.

Since the Nov. 4 election alone, Volcker has, with deliberation, raised the U.S. prime lending rate from 14 percent to $16\frac{1}{4}$ percent, and money market analysts expect the prime to go to 17-18 percent before the end of November. Volcker has acted in this way to directly provoke what economists uniformly agree will be a second or "double dip" recession next year, in spite of the American electorate's overwhelming vote on Election Day against the Carter administration's high-interest rate policy.

The partisans of Chicago School monetarist Milton Friedman are moving to take over the new Reagan administration. Volcker's actions are part of the coup, forcing Reagan before he begins into a framework of tight money and economic austerity.

Already, former Nixon-Ford Treasury Secretary William Simon has let it be known that he will "definitely" return as treasury secretary in the Reagan administration, nationally syndicated columnists Evans and Novak reported recently. Simon, a self-proclaimed devotee of Milton Friedman, is leading a group of Friedman's followers in an attempted takeover of the top economic posts in the new Reagan administration itself.

Eleven economic advisers met with President-elect Reagan this week at the Los Angeles Beverly Hilton. The meeting was dominated by Friedman, Simon, and former Fed chairman Arthur Burns, former Treasury Secretary George Shultz, and other proponents of tight money austerity.

Thatcher—or Hoover?

These actions by Volcker on the outside and Friedman on the inside of the Reagan administration constitute an attempt by the Anglo-American policy elite to maintain the United States in the same policy framework of zero economic growth now being implemented by British Prime Minister Margaret Thatcher, where industrial production has plummeted by over 11 percent during the past year under a Bank of England credit squeeze conducted in coordination with Volcker's U.S. crunch. The Carter administration, from the anglophile President to his London School of Economics-trained Fed chairman on down, has been of one mind with London in opposition to basic industrial growth.

Although the U.S. population overwhelmingly voted this un-American policy out of office Nov. 4, Britain has made clear its desire for the new Reagan government to continue what Volcker has begun. "I certainly hope that Reagan will be Thatcherized," William Rees-Mogg, editor of the *London Times*, told *EIR*, noting that the British government holds this view. "We will tell him to enact a large stablization crisis, to deflate very rapidly."

As the British government and Milton Friedman have often publicly pointed out, the Thatcher program was written in consultation with Friedman, who still consults with London on its implementation.

To ensure that Reagan follows the desired course, Volcker is proceeding to "Hooverize" the President-elect, Federal Reserve sources close to Volcker told *EIR* this week. Given the way the already-accomplished interest rate squeeze will turn down the U.S. economy, "Reagan won't be able to do anything," the source said, about the economic crisis, and will be stuck in Volcker's mode.

As the New York *Journal of Commerce* editorial "Doomed at the Start" put it on Nov. 18, "the danger is that this credit tightening is more than likely to throw the economy into a new downturn next year. The voters have already confirmed President Carter as the Democrats' Hoover. Unless President Reagan moves swiftly to counter the boat-rocking proclivities of the Federal Reserve—something none of his advisers have warned of publicly—like his predecessor, he could be doomed at the start."

Milton Friedman, William Simon, and Reagan's other anglophile advisers have no intention of warning Governor Reagan. Instead, the aim is to stock Reagan administration posts with a group of holdovers from the 1969-76 Nixon and Ford administrations, the source close to Volcker said, who will follow the Friedman doctrine with the same disastrous results Nixon had. "The people coming in are just a rehash of the Nixon administration," said the Fed source, "the same individuals—and with weaker leadership on top. Reagan is completely inexperienced; at least Nixon was a Vice-President. And the Nixon group didn't do a very good job of running economic policy the last time. Inflation went wild."

The holdovers are, almost to a man, Friedmanites. Milton Friedman himself, of the Nixon Council of Economic Advisers, and his professor and collaborator Arthur Burns, who ran the Nixon-Ford Federal Reserve by Friedmanite principles, will be senior advisers to the new government. The Friedman group seeks the top cabinet posts of secretary of state, secretary of the treasury, and chairman of the Council of Economic Advisers for three self-professed Friedman partisans from the Nixon years. They are George Shultz, Nixon's treasury secretary, William Simon, Ford's treasury secretary, and Alan Greenspan, Nixon's CEA chief. We document their dismal record in this issue (see page 30).

The current squeeze

Volcker, meanwhile, is proceeding to put the United States into the type of recession British Chancellor of the Exchequer Sir Geoffrey Howe recently described as "painful but necessary," from which the Anglo-Americans hope Reagan will be unable to recover.

Since the presidential election, Volcker has acted to force the average federal funds rate at which banks lend their excess reserves at the Fed to each other from 12 percent to over 15½ percent at this writing, a short-term tightening of the basic cost of funds unparalleled since Volcker's original early 1980 credit control measures which sent the U.S. economy into its first quarter tailspin. This has produced a prime lending rate of 16¼ percent, but money market analysts say that if fed funds settle at 17 percent, an 18 percent prime rate will soon follow.

Questioned closely by an angry House Banking Committee Domestic Monetary Policy subcommittee chairman Parren Mitchell on Capitol Hill this week as to why he persists in his credit squeeze, Volcker cited the Friedman doctrine. "The deceleration of inflation requires that excessive monetary expansion must be avoided," he said flatly. "That basic tenet of monetary policy, on which all economists can agree, is reflected in the broad concepts of monetary targeting," the fixed targets for monetary aggregates first defined for modern practice by Milton Friedman in the 1950s, which Volcker has been using as a deflationary guide.

"Let us recognize that slowing of growth of money and credit in an inflation-prone economy is not a simple painless job," Volcker stated. "Let us also recognize that it must be done. And it will be done."

Asked about his future plans for U.S. interest rates, Volcker indicated that he will continue to raise them. The broadly defined U.S. money supply measure M1-B is now growing at a fast pace, in spite of Volcker's tightening, as U.S. corporations borrow to refinance short-term debts incurred in the continuing recession

Opposition to Volcker

In a statement published in the Nov. 14 Congressional Record, Ohio Congressman Ronald Mottl called on President-elect Reagan to "seek Volcker's resignation unless the chairman commits himself to bring down the exorbitant level of interest rates." Mottl is a conservative Democrat who hails from Ohio's 23rd CD, the heavily auto-industry area of Parma. Mottl's full statement from the record follows: "Mr. Speaker, outrageously high interest rates are crushing the nation's hopes of pulling out of the recession and putting the unemployed back to work. After peaking at 20 percent last spring, interest rates declined to lower but still intolerable levels. Now, interest rates have again crept above 15 percent. The result is that our economic recovery is being unmercifully choked at a tremendous human expense.

"Auto workers cannot work because people do not buy cars when they cannot afford the financing.

"Young families can only dream of buying the home they could have afforded before skyrocketing interest rates ballooned their monthly mortgage payment.

"While big corporations can weather financial market ups and downs, the small businessman who needs to borrow is swept away in a tide of red ink.

"It is well known that the Federal Reserve Board policy is to wring inflation from the economy by tightening the money supply. But we must spread the burden of fighting inflation beyond monetary policy, or risk more economic devastation and human misery.

"Therefore I urge President-elect Reagan to seek the resignation of Fed Chairman Volcker unless the chairman commits himself to bringing down the exorbitant level of interest rates."

without regard to rates. In the week to Nov. 5, M1-B rose by $1.4 billion, which money market economists note brings the average annual rate of growth over the past four weeks to 14 percent, more than twice Volcker's target of 6-7 percent.

Asked if he would continue to reach for his target at the congressional hearings, Volcker stated that he intends to "lean against the monetary aggregates quite hard." If so, U.S. interest rates can only be headed up.

Endorsements

Nevertheless, the leading Friedman followers seeking to control the Reagan administration continue their endorsements of Volcker. "Nobody considers Paul Volcker the enemy," William Simon told the *Wall Street Journal* last week, and urged the Fed chairman to "take even stronger action" than he has so far to continue to drive up interest rates.

Paul McCracken, head of the Reagan Transition Team Task Force on Inflation, also endorsed Volcker in a *Wall Street Journal* op-ed Nov. 13, saying that low interest rates are the cause of inflation. "No concern about the plight of auto dealers or of those wanting to buy or build homes" can be allowed to deter the Fed chairman from his course, McCracken wrote.

"The implications of this Simonesque austerity being so close to the [Reagan] throne may have contributed to the vaporization of the U.S. bond market" soon after Simon's statement, commented Jude Wanniski, a prominent anti-Friedman "supply-side" Reagan economist. "Is Mr. Reagan being Thatcherized?"

The fight for Ronald Reagan's economic soul is not over. It is true that the 11 advisers present at Reagan's Los Angeles economic summit this week were almost entirely members of the Friedman faction, led by George Shultz, William Simon, Paul McCracken, Arthur Burns, Alan Greenspan, and Friedman himself. Other Friedman partisans present included Walter Wriston, the self-avowed "monetarist" chairman of New York's Citibank, and radical libertarian economist Murray Weidenbaum, who works closely with Friedman.

As the comments of Mr. Wanniski, a former *Wall Street Journal* editor, emphasized, however, there is a group of younger Republican economists dedicated to economic growth who deplore Mr. Friedman's influence and aim to take control over Reagan economic policy themselves. These "supply-siders," as they call themselves, in reference to supplying tax credits to stimulate production, are led by New York Congressman Jack Kemp, who also joined the Los Angeles summit. Mr. Kemp refers to Mrs. Thatcher's policy as "root-canal economics." "The fight is far from over," he told *EIR* when asked whose policy would ultimately prevail.

II. CAREER RECORDS

What Friedman did to Nixon

Most of Ronald Reagan's first-string team of economic advisers played star roles in the Nixon administration's economic disasters, by following the same policy prescriptions that they are currently offering the new administration.

Although he had no official role in Nixon's cabinet, Milton Friedman, still on the Reagan advisory team, was the pivot of Nixon's economics. Advising Nixon were Friedman protégé George Shultz, then Office of Management and Budget Chairman and fresh from the University of Chicago, and Arthur Burns, Friedman's old sponsor from undergraduate school and the National Bureau of Economic Research.

Friedman's intemperate statements concerning the advisability of winding down Social Security and all but eliminating trade unions had been a major factor in Barry Goldwater's 1964 defeat.

This makes even more astonishing Richard Nixon's decision to make Friedman his unofficial economic adviser in 1969.

Nixon, however, had been a wartime pal of Friedman's at the Office of Price Stability at Treasury, and learned his economics at the White House at Arthur Burns's knee. Burns now moved back to the White House from Columbia as Counselor to the President. The next year, Burns replaced the aging William McChesney Martin as Chairman of the Federal Reserve's Board of Governors.

Put to the test

During the first half of 1969, the Federal Reserve held the rate of money-supply growth to 4.4 percent per year, right in the middle of Friedman's recommended range of 3 to 5 percent.

Prices rose by an annual rate of 5.8 percent, faster than they had during what Nixon considered a period

President Nixon meeting with economic advisers to discuss federal expenditures. He learned the hard way about Milton Friedman's advice.

of monetary laxity under Lyndon Johnson, when they had risen by 4.6 percent per year. This did not upset Friedman, who believed that monetary policy operated with a six-month lag. He wrote, however, in August 1969, "If the rate of price rise has not begun to abate by the fourth quarter of this year, it will be time to ask us for an explanation."

But the rate of price inflation did not abate. It continued at 5.8 percent per year through the second half of 1969, and showed no signs of improvement.

Friedman prescribed more of the same medicine, and the Federal Reserve under Nixon's imprimatur obeyed. Monetary growth stopped dead in the half-year from June 1969 to December 1969, and the economy collapsed. Industrial production fell starting in the summer, and unemployment rose from 3.5 percent in 1969 to 5 percent in May 1970.

Despite the deterioration of economic conditions, inflation did not fall. During the first half of 1970, inflation was *higher* than it had been the previous year. Leonard Silk of the *New York Times* economics staff summed up, "Interest rates had climbed to levels not seen in a hundred years, with devastating effects on housing. The federal budget was dropping into deficit, aggravating pressures on money markets. The stock market went into the worst decline it had experienced since the Great Depression."

The road to August 1971

Friedman nearly brought the American economy through a repetition of the 1929 crash, by identical methods.

In May the Penn Central Railroad went bankrupt, leaving hundreds of millions of dollars in short-term commercial paper outstanding. The entire structure of American short-term credit, which dependent on tens of billions of dollars in short-term promissory notes secured only by the faith of the borrower, was in danger. Bankers sat in their offices deciding whether or not to panic, and Arthur Burns made a series of frantic phone calls to New York and Chicago promising that the Fed would provide as much money as needed as soon as they needed it.

The great reversal

From dead zero, the rate of money-supply growth jumped to 13 percent. Penn Central did not lead to a general panic in the American credit markets. However, the sudden lurch from monetary strangulation to a postwar extreme in monetary laxity sent the American dollar skidding down towards the great debacle of August 1971. The first big dollar crisis of the Nixon administration broke out almost as soon as Burns opened the floodgates in May 1970.

Nixon was stupid, but not that stupid. On the next moonless night he buried Milton Friedman's reputation in the White House back lawn. Immediately after followed Nixon's great recantation: "We are all Keynesians now," meaning that "We are no longer Friedmanites!" That didn't get either the White House or the United States out of the hole that a year of Friedman's medicine had put it in.

By August 15, 1971, Nixon caved in to the demands of Rep. Henry Reuss and Paul Volcker, delinked the dollar from gold, and placed the wage-price controls on the American economy that would, within two years, lead to double-digit inflation.

The above account is drawn from The Ugly Truth About Milton Friedman, *by Lyndon H. LaRouche, Jr. and David Goldman (New York: New Benjamin Franklin House).*

The monetarists on Reagan's team

Arthur Burns

Arthur Burns, the "grand old man" of the Nixon-Ford economic advisers and chairman of the Federal Reserve from 1970 through 1977, is likely to play the same role, if in a more senior and less public way, in the Reagan administration.

Burns, born in Stanislau, Austria in 1904, is one of the founders of what is known today as the Friedman school of economics. Burns received his Ph.D. in economics in 1934 as the leading pupil of Wesley Mitchell, who brought the principles of monetarism into the United States. Mitchell was trained at the University of Vienna and at Britain's Oxford University in the Anglo-Austrian tradition that credit creation for industry is ipso facto inflationary, and that both the rate of credit creation and the rate of industrial production must be kept to a fixed annual rate of growth. In 1920 Mitchell established the National Bureau of Economic Research to propagandize within the United States for this Anglo-Austrian view.

Joining the bureau as Mitchell's assistant in 1930, Burns became its director of research in 1945, and its president in 1957. At the NBER, Mitchell and Burns elaborated the concept of "business cycles," popularizing the theory that the capitalist industrial economy is inevitably doomed to endless boom-bust cycles because when central banks extend credit to industry, they invariably create too much credit, causing a banking crisis and a depression. The solution, according to their studies was for central banks to restrict credit.

Burns and Mitchell also invented and elaborated the concept of Gross National Product, the national accounting scheme which fails to differentiate between productive and nonproductive output in the economy. GNP was adopted for national planning use, which has greatly weakened U.S. government capital formation programs ever since.

While teaching at Columbia during this time, Burns ingratiated himself as an economics adviser to Columbia President Dwight D. Eisenhower. He moved to the Council of Economic Advisers when Eisenhower became President in 1952, and was chairman of the CEA in 1953 to 1956. There he became economic tutor to Vice-President Richard Nixon.

In 1969, Nixon brought Burns to the White House as special counselor to the President, and when William McChesney Martin resigned as Federal Reserve Board chairman in 1970, Nixon appointed Burns to that post. At the Federal Reserve, Burns carried out the Anglo-Austrian policy of fixed rates of money-supply growth which his student Milton Friedman had popularized as "monetarism," and was a leading contributor to the recurring economic crises of the Nixon-Ford years. He resigned as Fed chairman in early 1977 and joined the Lazard Frères investment bank and the American Enterprise Institute in Washington, D.C. as a Senior Fellow, where he remains today.

George Shultz

President of San Francisco's Bechtel Corporation, Shultz left the post of treasury secretary in May 1974 after a two-year stint during which he continued John Connally's opposition to European requests for a remonetization of gold.

Trained in economics at Princeton and the Massachusetts Institute of Technology, Shultz became a specialist in labor relations and worker retraining. He worked closely with Milton Friedman and Arthur Burns at the University of Chicago, where in 1962 in he became dean of the Business School. His father, Birl Shultz, was a Princeton economics professor and collaborator with revisionist historian Charles Beard.

In the first Nixon administration, Shultz became labor secretary, leaving a post at the Palo Alto Center for the Advanced Study of Behavioral Science. The President appointed him the first director of the new Office of Management and Budget in July 1970. There he attempted to centralize economic policy control at the expense of the Treasury Department, in what the *New York Times* described at the time as the counterpart to Henry Kissinger's centralization of foreign policy control in the new National Security Council.

William Simon

Former Treasury Secretary William Simon, born in 1927 in Paterson, New Jersey, was graduated from Lafayette College in 1952 and spent 20 years thereafter as a municipal bond trader on Wall Street. He joined the Union Securities Company of New York in 1952, and rose by 1964 to become senior partner of Salomon Brothers investment bank in charge of municipals, from which he consulted with the U.S. Treasury and related government agencies on the markets and became friendly with George Shultz.

Simon was groomed by Shultz for government service. When the Federal Energy Administration was created in 1973, Shultz advised President Nixon to appoint Simon as its "energy czar" and then brought Simon in as deputy treasury secretary later that year. When Shultz left in 1974, Simon inherited his post.

Simon is a patriot who in his 1978 autobiographical bestseller *A Time for Truth* describes with horror his bird's-eye view of the decaying U.S. economy as that of a physician who can see the disease in every system of the body but who has only one problem: "I was in love with the patient." However, Simon is a committed tight-money man with regard to credit for U.S. industry, and as a practical economist is overrated. *A Time for Truth* was co-authored by Edith Ephron of *Reader's Digest*, a collaborator of radical libertarian Ayn Rand, who saw to it that no departure from strict Friedman doctrine was allowed to appear in the book.

Simon is on the board of directors of Dart Industries, the firm of Justin Dart, a leading member of Reagan's "California mafia" kitchen cabinet who is also close to the progrowth faction of New York Congressman Jack Kemp, and is said to be personally close to Dart.

After he left Treasury with Jimmy Carter's 1976 electoral victory, Simon served as chairman of the board of Georgetown University. He is also a leading member of the New York Council on Foreign Relations. He maintains offices currently at Wall Street's Blythe, Eastman Dillon investment bank.

Simon is a director of Citibank and close to Citibank chairman Walter Wriston.

Alan Greenspan

Alan Greenspan has spent his career as a professional economic consultant committed to the principles of Friedmanism. Born in New York City in 1926, Greenspan was graduated from the New York University School of Commerce with an M.A. in economics in 1950, and founded the economics consulting firm Townsend, Greenspan Inc., in 1954. Radical libertarian Ayn Rand introduced him to the Burns-Friedman circle. Greenspan became a consultant to the Nixon Council of Economic Advisers and Burns's Federal Reserve Board during the 1970-74 period.

When Ford appointed Greenspan chairman of the Council of Economic Advisors after Nixon's resignation in 1974, Ayn Rand made one of her few public comments. "Alan is my disciple, philosophically," she said. Greenspan is a member of the board of Morgan Guaranty Trust Co. of New York, Morgan & Co. of London, *Time* Magazine, the Brookings Institution, the Dreyfus Fund, and Mobil Oil, as well as the Hoover Institution.

He left the government to return to Townsend, Greenspan in 1977, where he remains as president. At the Republican National Convention, he served with Henry Kissinger as one of the principal architects of the attempted Gerald Ford "co-presidency."

During the 1980 campaign, Greenspan once attempted a professional economist's correction of Reagan's economics. When in August Reagan accurately told the press that Jimmy Carter had created "a severe depression," Greenspan called the press to apologize for Reagan's "overdrawn false alarm." The proper word, of course, said the economics consultant, was "recession."

Later that day Reagan also called a press conference, and with a contrite Greenspan by his side, informed the public that he stood by his own statement. "When somebody else is out of work, that's a recession," Reagan said. "And when you're out of work, that's a depression. And when Jimmy Carter's out of work, that's recovery."

The GOP's supply-side economists: their strengths and weaknesses

by Richard Freeman

Economic consultant Jude Wanniski, the leading publicist for what has come to be known as "supply-side economics," has argued that the person most sympathetic to his (and Rep. Jack Kemp and Prof. Arthur Laffer's) viewpoint in the Reagan camp is Ronald Reagan himself. In a sense that is true, although not because Reagan agrees with the exotic academic arguments associated with the "Laffer curve," i.e., the argument that a cut in marginal tax rates will automatically stimulate the economy sufficiently to generate enough tax revenue to compensate for the tax loss.

Kemp, Wanniski, and Laffer are old-fashioned American boosters, and their underlying philosophy appeals to President-elect Reagan more than the tired pessimism of the former Nixon and Ford advisers who currently dominate the Reagan economics team. However, shared sentiment is a long way from a governing program. The Western states' senators who stood by Reagan during the primaries, men like Paul Laxalt of Nevada, Orrin Hatch and Jake Garn of Utah, and Peter Domenici of New Mexico, share the booster sentiment. On many policy questions, e.g. whether Fed Chairman Paul Volcker's monetary policy should be retained for another four years, both they and the "supply-side" Easterners will agree.

But all the leading individuals in the "anti-austerity, progrowth" side of the Reagan transition apparatus are merely exemplary of why Reagan won by a landslide in the first place. Kemp and his advisers staked out their claim as the Republican Party's boldly progrowth group during the primaries, and when the voters rejected the Carter recession, achieved sudden prominence.

Reagan's victory owed as much to what the candidate perceived from the national mood as it did to the specific advice of the "supply-siders." Reagan adopted a modified version of the Laffer tax-cut plan. But he also adopted, on the advice of Ohio Republican Gov. John Rhodes and others, Democrat Lyndon LaRouche's line of attack against Carter's depression economics. What impressed Reagan was not the "supply-siders'" pat tax-cut theories but the fact that they stood out among his advisers in offering the new administration an alternative to what Kemp calls "root-canal economics."

At the moment, Kemp, Laffer, and Wanniski are a highly effective ginger group, operating "outside the tent," in Lyndon Johnson's phrase. In the Nov. 11 *Wall Street Journal*, former *Journal* editorialist Wanniski delivered a stinging rebuke to the Milton Friedman wing of the Reagan camp, whom Wanniski identified as former treasury secretaries George Shultz and William Simon, former Council of Economic Advisers Chairman Alan Greenspan, and former Fed Chairman Arthur Burns. "Will Reagan Be Thatcherized?" was the title of Wanniski's op-ed sally, which warned that the same disasters which befall Friedman-advised leaders like Joe Clark of Canada and Margaret Thatcher of Great Britain would befall Reagan if he followed Friedman's advice.

"We are the progrowth forces, against the austerity crowd," Wanniski told *EIR* in a recent discussion. In his op-ed in the *Journal*, Wanniski warned that some of Reagan's advisers were telling the current Fed chairman to induce a bout of "mind-blowing interest-rate austerity" before Reagan took office, in order to leave the blame for the worst consequences of Fed policy on the lame-duck administration.

Rep. Jack Kemp, Wanniski's close collaborator, similarly blasted "root-canal economics" in a Nov. 9 interview with the *Buffalo Courier-Express*. If the Republican Party does not repudiate the principle that the worse an economic policy feels, "the better it is for you," Kemp said, "the voters will turn on us."

Stone soup economics

The theoretician of supply-side economics, University of Southern California Professor of Business Arthur Laffer is a renegade Chicagoan. Trained by one of Milton Friedman's best-known protégés, Robert Mundell (now at Columbia University), Laffer absorbed Friedman's outlook on economic method, but could not stomach the implicit zero-growth conclusions of Friedman's monetarism. "You want to prove that Milton Friedman's a fascist? It's easy. Quote him," Laffer said in a recent interview.

Laffer's core argument, embodied in the Kemp-Roth tax reduction bill, is simple: individuals are motivated to produce by the pecuniary awards they receive by producing. High marginal tax rates (high progressive rates of taxation) eliminate the producer's incentive to produce, because after a certain point, the producer gives most of his additional income to the tax man. Therefore, the way to stimulate productivity and production is to lower tax rates on the upper end of the progressive income scale, and the economy will expand.

On the monetary side, the Laffer group favors gold-standard discipline on currency expansion. A Laffer-authored plan circulated prior to the Republican convention proposes that the Federal Reserve fix a price for gold against the American dollar, and defend the gold parity by reducing money supply if the parity comes under attack.

Laffer and Wanniski maintain that it is not important whether individuals use the proceeds of the proposed tax cuts to build condominiums in Florida and gambling casinos in Atlantic City, or if they create new mills and ports.

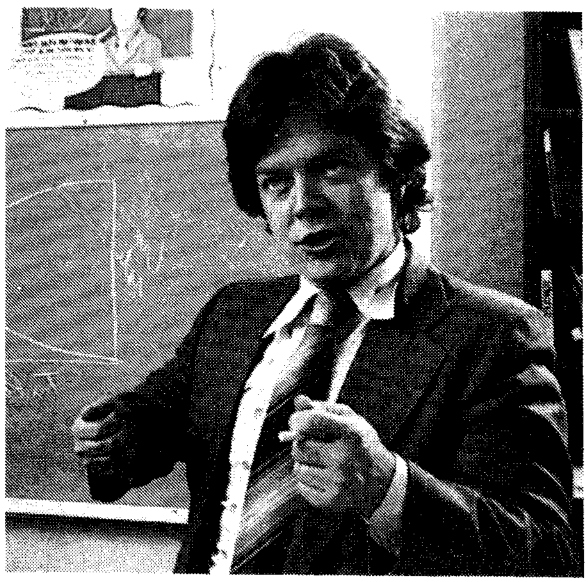
In their view, the productivity of a football team, measured by its audience drawing power, is not different from the productivity of a machinist (an analogy suggested by Jack Kemp's earlier career as star quarterback for the Buffalo Bills.) Laffer's unwillingness to distinguish between investment that enhances the productivity of basic industry and investment in, say, stock and real estate secondary markets, is a prejudice inherited from Milton Friedman and the Chicago "utilitarians," who try to reduce all economic quanta to a "pleasure-pain" principle.

Although Laffer has tried to put up econometric models that will forecast the rise in tax revenues due to lower marginal tax schedules, the approach is still considered exotic by most of the business community, let alone the economics profession, which is openly hostile. It speaks well for Reagan's admiration for the supply-side boosters that he has already incorporated part of their program into the few measures he has thus far proposed. But Reagan clearly does not trust the approach sufficiently to offer administration jobs to Kemp or his colleagues.

At best, the Laffer plan could work effectively the same way that the legendary stone soup tasted delicious: in combination with other programs that steered investment into enhanced industrial productivity, the reduction of tax rates could become the apparent centerpiece of a viable economic program.

But it is unlikely that events will proceed in this fashion. Reagan's progrowth sentiments will receive

Rep. Jack Kemp (above) and economist Arthur Laffer, two "supply-side" spokesmen. Their booster spirit is an asset; their lack of rigor on credit policy gives their monetarist opponents an opening. "We are the progrowth forces, against the austerity crowd," said Jude Wanniski, Kemp and Laffer's colleague.



support from a wider base than the tax-cut theorists in his own camp, including conservative Democrats and foreign leaders like German Chancellor Schmidt and French President Giscard. The supply-siders will continue to provide an aggressive counterpoint to the "austerity crowd" that has most of the leading positions in Reagan's transition team at the moment, but will probably not see the insides of the offices from which policy is made.

Alternative Treasury policies

The supply-siders' candidate for treasury secretary, or at least undersecretary for monetary affairs, is drugstore entrepreneur Lewis Lehrman. A friend of the late French economist Jacques Rueff, Lehrman created something of an "under 40" version of the Council on Foreign Relations a few doors down from the CFR's New York headquarters, modestly titled the Lehrman Institute. Lehrman gained public prominence last May when Morgan, Stanley, a leading investment bank, published a proposal he authored for revising Federal Reserve monetary policy.

The plan notes that the Fed has had no success in controlling monetary aggregates, and is incapable of doing so, contrary to the pretensions of Fed Chairman Paul Volcker. The Federal Reserve should give up and permit banks and their customers to determine the rate of credit growth, Lehrman argues, through the discount window rather than through open-market operations. The Fed should simply ensure that the discount rate hovers above market interest rates so that banks will only use it when other sources of funds are not available, that is, when there is a legitimate need.

Lehrman's plan has great merit compared to the botch-job the Federal Reserve has done over the past year, but it suffers from the same potentially inflationary defect that the Laffer tax plan reveals. If banks lend for secondary real-estate market or stock speculation, rather than for improving the productivity of the nation's industrial base, inflation will still result under this program. A similar plan with a crucial difference was published last week by the National Democratic Policy Committee, insisting that the Fed should make discount window facilities available only for loans made to further production and transportation of tangible goods (industry, agriculture, utilities, mining).

What will be the outcome of the fight inside the Reagan camp? "It's murky," Jude Wanniski says. "No decisions have really been made. People talk about so-and-so being sure for this or that cabinet post, but nothing is pinned down." The point, evidently, is that President-elect Reagan needs people in his administration who can put the economy on a growth track, but will turn to the proven losers of the Nixon-Ford period if he has to.

III. THE ADVISORY QUESTION

Appointments and a new kind of structure

by Kathleen Murphy


Photo: AP

President-elect Ronald Reagan made his first official appointments to his White House staff Nov. 14. Reagan's Washington transition headquarters announced that James Baker, formerly campaign manager to Vice-President-elect George Bush, will become the White House chief of staff, and Edwin Meese, Reagan's principal campaign strategist, will assume the duties of counselor to the President with cabinet rank. Both Baker and Meese will also serve on the President's National Security Council.

Balancing effort

The two appointments encapsulate the precarious balancing act Reagan is now performing between the various political factions vying for control over his incoming government. While Meese is a long-time Reagan loyalist who reflects the President-elect's Western conservative base, Baker hails from the Rockefeller-Ford wing of the party and has collaborated with Bush politically since the mid-1950s.

It is clear that Reagan has entrusted Meese with responsibilities far exceeding those of Baker, even though the chief of staff has traditionally enjoyed significant political influence partly due to his control over which people and what proposals get into the Oval Office.

In a sharp break with past practice, Meese has not only been given cabinet rank, but will also oversee both the national security and domestic policy White House staffs. An official press release from the office of the President-elect describes Meese's duties as follows: "Reagan stated that Meese will have responsibility for cabinet administration, the Domestic Policy Staff of the Executive Office of the President and the staff operations of the National Security Council, in keeping with the desire of the President-elect for greater involvement of the cabinet in policy formation. In addition to serving on the cabinet, Meese will be a presidentially designated member of the National Security Council."

The President's national security adviser, a post successive holders such as Henry Kissinger and Zbigniew Brzezinski have turned into a policy-making center rivaling that of secretary of state, will now report to the President *through* Mr. Meese.

In addition, Meese reportedly will mediate the President's relations with cabinet members, an especially important function given Reagan's stated intention to use his cabinet as a corporate board chairman would use his board of directors.

It is believed that Reagan has given Meese such powers as a counter to the influence of whatever Eastern Establishment appointees he may be forced to name in a misguided attempt to ensure "party unity."

At a Nov. 21 press conference in Washington, D.C., Meese refused to comment on whether Mr. Reagan thinks Federal Reserve Chairman Paul Volcker has done a good job, or whether Volcker will be asked to serve out his term.

Profile: Ed Meese

Meese has long been Reagan's most trusted adviser. Early in the 1980 campaign, Reagan was asked whom he would turn to in office if he had a particularly difficult problem to face. He replied unhesitatingly: "Ed Meese."

Born in Oakland 48 years ago, Meese attended Yale and the University of California (Berkeley) Law School. He was functioning as assistant district attorney of Alameda County near San Francisco when Reagan became governor of California in 1967. Introduced to the new governor by a state judge, Bill Clark, Meese was recruited as Reagan's legal secretary, and shortly elevated to chief of staff.

State House observers mark Meese's accession to that post as a turning point in the Reagan administration. "Reagan was on a direct confrontation course with his Democratic legislature," says one source, "until Meese came in." At that point, according to a former state legislator, "When the players changed [in Reagan's Sacramento office], Ed Meese became one of the primary and constructive players," breaking up the legislative logjam that had begun to afflict Reagan's government.

Described by friends as "a family man with a strong stand on moral issues," Meese took a firm line during his district attorney days against student demonstrators in the "Free Speech" movement at Berkeley. He's also a committed opponent of marijuana and similar mind-altering substances and, unlike some of the President-elect's other advisers, such as Martin Anderson and Milton Friedman, opposes decriminalization. According to the *Los Angeles Times,* Meese is "not sympathetic to the libertarian brand of conservatism, with its emphasis on near total freedom for the individual." In an interview with the newspaper, Meese charged that "the libertarians carry it to extremes," and asserted "My own view is that there are valid reasons against using marijuana and most dangerous drugs and narcotics, and I think there is a societal interest in that—that to me would overcome the individual freedom in that particular area."

On other issues, an individual on Reagan's transition team who has worked closely with Meese for years told *EIR* that "Ed is a partisan of Kemp-Roth [the tax-cut bill endorsed by Reagan—ed.] and is very much for nuclear power development." The source also said that Meese "believes in a positive program of economic growth, including lowering interest rates. He doesn't think austerity is a solution to anything."

Meese played the pivotal role in the ouster of

Reagan's key campaign aide, John Sears, last February. Disliked by most of Reagan's old guard for his close links to Henry Kissinger, Sears had nevertheless managed to get rid of most of Reagan's senior advisers, including press spokesman Lyn Nofziger and Mike Deaver, during the early part of the 1980 campaign. Sears was about to axe Meese when Reagan personally intervened—and forced Sears to resign the night of the New Hampshire primary, Feb. 26. Although William Casey was named to replace Sears, Meese effectively took control over campaign strategy from that point onward.

After Reagan left Sacramento, Meese became a vice-president for management at the Rohr Corporation, a California aerospace manufacturer. He left in 1976 to become a professor at the University of San Diego Law School and to set up the Center for Criminal Justice Policy, which he heads. Meese recently retired as a lieutenant colonel in the military intelligence division of the U.S. Army Reserve. One of his sons attends West Point.

Profile: James Baker

Though he comes from Houston, Reagan's new White House chief of staff is a member in good standing of the Eastern Establishment wing of the Republican Party. Baker comes from a family considered to be among Houston's "Little Aristocracy" which has a decidedly anglophile bias.

His great-grandfather founded the prestigious Houston law firm of Baker & Botts. Baker went to Princeton, but earned a J.D. degree at the University of Texas Law School. He joined the Houston firm of Andrews, Kurth, Campbell & Jones, where he practiced until 1975.

During the 1950s, Baker and his wife became close friends of George Bush, who also lived in Houston. Baker's first wife helped run a number of Bush's political campaigns, and when she died, Baker became politically active, serving as Harris County chairman of his friend's unsuccessful 1970 Senate campaign. In the summer of 1975, through Mr. Bush's good offices, Baker was named undersecretary of commerce under Rogers C. B. Morton. When Morton left the Commerce Department to head up President Ford's campaign, he took Baker with him as chief of delegate operations. Three months later, Baker became overall chairman of the campaign.

When George Bush decided to run for the GOP presidential nomination last year, he asked Baker to serve as his chairman. After Bush finally withdrew from the race, Baker joined the Reagan campaign as a senior adviser.

Though Baker doesn't usually express himself publicly on policy, sources say that he holds the same views as Bush, a former member of the Trilateral Commission and trustee of the New York Council on Foreign Relations, on key issues.

Other appointments

The President-elect has made several other appointments to his transition team that are worthy of note.

Last week, Reagan announced the creation of the Office of Executive Branch Management to coordinate the transition between the Carter and Reagan administrations. Headed by William Timmons, the group is divided into five "issues clusters," broken down among Economic Affairs, Resource and Development, Human Services, Legal and Administrative agencies, and National Security.

The heads of these subdivisions also illustrate in outline the factional warfare now going on in the transition period.

Leading the National Security issues cluster is David Abshire, a close associate of Henry Kissinger. His appointment is reportedly part of Kissinger's plan to place his colleagues in key second-level government posts.

A member of the Trilateral Commission, the Council on Foreign Relations, and the London-based International Institute of Strategic Studies, Abshire helped found Georgetown University's Center for Strategic and International Studies in 1962. CSIS has functioned as a highly influential center for the transmission of British geopolitical thinking into Congress and the executive branch of the U.S. government. Abshire served as assistant secretary of state for congressional relations during 1970-73, and was also a member of the Committee on the Organization of Government for the Conduct of Foreign Policy, which advocated sweeping changes in the U.S. constitutional system of government. He is reportedly angling for a top State Department post.

On the other hand, the natural resources section is being headed by Richard Fairbanks, a partner in the Washington law firm of Beveridge, Fairbanks and Diamond.

Fairbanks served three years on the White House Domestic Council, where he was associate director for natural resources, energy and environment, and acquired a reputation of being committed to the full development of America's energy resources, especially nuclear fission and fusion power. Fairbanks's views on energy development conflict with those of the Kissinger faction, which wants to use an artificially provoked energy shortage to force through the Council on Foreign Relations' stated goal of the "controlled disintegration of the world economy."

Reagan's 1976-80 fight against Kissinger

by Robert Zubrin

"If Henry Kissinger was put back in the State Department, Jesse Helms would commit hara-kiri on the White House lawn."

The Senate staffer who recently made this observation may have been exaggerating the response of the North Carolina senator if Kissinger were to assume a post in the new Reagan administration—but not by much. To people like Helms, a conservative Republican and longtime Reagan stalwart—and hundreds of thousands of grass-roots conservatives—Kissinger epitomizes the degeneracy of the Eastern Establishment.

In 1976, former California Governor Ronald Reagan assumed the leadership of the conservative movement when he made his bid to take the Republican presidential nomination away from President Gerald Ford and his Secretary of State Henry Kissinger. Despite the fact that Reagan's key campaign strategist, John Sears, later revealed himself to be a Kissinger partisan, Reagan nevertheless campaigned around an anti-Kissinger theme.

Reagan sounded this theme loud and clear in a campaign speech before the 1976 Florida primary. Implicitly identifying Kissinger as the real source of Ford administration foreign policy, Reagan charged that Ford had shown "neither the vision nor the leadership to halt and reverse the diplomatic and military decline of the United States." Ford and Kissinger, he said, "ask us to trust their leadership. Well, I find that more and more difficult to do. Henry Kissinger's recent stewardship of U.S. foreign policy has coincided precisely with the loss of U.S. military supremacy. . . . Under Messrs. Kissinger and Ford this nation has become Number Two in miltary power. . . ."

The anti-Kissinger tack buoyed up Reagan's flagging campaign after his loss in New Hampshire and carried him to within reach of the nomination by the time the Republican convention rolled around. Reagan was even preparing to offer a strong anti-Kissinger plank to the convention that would appeal to the many Ford supporters who also distrusted the secretary of state, when Sears stepped in and nixed the plan on the grounds that it was too controversial. Together with his choice of liberal Republican Senator Schweicker of Pennsylvania as his running mate, Reagan's failure to make Kissinger the major issue of the convention deprived him of the nomination.

Although Ford's defeat in the 1976 elections rendered Kissinger's foreign policy something of a moot point, Reagan proceeded to build up a grass-roots base for his 1980 campaign.

In the 1980 New Hampshire primary, the first of the presidential campaign, Reagan came from behind to score a stunning 2-to-1 upset over his chief rival, George Bush, by making the Trilateral Commission a key issue. Reagan supporter William Loeb detailed Bush's connection to the organization, which boasted both Carter administration National Security Adviser Zbigniew Brzezinski and Henry Kissinger as officials.

Reagan himself, in a Feb. 8, 1980 speech in Florida, pointedly noted that 19 top-level members of the Carter administration belonged to the Trilateral group, including the President and Vice-President, and had his staff release their names to the press.

In a *Christian Science Monitor* interview published April 4 of this year, Reagan was asked if it were true that he would not choose Trilateral Commission members for his administration. Replied the candidate: "This has become quite such a thing, of course, with this administration's entire echelon coming from that group. I don't know anything of the things that some people are saying about this being some kind of conspiracy or something. But I haven't particularly seen people there on it that I would turn to. So because of the feeling that some people have about it, I've said that isn't the direction I would go."

Reagan was firm about the Kissinger question. As late as May, he told the *Wall Street Journal* that he could envision no situation whereby he would ask Kissinger to be his secretary of state. At other times, he flatly ruled out Kissinger for any government position.

Kissinger began to get the word through his press conduits that he would support Reagan's candidacy. He met with Reagan several times to offer "advice." During the Republican convention, Kissinger emerged from a much-publicized one-on-one meeting with Reagan to tell reporters that he and the candidate "see eye-to-eye" on most major issues.

It was at the convention that Kissinger made a brazen grab for control over Reagan by attempting to con the nominee into accepting the pathetic Gerry Ford as his "co-president." Although this particular gambit failed, Kissinger's fellow Trilateral Commisson and CFR member George Bush was forced upon Reagan.

A dossier on Henry Kissinger and his protégé Alexander Haig

by Ira Liebowitz

Heinz Alfred Kissinger is a ranking power in Georgetown's Center for Strategic and International Studies (CSIS), the New York Council on Foreign Relations, the CFR's Trilateral Commission (where David Rockefeller picks up the tabs), and the Aspen Institute. The source of his apparent ability to walk on invisible threads above the heads of nominal policy-making centers, lies, however, in a cross-Atlantic spider's web centered on the British Royal Institute of International Affairs (RIIA) whose leaders, William Yandell Elliott, and A. D. Lindsay, guided his career. The anti-U.S.-nationalist commitments of this network, plus Kissinger's already established record of treason, guarantee that were he to secure a post in the new Reagan administration, either directly or through a protégé such as Alexander Haig in combination with Trilateral favorite George Bush, it would guarantee the capture of the administration by Britain, with worse consequences by far than the Nixon administration. The Kissinger and Haig story is, therefore, worth the telling.

In 1943, as a member of U.S. Army, Kissinger first came under the patronage of Fritz Kraemer of the Counterintelligence Corps at Camp Clairbonne, La., and was brought to the European Command Intelligence School at Oberammergau in West Germany, a branch of Britain's postwar occupation Wilton Park project. Wilton was then run by Mr. A. D. Lindsay, a very important figure in Kissinger's development. Lindsay was Master of Balliol College at Oxford University and an intimate of wartime British intelligence head Arnold Toynbee. Through this track Kissinger, already a member of U.S. Military Intelligence G-2, was developed as a deep-entry plant at the U.S. national security level. Returning to the U.S., he was urged by Kraemer to go to Harvard University to be, as he was, "adopted as a son" by William Yandell Elliott, the head of Harvard's Government Department. A Rhodes Scholar, Elliott himself had been trained at Balliol College by Master A. D. Lindsay to be his counterpart at Harvard. Elliot created for Kissinger's administration the International Summer Seminars to which aspiring leaders from around the world were brought for recruitment.

Sometime between 1952 and 1955, Kissinger was sent for finishing-touch "group therapy" back to Britain, to the Tavistock Institute at Sussex, at whose brainwashing seminars he began to espouse the doctrine of "credible irrationality" as the basis for tactical nuclear war against the U.S.S.R.—the doctrine with which Kissinger launched his career.

In 1955 Elliott sent him to Hamilton Fish Armstrong and George Franklin of the CFR, to take part in and publish the results of a study group preparing a report on "Nuclear Weapons and Foreign Policy." This became the Dr. Strangelove doctrine for which Kissinger subsequently became famous. The book form ultimately became a bestseller, publicly proposing the use of insanity as an instrument of U.S. foreign policy.

In 1955-56 it had been Elliot who delivered Kissinger to Nelson Rockefeller with the aim of advancing his career in government on the back of the Rockefeller machine. Passing through the CFR, then back to Harvard at the Center for International Affairs, he then was brought into the Kennedy administration as an adviser on European affairs. His notorious advocacy of the threat of use of tactical nuclear weapons in the Berlin Wall conflict later prompted President Nixon to forbid him to speak in public, when he took Kissinger into the National Security Council in 1968 as, he thought, a concession to Nelson Rockefeller.

Alexander Haig and Daniel Ellsberg

In the two operations that finally toppled the government of Richard Nixon, for which Henry Kissinger was ranking case officer—the 1970 Mideast Crisis and Watergate—one encounters a group of prominent operatives working under Kissinger, all bearing markings of the William Y. Elliott/Balliol College pedigree. This group includes James Schlesinger, Alexander Haig, and Daniel Ellsberg.

Daniel Ellsberg was trained at Harvard's International Seminar program under Elliott as a spokesman for the Kissinger doctrine, after serving in the Marines. He was brought into the NSC by Kissinger and subsequently deployed to convert from "hard-line nuclear warrior" to "dove," to facilitate the Pentagon Papers hoax.

Alexander Haig was discovered by Fritz Kraemer and placed during his career under various patrons in the Defense Department where Kraemer worked. Haig also was brought into National Security by Kissinger and promoted from colonel to general. Haig was to play the crucial role of confidant and manipulator of Richard Nixon in the last phases of the Watergate coup.

Kissinger sets up the Mideast

Within two weeks of inauguration in 1969, the President convened a National Security Council meeting where Joseph Sisco, Undersecretary of State under William Rogers, presented the Nixon Middle East strategy which came to be known as the Rogers Plan. Said Sisco, "Israel had to be coaxed into withdrawing from Arab occupied lands. . . . The United States had to take a direct hand in arranging a 'genuine' peace, and Russia had to be made to join in this construction." This plan was conceived as the centerpiece of a package involving Vietnam peace and a SALT treaty which defined the policy commitment of Rogers, Secretary of Defense Melvin Laird, and Secretary of Commerce Elliott Richardson. Kissinger stood alone, advocating a British-inspired foreign policy of hard-line confrontation with the U.S.S.R. in proxy wars in Vietnam and the Middle East.

Rogers opened far-ranging negotiations with Soviet Ambassador Dobrynin in Washington and by July 25, 1970, proposed a ceasefire in the Mideast based on agreements with Nasser of Egypt and the U.S.S.R. Nasser, key in the Rogers Plan, convened an Arab summit to win support for negotiations and to isolate the "rejection front."

However, with covert control over key portions of the Syrian military, Jordanian armed forces, and PLO radicals, London was in a position to shape a situation conforming to briefings being delivered by Kissinger to Nixon. Those briefings predicted a Soviet bid for power against Hussein of Jordan through "Soviet proxies" Syria, the PLO, and Iraq.

Suddenly, in the middle of Rogers Plan developments, the trap was sprung. According to Kissinger's biographers, "On Sept. 15 . . . at 8:30 p.m. there was a call for Kissinger from the White House. Directly from 10 Downing Street had come the word that Hussein had just placed Jordan under martial law. Britain felt the situation was critical." Syrian tanks had moved into Jordan to protect the Palestinians. It struck no one as odd that no other part of the Syrian armed forces had moved.

In the crisis Kissinger assumed control of U.S. government policy, "a kind of deputy commander-in-chief." U.S. forces were ordered on alert, the Joint Chiefs came under Kissinger's control, and Hussein went along with the British scenario to liquidate the Palestinians. Israeli Prime Minister Rabin requested of Kissinger that Israel be placed under the U.S. nuclear umbrella. Nixon agreed, and the Syrian armored units quite lawfully withdrew the next day.

The end result was the Rogers package and the Nixon Mediterranean stretegy was washed down the drain. The stage was set for the oil crisis of 1973-74.

In February 1973, Kissinger was granted control of negotiations with Egypt to halt what Egypt bluntly called the short-term danger of Middle East war. Kissinger proceeded to present intricate and unacceptable formulas regarding Israel's campaign to annex Egyptian land, then delivered massive weaponry to Israel—making war inevitable. Though by September Nixon had resolved to make John Connally his new secretary of state, Kissinger blackmailed himself into the job, and two weeks after his confirmation, war broke out. Owing to his sweeping ursurpation of presidential powers and suppression of intelligence evaluations, he was able to claim that the war was "a surprise." The price of oil tripled, with devastating consequences for the United States, Western Europe, and Japan.

Watergate

As of 1973, Nixon was totally dependent on Kissinger and Haig for the formulation and execution of policy. Hence his vulnerability to the "inside job" that led him to bow to the prearranged pressures of the Watergate scandal.

The years-long preparation for Watergate, which undercut not only the stature of the presidency but also the traditionalists in Congress, has been most extensively documented in a 1978 *Campaigner* Special Report by *EIR* Contributing Editor Costas Kalimtgis, titled "Expel Britain's Kissinger for Treason."

While the Kennedy clan prepared Congress and the Justice Department for the prosecution of Nixon, and the Washington Post spearheaded the smokescreen of "investigation" of the hotel burglary and Nixon's response, Kissinger first maneuvered Nixon into accepting a legal defense strategy rather than a political counteroffensive, while Haig controlled the President's lawyers, who declined to make any effective argument that Nixon had committed no impeachable offense.

At the beginning of August 1974, Haig circulated the "smoking gun" tape of Nixon's crude but irrelevant comments, in order to deter the President's GOP allies from backing a political fight. On Aug. 5, Kissinger and James Schlesinger put the U.S. military command on "internal alert" and ordered them to accept no White House orders without the countersignature of the secretary of defense. On Aug. 7 Haig rounded up a delegation to inform the President that he "had lost his base of support in the Senate." Nixon submitted his resignation to Henry Kissinger.

German industry demands action from Schmidt

by Susan Welsh

A battle currently being waged in the West German state of Hesse by one of Chancellor Helmut Schmidt's closest allies puts the chancellor himself on the spot: will he intensify the fight for continued economic progress, or will his country follow the United States and Great Britain into a deepening depression?

Holger Börner, the minister president of Hesse, angrily declared at a meeting of the state Social Democratic Party Nov. 15 that he personally refuses to capitulate to the environmentalist drive to destroy the West German economy.

Börner, the only remaining Schmidt ally among the five SPD state governors in West Germany, told the largely hostile gathering that "we can neither tolerate openly nor silently that the basis of our economic stability is called into question by environmental issues. If we want to provide a human future and political maneuvering room for our successors, we must not fall back from the economic and technological level we have reached today."

Börner has come forward to defend his ambitious program of road, power station, railroad, and airport construction. Environmentalists, including the powerful left wing of his party, are seeking to block the expansion of the Biblis nuclear power plant and the construction of a third runway for the Frankfurt International Airport.

Börner's program includes the construction of 12 new electric power stations, of which 11 will be nuclear. The Frankfurt airport employs one of the highest percentages of skilled workers and engineers in the country, and its expansion would facilitate a leap in the industrial development of the whole surrounding region and its future labor power.

"Transportation routes can be of crucial importance for cities and for whole nations," he stressed.

But Börner was voted down at the state SPD meeting. Thirteen SPD members of the federal parliament from Hesse, cohorts of former Chancellor Willy Brandt, have threatened to withdraw from the party if Börner's policy is not overturned. Börner's defeat could lead to the breakup of the SPD's coalition with the Free Democratic Party in the state, as the FDP has hinted at shifting to an alliance with the conservative Christian Democratic Union. Such a move would be an important precedent that could lead to a similar coalition shift on the national level, threatening to bring down Schmidt.

Schmidt under fire

Börner's speech was delivered as more and more industrialists and other Germans are expressing exasperation with the chancellor's failure to take urgent measures to reverse the country's economic deterioration. Economic experts are forecasting zero growth for 1981; the country has a large balance of payments deficit, and the deutschemark is sinking on the international money markets.

One major fighting issue is that the nuclear energy program of the Federal Republic of Germany has been ground to a halt by environmentalist opposition. With the growing price of oil and other energy sources, industrialists see nuclear power as indispensable to keep their goods competitive. The European Labor Party (Europäische Arbeiterpartei—EAP) made this into a major focus of its September-October election campaign for the federal parliament.

The party's chairman, Helga Zepp-LaRouche, broadcast numerous radio and television spots to demand nuclear energy and the growth of German technology for developing the Third World. Now the European Labor Party is circulating a call for accelerating the country's high-temperature nuclear reactor program, as the fastest solution to the energy crisis.

Schmidt, hemmed in by the left wing of his own Social Democratic Party, has not pushed the nuclear energy program forward, and has even referred to it as a "stop-gap" measure. The budget guidelines recently announced for the governing national SPD-FDP coalition downplay nuclear energy while stressing overall economic austerity.

While Börner takes on the environmentalists in Hesse, the entire city of Dortmund in the industrial north has mobilized itself to fight for a policy of economic growth. Dortmund is a steel-producing center in the Ruhr region, which is threatened by mass layoffs due to the European Community's "Davignon Steel Plan" which has forced the Hoesch steel company to cut production by 18 percent.

Hoesch announced that it could no longer implement a 1979 agreement with the trade unions which promised Dortmund a new oxygen-process steel mill, the most modern in the world, in exchange for permission to lay off 4,200 steel workers until 1983.

The response was immediate, with thousands of workers picketing in front of Hoesch headquarters, demanding "steel plant now!"

Then the city council of Dortmund voted up a resolution demanding the construction of the steel mill, a nuclear power plant, an expansion of regional waterworks and canals, and the construction of new streets and highways. After the regional press blacked out this resolution, the city council placed full page ads in those papers inviting people to endorse the resolution. Within four hours after the call went out, 13,000 signatures were collected. Endorsements are now coming in from surrounding cities and even from cities in the United States.

The mayor of Dortmund evoked the postwar resistance period when the British tried to dismantle local industrial equipment and cart it away. "We, our wives, and our children lay on the machines and kept them from being stolen by the British. This time, everyone in Dortmund is willing to do similar things," he said.

The state chairman of the European Labor Party, in an open letter to the leaders of the parties in the Dortmund council, welcomed the resolution and asked that two more clauses be added to it. First, the resolution should demand the withdrawal of the steel production quotas imposed by the EC; second, an amendment should be added urging the immediate implementation of "Phase Two" of the European Monetary System, in order to provide the credits to the developing sector to generate the needed level of demand for German steel.

Chancellor Schmidt's failure to take these issues head-on was the subject of an editorial, "The Administrator," in the conservative daily *Die Welt* Nov. 6. The article criticized the chancellor's overly "administrative," pragmatic style of ruling. "Intellectually, Helmut Schmidt must cope with the environmental problems by pulling the ground from under the eccentric ecology movement once and for all . . . and by simultaneously making tangible the concrete, absolutely necessary goal of making energy supplies secure. This includes a clear attitude toward nuclear energy."

In the United States, *Die Welt* continued, Ronald Reagan "has managed to mobilize a feeling of surging forward, of tackling matters anew," which Schmidt should take to heart.

Later this month Schmidt will deliver a "state of the nation" address on the policies of his newly formed government. Unless warnings like these are heeded, the chancellor's speech threatens to be just such an "administrative" accomodation to the exigencies of Bonn's coalition politics.

The official SPD-FDP coalition agreement published Nov. 11 is just such a disastrous document. It was hammered out in nearly a month of niggling and horsetrading by the two parties, and imposes across-the-board austerity measures.

Government subsidies will be fully or partially eliminated from agriculture, rail transport, pension insurance, and other areas. Bonuses for savings and for housing construction will be reduced, and funds for "enlargement and new construction of institutes of higher learning" will be cut.

The paragraph on energy stipulates merely that priority should be given to German hard coal, and that emphasis in the peaceful use of nuclear energy should be "on questions concerning waste disposal."

The SPD leftists and other radical environmentalists are taking advantage of Schmidt's stalling to escalate their own Malthusian program and to attack the government. The environmentalists are planning a mass demonstration Dec. 7 at the Frankfurt airport. Security officials fear outbreaks of violence.

Willy Brandt, the chairman of the SPD, has been sniping at Chancellor Schmidt for allegedly overemphasizing economic ties with Eastern Europe. In an interview with the magazine *Der Spiegel* Nov. 10, he implied that Schmidt has not extracted sufficient political concessions from East Germany. "We have to discuss politics," he said, not merely "railway network electrification or the construction of power plants."

Finance Minister Matthöfer defends IMF conditionalities

The European Labor Party (Europäische Arbeiterpartei—EAP) announced Nov. 14 that it will lead a campaign to force the resignation of West German Finance Minister Hans Matthöfer. Spokesmen for the party, headed by Helga Zepp-LaRouche, the wife of *EIR* Contributing Editor Lyndon H. LaRouche, said that they took the action following remarks made by Matthöfer at a Frankfurt Credit Policy Conference that defended the International Monetary Fund's right to impose "conditionalities" on the developing sector.

The IMF conditionalities policy, under which developing nations must enforce severe austerity conditions for Fund credit, is leading toward economic collapse and genocidal starvation throughout the Third World, EAP spokesmen said.

'Harsh necessity'

Explaining his "let them eat cake" doctrine, Matthöfer told his Frankfurt audience: "The IMF is, however, often criticized on the ground that it applies principles of conditionality too sternly and, through exaggerated, abrupt cuts in living standards, provokes social unrest and explosive situations.

"I cannot dispute that there is some harshness in this. Let us not delude ourselves. The IMF is not demanding anything from the developing countries that their own bogged-down situation would not in any case require them to do."

Matthöfer urged the IMF to stand up to its critics: "The IMF must, however, be careful that its financing does not allow the prolongation of structural deficits in an artificial manner and must not weaken conditionality. Conditionality is the source of confidence which the IMF enjoys on the financial markets."

The West German finance minister concluded by saying that the recycling of funds into "third countries is not the concern of the European Community." This statement effectively endorses the IMF as the only possible lender to the Third World.

Matthöfer's remarks stand in direct opposition to West German participation in the European Monetary System and the European Monetary Fund. Officials in both Bonn and Paris have stated that the ultimate goal of the European Monetary System is precisely to recycle funds into the developing sector for industrial development projects, expanding markets and jobs in Western Europe.

Finance Minister Hans Matthöfer is one of West Germany's highest ranking promoters of Malthusianism and the Club of Rome, a top-level saboteur of the European Monetary System. His ministry is known for its "Thatcherite" approach to state financing of industrial projects, and Matthöfer himself boasted at a Nov. 17 Bonn press conference that the harsh cuts in West Germany's new state budget are his handiwork, not that of Economics Minister Count Lambsdorff.

Matthöfer's ministry is heavily staffed by people from the World Bank and the International Monetary Fund; so devoted is he to their zero-growth approach that economics officials in Bonn accuse him of wanting to turn the European Monetary System into "a European IMF."

Matthöfer's credentials show how he was groomed for his saboteur role by the Anglo-American occupation forces during the postwar period:

- Matthöfer is from Hesse, in the old American Occupation Zone. He was released from a prisoner of war camp after the war, and went to the United States to study economic and social sciences at the University of Wisconsin in Madison, one of the principal American "reprocessing" centers linked to British intelligence's Tavistock Institute. He was trained in industrial and labor relations, Tavistock's "soft brainwashing" program for social control.
- In 1953 he returned to Germany to join the economics staff of IG Metall, the German metalworkers' union affiliated with the U.S. United Auto Workers. Both unions are known in their respective countries for their corporatist ideology, their anti-industrial "small is beautiful," "quality of life" programs, and their encouragement of ultraleftism and anarchosyndicalism.
- Matthöfer served as president of the German branch of Amnesty International a British intelligence front-group headquartered in London.
- He joined the federal parliament in 1961, and became the Social Democratic Party's expert on "development politics and the humanization of labor." This is the current within the party controlled by former Chancellor Willy Brandt, apostle of "appropriate technology" for the Third World instead of real industrial development.

Strange diplomacy in Iran

Henry Kissinger is dealing with the Ayatollah Beheshti on behalf of the U.S. government, Robert Dreyfuss reports.

Former Secretary of State Henry Kissinger, who has spent the two years since the Iranian revolution denouncing Ayatollah Khomeini and presenting himself as the number-one defender of the Shah's *ancien régime,* held a series of secret meetings during the week of Nov. 12 in Paris with representatives of Ayatollah Beheshti, leader of the fundamentalist clergy in Iran.

According to Iranian sources in the French capital, Kissinger also met with members of the Iranian Fedayeen-e Islam, the branch of the secret society called the Muslim Brotherhood that controls Khomeini, Prime Minister Mohammed Ali Rajai, and many others.

Top-level intelligence sources in Reagan's inner circle of advisers confirmed Kissinger's unreported talks with the Iranian mullahs, but stressed that the Kissinger initiative was totally unauthorized by the President-elect. "If you know any way of controlling that man," said one Reagan insider, "please let me know."

Kissinger's objectives

In meeting with the Muslim Brotherhood representatives in Paris, Kissinger has two basic objectives.

Within Iran, Kissinger is said to believe that American interests can only be secured by creating a working alliance between elements of the armed forces and the Muslim Brotherhood clergy. To this end, Dr. Kissinger intends to continue the policy of the just defeated Carter administration in search of an agreement to rush arms and political support to Khomeini and his clique in exchange for the release of the 52 U.S. hostages.

More broadly, by cultivating relations with the Iranian ayatollahs, Kissinger is attempting to position himself for a power play in the Reagan camp.

As the *Executive Intelligence Review* has shown in repeated articles since 1978, Khomeini and the Muslim Brotherhood are creations of the British Secret Intelligence Service (SIS) and the Anglo-Jesuit faction of the European aristocracy. Politically, it is this faction which controls the terrorist band holding the U.S. hostages, and it is this faction which intends to use the hostages as a bargaining chip to gain influence in the Reagan administration.

Using his connections to the City of London and to the British SIS, Kissinger is seeking to establish himself as "the man to deal with" for securing the release of the hostages. Now, Kissinger reasons, if Reagan wants to get the hostages out of Iran, he will have to deal with Kissinger, by giving him and his allies significant influence over the incoming U.S. administration.

On the other hand, if Reagan refuses to employ Kissinger in a substantial role in the administration, then Kissinger and the British SIS can threaten to unleash a major new Iran crisis, possibly by encouraging "spy trials" of the U.S. hostages, right after the Jan. 20 inauguration of Reagan.

In addition, by supporting a deal with Iran's Ayatollah Khomeini, Kissinger is well aware that he is helping to foster a climate of permanent instability in the Persian Gulf. Should Khomeini and Co. be reinforced against the current assault by Iraq, it is possible that the Muslim Brotherhood regime in Teheran might survive in "lame-duck" fashion for up to six months, thus posing a threat to Western oil supplies and the stability of Saudi Arabia.

But Kissinger, operating in close coordination with the British government of Prime Minister Margaret Thatcher, is seeking to prevent the consolidation of the developing ties between continental Western Europe, in particular France and West Germany, with Saudi Arabia, Iraq, and the other Arab oil-producing states.

Tracks of a conspiracy

The facts that have emerged so far in the case of the Kissinger-Khomeini connection confirm to a high degree *EIR*'s exclusive analysis that the British and the Carter administration collaborated to put Ayatollah Khomeini in power. Since 1978, the *EIR* has consistently reported on the activities of the Muslim Brotherhood secret society and its Iranian branch, the Fedayeen-e Islam. It is the Fedayeen, headed by the brutal Ayatollah Khalkhali, which is the supranational entity which controls Khomeini and the entire leadership of the ruling Islamic Republican Party.

A leading Italian daily, *Corriere della Sera*, reported on Nov. 12, in a dispatch from Teheran, that British secret services have recently conducted mediation efforts between the Fedayeen-e Islam and the Reagan camp. The newspaper also reported that the Fedayeen has been closely linked for almost 40 years to the British Secret Intelligence Service.

From intelligence sources in Washington, *EIR* has learned that along with Kissinger a number of other individuals have recently been involved in this effort, although, the source stressed, they did not have the approval of Ronald Reagan himself. The persons involved include a pro-Kissinger group drawn from Georgetown University's Center for Strategic and International Studies (CSIS), including Michael Ledeen, David Abshire, William Hyland, and others. In addition, Ledeen and former *Newsweek* chief Arnaud de Borchgrave are reported to have traveled abroad to make contacts with Khomeini's representatives.

From information pieced together from Iranian exile sources and intelligence analysts, it appears that the pattern of cooperation between the Khomeini people and circles nominally in Reagan's camp began approximately six to eight weeks ago, at the height of President Carter's efforts to secure an arms-for-hostages deal with Teheran.

Carter's failure to secure that deal, which a number of observers believe cost him the Nov. 4 election, apparently resulted from an intervention in Teheran by pro-Reagan British intelligence circles and the Kissinger faction. "Remember the walkout of a certain hardline faction of the Iranian clergy?" said one source. "That was no accident. It was orchestrated with the Fedayeen-e Islam by the Reagan people." The walkout postponed the Iranian *majlis's* (parliament) acceptance of the Carter offer until it was too late to affect the outcome of the election.

Negotiating with terrorists

With the defeat of Jimmy Carter in the election, it was generally considered that President Reagan's administration would have an opportunity to reverse Carter's policy of repeatedly caving in to Iranian blackmail demands. Western European leaders and the Iranian exiles opposed to Khomeini still have high hopes that the Reagan administration will support a policy aimed at ridding Iran of Khomeini and stamping out the influence of the Muslim Brotherhood.

But, it is now recognized that this cannot be accomplished without blocking the influence of Henry Kissinger on Reagan foreign policy.

During the electoral campaign, Kissinger repeatedly denounced Carter for his public cooperation with Khomeini, and warned that the U.S. should not "humiliate itself" by negotiating with terrorists like the Khomeini regime. In addition, Kissinger criticized Carter for refusing to support the fallen Shah of Iran and, many times, posed as the friend and confidante of the late shah.

And, of course, it was Kissinger and David Rockefeller who pressured the State Department to admit the ill shah for medical treatment in New York—despite evidence that the shah could have received equal treatment in Mexico, where he was staying in exile. It was the U.S. decision to admit the shah which served as the pretext for the takeover of the U.S. embassy last November.

But now Kissinger has shifted his position. In an interview in Paris, the former secretary of state hinted that the U.S. ought to consider meeting the Iranian demands for the release of the 52 Americans. "There are some formulations in Iran's four terms for releasing the hostages that I could live with," said Kissinger.

According to associates, Kissinger is reported to believe that by cracking down on the Iranian left and the radical parties such as the Mujaheddin and the communists, the clergy in Iran can impose what one source called "an Argentine solution," in other words, a brutally repressive, right-wing dictatorship. The arrest—and then release—of former Iranian Foreign Minister Sadegh Ghotbzadeh, who is generally associated with the Iranian radicals, is thought to be the start of that process.

The clergyman in charge of this operation is Ayatollah Beheshti, the former SAVAK secret police agent who is reputed to be a leader of the British freemasonic rite in Iran. Undoubtedly the most shrewd of Iran's politicians, Beheshti has built up a powerful machine in the Islamic Republican Party. Reportedly, he intends to make use of the street-fighters of the Fedayeen-e Islam and the so-called Party of God (*hizbollahi*) to crush militarily the remaining opposition among the left and the anti-Khomeini secular forces.

"Beheshti's model is the junta of Pakistan's General Zia," said an informed source.

But to get there, Iran's Muslim Brotherhood is going to require arms—and an end to the war with Iraq. To that end, Kissinger believes that he can secure an agreement with the Soviet Union, whereby the United States will quietly seize full control of Iran again, in exchange for a strengthening of Soviet influence in Iraq. Perhaps the first step in that direction will be attempts to coordinate U.S. and Soviet pressure on Iraq to end its fighting in Iran and accept a ceasefire on something very close to Iranian terms.

Le Monde Diplomatique on Iran's Muslim Brotherhood

The following are excerpts from the article by Ahmad Faroughy in the November 1980 issue of the French monthly Le Monde Diplomatique.

The first formulation of Islamism as a philosophy of action—at least for modern times—comes from a Shi'ite Iranian cleric, Seyyed Jamal al-Din al-Afghani. Toward the end of the 19th century, he elaborated the principles of Muslim fundamentalism: a return to the sources of the faith, purged from all impurities and doctrinal perversions that political power accumulated in the course of centuries.

The ideas of al-Afghani found many followers in Egypt, in particular Mohammed Abdu, grand mufti of Egypt, in 1900. Disciple and companion of al-Afghani, Abdu untertakes to enlarge the principles of Islamic fundamentalism in the socio-political domain. It belongs to Hassan al-Banna, however, founder and ideologue of the Ikhwan al-Muslimin—the Muslim Brothers—to radicalize the thought of al-Afghani to make out of it a tool of combat against the nationalist and secular movement that begins to surface in the Middle East.

Abdel Ghader Onah—member of the political bureau of the Egyptian Muslim Brothers—formulates the theocratic structure of government that must guide this unified nation: the executive power belongs to the imam—the spiritual guide—who must direct the affairs of the state; his responsibility is total, unlimited; he must command the army, proclaim war and peace; the imam must also supervise the dispersal of financial power. For that which is of the legislative power, it redounds uniquely on the *sharia* [Islamic law], while the judicial power must be held by the *ghadhis* [Muslim priests trained to make judgments]. The system of government elaborated by the Muslim Brothers of Egypt around 30 years ago is today that which—minus a few details—presides over the destinies of Iran.

Two events afterwards permitted the Muslim fundamentalists to pass to action against the secular political powers: the nomination of Mossadegh as chief of the Iranian government; the coup of the Free Officers in Egypt.

In May 1951 the Iranian parliament gives full powers to the Mossadegh government to nationalize the Iranian petroleum industry that was under British control. The arrival to power of Mossadegh pushes the Fedayeen-e Islam—the Iranian branch of the Muslim Brotherhood—to try to infiltrate the strong naticnalist movement of Mossadegh, with the goal of turning it away from its secular content.

Little-known until then, the secret organization of the Fedayeen-e Islam had been constituted—it seems—in the beginning of the 1930s in Qom, the holy Iranian city. Basing their political ideology on that of the Muslim Brotherhood, recruiting their leaders among the Shi'ite clergy and their militants from the disinherited of the lower depths of Teheran, the Fedayeen were organized in secret cells and often had recourse to terrorism to eliminate the anticlerical personalities in plain sight, notably Ahmad Kasravi, the greatest Iranian historian of the epoch, assassinated in 1943, as well as Prime Minister Hajir, killed the year before.

At the end of 1951, the mullah Seyyed Navab Saffavi, "supreme guide" of the Fedayeen, begins negotiations by the intermediation of Ayatollah Kashani with Mossadegh with the aim of allying the fundamentalists in the battle that his government is leading against the British. However, the conditions posed by Saffavi—three ministerial portfolios; banning of mixed schools, of alcoholic consumption; obligation of women to wear veils—lead to a "no deal" on the part of Mossadegh. In prioritizing secularism and his opposition to the total Islamicization of Iranian political life, the old nationalist leader sends the mullahs back to the mosques. From this moment on, Ayatollah Kashani and his Fedayeen do all they can to battle the nationalist government—trying even to assassinate the Foreign Affairs Minister, Hossein Fatemi—and they collaborate closely with the partisans of the shah during the coup d'état of the CIA, which, in August 1953, overthrows Mossadegh.

The aid that the Fedayeen bring to the shah's regime—notably in its struggle against the Mossadeghists and the communists—permits them from 1953 onward to develop their organization with complete impunity, become thereby the main opposition force of the 1960s. Thus, Ayatollah Khomeini—now one of the leaders of the Fedayeen—judges the moment propitious to take the offensive. The program of reforms undertaken by the imperial government—in which agrarian reform is the most important—will be the pretext for it. This leads from then on to ferocious opposition by the fundamentalists, who accuse the shah of wanting to extend his political control, through the economic restructuring of the country, to all the sectors of the state. On June 6, 1963, Khomeini and the Fedayeen move on its offensive: After three days of riots that rage in the four states, the army of the shah retakes control of the situation. Balance: almost 5,000 dead. Ayatollah Khomeini is exiled, first to Turkey, then to Iraq.

Yugoslavia's nuclear plans brought to a halt

by Luba George

Yugoslavia's once promising nuclear energy program now stands in ruins. The first major blow came late last year when the Zadar Municipal Assembly of Croatia put a stop to construction plans for Yugoslavia's second nuclear power plant on the island of Vir off the Adriatic coast. The reason: "It would conflict with the country's tourist zoning plans." A campaign against the site had been launched by local environmentalists who argued that the plant would "scare the tourists".

In short order four other Yugoslav nuclear plants on the drawing boards have been shelved, and the country's first nuclear power plant, scheduled to open in 1981, has had its opening delayed indefinitely.

Conditionalities prescribed

The nuclear plant cancellations reflect Yugoslavia's ongoing compliance with the International Monetary Fund, of which it is a member. Stringent IMF conditions for credits have been systematically applied to restructure Yugoslavia's economy away from industrialization toward Caribbean-model tourism. The government's recent decision to cut imports of capital equipment from the West and to delay or cancel other major industrial projects was also made under IMF guidelines.

The likely result of the Yugoslav economy continuing to be shaped by IMF austerity pressures is greater political instability. If such trends are not reversed, a Yugoslav destabilization could have tremendous international repercussions. Since the death of longtime leader Marshal Tito last spring, Yugoslavia has been run collectively by rotating presidents, and has lost the strong central leadership Tito provided.

Debt and deficit

According to the latest official figures, Yugoslavia's annual rate of inflation is running close to 25 percent. Unofficially, it's believed to be closer to 30 percent. With external debt doubling in the course of four years (1976-1979), the country's foreign affairs minister, Milos Minic, warned: "The debt servicing will no longer amount to $1 billion a year, as it has up to now, but much more."

Trade last year ran at a record deficit of $6.357 billion—a 50 percent increase over the previous year. At the same time, the IMF is complaining that Yugoslavia has not reduced its consumption fast enough and there are still too many capital-goods imports (still the single biggest category, accounting for $4.43 billion or 35 percent of total imports).

With the economy being redirected from industry to tourism, Yugoslavia faces sharp declines in tangible-goods production, while its industrialized labor force is increasingly put out of work. Unemployment is now officially at 13 percent—and would be still greater if Yugoslav workers were not employed as *Gastarbeiter* (guest workers) in West Germany, France, and other parts of Europe.

Past plans

Seeking to reduce its dependency on energy imports, under Marshal Josef Tito's 1976-1980 Five-Year Plan, Yugoslavia embarked in 1977 on an ambitious energy development program which called for a huge expansion of its coal production and its electricity generation (mainly fueled by coal), plus the introduction of nuclear power. Total power production was to increase at an annual rate of 16 percent—from 39.86 billion kilowatt-hours in 1975 to 71.2 billion kilowatt-hours in 1980. Total consumption was scheduled to rise from 41.09 to 70.68 billion kilowatt-hours during the same period.

Yugoslavia's first nuclear power facility of 632 megawatts at Krsko in Slovenia was part of a joint Slovene-Croat project which, together with the five other nuclear plants proposed for completion by the late 1990s, would have secured for Croatia—the most industrialized region of Yugoslavia—one-third of its energy needs.

The oil squeeze

Today Yugoslavia is experiencing energy shortages and the full brunt of high oil prices. The Iran-Iraq war forced Yugoslav Foreign Affairs Minister Milos Minic to sound the alarm: "I think that we are on the verge of another energy crisis, an energy crisis which may be more serious than the one of 1973 at the time of the oil embargo connected with the war which broke out that year between Israel and Arab countries. We all, our entire economy, must be aware of this situation. We must think of how to get out of it." 65 percent of Yugoslavia's total oil imports came from Iraq. Now both Iraq and Iran have stopped their oil exports.

This 65 percent cut in oil imports, occurring in parallel with the ending of the nuclear program, threatens to exacerbate and bring to a head an already volatile situation.

Marijuana revenues finance Jamaica's debt

by Mark Sonnenblick

While most of the U.S. press was still celebrating the resounding victory of Edward Seaga in Jamaica's Oct. 30 elections as a triumph of "individualist capitalism" over the "Cuban-linked collectivism" of the incumbent Michael Manley, Seaga announced his intention to legalize vast marijuana exports to the United States.

According to the Kingston newspaper, the *Sunday Gleaner* of Nov. 9, Seaga told an audience of Jamaican and American businessmen that his "economic recovery" program would center on repatriating the $1.1 billion annual proceeds from Jamaica's marijuana exports. The new prime minister told the businessmen that he had instructed Jamaican banks that when a depositor arrives with a basket of dollars, "Don't ask questions. Don't accept it—grab it!"

Seaga had announced in his inaugural speech on Nov. 1 that the government faced a foreign exchange shortfall of $155 million for the remainder of this year. He euphemistically described the magical solution to the exchange problem as U.S. dollars brought home by the drug mafia from "the export of a certain commodity." These funds, when laundered through Jamaican banks, could then be tapped to meet debt service obligations, many of which have gone into default.

International Monetary Fund (IMF) experts told *War on Drugs* magazine in July that they had drafted detailed plans for the legalization of the "marijuana dollars." IMF "surveillance" of Jamaica from 1977 to January 1980 was what transformed the island from the "country" it claims to be in tourist commercials, into a voodoo-worshiping hemp plantation. IMF technocrats ran Jamaica's day-to-day economic decisions to ensure that the government "violently" limited the issuance of domestic credit, as one official put it. The IMF said Paul Volcker-style credit scarcity would "fight inflation." But its main effect was to give the island's legitimate industries and agriculture no choice but to become totally dependent on the cannabis traffickers for their working capital and for importing vital spare parts and fertilizer. The only "free enterprises" that flourished were precisely the "black market" drug mafias. They protected their operations with competing private armies of addicts that caused over 600 deaths during the election period.

Once the IMF's "free market economics" had resulted in "the bad economy driving out the good," (to modernize Gresham's Law of Economics), the Fund unveiled its plan for legalizing the dirty money. An IMF staffer described their plan as the logical way "to end an anomalous black market situation."

Seaga told the *Washington Post* immediately after his election that "the *ganja* trade" (as marijuana is called in Britain's former colonies) kept Jamaica "alive" during the last several months. "Regardless of whether we want it or not, the industry as such is here to stay. It is just not possible for it to be wiped out, and if it is here to stay, then we have to make up our mind from that point as to how to best deal with it," proclaimed the Harvard-educated reputed "friend of America." Seaga conceded that "the question of legalizing it so as to bring the flow of several hundred million dollars in this parallel market through official channels . . . is complex."

Obstacles to formal legalization do not come from within Seaga's Jamaica Labour Party, which is thoroughly prodope. His agriculture and tourism ministers are long-time collaborators of *High Times* and the National Organization for the Reform of Marijuana Laws (NORML) campaigns against the U.S. Drug Enforcement Administration. Despite former Prime Minister Michael Manley's personal opposition to the drug traffic, his People's National Party is too immersed in it to provide opposition to legalization.

The island's bankers are hardly upset about handling "dirty money." In fact, one of the most vehement opponents of legalization is Ronald Sasso, managing director of the Bank of Nova Scotia in Jamaica and one of Seaga's top economic advisers. The Bank of Nova Scotia has been identified by antidrug investigators as heavily implicated in the laundering of drug money throughout the Caribbean.

In Washington, Carter's Deputy Director of Caribbean Affairs, Dick Howard, justified Seaga's legalization of the marijuana dollar in comments to *EIR* on the basis that "the government just would want to get control over the flows of money. Face it, everyone knows that the marijuana trade has brought in income."

However, if the Reagan administration and the conservative Congress thinks in terms of the antidrug mandate that elected them, they could stop Jamaica from being a Caribbean pirate's lair, the first nation legally dedicated to pumping marijuana into America's youth. The United States is in an excellent position to either tolerate Jamaica's legalization and find countries all over the Third World following the same path, *or* to stamp Uncle Sam's boot on the International Monetary Fund and other lending institutions which have turned the once-pleasant island into an outlaw country.

How much longer for Begin?

Israel's prime minister is in serious trouble domestically and internationally.

While fending off an internal crisis, Israeli Prime Minister Menachem Begin is becoming increasingly concerned that his government might run afoul of the Reagan administration.

The hurried dispatch to the United States this week of David Kimche, the director general of the Israeli foreign ministry, signals Begin's desperation. According to Israeli intelligence sources, Kimche is trying frantically to make contact with the inner circles of the Reagan camp in an effort to position the Begin government on an inside track with the new administration during the transition.

If Kimche does not succeed, Begin may not only find himself out in the cold, but also out of a job. The problem confronting the Begin regime is that within the Reagan apparatus there is only one faction that remains loyal to Begin—and unless that faction prevails, Begin is certain to go.

The strongest Begin advocate and the leader of the pro-Begin faction in the Reagan entourage is Richard Allen, one of Reagan's closest advisers, who is expected to assume the post of national security adviser. Other Begin stalwarts in the Reagan camp include Bill Casey, Reagan's campaign chairman, Bill Simon, former secretary of the treasury, and Bill Brock, Republican National Committee chairman. They are working in close coordination with a pro-Begin faction of think-tankers tied to Edward Luttwak at the Center for Strategic and International Studies in Washington, former Air Force Mideast intelligence director Joseph Churba, and Sen. Henry Jackson.

One Reagan adviser who is tied into this faction brazenly stated last week that a Reagan administration will back Begin all the way, and at the same time lay it on the line to the Arabs, and in particular, Jordan. "In the Reagan administration," the adviser stated, "the Arabs won't be asked what they would like; they will be *told* what they want."

Last week, when Begin was in New York, Allen met twice with him. It was at these meetings that Allen reportedly tried to set up a tripartite summit among Begin, President Carter, and Reagan. The suggestion was vigorously countered and defeated by another close Reagan adviser, George Shultz, who opposes any attempts to track the former California governor onto a Camp David course.

Not surprisingly, it is the Richard Allen faction toward which Kimche is directing his efforts to secure favor for Begin.

The deployment of Kimche to Washington was well calculated. Through his brother John, the editor of the *Afro-Asian Review,* David Kimche is linked to Robert Moss, a board member of the Heritage Foundation in Washington, D.C., and a long-time operative in British and Israeli intelligence circles. According to one insider, the Heritage Foundation, an outgrowth of British intelligence, is being pulled into playing a central role in policy formulation for Ronald Reagan's administration.

A second faction that Kimche may try to approach is the one around Nixon's Secretary of State Henry Kissinger. However, Kissinger is known to favor not Begin but Begin's main adversary Labour Party leader Shimon Peres.

Two days after Reagan's victory, Peres made known his Kissinger connection. Peres welcomed the election of Reagan on the condition that Kissinger be appointed secretary of state.

Both Kissinger and Peres believe that the longer Begin stays in power, the more difficult it will be to prevent Saudi Arabia and Jordan from falling into the European, and, in particular, France's camp. Kissinger is known to blame Begin for the Saudi-French rapprochement that has led to France's gradual replacement in the role the United States once played in the kingdom.

While the policy style of the Kissinger-Peres configuration may differ from that of Begin, the policy content is not so different. At a Madrid meeting last week of the Second International, Peres, Willy Brandt, Bruno Kreisky, and Boutros-Ghali of Egypt called upon the rest of the Arab world to follow in Sadat's Camp David footsteps.

The opposition's challenge to Begin escalated last week when the Labour Party blocked with other opposition parties to table a vote of no-confidence against the Begin regime. Begin narrowly escaped being voted out of power, and now faces a fresh attempt by opposition leaders to topple his government and bring about early elections.

 by Josefina Menendez

Behind the Díaz Serrano-Bush link

The Pemex chief is an old friend of the incoming VP; the Mexican left is abuzz . . .

To hear the leftist press and rumor circuit tell it, the fact that Pemex chief Jorge Díaz Serrano and the incoming U.S. Vice-President, George Bush, have a longstanding personal friendship, at the least spells black days for the nationalist cast of Mexican energy policy, and possibly even more serious dangers to the Mexican public.

The left Jesuit weekly *Proceso* led the pack with a frontispiece cartoon the week after the U.S. election in an issue which was otherwise one long lament over the Reagan victory. The cartoon depicted a jubilant Díaz Serrano kicking up his heels and doffing a Reagan-Bush campaign hat amidst a shower of confetti.

The friendship itself certainly exists, going back to a period in the 1950s and 1960s when Bush was president of the Houston-based Zapata oil drilling and leasing company, and Díaz Serrano was a partner in the Golden Lane Drilling Company in nearby Galveston.

Pressed by reporters immediately after the U.S. election, Díaz Serrano stated: "Mr. Bush is a distinguished man, he is a statesman, and is very knowledgeable on the problem of world energy. I am very pleased that he is there, in the vice-presidency of the United States." But he was quick to add that "this will not change Mexico's energy policies."

Most observers here recognize that it is highly improbable that the personal link will affect basic Mexican policy. That policy is made in the president's office, not Pemex's, and Díaz Serrano has been indisputably loyal to López Portillo's directives.

Some have pointed out that the leftist attacks may in fact have more to do with efforts to scotch the Pemex director's chances of succeeding López Portillo to the presidency, than with sincere concern over compromising Mexican oil policy.

The real question that must be examined in the affair, however, is what kind of policy from the U.S. side might be channeled through this point of contact, along with others. And more than the "Bush connection," one must look at the broader Texas connection.

In this regard some statements from President-elect Ronald Reagan to a California Spanish-language publication, *Imagen*, last week, are particularly interesting to examine.

According to Mexico City wire reports, Reagan invited Pemex to enter the U.S. retail market and set up a network of Pemex filling stations in the U.S. He also proposed that Mexico beef up its electricity-generating capacity in its northern states, and sell the excess electricity to the U.S. Southwest.

He stressed that he wanted to give Mexico the opportunity to benefit from the "transformation" of energy "instead of selling energy exclusively as a raw material."

It is a point which will find a sympathetic hearing on this side of the American border.

Pemex, in fact, bought into the Petronor refinery in Bilbao, Spain, two years ago in order to facilitate a direct entrance into the European retail market. It made a somewhat similar proposal to Japan last month. And Díaz Serrano stated early this week, when asked about the Reagan proposal, that Pemex has indeed been thinking about going into the U.S. market. We've run into some problems with "tax structures," however, he reported.

Reliable sources in the U.S. tell us that it's a group of Texans based around Governor Clements who are shaping the incoming administration's approach to U.S.-Mexico relations in the energy field, and that their advice lies behind Reagan's swift move to put some new initiatives on the table. George Bush also has longstanding ties to this Texas grouping.

It should be remembered that in the whole imbroglio over Mexican natural gas sales to the U.S. during the Schlesinger era, it was the gas companies based in Texas which originally brought negotiations with Pemex to a successful conclusion. The consortium had in fact worked out a credit line to Pemex of up to $1 billion, largely from regional banks, as an adjunct to the gas deal itself and the $600 million in Eximbank loans being processed in Washington.

It was a deal reminiscent of the kind of combination Japanese and some European companies routinely put together, but rare indeed from the United States. Will such accords become more commonplace under the Reagan administration? If so, U.S.-Mexico relations may well be improving in the months ahead.

International Intelligence

Italian oil scandal reveals Billygate connections

The massive Italian "oil scandal" that has dominated Italy's press over the last several weeks has taken a dramatic new turn. In parliamentary hearings being held on the scandal Nov. 19, a senator testified that Christian Democrat Antonio Bisaglia, who was Treasury Minister in the last Andreotti government, concluded a secret deal with Libyan president Muammar Qaddafi in the early 1970s by which Italy would receive Libyan oil in exchange for granting Qaddafi unlimited freedom to conduct terrorism, arms smuggling, and drug trafficking on Italian soil.

The network through which this was to be conducted in Italy is none other than the Michele Papa networks identified as the key link in the Billygate case.

Papa is Billy Carter's connection to Libya, and is acknowledged to be Qaddafi's leading representative in Italy, and his key liaison for gun smuggling, drug running, and terrorism through the Sicily-Malta Mafia organization. This information was published last summer by *EIR*, and has been widely circulated throughout Italy.

Technology transfer deals are discussed

A high-level conference is presently taking place in Moscow between French and Soviet energy specialists to discuss proposals to have the U.S.S.R. supply Western Europe with up to 45 billion cubic meters of gas per year starting in 1985 or 1986, in exchange for West European technology. France would receive 10 to 13 billion cubic meters of gas per year.

According to the French daily *Le Figaro* of Nov. 19, the head of the French Seventh State Plan Energy Commission is asking the Soviets to help France overcome energy supply difficulties in exchange for "French technology to develop Soviet natural resources."

At the same time, a Japanese-Soviet conference on technolgy exchange is also going on in Moscow. According to the Nov. 19 *New York Times*, Japanese businessmen are anxious to reach agreements with the Soviets, and are pressuring their own government to cancel the East-West trade boycott imposed in consultation with Washington following the Soviet invasion of Afghanistan.

In other signs of increased East-West economic activity, Polish First Deputy Prime Minister Mieczslaw Jagielski, the cochairman of the Franco-Polish Commission, is currently in Paris to discuss possible loans. Jagielski is the first top-level official to visit France since the fall of former Polish party chief Edward Gierek. Jagielski is scheduled to meet with French President Giscard, as well as Foreign Minister François-Poncet and Economics Minister Monory.

Conflict with Europe called permanent

Conflict between the U.S. and its European allies is permanent and inevitable and will not be affected by the change in administration, the *New York Times* said in an editorial Nov. 20.

Commenting on West German Chancellor Helmut Schmidt's ongoing trip to the U.S., the *Times* states: "It has been convenient for the Europeans to blame the Carter administration for lack of recent cohesion in the alliance. The new administration, however, is likely to be even more emphatic in pulling in directions that the allies do not like—as Mr. Schmidt will hear from Mr. Carter and whomever he may meet from the Reagan team. The issue for NATO is not so much leadership as spreading disagreement."

The *Times* cites numerous areas of disagreement, including military contributions to NATO defense spending, relations with the Soviets, the Mideast, and coordinated NATO response to crises, and makes it clear that its editors think that this disagreement should now be U.S. policy.

"There is now a common streak of nationalism in the Western nations and it works against agreement in world affairs," says the *Times*, whose news coverage has been promoting disagreement between Europe and the new administration. The *Washington Post*, in a Nov. 20 news analysis on the Schmidt visit, picks up the theme of permanent conflict.

No wage bonuses for Chinese workers

Communist China will not be giving year-end bonuses or other material incentives to its workers this year, China's New China News Agency reported.

Chinese grain production is down 5 percent from the record crop of 330 million tons in 1979, meaning a greater shortfall in grain deliveries to Chinese cities. In addition, stagnant production of coal and oil for energy generation is likely to disrupt industrial production.

The last time such cuts in living standards occurred, in 1976-77, China was plagued by a wave of illegal work stoppages. China-watchers regard this cutback as a major defeat for Deng Xiaoping's policy of ensuring political stability by improving the standard of living of workers and peasants.

Warnings of problems on oil-supply front

Accusations and counter charges about who is causing the runup in spot oil prices are flying. The spot price is currently at about $40 a barrel, and with the annual meeting of the Organization of Petroleum Exporting Countries (OPEC) coming up on Dec. 15, concern is being voiced that some OPEC countries will push for an official oil price increase to match the spot levels.

The cross-accusations center around the fact that major producers and suppliers of oil—including France on the one side and the multinational oil companies on the other—have refused to draw down stockpiles during the Iraq-Iran war, although supplies from both countries have been halted. On Nov. 19, senior officials of the U.S. government held a closed-door briefing for reporters, where they expressed "concern" over "some evidence of hesitation" in some countries to draw down existing stockpiles rather than go into the spot market.

These warnings, however, ignore the fact that both Iran and Iraq have announced they are getting low levels of oil exports going again. While these supplies fall far short of prewar levels, other Gulf producers announced officially Nov. 17 that they were raising output. Qatar, the UAE, Kuwait, and Saudi Arabia have agreed to increase daily oil output 1.5 million barrels and Kuwait is in negotiations with France to channel supplies there.

Significantly, France has come under frequent criticism for its oil supply maneuvers, not because they hurt the world market price, but because the country refuses to join the International Energy Agency global stockpiling program.

Spot prices may have risen due to French purchases, but analysts admit that overall volume of trade on the spot market is very thin and need not affect official prices.

Afghan party purge in the works

Afghan Premier Babrak Karmal has just returned from a two-week-long visit to Moscow to make clear to factionalized members of the ruling People's Democratic Party in Afghanistan that a purge of disloyal cadre will be carried out. Speaking at a party plenum in Kabul, Karmal told party members that unity would be enforced, and past associations with unnamed "persons" and "groups" would no longer be criterion for party membership. Loyalty in the present, including loyalty to Moscow, is the new bottom line.

The threat was aimed at the Khalq faction of the party, which had been loyal to previous leaders Taraki and Amin, and rivals of Karmal's Parcham faction. The Khalqis are known to be less than enthusiastic over the prospects for a long-term Soviet presence in Afghanistan, tending to be more nationalistic than Karmal, who is close to Moscow.

The Karmal move reflects greater Soviet confidence concerning their control over internal Afghani rebellion, a confidence justified by reports that the adoption of the tactic of buying the loyalty of key tribal chiefs in eastern Afghanistan has been successful.

Giscard and Barre split over policy directives

In his recent semiannual open letter to the prime minister, French President Giscard called for 29 reforms in the government's economic policy that would begin to soften the harsh austerity policies imposed on France by Prime Minister Raymond Barre, whose Volcker-styled policies have severely undermined France's economy.

Giscard's reforms include such proposals as establishing a minimum income level for families and increased credits for small- and medium-sized businesses. However, Barre has been openly scornful of Giscard's proposals, leading to speculation that Barre may be dumped following the April 1981 presidential elections.

According to the *London Times* of Nov. 18, Barre, when asked by a journalist to comment on the President's proposals, said "with a grin and a sly giggle," that "there is absolutely nothing in it which can appear as either spectacular or even worthy of major interest."

Barre may be ousted from his job, according to *Le Figaro* of Nov. 18. The Paris daily reports that the Gaullist President of the National Assembly, Jacques Chaban-Delmas, could replace him.

Briefly

● **FAUSTO CHARRIS,** president of the Colombian Anti-Drug Coalition, had an arrest order issued against him Nov. 18 on bogus charges already investigated and dismissed two years ago. Telegrams and telephone calls of concern have poured into the Colombian embassies and consulates abroad, and to the Bogota office of Judge Jorge Enrique Torres, who issued the arrest order.

● **DENG XIAOPING** said in a recent interview with the *Christian Science Monitor* that despite Ronald Reagan's pro-Taiwan 1980 campaign remarks, "There are a number of people who are involved in the decision-making process on the part of Mr. Reagan who can be considered our old friends. For instance, Mr. Bush. . . ."

● **GEORGETOWN** University specialists are quoted in the Rome daily *La Repubblica* describing "detailed scenarios" undermining Ronald Reagan's plans to proceed cautiously in East-West relations. "Despite his intentions, Reagan can be forced to a confrontation policy," the spokesmen said, particularly if the U.S.S.R. is pushed into invading Poland.

● **MOUSSA TRAORE,** the head of the West African nation of Mali, announced during a visit to Paris this weekend that he was putting his nation on alert to confront expected provocations from Libya.

● **ULF LANTZKE,** director of the International Energy Agency (IEA), called for a five-fold increase in nuclear energy output over the next two decades during the annual conference of the American Nuclear Society. Lantzke said that to equip the 500 percent rise, the 21 member countries of the IEA would have to get 16 new orders each annually, for nuclear plants. These orders would best be equally shared out between North America, Japan and Europe.

The labor policy behind the synfuel program

by Lonnie Wolfe

An 800-million-dollar coal gasification plant is now under construction in southeast Illinois by Shell Oil Company. It is being built with nonunion labor. Gulf Oil, Occidental Petroleum, and Exxon have all announced plans for billions of dollars in construction of synthetic fuel facilities. All plan to use nonunion contractors.

According to spokesmen for the Associated Builders and Contractors (ABC), the anti-union open shop contractors association, the vast majority of the projects under the newly created Synthetic Fuel Corporation will be built with nonunion labor. They say that there is a loophole "big enough to drive a truck through" in the Energy Security Act of 1980, which created the corporation and authorized $20 billion in funding.

Section 175(b) of the act specifies which categories of projects will come under the Davis-Bacon Act, the law which guarantees the payment of prevailing—in most cases union-scale—wages on all federally funded construction projects. Projects funded by the corporation through loans, loan guarantees, or in joint ventures are covered by Davis-Bacon. But if the corporation sets up a price-support agreement—which guarantees a certain market price for a synfuel product—or if the corporation enters a purchase agreement—by which it contracts to purchase a certain specified amount of a synfuel product—Davis-Bacon does not apply.

This has been confirmed by Terry Yellig, a spokesman for the Building Trades Department of the AFL-CIO and by spokesmen for the Synthetic Fuels Corporation itself.

Lane Kirkland, the AFL-CIO president, testified before the Senate Energy Committee on Sept. 24 that Davis-Bacon "would apply to almost all projects of the corporation." But Kirkland, who was intimately involved in the discussion around the drafting of the legislation, certainly should have been aware that this was not the case. His own lawyers would have told him so.

According to a spokesman for the corporation, the amount of nonunion labor involved in the program is directly proportional to how high the price of oil rises. The higher the price per barrel, said the spokesman, the more economically attractive a synfuel project becomes. This makes it easier to obtain private financing, making the price-guarantee and purchase-agreement route a workable option. With Davis-Bacon removed as a "hindrance," the whole program will skew heavily toward the open-shop or nonunion contractors.

This analysis is shared by a Senate Banking Committee staffer involved in drafting the legislation. Everyone involved in the program and its planning is banking on major increases in the price of oil, he stated, increases that will push the price well over $40 per barrel in the near term. If there is no price increase, he stated, the synfuel program will not work.

It is the high cost of the synfuel process that demands that projects be built and operated on low, nonunion wages.

A competent synthetic fuels program should be based on utilization of high-energy technologies. This requires the construction of high-temperature, gas-cooled nuclear reactors to provide the necessary energy throughput to make synfuels cost efficient.

A second, complementary aspect of such a program would be water project development in the Western states—projects which have been blocked by the environmentalists and their allies in the Carter administration. These projects are key to developing the huge Western coal reserves and using them efficiently—without threatening the destruction of Western agriculture.

This program would in turn demand the efficient use of highly skilled construction and other labor, as well as the training of additional workers. It could not be done with nonunion "cheap labor."

The Senate Banking Committee staffer in fact identified as a major purpose of the program raising the price of energy. "It is a less obvious way to do this," the staffer stated. "but the synfuel program will raise the cost of energy as much as a direct energy tax. This will finally force cuts in consumption."

A spokesman for the corporation stated that the major oil companies—who will build and operate most of the key projects—have already added up their labor costs and decided that they can't afford union labor. As long as the law provides them with a loophole, they will push for nonunion contracting.

All of this has the Associated Builders and Contractors ecstatic. "For years we've been trying to bust through against the union contractors," said an Associated Builders and Contractors lobbyist. "Now we have been given our big chance and the irony is that the unions lobbied for the bill."

"The synfuel program has the potential to be the largest single construction project in the history of the country," the ABC spokesman continued. If the second phase of the program is underway in 1984, an additional $68 billion will be made available. From this point on, the synfuel program will hog nearly all capital and resources—both equipment and manpower—available in the construction industry to the exclusion of other projects. The Department of Labor estimates that more than a million additional construction workers will be required to fill the program's manpower needs.

The ABC is now gearing up a multimillion-dollar apprenticeship program to make sure the new workers will be nonunion. ABC spokesmen boast that the net effect of all this will be to drastically lower the wage rates throughout the construction sector, while rendering Davis-Bacon ineffective. Privately, spokesmen for the corporation will agree with this analysis; publicly, they prefer to remain silent on such issues.

But union leaders are already alarmed. Plumbers and Pipefitters President Martin Ward lashed out last month at the oil companies and others for double-crossing them. "The companies that slapped us on the back when we were lobbying [for the Energy Security Act] beside them, now act as if they don't know us," Ward stated recently.

Other union officials are angry at AFL-CIO President Kirkland, who they feel has a lot to explain. Kirkland reportedly cooked up a deal with the Carter administration which gave union backing for Carter's renomination in exchange for the promise of a synthetic fuel jobs program. Carter has been defeated, but the legislation he sponsored has opened the door to nonunion contractors.

Provisions on Davis-Bacon

The following is the wording of the Energy Security Act that specifies Davis-Bacon coverage. It should be noted that the sections referred to under this subsection, namely Sec. 132, deals with loans made by the corporation. Sec. 133 deals with loan guarantees made by the corporation. Sec. 136 deals with joint ventures involving the corporation. Not mentioned under this subsection are Sec. 134 and 135 which deal respectively with price guarantees made by the corporation and purchaser agreements made by the corporation.

Relationship to Other Laws

Sec. 175(b). The provisions of the Davis-Bacon Act and the Service Contracts Act shall apply to the Corporation as if it were an agency of the United States. All laborers and mechanics employed for the construction, repair, or alteration of synthetic fuel projects funded in whole or in part by the Corporation pursuant to Sec. 132, 133, or 136 of this title shall be paid wages at rates not less than those prevailing on projects of a similar character in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act as amended. The Corporation shall not extend any loans or loan guarantee for construction, repair or alteration of synthetic fuel projects unless a certification is provided to the Corporation prior to the commencement of construction or at the time of filing an application for a loan or loan guarantee, if construction has already commenced, that these labor standards will be maintained upon the synthetic fuel project. The Secretary of Labor shall have with respect to the labor standards, specified in this provision, the authority and functions set forth in the organization plan numbered 14 of 1950 and Section 276(c) of Title 40.

Tip O'Neill out to sabotage the new national mandate

by Barbara Dreyfus

House Speaker Tip O'Neill announced this week that he will make it as hard as possible for the new Reagan administration to get any legislative initiatives through the U.S. Congress. O'Neill did not say that in so many words, but he did say that he will stack the three key House committees, Rules, Appropriations, and Ways and Means, with twice as many Democrats as Republicans—even though the Republicans will have 44 percent of the House membership in the new Congress.

O'Neill's action, without precedent in the history of the U.S. Congress, would give his largely liberal Democratic appointees a stranglehold over tax programs, the entire budget, and the ability of congressmen to amend legislation on the House floor. Normally, the Speaker apportions membership on committees according to the ratio of Democrats to Republicans in the House.

"Obstructionism has already begun," commented House Republican Policy Committee chairman Rep. Bud Shuster of Pennsylvania on O'Neill's action. "They're laying the groundwork to block the Republican mandate in the House."

As O'Neill moved to block legislation, Rep. Henry Reuss (D-Wis.) moved to forestall bipartisan alliance on economic policy between conservative Democrats and Republicans. Reuss announced Nov. 13 his intention to take over the chairmanship of the Joint Economic Committee and use it to direct Democratic Party policy. An aide to Reuss reported, "He sees the JEC as the rallying point for the party, for economic programs."

Reuss, chairman of the House Banking Committee in the outgoing Congress, has staunchly backed the policies of Federal Reserve Chairman Volcker. By early spring, when Volcker had caused 20 percent interest rates, Reuss pushed through the House the Depository Institutions Deregulation Act which gives Volcker near-dictatorial control of the banking system.

Reuss is in conflict with conservative House Democrats, grouped around the Democratic Research Organization. Many now want to use the group as a focal point for policy making. The group will now be headed by Rep. James Jones of Oklahoma.

"We have to win back the traditional core of our party," says Jones. "If we ignore the mandate of this election, we will become a minority party."

Texas Republican Rep. Bill Archer has announced his intention to work with conservative Dems to oust Tip O'Neill. "If the House is still dominated by the same philosophical leadership that the people rejected, then it will be virtually impossible to have significant changes," Archer told *EIR* on Nov. 14. "We need changes in productivity, capital investment, jobs, and to combat inflation. The American people spoke out as to their wishes in this election." Only 26 Democrats need vote with the Republicans to oust O'Neill.

In an effort to pressure O'Neill, Republican leader Howard Baker, soon to be the new Senate Majority Leader, warned that he could stack the Senate committees with Republicans if O'Neill carried out his threats. "We can do it, too," said Baker. "I hope Tip doesn't pursue that. I don't want Tip and me to get into a fight."

Conservative Democrats are indicating they are willing to work with Senate Republicans. Sen. David Boren (D-Okla.) told a Washington, D.C. energy conference this week, "I foresee a new bipartisan consensus emerging that will discuss the needs of the country."

O'Neill's background

"When a Democratic president working with Democratic advisers comes up with a Democratic program, O'Neill seldom questions it. His job, as he sees it, is to get the bills passed. But to succeed, he might have to call on some of his old political skills and offer rewards here and there." This comment comes from a new biography of O'Neill by Paul Clancy and Shirley Elder, titled *Speaker of the House.* Despite their effort to portray him as a typical old-style, back-slapping Irish politician, the authors reveal a good deal about O'Neill's subservience to the Eastern Establishment.

Even when Tip has had reservations about the policies of Jimmy Carter, he has followed the President's directives, say the authors. When Carter declared the energy crisis "the greatest challenge our country will face" and demanded massive austerity from Americans, "Tip did all he could" to force Congress to pass Carter's programs.

For over 10 years O'Neill has worked closely with Common Cause, the supposed watchdog against special interests which itself represents a special interest—the Anglo-American policy-making elite. O'Neill and Common Cause founder and longtime director John Gardner, a leading member of the Council on Foreign Relations, have been responsible for a series of post-Watergate congressional "reforms" which have undercut Congress as a constituency-based institution.

The most important of their reforms was the rule establishing caucus election of committee chairmen, ending the seniority system. The seniority system had meant that congressmen with years of legislative experience and close ties to their political base headed committees and formulated policy. "I was always opposed to the seniority system," O'Neill admitted.

What the book does not say is that O'Neill has set the stage for the British-style parliamentary system the Council on Foreign Relations says it hopes to achieve. More and more, O'Neill has been echoing the words of White House counsel Lloyd Cutler, who wrote in the fall issue of the Council's magazine, *Foreign Affairs,* that America must adopt a parliamentary government. In an August 1980 letter to 44 Congressmen who had deserted him on a procedural vote, O'Neill warned them not to deviate from his leadership again.

O'Neill controls the Steering and Policy Committee, which chooses committee assignments for all members and develops policies. He chooses half the members of the committee, and holds veto power over the rest. O'Neill wields enormous leverage with his threats to banish a member to an unimportant committee, while, by placing his toadies on key committees, he can dominate congressional activity.

Bill Archer on O'Neill

The following is excerpted from a Nov. 14 interview with Rep. Bill Archer, a Democrat from Houston, Texas.

EIR: Is it true that you are trying to unseat Speaker O'Neill?
Archer: It is not a personal attack. It is an attempt to get the House in the hands of leadership which is to the right of center in philosophy, that will cooperate with the Senate and White House to redirect the country in line with the majority of the voters. This would involve an alternate Democrat in the Speaker's post, by putting together a coalition of like-minded Democrats and Republicans. There may be 8, 10, 12 Democrats I think would be good leaders with a proper philosophical persuasion. But before I mention any individual it is necessary to see if we could get the necessary votes.

EIR: Have you spoken to Democrats about this?
Archer: Yes. They are keeping an open mind. It is a little early now to say anything, it has not been committed to by the necessary 26. . . .

EIR: What would a conservative majority see as the programs that would be necessary?
Archer: There are so many things in the last 25 years. . . . There will be an effort to improve things along the lines that Gov. Reagan campaigned on—to reduce the role of government, rebuild our defense strength, complete the redirection and thrust of the economic programs that have dominated the nation. It would mean the House would cooperate, not foot drag. It will be difficult to turn the country around anyway, but if the House is still dominated by the same philosophical leadership that the people rejected, then it will be virtually impossible to have significant changes. We need changes in productivity, capital investment, jobs, combating inflation.

EIR: Have other Republicans been involved? What do the Democrats you have spoken to say?
Archer: There has been informal personal contact. There are a number of others working on it and interested, enthusiastic about it. . . . At some point the Republicans meeting in conference will have to vote on this—not before the first week in December.

EIR: If you do not succeed in ousting Tip O'Neill, do you think that you at least will have succeeded in forcing him to be a little more conservative?
Archer: I would hope so. At this point he has shown incredible arrogance with his announcement that he will try to get a two-to-one majority of Dems on three major committees—Rules, Appropriations, and Ways and Means. The House committees are always organized on the ratio of Democrats and Republicans in the House. Legally the majority party could do that, they could even deny Republicans seats on any committee.

EIR: Senator Boren gave a speech this week in which he said there were some in the Senate who want confrontation and some who want to cooperate with the Republicans. . . .
Archer: Many Dems in the House would desire to cooperate but they don't have the leadership which is sympathetic to reforms. Tip has already telegraphed what he wants to do with the two majorities. He said we will not cooperate, we will resist. Once the leadership of those committees is in the hands of his philosophical troops it doesn't matter—he won't have to intimidate others, he will have control of the committees. The Democratic caucus is overwhelmingly liberal, and in alliance with O'Neill they can select major chairmen on vital committees. They will prevent reforms. If we never get things to the floor our philosophical majority won't matter. And even if we do get things to the floor there will be no chances for amendments because if they control Rules there will be closed rules so no amendments. I think it's a major fight. People have high expectations with Reagan and the Senate and it will be extremely frustrating when we can't get it through the House.

Democrats demand new party leadership

by Kathleen Murphy

The battle over who will lead the Democratic Party heated up last week as prominent conservative Democrats demanded a new party leadership.

Senator Robert Byrd of West Virginia, whose tenure as Senate Majority Leader has been interrupted by the Party's electoral disaster, surprised reporters at his weekly Saturday press briefing by roundly criticizing the current leadership of the Democratic National Committee and its chairman, John White of Texas. Senator Byrd, who will now become Minority Leader when Congress reconvenes in January, identified the DNC leadership as being in large part responsible for the defeat of many Democratic congressional candidates. "I am convinced that too little help was given to Democrats up for House and Senate seats," Byrd stated. "The DNC has created a good deal of discontent and disappointment among those seeking re-election who didn't get any help" against better financed and better organized Republicans.

Byrd said that the DNC focused too much of its attention on Jimmy Carter's ill-fated re-election bid, at the expense of other Democratic candidates. In September, Byrd had expressed similar misgivings about the activities of White and DNC Executive Director Les Francis, a Carter-appointed honcho, in September, but his pre-election warnings were ignored. Carter people had privately termed Byrd's statements "spiteful," and expressed bitterness over Byrd's refusal to come out strongly and early for the ticket.

While Byrd refused to specify his choice for a successor to White, he made it clear that the party would not tolerate his continued stay in office. "I don't know how much support the current chairman has or whether he can be re-elected," the senator commented. The Senate Majority Leader demanded more input into party decision making for the Democratic leadership on Capitol Hill if future party disasters are to be avoided.

Later in the week, former Democratic presidential candidate Lyndon H. LaRouche, Jr. declared that "it is urgent that the DNC select a new chairman immediately."

"This should be a distinguished Democrat with no special commitments either to 1980 candidates for the presidential nomination, or to personalities identified currently as prominent candidates for the 1984 nomination. . . ."

"Even if we assume that John White were capable of performing that new kind of role within the DNC," LaRouche continued, "his vigorous partisanship for Mr. Jimmy Carter's candidacy and specific positions, together with the DNC's subordination of the interests of the party's candidates as a whole to Mr. Carter's perceived special interests, has made Mr. White and (former Carter campaign chairman) Mr. Robert Strauss the foci of most of the bitterness existing throughout the party and most of its traditional constituencies at this time."

LaRouche declined to nominate a successor to White, but specified the qualifications for a new party leader. "We require a leading figure who will be viewed as equally sensitive to all state party organizations and principal constituencies. . . ." said LaRouche, who currently is chairman of the advisory committee of the National Democratic Policy Committee, a policy-planning group and rallying center in the party.

LaRouche proposed that all former candidates agree to support "a short list of between four and six distinguished Democrats who might be willing to be drafted for election as DNC chairman." LaRouche indicated his preference that prospective candidates date from the "first half of the 1960s" and be capable of achieving the stature of a "Mr. Democrat," the term normally associated with traditional party leaders such as the late Speaker of the House Sam Rayburn of Texas.

Sensing the depth of the revolt against him among party conservatives as well as the followers of Sen. Edward Kennedy, White announced Nov. 18 that he has no intention of remaining on as party head unless "we can't decide on a new chairman."

Two weeks ago, White had boasted that he had the votes to remain as chairman and gave every indication that he intended to fight for his post. But that was before Bob Strauss, who was touting his fellow Texan as a "compromise candidate," did an about-face. Strauss declared firmly last week that "John White has no intention of remaining as Democratic chairman."

All this maneuvering promises to get more defined as the party heads for the first post-election meeting of its executive committee in Washington, D.C. Dec. 9. Rumors are circulating within party circles that White will be pressured to resign as quickly as possible, so the real brawl—over what party policy will be—can be gotten underway.

GOP gains leverage in state reapportionment

by Leif Johnson

Republican victories at the statewide and local levels will give the GOP more control over reapportionment and redistricting—one of the hottest issues before most state legislatures in 1981.

Reapportionment of congressional districts among the states, mandated by federal law every 10 years, will see losses of as many as four seats in the Northeast and Mid-Atlantic industrial states, with gains of as many as three seats in Florida and the West.

All states must redistrict not only congressional districts but also their own legislative districts under the "one man, one vote" doctrine establishing in the *Baker v. Carr* Supreme Court ruling. Even states that do not lose or gain seats in the House must redistrict, since the population has shifted.

Many feel the Democratic leadership contributed to this weakening with the heavy-handed tactics used by the Carter forces to secure the President's re-election, the Civiletti Justice Department Abscam/Brilab stings that targeted Democratic politicians and their labor supporters, and the Democratic National Committee's overall failure to support local candidates.

GOP gains in state governments

Jeb Carney, executive director of GOPAC, the Republican Party's political action committee for local races, is confident the GOP can control redistricting for 201 House seats. "These seats are in states where we have a governor and both houses, a governor and one house, a governor and 34 percent control of either house, or a governor and a strong position in either house."

Carney also views 69 additional seats as safe from Democratic gerrymandering, either because of a Republican governor, or because of Republican control of either of the state's houses.

This year's local elections, which occurred in half the states, reduced from 30 to 28 those states in which Democrats control both the state assembly and its senate; increased two-house Republican control from 12 to 13 states; and increased the number of states where control is split from 7 to 8. Republicans picked up control of one of the legislative bodies in Pennsylvania, Illinois, Ohio, Montana, and Washington State, giving them majorities in both houses. In Washington, the GOP also won the gubernatorial race, now giving them control over the governors' offices of those states.

GOPAC is, as well, making plans for 1982. They have targeted six special races in key states where they expect that vacancies from ill health will throw seats open.

One of the most difficult issues will be the creation of new districts in those states which have either lost or gained congressional seats.

New York will lose four seats; Illinois, two; Ohio, two; Pennsylvania, two; Massachusetts, Michigan, New Jersey, and South Dakota each will lose one seat. The gainers include Florida, three; California, two; and Texas, two; Arizona, Colorado, New Mexico, Oregon, Tennessee, Utah, and Washington State each picked up one seat.

Census disputes a factor

In the states losing congressional seats, the sharpest dispute will be over the population figures reported by the 1980 Census.

Legislatures will be given the detailed population figures on April 1, 1981, unless any one of the 15 legal actions filed by municipalities succeeds in preventing use of the Bureau of Census head counts. Detroit's successful suit charging a heavy undercount of urban minorities is now being appealed while New York's demand that the Bureau of Census release the addresses used for the mailed questionnaire is yet to be heard in Federal court.

Alex Lee, staff assistant to the House Subcommittee on Census and Population, fears that this year's census undercount in the inner cities is greater than the 7.7 percent undercount found in the 1970 census. Yet the all-Democratic Black Congressional Caucus, which stands to lose heavily in the redistricting, will not dispute the 1980 census figures.

Democrats mounted a weak effort to stem the dissolution of their urban power base. Last spring, House Speaker Thomas P. O'Neill, Jr., established DEMPAC to combat GOPAC, with the modest fund-raising target of only $100,000—one-tenth of what the Republicans raised.

O'Neill's letter of solicitation, which shrilly warned against "right-wing reactionaries" and "Republican big oil and big business," produced little money. DEMPAC died a quiet death.

Narcotics Policy

Will Reagan start a war on drugs?

by Nora Hamerman

The Nov. 4, 1980 election proved that the antidrug forces are indeed the majority in the United States. The rejection of Jimmy Carter brings to an end four years in which cocaine scandals surrounded the White House and the National Organization for the Reform of Marijuana Laws (NORML), the lobby for drug legalization, literally dictated the drug abuse policies of the Executive.

The drug issue played a far larger role in this election than the liberal media would acknowledge. During the primary period, Ronald Reagan distinguished himself from his Republican opponents through a tough stand for drug law enforcement, and was the only one among those candidates active up to the summer political convention, other than Democrat Lyndon LaRouche, who actually answered in detail the National Anti-Drug Coalition's questionnaire to the candidates on their drug abuse policy.

Voters perceived the sharp contrast between the Reagan campaign's concern and the arrogance of the Carter campaign, which finally, after months of repeated requests, sent our Washington office a copy of the President's 1979 Drug Abuse Policy paper, stating that it contained Carter's full position. But Carter had filled every available top drug policy post with NORML advisory board members, except for Peter Bensinger, who was retained as head of the Drug Enforcement Administration from the Ford administration. Moreover, we have since learned that NORML drafted the 1977 Carter speech on drugs that became the centerpiece of the 1979 document he gave us!

A mandate against marijuana

The National Anti-Drug Coalition intends to hold the incoming administration fully to the policies Reagan's answers to our questionnaire outlined. The first of these is an unequivocal stand against "decriminalization" and legalization of marijuana. In addition, the pot lobby's oft-cited allegations that marijuana is just the new generation's "preferred mind-altering recreational chemical"—comparable to alcohol or tobacco—is rejected by Reagan on sound medical grounds.

We see the election results as a resounding mandate not only to stop all federal moves toward decriminalization, but to begin reversing the "decrim" laws that have undermined drug law enforcement in eleven states, including New York and California. Jacob Javits, a top NORML adviser who introduced decriminalization bills into every session of the Senate, was voted out of office. Sen. Ted Kennedy, author of a criminal code reform bill containing "de facto" federal decriminalization measures, will no longer head the Senate Judiciary Committee. These are signals of an impending overall change in the drug enforcement climate on Capitol Hill, along with the change in the White House, that must be reflected at the state level.

The economic issues

Antidrug forces see the political battle against drugs as just beginning, however. The drug lobby has shifted its main emphasis over the past months away from "decriminalization" legislation toward creating de facto legality for pot and other psychoactive drugs on *economic grounds,* based on the notions of "economic freedom."

The Reagan camp is vulnerable to such appeals because of Milton Friedman, whom President-elect Reagan is said to admire. Friedman advocates full legalization not only of marijuana, but of heroin, on the British model, on the grounds that government does not have the "right" to prevent the free choice of individuals, including children, to destroy themselves. (Friedman's avowals on this subject were most recently made during a televised interview on the April 16, 1980 Phil Donahue Show.)

Friedman's favorite example of economic freedom is the British colony of Hong Kong, the world's capital for heroin trafficking and headquarters of some of the biggest British banks traditionally involved in the opium trade. A key aspect of the way the drug issue will confront the Reagan presidency is in foreign policy. Will President Reagan follow in Carter's footsteps and support the International Monetary Fund and London and New York big banks in their overt efforts to force Third World countries to turn to drug cultivation, under the pretext of earning currency exchange for debt repayment? Or will he make antidrug enforcement a cornerstone of a new U.S. foreign policy including a crackdown on the financial networks that reap "free enterprise" profits from dope?

This is already coming to a head with the new administration of Prime Minister Edward Seaga in Jamaica. By instructing his country's banks to accept U.S. dollars without questioning their origin, Seaga has effectively legalized his country's vast marijuana crop for export. How the Reagan team responds to this will be a telling signal of whether the tide will turn against the international dope cartel.

Nuclear Research

Fusion power to propel space travel

by Dr. Friedwardt Winterberg

The EIR *is happy to be able to present in this column an excerpt from an address given last month at a Fusion Energy Foundation conference in Los Angeles by Dr. Friedwardt Winterberg, a pioneer in America's inertial confinement fusion program. Dr. Winterberg is noted for his revolutionary approach to pellet design for inertial confinement fusion systems.*

There have been four great technical breakthroughs accomplished in this century. Three have been already accomplished, the fourth will be accomplished, and probably in this decade. The first of these great breakthroughs was, of course, manned flight; the second was the discovery of fission and nuclear energy; the third breakthrough was the landing of a man on the Moon—the accomplishment of the Apollo Project.

The last great breakthrough of this century—at least the last one we can foresee (we do not know yet, there may be another force coming)—is the breakthrough toward fusion power, which will come, I would say, not later than 1985.

This breakthrough will allow for the abundant and cheap production of electricity.

But power generation is only one side of fusion. The other side is its significance to space flight.

What is the great problem we face today as far as space flight is concerned? As the Apollo Program has shown, we are now able to land man on another planet in the solar system. However, we cannot do so with a very large payload—and the Moon, which is like a small planet, is very nearby to us.

Now if we were to go to Mars with chemical propulsion, then you would be confronted with some very tremendous problems. It could not be accomplished in the matter of days or a week, as in the case of the Apollo Program; it would take years. . . . That is very risky.

With chemical propulsion, therefore, I would say that going beyond the Moon is not possible for man, but only for unmanned probes.

As we know from rocket theory, you can increase the rocket velocity to as much as three times more than the exhaust velocity if you have a multistage rocket. But you cannot increase it substantially. To escape the gravity of the Earth you must attain a rocket velocity of about 12 kilometers per second (7.5 miles per second). So, if you have a multistage rocket in which each stage can attain about three kilometers per second, you put four or five stages on top of each other, you can escape the Earth's gravity field and head for the Moon. So chemical propulsion suffices to get free of the earth—because you need a relatively low velocity.

However, the most you can attain with rocket propulsion is a speed of 10 to 20 kilometers per second. This may seem very fast when you think of traveling at such a speed, tens of miles per second. But this is not a speed that can permit us to travel to Mars, say, in a time which is less than the order of years—which is a long time.

Of course, the trick in getting to Mars in a short time, maybe only a matter of weeks, is to use a higher exhaust velocity. You must obtain a level of propulsion, which only a fuel with a much higher combustion temperature can produce.

The answer is thermonuclear. In a thermonuclear reaction, the temperatures are not a few thousand degrees, as in a chemical combustion; they are millions of degrees, a hundred million degrees typically.

Then, we get an exhaust velocity not of a few kilometers per second but a few thousand kilometers per second.

That is, the rocket can attain, with the same payload, thousands of times larger velocities.

The kind of fusion reaction with which our fusion rocket would be propelled will consist of many little explosions, like many miniature hydrogen bombs. For example, one of the fusion concepts, inertial fusion, uses laser beams to ignite a small hydrogen bomb, so small that you can confine it in a container for power production. Magnetic fusion, for reasons I shall not go into, is not very suitable for rocket propulsion. Inertial confinement fusion, however, is ideally suited for these purposes.

In inertial confinement propulsion, beams of particles ignite fuel pellets, each pellet perhaps the size of an aspirin tablet. But as it explodes, it will typically produce the energy equivalent of 10 tons of TNT. These pellets will be ignited, say, every second. Their fireball will be reflected as exhaust by a magnetic mirror, and the spacecraft will be propelled.

The idea of this kind of rocket propulsion has a long history. First the idea of propelling a rocket by a sequence of explosions of some type is itself very old.

And it was very typical that after fission was discovered, some Los Alamos scientists pointed out that one could in fact propel a rocket by a sequence of exploding atomic bombs. This was extensively studied under the name of Project Orion, but it was eventually abandoned, because the idea seemed unworkable and to some too risky given the state of technology, at that time.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Appropriations for 1981: some on, some off

The first lame-duck session since the Truman administration began on Nov. 12. With the election of a Republican President and Republican Senate and with many new congressional faces, the 96th Congress was willing to have the session deal with few substantive policy issues. Meetings of the Senate Democratic caucus and the House Democratic leadership during the first two days of the session decided against bringing up a tax cut during the lame-duck session.

The main focus of the legislative session is passage of the second concurrent budget resolution and several appropriations bills. It is expected that no action will be taken now on at least four of the appropriations bills—Foreign Operations, Labor and Education, and Agriculture—and that continuing resolutions, keeping funding for their programs at 1980 levels, will be passed.

On Nov. 17 the Senate, by a vote of 51 to 35, passed the State, Justice, and Commerce appropriations bill. Included in the measure was a provision prohibiting the government from using any of its funds to implement a grain embargo now or in the future.

The Justice Department bill restored \$1.7 million of the \$3 million cut by the Carter administration from the Drug Enforcement Agency. The Senate also voted up \$9.5 million for special state drug information-sharing programs. The Senate also approved, by a vote of 76 to 4 on Nov. 17, the Interior Department appropriation bill.

There were few differences between the Senate bill and that passed weeks ago by the House, so a resolution by a conference committee is expected quickly. Also awaiting action by conference committees are the appropriations bills for HUD and the District of Columbia. The Treasury and Post Office appropriations bill will be acted upon before the Thanksgiving holiday in the Senate, and it too may be resolved by a conference committee before Dec. 5, when the 96th Congress will end.

Revenue sharing wins extension

The House voted 345 to 23 on Nov. 13 to extend federal revenue sharing to cities and towns for three years. Under the bill the localities will get \$4.6 billion a year. Opponents of revenue sharing, which allows localities to spend the money as they see fit provided they first hold public hearings, tried to take state governments out of the program. But an amendment on this by Rep. Jack Brooks (D-Tex.), chairman of the Government Operations Committee, was soundly defeated. Rep. Elliott Levitas (D-Ga.), in a move to keep down federal spending, offered an amendment that for every dollar of revenue-sharing funds accepted, a state had to return an equal amount of categorical grant money, federal funds earmarked for specific programs. The House adopted this amendment, while authorizing \$2.3 billion for no-strings-attached state revenue-sharing programs in 1982 and 1983 if Congress appropriates the funds. The Senate will vote on the measure before Thanksgiving. Sen. J. James Exon (D-Neb.) is considering introducing an amendment similar to the Levitas provision.

Alaska Lands bill has interim success

By a voice vote the House approved the highly controversial Alaska Lands Bill Nov. 12. The bill prevents development by lumbering, oil, or mining interests of 104 million acres of Alaska lands.

The House passed a Senate version of the bill, rather than the even more restrictive House bill written by Rep. Morris Udall (D-Ariz.). Udall himself urged passage of the somewhat more moderate Senate bill, rather than take the chance that no bill would pass. "We didn't know what the new President would do" without any guiding legislation, declared an aide to Udall. The congressman told the House that he will try to make the measure more restrictive in the next Congress. Alaska's only congressman, Republican Don Young, who had led the fight against any restrictive bill, realized he could not stop the bill. Young announced he will "come back in the next Congress and unlock more of our lands for mineral development." Young was worried that without any bill President Carter, who avidly supports closing Alaska to developers, would prevent development by executive order.

On a second energy front, the

Northwest Power Bill (S. 885), which allows the Bonneville Power Authority to purchase power from utilities, combine it with Bonneville's hydroelectrically generated cheap energy, and sell it at low rates to regional industries and utilities, was passed by the House without debate Nov.

Hearings probe military output capacity

Rep. Richard Ichord (D-Mo.), chairing a special House Armed Services Committee panel on the defense industrial base, has conducted extensive hearings in the field and in Washington, D.C. over the past month. Ichord had requested from the full committee and was given the opportunity, to investigate the erosion of America's industrial infrastructure as it relates to military needs. During the election recess, Ichord and two other panel members, Bob Wilson (R-Calif.) and Dan Daniels (D-Va.), visited defense contractors.

While a solid data base on the state of the defense industrial sector will probably be compiled over the course of the hearings, the hearings themselves seemed to be running on two different tracks. This became clear on Nov. 12, when the head of the American Defense Preparedness Association (a private/industry group), Gen. Henry Miley (Ret.), testified that the principal problem of the base was an erratic procurement policy on the part of the federal government. Miley proposed three remedies for this; multi-year contracts, the ability of defense contractors to factor in rising interest rates as part of their costs, and greater depreciation-allowance schedules for the defense industry.

Rep. Don Bailey, a Democrat on the panel from the hard-hit industrial state of Pennsylvania, asked, "Is it just a question of maintaining our production lines, or is it the problem further down the line? There is a debate going on in this country about whether we should keep certain fundamental heavy industry capacities. I think we have to look at this question by tying military needs to general economic needs and look at our primary and secondary manufacturing capacities all the way through."

House lowers the Senate budget ceiling

The House adopted a $631.7 billion federal budget for fiscal 1981, when they voted 203 to 191 on Nov. 18 to adopt the second concurrent budget resolution. The vote on the binding budget ceiling was basically along party lines. Republicans had wanted to delay the budget until the new administration takes office in January.

The House Democrats had originally aimed at a higher budget level, but after the election retiring House Budget Committee chairman Robert Giaimo (D-Conn.), in a fit of pique, declared that since the new President thought he could cut the budget 2 percent, Giaimo was going to force him to live up to his claims. Giaimo pushed through the committee a 2 percent across-the-board budget cut, lowering the total budget figure from $648 to $631 billion. On Nov. 19, the Senate voted 48 to 46 to adopt a $633 billion budget. A conference committee the same day set the final budget figure at $632.4 billion. The Office of Management and the Budget proposed a budget ceiling of $633.8 billion in July.

Testimony urges auto import curbs

The House Ways and Means Committee's subcommittee on trade held hearings on Nov. 18 on the auto industry and foreign competition. The hearings focused on House Joint Resolution 598, introduced by Michigan Democrats Don Albosta and William Brodhead and Indiana Democrat John Brademas. HJR 598 authorized the President to enter into negotiations with the Japanese to secure orderly marketing agreements on auto production. Subcommittee chairman Charles Vanik (D-Ohio) keynoted the hearing by noting the recent decision by the International Trade Commission not to impose trade restrictions on Japanese auto imports. Vanik stated, "Just because the ITC has not acted, does not mean that Congress cannot."

A parade of congressmen and senators from Michigan, Indiana, and Ohio all catalogued the effect of auto unemployment on their states and urged that the incoming President negotiate an orderly marketing agreement to give the auto industry the three to four years which it will need to retool, rebuild, and become competitive.

National News

U.S. ready for Persian Gulf action?

An unidentified U.S. military official said Nov. 15 that the United States would intervene militarily to keep the Straits of Hormuz open if other nations refused to help. "If the U.S. is unable to get the cooperation, I expect we will act unilaterally," the official said.

The official was apparently traveling with U.S. Admiral Robert Long, commander of U.S. military forces in the Pacific and Indian Oceans. He made his remarks during a press conference held in New Delhi, India, covered in the Nov. 16 *Miami Herald.*

Noting that the U.S. currently has some 32 warships in the Persian Gulf area, along with 28 French vessels and 29 Soviet vessels, the anonymous official claimed that U.S. forces in the area are adequate to handle any Persian Gulf contingency. He added, nevertheless, that "It is frustrating to some of us that here is the U.S. protecting not only our vital interests, but those of the others in the free world, and our forces are spread so thin," he said.

The official discounted the idea that Iran might try to close the straits, and asserted that the real threat is from the Soviets.

Private summit held by CFR

The Chicago Council on Foreign Relations held its third annual Atlantic Conference on Nov. 14-15 in Portugal. The subject was "Europe in World Affairs." Among others, participants were Zbigniew Brzezinski; Aspen Institute chief Joseph Slater; a leading member of the Carnegie Foundation; the program director of the New York Council on Foreign Relations; and Charles Percy, Republican senator from Illinois.

Thierry de Montbrial, a French member of the Trilateral Commission and critic of Carter administration policy, was also present, along with Fiat's Giovanni Agnelli and Theo Sommer, editor of the German weekly *Die Zeit* and an adviser to Chancellor Helmut Schmidt. Informal discussion centered on what the Reagan administration foreign policy will be. The CFR expects to shape the Foreign Relations Committee, since Percy is about to head it up.

Also attending the Portugal session was liberal Republican Charles Mathias of Maryland, who may seek a seat on the Foreign Relations Committee when the new Congress convenes in January.

Italian implicates Kissinger in Moro murder

Rodolfo Brancoli, the Washington, D.C. correspondent for the Rome daily *La Repubblica,* has written a book, currently serialized in the paper, in which he implicates both Henry Kissinger and U.S. ambassador to Italy Richard Gardner in the 1978 kidnap-murder of Italian Christian Democratic leader Aldo Moro by the terrorist Red Brigades.

Brancoli's information confirms in part the analysis of the document "Who Killed Aldo Moro?" published by the European Labor Party in Italy.

The ELP document charges that Moro, author of the "historic compromise" doctrine of forming a stable government coalition of the Christian Democrats and the Italian Communist Party, Italy's two largest parties, was killed to ensure that Italy did not become a strong economic and political partner in the then-emerging European Monetary System, which was strongly opposed by both Kissinger and Gardner.

Percy makes foreign policy recommendations

Illinois Republican Sen. Charles Percy, the incoming chairman of the Senate Foreign Relations Committee, presented foreign policy recommendations in a press conference Nov. 19 following his return from a meeting in Portugal sponsored by the Chicago Council on Foreign Relations.

Percy said that Japan and Western Europe must be persuaded to increase their defense spending for such goals as protecting the Persian Gulf. In addition, Percy said that President-elect Reagan should not lift the grain embargo against the Soviet Union, but should be free to use the embargo as a bargaining chip with the Soviets over Afghanistan.

Percy met with several Reagan foreign policy advisers on his return, including Richard Allen, to discuss his upcoming trip to Moscow.

Allen, meanwhile, stated on ABC-TV Nov. 20 that he favored the Camp David approach to Mideast peace negotiations. Reagan himself has never indicated that he favors this approach. In his Nov. 6 press conference, the President-elect avoided committing himself to Camp David when asked about it by reporters.

NDPC issues call to replace Volcker policy

The National Democratic Policy Committee has issued a resolution to both Democratic and Republican leaders nationwide, summarizing how the Federal Reserve chairman's policies have slashed U.S. basic industrial output, farm income, and homebuilding.

Therefore, states the call, American constituencies must "mobilize their political, financial, and institutional resources for the purpose of ending inflationary monetization of the national debt, and instead mandating the Federal Reserve to discount credit for productive investment and tangible production; ensuring stable, low interest rates; enforcing orderly marketing for agriculture, including 90 percent parity and debt relief where necessary, as well as world export price negotiations; upholding federal commitments to infrastructural and scientific development; ensuring tax abatement for producers and their creditors, with tax penalties on speculators;

and elimination of unscientific rulings and regulations hampering business and energy production.

Development of water resources, highways, ports, mass transit, energy, and the upgrading of labor skills are specified as priorities for government action.

New test of satellite crop monitoring

Beginning in 1981, Landsat satellites will be used to monitor wheat, barley, rice, corn, and soybean crops in the United States and several other countries. The satellite monitoring project, called Agristars (Agriculture and Resource Inventory Surveys Through Aerospace Remote Sensing), is part of an ongoing effort to perfect remote sensing technologies to provide accurate and timely information as to crop conditions, soil and water conditions, and other information critical to agriculture.

Agristars is a five-year, $300 million program launched in 1980 that involves experts from the USDA, the National Aeronautics and Space Agency (NASA), and the National Oceanic and Atmospheric Administration. These agencies collaborated previously in the Large Area Crop Inventory Experiment, begun in 1974, which demonstrated the feasibility of using remote sensing techniques to improve crop production estimates.

Kirkland heads for Europe

AFL-CIO President Lane Kirkland began two weeks of meetings with European trade-union and political leaders on Nov. 18. Kirkland will attend a meeting of the trade-union advisory committee of the Organization for Economic Cooperation and Development in Brussels. An AFL-CIO spokesman reported that he will spend much of his time on briefings about his views of the incoming Reagan administration. The AFL-CIO leader will in turn be told what "his political friends think he should do under the circumstances," an AFL-CIO source said.

"Lane is looking for input from Europe," said the spokesman, who would not specify whom Kirkland will meet. The AFL-CIO president is a member of the Executive Committee of the Social Democrats U.S.A.—the American wing of the international Social Democracy—whose leaders are now meeting in Madrid.

Kirkland is also a member of David Rockefeller's Trilateral Commission and regularly meets with its members on his trips to Europe.

GOP governors debate Volcker tenure

The question of whether to retain Paul Volcker as chairman of the Federal Reserve was the subject of public debate at the recent Republican governors' conference in Philadelphia.

During the Nov. 18 panel on taxation and budget policy, one governor asked the panel: "The interest rate question is key in determining whether we get industrial production going. Have either of you [panelists] looked at the most ominous thing that faces the nation," referring to the Federal Reserve's policy?

The panel leader, a Republican senator, replied: "It is clear that Keynsesian economics has been discredited. . . . We need a productively oriented policy over the next five years. The question is, will we be able to do the job with the Federal Reserve thinking that high-interest rates must be maintained?"

The governor then asked, "Is there any way we can replace Paul Volcker?"

Commenting on the exchange, Gov. Bill Clements of Texas, a Republican close to President-elect Reagan, said that while he had not heard of Volcker's leaving, "if it's true, it's very good news." At a later press conference, another Republican governor commented that he thought that "President-elect Reagan would want a Federal Reserve chairman of his own."

Briefly

● **THE ASSOCIATED** Builders and Contractors (ABC), the open-shop contractors' association, has decided to support legislation creating a subminimum wage for youth. A spokesman for ABC says that if the subminimum wage is passed, it will save open-shop (non-union) contractors "millions of dollars . . . we'll be able to put kids to work for dirt cheap."

● **JOHN TOWER,** the Texas senator mentioned prominently for the post of defense secretary, and former NATO commander Alexander Haig are two "friends of Great Britain," according to the Nov. 19 *Daily Telegraph* of London. Titled "Reagan may appoint Anglophiles," the article points to Tower's congressional record as a firm friend of Britain, foe of the U.S.S.R., and graduate of the London School of Economics, and says Haig "also wants firmer ties with Whitehall."

● **T. MILTON STREET,** a newly elected state senator from Philadelphia, switched his party affiliation to Republican on Nov. 18, assuring the GOP control of the senate in the next session. Street, who represents a ghetto district 90 percent Democratic in registration, told the press that "the Democrats have become insensitive to the needs of blacks and the needs of the poor."

● **UAW LOCAL 544,** headed by John McCarrell, has proposed that auto workers picket the Federal Reserve Bank in Washington to demand the resignation of board chairman Paul Volcker. UAW President Doug Fraser, while not endorsing the proposal, commented, according to the *Pittsburgh Post-Gazette:* "If Volcker's policies remain the same as in the past, we'd be better off if he resigned. His policies are a disaster to the auto industry."

Upsurge planned against Reagan

The radical movement is being reorganized for the purpose, starting with Atlanta.

A mass-based, "radical opposition" to the nationalist policies of factions within the Reagan administration—similar to the antiwar movement that was used to foment chaos against President Nixon—is already being mapped out at leftist think tanks.

Partial plans for this mass movement were revealed at a Nov. 6 meeting in Washington, D.C. attended by nearly the entire staff of British intelligence's "Russellite" project, the Institute for Policy Studies, members of the American Friends Service Committee, the B'nai B'rith, and by Ben Chavis, formerly of the Wilmington 10 and now of the Commission for Racial Justice in Washington, D.C.

According to sources who attended the meeting, final plans were worked out for a march of liberals, leftists, terrorists, and their sympathizers to be held Nov. 23 in the racially tense city of Atlanta in Remembrance of the Holocaust. Such a march potentially threatens to ignite riots in the city where 10 black children have disappeared and/or been murdered in the past year.

The planned march follows only days after six Klan/Nazi members were acquitted of all charges stemming from their involvement in a shootout in Greensboro, N.C. where five members of the Communist Workers Party were killed.

Further plans for the proposed radical "opposition" were revealed by Marvin Dunn in an interview made available to *EIR*. Dunn, a former member of Naval Intelligence who received further counterinsurgency training at Britain's psychological warfare center, the Tavistock Clinic, was, behind the scenes, the "controller" of the Miami riots this spring.

In the interview, Dunn called for "such issues as nuclear arms control, the possibility of war, environmental issues, and civil rights as expressed through economic issues like 'affirmative action' to be used to create mass opposition to Reagan," he said. Dunn said that clashes between groups like the CWP and Klan can be expected, but the major emphasis of IPS, which was founded by former staff members of Henry Kissinger, will be on building this movement "as soon as Reagan is inaugurated and takes some action."

Arthur Waskow, a founding IPS member now based out of the Public Resources Center, is overseeing part of this radical reorganization. Through the PRC's Jewish Institute, Waskow is organizing a new group called Jewish Agenda to bring together disparate, radical Jewish organizations for work in "anti-Nazi" fronts with groups like the Communist Workers Party.

Paul Bermanzohn, a member of Children of the Holocaust, typifies this shift since he assumed leadership of the CWP after the death of the Greensboro five. Klan and Nazi groups that are to be deployed in manipulated clashes with these left radicals have also been put through an extensive reorganization.

In the last two years Bill Wilkinson's Invisible Empire-Knights of the Ku Klux Klan has emerged. Wilkinson, was for eight years a cryptographer with very high security clearance in Naval Intelligence before he joined the Klan in 1975, and has surrounded himself with a machine-gun toting security echelon drawn from former military intelligence and Special Forces personnel.

Counterintelligence experts interviewed by *EIR* have raised the question of Wilkinson's Klan as a domestic military intelligence project. They point out that President Carter, along with such bodies as the Anti-Defamation League of B'nai B'rith, have grossly distorted Klan numbers and activity for their own political ends.

There is nothing new about a "controlled" Klan or Nazi group. Senate hearings on the FBI's counterintelligence program (Cointelpro) show that in the mid-1960s, over half of all Klan members were FBI informants, including several involved in provoking the murder of civil rights organizers.

Similarly, there is the case of Jimmy Rosenberg (a.k.a. Jimmy Mitchell), a documented paid ADL agent still active in Klan circles. At one time in 1978, Mitchell was simultaneously a member of the Pennsylvania branch of the Independent Orders-KKK, the left-wing Progressive Labor Party, and the Jewish Defense League. In March of that year, Rosenberg/Mitchell was implicated as the provocateur behind a Klan plot to bomb the Trenton, N.J. headquarters of the NAACP.