EIR

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The plot to destroy U.S. housing
Jack Kemp calls for Euro-American summit
Good news from Reagan-Lopez Portillo talks

Italy at the crossroads: Socialist coup or Gaullist republic?

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From the Editor

Foreign observers who think it is a meteorological law that Italy's governments fall at rapid intervals and the country is in perpetual chaos will find our Special Report this week an eye-opener—particularly Milan bureau chief Muriel Mirak's analysis of the terminal threat to representative government, and the potential for a "Gaullist solution" that would preserve the Republic and end the chaos by quashing its "Black Guelph" instigators.

The report covers the most intense debate on the Italian financial scene today: whether a "heavy lira" currency reform will go through. Rome correspondent Marco Fanini provides background on the same fight during the post-World War II period. The bottom line, then and now, is industrial reconstruction; the rotten apple in the party spectrum, then as now, is the Italian Socialist Party, propped up by those American factions exemplified by the State Department who have wanted to reduce Italy to rustic squalor.

Our coverage of the United States features the promising, if tentative, forays against Federal Reserve monetarism from figures in and around the new administration. It also exposes the deindustrialization mentality being insinuated by the Carter-created presidential commission on the 1980s as a follow-up to the 1970s NATO-sponsored "limits to growth" campaign. This sabotage has already proceeded the furthest in the sphere of U.S. homebuilding, as Richard Freeman documents in the Economics section, leaving no doubt that the policy is deliberate and will not be reversed without a political fight.

Robyn Quijano

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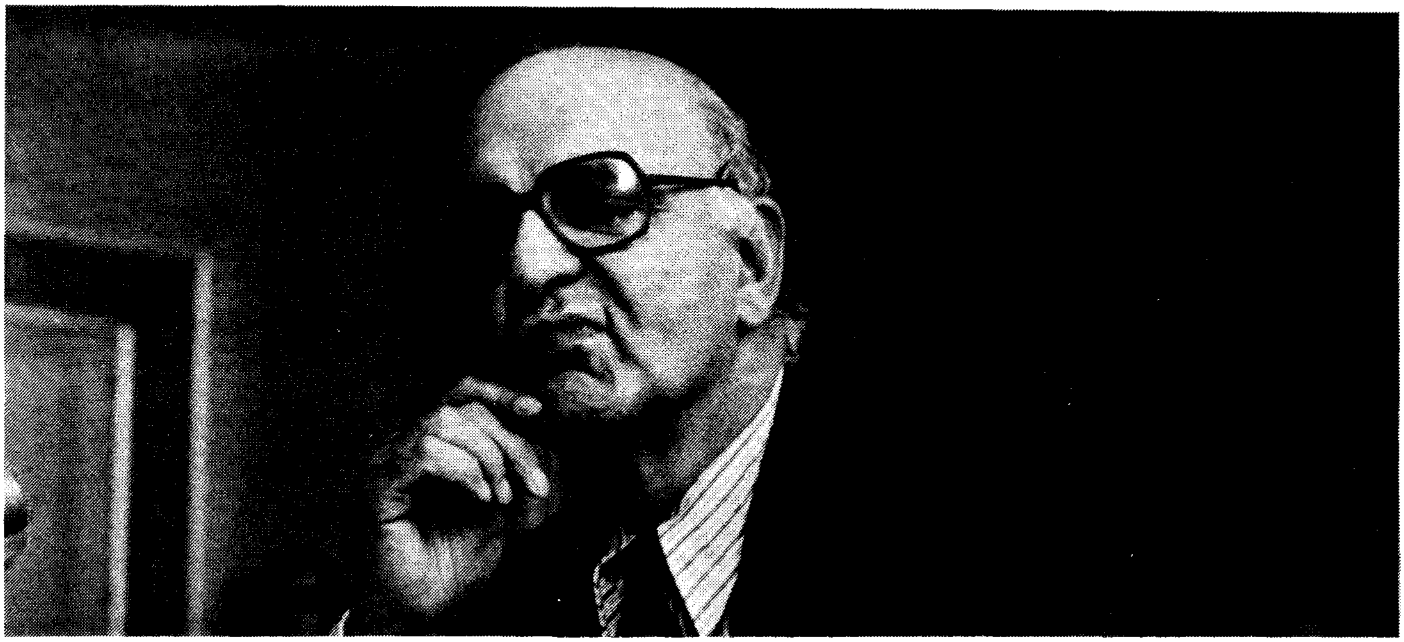


A foreign-policy breakthrough?

Last week there was good news from Mexico. After nearly four years of what was understood there as outright hostility from the Carter administration, Mexican-U.S. relations have gotten a new start. The meeting between Ronald Reagan and José López Portillo in Ciudad Juárez was, in the words of the President-elect, "a very successful and wonderful meeting." The joint communiqué reflected precisely this in stating that the two heads of state "committed their personal effort to develop the Mexican-American relationship in such a manner as to be an example to the international community."

There are sound reasons why strong relations between the two republics based on an economic growth perspective for both nations should be exemplary. Mexico, with its great economic potential, its desire to become an advanced industrial nation, and its proud republican tradition, is the ideal neighbor for a United States pulled off the Malthusian track, and set to foster growth and progress once again.

And building the right kind of relationship with Mexico, one based on the transfer of advanced technology, will go a long way in stabilizing the rest of Latin America.

The current bloodbath in Central America, orchestrated by the Second International, the Jesuit order in service to the European oligarchy, and the Soviet KGB, is the product, by design, of the same Carter-Brzezinski foreign policy that would not allow "a Japan on the U.S. border." Why? Because the "postindustrial" technetronic era on which Carter's economic and foreign policies were based demands zero growth and the end of heavy industry in the advanced sector, and chaos and depopulation in the developing sector.

For many Americans, particularly in the Southwest, Carter's actions toward Mexico were proof of the insanity of his policies. When then-energy Secretary James Schlesinger sabotaged the Mexican natural gas deal, which would have supplied the U.S. with much-needed fuel, and a great boost for its exports to technology-hungry Mexico, all of Texas was hopping mad. Now there is another chance to create a trade boom between the two nations.

Mr. Reagan got through the first hurdles of his first diplomatic venture. Traps were set, and forces on both sides of the border worked overtime to create new hostilities.

But instead the leaders established a friendly open agenda, a promise to meet again soon, and the possibility, according to some analysts, that oil-for-technology deals may be arranged at a future date.

There will surely be more traps and hurdles. Mexico is still being targeted for Iranization by the same forces involved in the Central American bloodbath, and the agitators for a deindustrialized America, including the Heritage Foundation, maintain influence within the Reagan camp.

To rebuild our neighbors' and allies' confidence in America, Mr. Reagan must first take direct control of foreign policy and build upon the kind of personal relationship that he established with the Mexican president, preventing the dubious Mr. Haig from enjoying a Kissinger-style reign.

But above all, President Reagan must take control of the nation's economy, and throw out Fed Chairman Paul Volcker and his tight credit policies. As long as interest rates are in the 20 percent spectrum, the U.S. economy will continue to be dismantled, and the high-technology needs of our southern neighbor will not be met by our collapsing industrial plant.

Good news from Mexico depends on good news about the Federal Reserve. If Mr. Volcker is not replaced with a credit policy that promotes industrial expansion, then the Malthusian policies that haunted Mexican-U.S. relations in the past will again poison the waters of the Rio Grande.

Can Reagan avoid a depression?

by David Goldman

No results are available at *EIR*'s deadline from President-elect Reagan's meeting last week with economic advisers. But if the confirmation testimony of his cabinet officer-designees and recent actions on the part of Sen. Jake Garn, Rep. Jack Kemp, and other Reagan intimates truly reflect the character of the new administration, there is a chance yet that the United States may avoid a worsening depression during 1981. *EIR* has forecast a second-stage downturn of the U.S. economy during the first quarter of 1981 should Fed Chairman Volcker's monetary policy continue unimpeded.

At Senate Banking Committee hearings Jan. 7 convened by incoming committee chairman Garn, Volcker backed up against the ropes under pummeling from senators and a delegation of farmers, auto dealers, homebuilders and other small businessmen, who vehemently denounced Volcker's actions of the past year. Garn charged that Volcker's credit squeeze would wipe out every auto dealer and homebuilder in the country.

Volcker responded with the start of a lengthy description of the long-term problems of the auto industry, but Garn interrupted him. "I'm not talking about that," the Utah senator said. "I'm talking about the fact that you're putting the auto dealers and homebuilders out of business." Volcker began to say, "I understand and sympathize," and was interrupted by hoarse laughter from the hearing room.

A close reading of Merrill Lynch Chairman Donald Regan's testimony the previous day makes clear what the "consensus" in the Reagan camp has become. On monetary policy, Regan denounced "the evils I see in a program of trying to control the flows of money and reserves that overshoot the mark and has an erratic effect on interest rates." Although the Federal Reserve should use monetary policy to control inflation, this should not be done "so as to get interest rates too far out of line."

Regan's formulation is identical to that of (for example) Chrysler Chairman Lee Iacocca, who recently counterattacked a *Wall Street Journal* editorial with a statement that monetary measures against inflation were acceptable, but that a Federal Reserve policy that doubled, halved, and doubled interest rates again in the course of the year represented "insanity." This is different from the monetarist criticism of Paul Volcker offered by conservative cult-leader Milton Friedman and his apostles at the Heritage Foundation. Reagan and his key people believe that Volcker has done something monstrously wrong, and that things must be done differently.

Treasury designee Regan did choose a side of the controversy over the priority of tax cuts versus budget cuts opposite Rep. Jack Kemp (see interview, page 10). However, this controversy takes place within a consensus that Volcker-style austerity is fundamdentally evil. Regan himself was chosen over the earlier frontrunners, former Treasury Secretary William Simon and Citibank Chairman Walter Wriston, precisely because the Merrill Lynch chief is a pragmatic administrator with no ideological commitments.

In Reagan councils at present, former presidential adviser Alan Greenspan is throwing his weight against early tax cuts along the lines of the Kemp-Roth proposal, and Reagan is still undecided about the issue of "timing of tax cuts," as it has been presented to him.

Representative Kemp is arguing forcefully not only for the tax cuts that have been his standard formula, but for a much broader international approach, as cited elsewhere in this issue. But he views the tax-cutting problem as the only one of real immediate tactical relevance.

The real issues have very little to do with the form of debate inside the Reagan camp. Reagan and his people are boosters and won't be shaken from their gut commitment to economic growth—a commitment displayed forcefully in the choices for the Interior, Energy, and Agriculture cabinet slots. They understand very little about the front-line problems the U.S. economy faces. This makes them susceptible to a set of potentially devastating traps which could ultimately stymie their best intentions.

The sudden entrance of Rep. David Stockman, the designated OMB director, into the Reagan economic summit on the evening of Jan. 7 with the news that the stock market had collapsed some 24 points that day captures the problem. As *EIR* has emphasized during the past several weeks, a big section of the international financial community is playing for a 1931 repetition. Ironically, the leading spokesmen for this form of shakeout were British bankers David Montagu and John Craven, who ran Merrill Lynch International until the brokerage firm fired them last week over "philosophical differences." The market drop had nothing to do with the well-publicized telegrams from the Granville letter, or any other such nonsense. It was a straight hit, on hard European selling before the New York market ever opened.

Policy planners

A brief examination of the present deployment of the Washington-based Heritage Foundation—which *EIR* has exposed as a British intelligence front—indicates what the dangers are. Styled as "new right" ideologues, the Heritage group found itself shut out of most policy deliberation in the Reagan transition team. A list of 3,000 prospective administration appointees Heritage submitted found its way into the wastebasket rather than the transition team's personnel computers. However, according to Foundation sources, the group still holds significant prospects of taking the key policy positions relating to international financial institutions.

The immense importance of these positions has not dawned on the Reagan inner circle. Currently, about one-third of the total $1.2 trillion offshore dollar market is locked into bad loans to developing countries. These countries face a deficit of *at least* $120 billion in 1981, *twice* the 1980 level, due to 1) higher interest rates, 2) lower commodity export prices, 3) recession-shrunken markets in the industrial world, and 4) higher oil prices. That is well outside the bounds of what the commercial banks, the International Monetary Fund, the World Bank, and other official institutions can possibly finance. Bankers have already taken measures to create special new lending categories which will not be affected by the collapse of pre-existing debt (see International Credit), an unprecedented, pre-crisis maneuver.

The uncontrollability factor

If Volcker's monetary squeeze continues—and the Fed is taking action as of deadline to ensure that the fed funds rate does not drop below 19 percent—the entire debt structure of the international markets is in extreme jeopardy. So is the equally unbalanced edifice of consumer, real estate, and corporate debt in the American economy. In the most elite discussion forum of international banking, the so-called Group of 30, fear is spreading that a crisis may become uncontrollable.

The Reagan administration may yet stumble into a crisis which a section of the international financial community wants. Sen. Jake Garn, despite his rough treatment of Fed Chairman Volcker, has a foot caught in one of the ideological traps involved. At the same set of hearings cited earlier, he advanced the proposal of New York investor Lewis Lehrman that the Fed should poise the discount rate about 2 percent above market rates. Although Garn cited the plan, which is also backed by Representative Kemp, as an alternative to the Fed's mismanagement of the past year, the actual content of the proposals is a chain-reaction of bankruptcies. Lehrman's associates are completely frank on this point.

Volcker's initial premise for monetary policy is false from the start, a point that Kemp and Garn have not grasped. There are not one, but two monetary systems: the bulk of the American banking system, which provides credit to producers and consumers, and the Eurodollar pool, to which most of the large commercial banks owe their first loyalties. Volcker's squeeze undermines the healthy sector of the credit system, while permitting the unhealthy section to flourish.

At the Senate Banking hearings, Volcker had to defend himself against charges to this effect, pressed forcefully on the Democratic side by the National Democratic Policy Committee (with which this publication's Contributing Editor Lyndon H. LaRouche, Jr., is associated) and numerous Democratic congressmen. "It is beyond human power to distinguish between legitimate and non-legitimate uses of credit," the Fed chairman said. The Republican senators did not challenge him on this point—a flaw in their attack which ultimately could prove fatal.

Senators confront Volcker at hearings

The following are highlights of the Jan. 7 Senate Banking Committee hearings.

Paul Volcker: Tight money policies are not enough. The federal government has got to exercise restraint in spending. Large new borrowings by the federal government aggravate interest-rate pressures. We don't know the number of private borrowers who are more productive than the federal government, who are shunted aside because of government borrowing.

... It is beyond human capabilities to distinguish between legitimate and illegitimate uses of credit and then try to allocate credit.... The period will be difficult and painful but we must attack the problems with a broad range of activity, both monetary and fiscal.

Garn: You remember that I supported you last spring, I supported the high interest-rate policy of the Fed because there was no other alternative. But this time there seems to be some artificiality involved in your high interest-rate policy. Inflation is at $12\frac{1}{2}$ percent, yet your interest rates are at 21 percent.... Last spring we may have been putting marginal businesses out of business, but that's not what we are doing now. We are crippling good substantial small business, we're putting auto dealers and homebuilders out of business who have been in business for years. I guess my question to you, Mr. Volcker, is: Are there going to be any good small businessmen left when you are finished?

Volcker: To blame the problem of the auto industry on high interest rates is fallacious....

Garn: I'm not talking about the auto industry, I'm talking about small businessmen like auto dealers and homebuilders.

Volcker: I understand and sympathize [laughter].

Don Riegle (D-Mich.): I think you're kidding yourself if you are trying to say that high interest rates aren't affecting the ability of the auto industry to recover.

Volcker: There's going to be some pain and strain in the short run.

Riegle: But we're doing a level of damage this time that's different from last spring. We're doing terrible damage to the country. And if it doesn't work this time [high interest rates], I don't think the economy can take a third ratchet.

Volcker: We have to use a broad range of capabilities at our disposal, both monetary and fiscal.

Alan Dixon (D-Ill.): Do you have other specific recommendations outside monetary policy?

Volcker: We have to make sure that on the deregulation front we continue moves to ensure that more economic decision-making is done by market pressures. A whole broad range of different kinds of regulations help build inflation into the economy such as ... things like Davis Bacon, those kinds of policies.

Garn: The Fed has concentrated on non-borrowed reserves at the same time that borrowed reserves have grown rapidly. Isn't part of inflation being caused by the low discount rate and a wide-open discount window? Wouldn't it be advisable to rescind the lag reserve accounting policy? ... What about setting the discount rate at 2 percent above T-bill rate?

Volcker: The point you raised is under consideration.

Garn: I hope you understand the spirit in which I am saying this Mr. Volcker, but now we are going to listen to some real people who are being killed by the policies of the Federal Reserve and U.S. Congress.

Jerry Hayes, *director for Utah, National Automobile Dealers Association:* As far as the small business dealer is concerned the attrition rate is staggering. Over 1 dealers have closed their doors since January 1980.... There are hundreds of small business dealers that, in effect, are hanging on by their fingernails. If we continue to experience unreasonably high interest rates for several more months these dealers literally cannot survive.... Existing policies are in the process of destroying two of the nation's largest, most productive industries.... Something is gravely wrong and changes in government policy must be forthcoming quickly and decisively.

Merrill Butler, *president, National Association of Homebuilders:* My message today is simple and direct.... The current situation in the housing industry is desperate.... The continuing actions of the Federal Reserve Board to "control" inflation by holding down the money supply through high interest rates will only lead to a double-dip recession in housing which will last at least through the second quarter of 1981. 1980 has been the second worst year for housing production since

World War II, with production dropping by 57 percent from the peak of the housing cycle in November 1978. Business failure rates for construction firms in the first nine months of 1980 compared to last year are up 56 percent for general building contractors and 93 percent for subcontractors. . . .

Jake Garn: I wish it had been in my power to make Chairman Volcker, the entire Federal Reserve Board and the entire House and Senate listen to your testimony. Let me ask you a hypothetical question. If one year from now, things haven't changed, interest rates are where they are now, inflation is where it is now, and the federal government hasn't curbed spending, where will you be?

Butler: The housing industry will be totally destroyed. We will not exist. A few large publicly owned housing corporations which are about 1 percent of homebuilders in the United States might survive, but other than that, the only homebuilding that will be going on will be government-subsidized programs.

Regan rejects the monetarist approach

Prospective Treasury Secretary Donald Regan gave the following testimony before the Senate Finance Committee at his confirmation hearings Jan. 6.

Regan opened the sessions with a statement:

Regan: . . . There are four main points. 1) America's income is not growing fast enough. 2) America is not investing enough. 3) The level of investment is depressed by the interaction of inflationary expectations and erratic fiscal and monetary policies. 4) World financial markets have lost confidence in the federal government's ability to bring spending under control.

I will not recommend to the President that he declare an economic emergency. We must have a sense of urgency, not emergency—urgency to control spending, have consistent fiscal and monetary policies, lower inflationary expectations, increase investment. We must have a single, integrated, long term plan . . . delaying some needed tax reduction so we can implement those that are essential, like Kemp-Roth reductions and some form of accelerated depreciation for business.

Sen. Dole: Are you talking about full implementation of Kemp-Roth?
Regan: That is our position at present. The Kemp-Roth proposal for individuals and also the accelerated depreciation for industry.

Sen. Danforth: What will be your policy toward the auto industry?
Regan: . . . Chrysler will have to be dealt with immediately. Within a few weeks, we will have a more general policy toward the auto industry.

Sen. Danforth: Some say that there should not be a separate policy for auto, but that the market should take its course. . . .
Regan: I prefer not to comment on Chrysler at this time. The auto industry is the underpinning of the U.S. economy. Like housing, it has to be dealt with on a priority basis. Our first priority is going to be the economy as a whole. Then we will look at the auto industry.

Sen. Byrd: Do you feel that deficits are the prime cause of inflation?
Regan: There is no doubt about it. There are other events like OPEC, but the chief engine of inflation is the deficit, monetizing the federal debt.

Sen. Roth: We must turn this nation again into a savings nation. What else can we do to revitalize our basic industries, which are essential to our defense posture?
Regan: If we just trust American businessmen, give accelerated depreciation, give a tax break, they are going to come up and revitalize their own industries.

Sen. Symms: Your views on wage-price controls?
Regan: I oppose them under any guise.

Sen. Grassley: . . . Will you be forceful with the Federal Reserve chairman on the ills of monetization?
Regan: Yes. I have already begun to meet with Paul Volcker weekly, but inflation must be held down using monetary means . . . but so as not to let interest rates get out of line.

Sen. Boren: I have been very concerned about the effect of high interest rates. . . . I am afraid we could snap the economy before the new administration has a chance to get the economy back on the track. What is your strategy for getting interest rates down and how sensitive will you be to the danger?
Regan: The first thing is to cut spending and have a program of deregulation. Then we cut taxes, at the same time, that is, encouraging business to spend for productivity. When people see that this is being done, the American people will get the sense that we are trying to get inflation down. As a result of this, you will see inflation coming down.

Boren: So you do not believe the economy could adjust to a 15-20 percent rate of interest?
Regan: If this program is effective, there is no need for 15 percent interest rates.

Jack Kemp proposes summit between Reagan and EMS founders

In remarks before the National Press Club on Jan. 7, and in an interview with the Executive Intelligence Review *following these remarks, Reagan adviser Rep. Jack Kemp (R-N.Y.) argued for a broad economic recovery perspective, with emphasis on accelerated depreciation tax schedules for industry and international monetary reform in cooperation with the European Monetary System. Kemp's speech and his responses to* EIR's *questions go beyond much of the New York congressman's well-publicized statements in the past on the issue of tax reduction and economic growth.*

The following transcript combines Kemp's remarks to the full press group and responses to questions in an interview with EIR *Washington, D.C. correspondent Laura Chasen following his speech.*

Conventional economics have no answer to stagflation. The purpose of economic policy is to achieve widely shared prosperity. Fighting inflation, balancing the budget—these are goals, but not *the* goal. Such prosperity has been achieved before in this century. . . . It is no miracle at all. . . .

Heretofore, the liberal prescription was for trickle-up. The conservative prescription was to tighten up fiscal and monetary policies. The problem with both these models is that we have both high inflation and high interest rates *and* low productivity and low employment. You have in the Republican Party today an unconventional attempt to work on the supply, production, private side of the economy, what I call "incentive"—so that people produce, work, save, invest, be entrepreneurs—not just so that people buy, but because they get a reward for effort. So if you devalue the currency or raise taxes, you take away incentive.

What we need is a sound currency, stabilized fiscal situation mainly achieved through budget reduction especially in FY 82-FY 84, a restructured tax code to increase the rate of return on productive effort, and reducing counterproductive regulations.

FDR quickly established an environment of confidence and hope and cooperation with Congress. Reagan should use this as a model, assure people that there is control and stabilization. . . .

EIR: There appears to be a convergence between institutions as diverse as the Heritage Foundation and the British Fabian Society that basic industry must be phased out in favor of a service economy. How can you ensure that liquidity generated by tax cuts or by other means will flow toward productive investment rather than speculation in casinos, currency arbitrage, or other inflationary investment?

Kemp: I do not accept that there is an inexorable process at work in which much of manufacturing industry is in decline. I do not agree we should move toward a service economy. I disagree with the White House commission [on an "agenda" for the 1980s] on the future of cities. I do not buy the idea that U.S. industry cannot compete. There are industries that are going to rise and decline. To keep those—like manufacturers of buggy whips, for example—alive would be a mistake. But steel, autos, housing, computers, high technology, the machine-tool industry—these are not inexorably in decline unless we allow the processes now at work to continue. . . .

But that is one of the reasons why Reagan was elected. He convinced people that it is *policies* that caused the decline.

In a free society, consumers and producers will make those choices—if the reward for speculation increases, speculation increases. So we must increase the reward for investment. For instance, if you invest in new equipment for a steel plant in Buffalo, you can take the depreciation over more than 15 years. If you build a new plant across the river in Canada, you can write off the depreciation in *one* year. So who's at fault for people not investing productively? In fact, speculation advances in relation to the devaluation of a currency. Today the reward for saving is very low and the reward for borrowing is very high because you are writing off interest on your taxes. So now we are encouraging speculation by devaluing the currency and taxing capital investment.

Press: Are you willing to sacrifice economic growth in order to achieve a balanced budget?

Kemp: [OMB Director-designate] David Stockman and I both agree that the tax code now is inflationary and is itself causing the budget deficit. There are two kinds of deficit. President Kennedy early on said there is a deficit that comes from slow economic growth, and a short-term deficit that comes from investment in the economy, which is not a problem. So the deficit is not the issue, but the question is what is it from and how do you finance it, by the federal government buying more debt, or through an increase in the capital stock of the country. We want a bigger capital stock from which to finance it.

The President-elect has eschewed a balanced budget. He is willing to take a deficit. I am less concerned about a balanced budget than about how to get the economy moving again, not sacrificing employment opportunities and military requirements and other vital social goals for a balanced budget. Herbert Hoover had a balanced budget and low inflation. Our goal is prosperity. Our goal is an increase in the real income of the population.

My point and Stockman's point is that you cannot balance the budget in a declining economy. I am speaking for myself, not necessarily for the incoming administration, but I have seen several statements to the effect that the answer to a balanced budget is to remove eligibility levels for social programs, give them a lower indexing, et cetera. I do not favor that. The CPI is a contract the U.S. government has made with senior citizens. If we get the CPI down through appropriate economic policies, then the cost of social programs and the budget deficit will go down anyway because the cost of indexing will be much lower. So we should restrain runaway growth in some programs, but should focus on making the economy perform better. Our problem is the utilization of our resources, natural and physical— that is the real waste. And we will never balance the budget until we bring down unemployment rates. The only way to effect long-term interest rates is to show we have a handle on the budget for FY 82, 83, 84. Lowering the tax rates is *not* inflationary. Our point is that high taxes are inflationary because this reduces the tax base for lowering the deficits. What we propose is not a "tax cut" but a restructuring of the tax base. In the past, Republicans viewed a tax cut as a reward for a balanced budget. This President [Reagan] says we cannot balance the budget without a tax restructuring.

On my "Enterprise Zone" bill, this concept is just a concept. Reagan is committed to doing something economically to change the situation of the inner city. All myself, Bill Gray, [Robert] Garcia, Gus Hawkins are saying is that there should be a new approach, not government infusion, but an increase in rewards, lowering the tax rate on entrepreneurs in the cities. Not that social programs are not important, but we should also use entrepreneurial capitalism. We suggest a big reduction in the tax rate for both employer and employee in the cities—it is like what Governor Barcelo has done in Puerto Rico. It is very, very different from the notion of handouts to the disadvantaged. Reagan wants to encourage new enterprises, encourage risk taking, which must be distinguished from speculation, not just expand existing industry.

We must also do something for labor because they have been burned. Why, in New York State between 1965 and 1980, working people have not had any pay increase at all in real terms. This is a disincentive to labor as much as heavy taxes are a disincentive to industry. If you do not change this decline for labor, we will indeed have a "zero-sum society"—and that is socially divisive and would destroy the fabric of this nation.

EIR: Is your view shared by the Reagan economics advisory group as a whole?
Kemp: Yes, I believe austerity is not an answer; it is a problem. But very frankly, there is a difference in emphasis among Reagan people, although there is consensus on the need for a tax cut.

EIR: Could you elaborate on your perspective for returning gold to the monetary system?
Kemp: I would hope that either through the Helms legislation [mandating a commission to study the question of moving back to a gold standard, an amendment Helms attached to last year's IMF legislation—ed.] or some other legislation, or perhaps under the aegis of the President, that there be a blue ribbon commission appointed or a study conducted to look toward a reconstitution of an international monetary standard backing our currency. I mean dollar convertibility. I think gold would be the best link, but the question should be studied. There should be attempts to work with the EMS and Schmidt and Giscard to work this out. You know, if Carter won I would have invested in gold, because speculation would have been rising all around. But with our policies, gold will not collapse in price, but will not rise speculatively, because people will be investing in real production.

EIR: Have you raised the gold issue personally with President-elect Reagan?
Kemp: Yes, I discussed this with him. He is intuitively pro-hard currency. Reagan recognizes that the only way to stop inflation really is through the discipline on the central bank, in our case the Fed, imposed through convertibility. But he will not make this issue a focus until the rest of his economic policy is in place since it would be too much to take all this on at once, so we will not raise that issue now.

It is like what Schmidt and Giscard did. They faced serious economic problems so they focused on them, called it an emergency, and created a new monetary system to deal with it.

International Credit by Renee Sigerson

Lenders batten down the hatches

Citicorp's commercial paper experiment for Third World borrowers signals a grave 1981 situation.

Sometime during the coming weeks, New York's Citicorp will introduce $300 million in commercial paper on the U.S. market for Brazil's national oil company, Petrobras. This is the first time that any Third World-based corporation will try out U.S. commercial paper for a credit line.

Soon afterward, two entities in Mexico, Nacional Financiera and Pemex, will also raise funds through commercial paper, according to investment banking sources.

Venezuela and Argentinian companies, while being viewed by the banks involved with considerably more discretion, may attempt the same route after Mexico.

The opening of U.S. commercial paper to Third World borrowers has been a pet project of a handful of New York investment banks since at least 1976. At that time, Goldman Sachs deployed analysts to Brazil to "educate" officials there on the benefits of commercial-paper-based loans. A. G. Becker and Salomon Brothers became publicly active in moves to expand U.S. commercial paper transactions onto the offshore Euromarkets in 1978.

There exist many "technical" advantages for the lender in issuing these short-term instruments in place of longer-term bank loans, but there is one overriding advantage to commercial paper instruments. Linked to trade credits, accounts receivables, and inventories, commercial paper credits are "isolable" in the event of the eruption of a Third World debt crisis.

Citicorp's push to get the Petrobras issue out early this year signals that top Third World creditors are preparing for stormy payments crises. While Mexico's credit rating will remain top-notch due to the country's oil resources, the prospect of a major payments crunch emerging in some other corner of the world (for example, in Turkey, which has called emergency debt rescheduling negotiations with its private creditors for Jan. 14) endangers the entire world debt structure.

EIR has made an exhaustive study of the conditions under which the U.S. Treasury could be forced to freeze foreign accounts at U.S. banks under threat of a general banking crisis. The November 1979 freeze of Iran's deposits in U.S. banks, the study documents, was actually a dry-run for the chain of command that would have to be activated under conditions of a threatened general crisis.

In their efforts to build commercial paper transactions, Salomon, Goldman Sachs and A. G. Becker have for years been working toward creation of a market which even under these conditions would be attached to seizable inventories and goods which would guarantee the value of their loans even if payments were halted.

When the banks in question first began to publicize their commercial paper gameplan, their intent was to shut the New York money-center banks and other commercials out of this new pool. At that time, these loans would have usurped the commercial banks on their own traditional turf: top-name corporate lines of credit.

In September 1980, however, agreement was reached between the money-center commercials and investment banks to go into this emerging market together. At that time, the Securities and Exchange Commission brought Bankers Trust of New York to court for attempting to market commercial paper through A. G. Becker. The Commission claimed that Bankers Trust was infringing upon the Glass-Steagel Act for trying to market securities.

Paul A. Volcker, the man who has done more in the last 18 months to strangle global credit than any other individual in the world, countermanded the SEC's suit, saying commercial paper didn't qualify as a security. The deal had thus been cemented to "insulate" new lines of credit from 1981's pending monetary storms.

There is little reason to doubt that within months some of the most troublesome monetary dislocations in world history will materialize. Just-released figures from Morgan Guaranty estimate that a full 20 percent of export earnings from leading Third World debtors will go to interest payments on outstanding debt alone. In 1980, based on a 16 percent portion of export earnings, interest payments were already $16 billion.

Those who are now trying to chart a safe passageway through this crumbling monetary structure are giving the strongest signals that they consider such a crash unavoidable.

Gold by David Goldman

Irregular Soviet operations

Sources offer details on extralegal channels by way of Italy for KGB financing.

Market sources have offered sharply differing estimates of the extent of Soviet gold sales during the past year, an element in the gold supply situation which has clouded gold's price prospects. However, according to some Italian banking sources, irregular channels of Soviet gold distribution further complicate estimates of Soviet gold sales.

Most Soviet gold sales take place through Switzerland under the auspices of the Gosbank, the Soviet central bank, and under the close direction of Soviet central bank Governor Alkhimov. However, well-informed Italian banking sources allege, a small but significant trickle of Soviet gold exports occurs in the form of an extralegal flow through Soviet black market channels. The sources infer that the extralegal gold export is conducted with the approval of the Soviet KGB, which is otherwise responsible for the suppression of the black market inside the Soviet Union.

Allegedly, the KGB employs black market gold to finance special operations without obtaining funds through the usual strict accounting procedures. Most intelligence agencies employ irregular financing in order to circumvent accounting by their own masters, as in the over-publicized case of the Central Intelligence Agency's infrequent use of narcotics funds in Southeast Asia.

The Italian sources estimate the total black market in the Soviet Union at an annual turnover of more than 20 billion rubles (about $26 billion), of which between one-quarter and one-third is conducted in the form of gold. The turnover includes revenues from black market distribution of goods, prostitution, embezzlement, and other illegal activities (narcotics traffic inside the Soviet Union itself is believed to be small).

Soviet citizens obtain gold through a number of means. A popular one in Moscow works the following way: Soviet citizens exchange rubles for foreign currency on the illegal currency market, or directly (as in the case of prostitution). The Soviet citizen with foreign currency then employs a Western front man to purchase gold in the form of small-denomination bars from the special office of Gosbank in Moscow which distributes gold bars to Westerners. Western front men may additionally export this gold from the Soviet Union on behalf of Soviet citizens and deposit it, e.g. on behalf of prospective emigrés, in Western bank accounts, usually in Italy.

Employees of a number of Western banks operating in Moscow run a frequent shuttle for small-denomination gold bar exports, according to *EIR*'s sources. Most prominent of these banks is the Siena-based Monte dei Paschi bank, the oldest Italian bank in continuous operation, which was founded four centuries ago. Monte dei Paschi enjoys excellent East bloc connections, including a close relationship with National Bank of Hungary director Janos Fekete.

Monte dei Paschi has a little-known but important role in the international gold trade. It is the principal gold buyer for the huge Florence jewelry manufacturing center. Florence produces most of the gold jewelry sold throughout the Mideast, the favorite form of gold purchase in those areas, and also part of the gold jewelry distributed in points east of the Persian Gulf.

By and large, according to Consolidated Gold Fields' economist Timothy Green, this jewelry traffic takes place through extralegal channels, part of the 50 percent of total world gold circulation that Green estimates evades legal scrutiny. Once the shipments reach Lebanon (less important as a gold center after the 1975 civil war), Dubai, or other ports, it is virtually untraceable. It is believed to be a principal medium of exchange in the Mediterranean narcotics route.

In this capacity, Monte dei Paschi is a prominent buyer of gold from the Soviet Union, and maintains direct representation in Moscow for this purpose. The venerable bank is believed to "launder" a large volume of gold exports on behalf of the Soviet KGB, filtered into the untraceable Near East gold market for distribution. A significant portion of the gold flow, Italian banking sources believe, is designated for special operations financing in Libya.

Monte dei Paschi's annual July conference, one of academia's all-star affairs, also includes most of the senior staff for the Bank for International Settlements, which also handles official Soviet exchange transactions.

Domestic Credit by Richard Freeman

If Chrysler goes

Various analysts on Wall Street hope a Chrysler bankruptcy will drive under other 'marginal' companies.

Some Wall Street economists are hoping the incoming Reagan administration will allow the giant Chrysler Corporation's bankruptcy. They believe Chrysler can be a trigger for a controlled credit-market crisis which will "shake the fat" out of the economy by bankrupting dozens of small businesses.

"A Chrysler bankruptcy could be bullish for the bond market," Michael T. Sherman, director of research for Lehman Brothers-Kuhn Loeb told *EIR* flatly.

Asked if a Chrysler collapse might not seriously destabilize the bond markets, he said, "Only marginal companies will feel it; it would be good for the rest of the market. The government doesn't belong in the business of private lending. They might as well give the money to Ford and G.M. This will put a stop to that kind of nonsense. It would be good for the economy if people run away from the bonds of marginal companies."

Most Wall Street brokerages we surveyed expect the new administration to vote against further loan guarantees for Chrysler, thus pulling the plug on the auto giant.

"We're all braced for it," said a source at Salomon Brothers, who refused to be quoted. "And don't ask me which other marginal companies will feel the pressure, that's a very sensitive question right now."

I don't believe that President Reagan will further exacerbate the economic crisis he has inherited by permitting such a decision.

Most of the impetus toward letting Chrysler go has been coming from Carter Fed Chairman Volcker, who told the *New York Times* at the beginning of the month that he and GAO chief Elmer Staats would be willing to vote nay on the Chrysler Loan Guarantee Board if the new administration "so desires."

While syndicated columnists Evans and Novak wrote this week that incoming Treasury Secretary Donald Regan "in private . . . agrees on the need to end the Chrysler bail-out," the secretary-designate isn't talking.

But as Ronald Reagan is well aware, a Chrysler bankruptcy could not, contrary to Wall Street's desires, be "contained." Hundreds of companies would be endangered, especially small and medium-sized commercial banks, whose failure, in turn, may threaten a chain reaction of banking failures.

If Chrysler does go, says our Salomon source, the $1 billion in postponed industrial bond issues which have been waiting in registration to come to market "will become a lot more marginal than they are. A lot of companies who need money real bad and can't get it will have to postpone their plans to roll over short-term debt."

The list of postponed issues includes several companies, who, while not on anyone's bankruptcy list, will certainly suffer from a Chrysler shakeout: Caterpillar Tractor ($300 million), Leaseway Trucking ($75 million), Willamet Industries ($100 million), and Pennzoil ($150 million).

Not that Wall Street doesn't expect Chrysler to finish off a few companies—most notably, the Canadian farm equipment giant Massey Ferguson and the ailing Kaiser Steel Corporation are expected to be wiped out. "Massey is only a Canadian company, anyway," Lehman-Kuhn Loeb's Sherman scoffed. Sherman was unconcerned that Massey Ferguson employs thousands of U.S. workers.

As Sherman explains, a Chrysler blow-out would function like voluntary selective credit controls against weak companies like Massey and Kaiser. Banks would simply refuse to make loans to such companies, which would then find it "very tough to get credit at the banks and in the commercial paper markets," he said. "Bankers would have been shown a very vivid example of what you get when you make a speculative loan—and they would see that Chrysler was a real speculative loan."

Moody's analysts, who also refused to be cited, said they expect the shakeout to hit not only these "marginal" big companies, but also hundreds of small businessmen nationwide. "There is no question that there is a very big shakeout coming among the smaller home builders, auto dealers, and retailers.

"You're going to hit the weak sisters in the economy—the savings and loans, the small home builders, the auto-parts manufacturers, a lot of them will go under," John Mason of Shearson, Loeb, Rhoades said. "But it can be handled because there won't be a concentration of pain."

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$750 mn.	Mexico from Japan	Japan's Trade Minister Tanaka will reportedly bring a 150 bn. yen credit line on his mid-January visit to Mexico. Mexico has made clear that it will increase oil shipments to Japan only following increased Japanese technology for its development.	20-25% of credit is low-interest Japanese govt. loan; remainder low interest from Japan's Exim Bank.	Rare for Japan to give such open credits, for "unspecified purposes."
$300 mn.	Thailand/U.S.S.R.	Thai commerce minister announced Thailand has contracted to sell Soviets $300 mn. rice, corn, tapioca, and flourite. He said that first state-to-state formal agreement in 10 years of trade. Soviet offers of weapons and machinery have not yet resulted in a deal, but may soon.		Thailand has been China-linked anti-Soviet bastion.
$240 mn.	Brazil from France/U.K.	A float glass plant is being built in São Paulo by St.-Gobain of France and Pilkington Bros. of England under joint venture, Cebrace.	$140 mn. at 2% over LIBOR for 10 yrs. by 12 banks headed by Banque de l'Indochine.	
$65 mn.	Nigeria from U.S.	Nigeria Airways has ordered 4 Boeing 737s.		
$25 mn.	Romania from Japan	Mitsubishi and Yokohama Rubber will provide Romania with a plant for building giant tires for construction vehicles.		Contract signed.
UPDATE				
$800 mn.	Argentina from U.S.	Mobil R & D Corp. negotiating with Argentine industrialists who want to use Mobil's new technology for converting natural gas into 15,000 bpd of gasoline. Argentine Socma, S.A. seeking foreign oil company to be minority partner.	Uncertain; Mobil plans no investment.	Process not yet commercially tested.
$150 mn.	Mexico from U.S.	Chrysler is going ahead with expansion plans in Mexico including Saltillo plant to build 27,000 four-cylinder engines per year.		Most engines will be exported to U.S.A.
CANCELLED DEAL				
$250 mn.	India from World Bank	World Bank cancelled $250 mn. loan for India's $812 mn. fertilizer plant in Maharashtra. Grounds were that Gandhi govt. replaced C.F. Braun of the U.S. by Danish-Italian Haldor Topsoe as engineering services contractor.	Loan was at 7.9% for 20 yrs.; India seeking other sources.	Mrs. Gandhi: "We are to decide which consultance firm will be good for us. . ." The World Bank "cannot interfere in our internal affairs."

Banking by Kathy Burdman

U.S. League shows some fight

The League of Savings Associations is taking the offensive against deregulation.

Rollin D. Barnard, president of the U.S. League of Savings Associations, has appealed in a Jan. 2 letter to incoming President Ronald Reagan "to declare a national economic emergency upon assuming office Jan. 20." Barnard attacks the "destructive high interest rates" engineered by Carter Fed chief Paul Volcker, which he writes have caused an "accelerating deterioration in our national economy."

In addition to stepping up their attacks on Volcker's interest-rate policy, the U.S. League is becoming a vocal force against the extensive banking deregulation program undertaken by the Carter administration with the March 1980 Depository Institutions Deregulation Act. The U.S. League was one of the prime movers in convincing the new Senate Banking Committee chairman, Jake Garn (R-Utah), of the need for his major "State of the Economy" hearings last week (see page 8).

At the hearings, U.S. League Vice-President Roy Green strongly hit the "destructive effects" to the S&Ls of Volcker's deregulation measures; Mr. Green has been meeting with Senator Garn regularly to advise him of the serious state of the nation's thrifts, many of whom are near bankruptcy.

Former U.S. League President John Hardin, chairman of the First Federal Savings and Loan of Rock Hill, S.C., made a joint appearance with Senator Garn on the nationwide TV show "MacNeil/Lehrer Report" on New Year's Day to educate the American public about the dangers of banking deregulation to the entire economy.

Hardin told the nation that Volcker's handling of deregulation so far has produced "very severe losses" for the savings and loans, as the extra quarter-percent interest S&Ls were allowed to pay to attract depositors has been removed so fast by Volcker that savings and loans suffered a $20 billion deposit outflow during 1980. Mr. Hardin and Senator Garn both advocated a reinstatement of the differential which could then be phased out if necessary over a longer period of adjustment to allow for thrifts to find new deposits.

Mr. Hardin told *EIR* that Senator Garn is now considering introduction of a bill to take all such matters out of the hands of Volcker's Depository Institutions Deregulation Committee, which currently oversees the Deregulation Act, and to return to Congress the power to regulate the banking system.

Mr. Hardin and Senator Garn also strongly denounced the recent Carter administration report calling for interstate banking by the big New York and other major city banks, which under the Carter plan would be able to operate across state lines and put smaller banks out of business. Were the "superbanks" to come heavily into other states, Senator Garn told the TV audience, it "would be a tragedy" for thousands of small banks, which "would not survive," and their customers, who would find it harder to get credit. Garn said he plans hearings to show the pitfalls of the interstate proposal.

"We're completely opposed to the Carter plan," Mr. Hardin told "MacNeil/Lehrer" and *EIR*. "You could wind up with a dozen gigantic financial institutions who will not treat the people the way their own banks do. It would do irreparable damage to the housing market: if you had big commercial banks taking over S&Ls, they'd never do a good job in home lending."

If liberal Democrats on either banking committee try to introduce legislation modeled on the Carter report, said Mr. Hardin, "we'll fight it all the way."

The U.S. League is also firmly backing Senator Garn's planned tax legislation allowing exemptions on the first $1,000 in interest and legislation allowing exclusion of the first $1,000 in individual interest and dividends from taxes, a healthy measure which would greatly increase the U.S. savings rate and finance for the housing industry. The current exemption of $200 on interest and $400 on dividends is up for review this Congress and must be expanded, Mr. Hardin said.

Most importantly, the U.S. League now feels it has an administration with "which to work to get the economy moving again," Mr. Hardin told *EIR*. "Rather than just putting forward our own legislation, we're doing everything in cooperation with the new Reagan administration. Senator Garn is their lead man on banking, and he's a good man with whom we can work closely."

The plot against U.S. housing

Richard Freeman presents the policy of halting single-family construction, and the present murderous cost picture.

In an article in its newsletter of Nov. 28, 1980, entitled, "Housing: The Sacred Cow?," the Federal Reserve Bank of San Francisco writes, "Some sacred cows will have to be slaughtered in the lean years looming ahead, and housing-industry leaders are beginning to realize that they may provide one of the most tempting targets. . . ." As backup, the newsletter quotes a recent editorial in *Business Week* magazine which lies that, "the diversion of capital from industry to housing—the primary aim of government policy—is one of the reasons investment in productive facilities has been inadequate." This lie justifies *Business Week's* solution: "Wean the housing industry of continuing government assistance and make it stand on its own feet."

Have the gentlemen from the San Francisco Federal Reserve Bank lost their senses? Do they really mean to say that over the decade of the 1980s, the $100 to $110 billion U.S. housing market is to be "slaughtered" and government financing, which provides the critical margin of funds to keep the housing market liquid, is to be chopped in half? The answer is an emphatic yes.

At the higher level of financial command in this war against homebuilding is Federal Reserve Board Chairman Paul Volcker, the final boss over the San Francisco and all district Fed banks. Starting in October 1979, Volcker has imposed loan-shark interest rates on the United States that have produced one of the deepest housing and industrial collapses since the 1930s Depression.

Volcker specifically told the housing industry to go to hell in April 1980. At that time 200 thrift institution leaders from around the U.S. traveled to Washington, D.C. to talk about Volcker's imposition of credit controls on March 14. Interest rates skyrocketed to 20 percent in March. Housing, the prime lending market of the thrift institutions, responded by plummeting from its 2 million a year housing starts level to 906,000 starts per year by May 1980.

Homebuilders were experiencing the highest rate of bankruptcies in 45 years, the thrift institutions were suffering gigantic profit losses, and the rate of unemployment of construction workers was skyrocketing which, among other things, was pushing the federal budget deficit further into the red through unemployment disbursements.

The thrift leaders wanted Volcker to reverse his credit policy. According to one of the participants, Volcker said, "The 1980s is the decade for industry, the 1990s is the decade of housing. The next ten years are not going to be your years."

Sunrise versus sunset

The economic strategists of the New York Council on Foreign Relations, the leading financiers for the U.S. construction market, major Canadian and New York real-estate firms, the lower Manhattan banks, and the American Council of Life Insurance and its members—this group is spinning out various ways to eliminate the high-technology existence of the United States and particularly its housing market, through such think tanks as the Council on Development Choices for the 80s and the Washington, D.C.-based Heritage Foundation.

The intention is to divide the United States into two separate economies: an economy of "sunrise" industries, like information processing and service industries, and costly synthetic fuels, which "deserve" to be financed; and "sunset" industries, based on U.S. consumption goods production such as housing, auto, and durable goods production, which "deserve" to fail. Volcker summarized his commitment to this policy when he told a congressional hearing in October 1979 that "American living standards must fall," and therefore items such as housing must be struck from the American household income.

The sunrise versus sunset distinction became a handy rationale for two simultaneous policies: shifting some construction flows into commercial buildings to house the newly created white-collar workers who are replacing productive industrial workers, a trend that is documented in Table 1; and to use the sunrise verbiage in part as a cover for turning U.S. urban centers into centers for cottage industry and "recreational" services like casinos. This implies a massive change for the housing sector, as cheap "rehab" apartments for the poor and exorbitantly priced high-rises for the rich become the American housing norm. Thus, the old traditional homebuilding relationships become the subject of wild tirades.

Reflecting this is the viewpoint of William Mingot, who held the post of deputy secretary for Financial Institutions to Assistant Treasury Secretary Robert Altman in the Carter administration. "We've got too much housing," Mingot stated in an interview published on Dec. 23. He continued, "I think it's outrageous that the typical college graduate today expects automatically to be able to live in a three-bedroom house with one-and-a-half baths. He thinks it's the American dream. Who says he's right? Ten years ago," Mingot continued, "we went on a homebuilding spree. We built houses all over the country, contractors were humming, the building trades were working, everyone had a grand time. Gee, wasn't that fun, Ma? But now, we have too many houses, and scarce resources, especially scarce capital. We can't afford capital for housing."

Mingot's claims that 1) the U.S. housing market is overbuilt and 2) that there is a finite amount of funds and that the housing industry is siphoning important sources of funds from manufacturing industries, which are giving Volcker grounds to most vigorously push to shut down the housing industry. Therefore, we will examine these two claims first.

Housing finance

It is easy enough to explode the claim that housing is taking its "undue share" of credit market funds. According to figures published by the Federal Reserve itself, mortgages represented in the 1960s a 19 percent share of total financial flows, while in the 1970s they represented a 20.5 percent share, a noticeable, but marginal shift of no great importance.

However, there has been an undeniable explosion in the amount of money the economy is committing to housing in the form of single-family housing and multi-dwelling-unit mortgages, called residential mortgages. This points the way toward an overcapitalization of mostly fictitious values, which nonetheless constitute superprofits pocketed by the real-estate swindlers and Wall Street bankers, not the homebuilder.

The high cost of housing

Year	Yearly income	Price of house
1949	$ 6,000	$ 9,800
1979	16,000	79,000
1980	16,000	98,000

At the end of 1974, the total amount of residential mortgage debt outstanding was $549 billion. By the end of 1979, the total amount of residential mortgage debt outstanding was $1,000.3 billion ($868.3 billion for single family housing alone), nearly a *doubling* in five years.

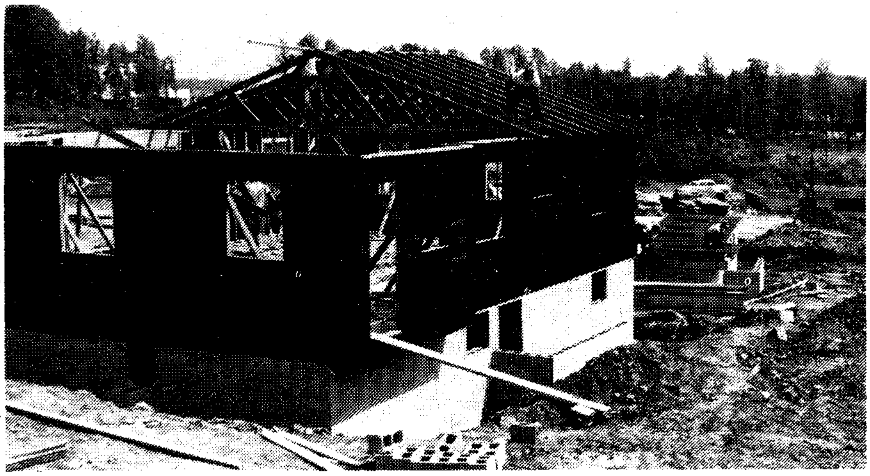
Yet, the volume of increase in mortgage loans was scarcely due to an increase in the volume of new housing. The average rate of new housing starts (and completions) in the 1970s was only 2 percent per year (the rate was lower in the latter half of the 1970s; it is impossible to get an accurate picture on a year-to-year basis because of the tremendous boom-bust cycle in housing). Thus, in the 1974-1979 period, there was an addition of 10 to 11 percent in new homes. The nearly 100 percent increase in mortgage loans versus the 10 percent increase in new homes says only one thing: the great bulk of the huge flow of funds didn't go to cover new housing, but just to cover inflation! And in the housing industry, two of the most important causes of inflation are higher interest rates and higher land costs fed by real-estate speculation—the very two items Volcker is committed to increasing. The increase of mortgage interest rates from 9 to 14 percent in the last five years adds nearly a quarter of a million dollars on a $60,000 house with a 30-year mortgage. And interest rates negatively impact the housing market twice—in the forms of higher building costs and higher purchasing costs.

Yet, looking more closely at the housing market, it can be seen that there is not an "overproduction" of housing as Volcker maintains, but rather a vast shortage, in terms of real housing needs.

According to government information, the United States lost nearly 3 million housing units, or one in every 20 of the total stock between 1973 and 1977, because of decay, despite the building of new homes.

There is a tremendous amount of family-formation potential starting in the 1980s. Whereas in 1961-1965 there were only 2.2 million individuals annually who reached the age of 30 years—a prime-indicator age for home buying and family formation—in the years 1981-1985, it is projected that there will be 4 million individuals annually who reach the age of 30 years, the result of the 1950s baby boom.

If the United States tried to equal the 3 million dwelling units taken out of circulation between 1973 and 1977, plus whatever units were taken out of circulation since then, tried to meet the housing needs of the new crop of 30-year-olds, and replaced the housing in America's inner cities, the U.S. housing industry would have to produce at the rate of 2.5 to 3 million starts a



U.S. Department of Housing and Urban Development

The family dwelling: a thing of the past in the 1980s?

year between now and 1990—a rate the U.S. has never reached.

The problem for the housing industry is one of capacity; it doesn't have it. How could industrialists be persuaded to build up and invest in such capacity, when Volcker might turn around and push the rate of new housing starts down to 1.2 to 1.3 million per year—as the Federal Reserve did in 1980 to well below the 2 million levels of even 1977 and 1978.

The blueprints for destruction

Central to the current attack on the homebuilder are two institutions: the Council on Development Choices for the 80s and the Heritage Foundation.

The Council on Development Choices for the 80s was set up in 1980 with a $650,000 grant from the Department of Housing and Urban Development. This grant specified that HUD and the Washington, D.C.-based Urban Land Institute, a land developers' group, would administer the grant and perform a study. The executive director of the latter group is Donald Priest. The Urban Land Institute, in turn, is a front for the giant Canadian real-estate firms like Olympia and York, run by the Bronfman family and Cadillac Fairview, run by the Reichmann family, as well as New York firms such as the Donald Trump organization. The lawyer for this group is the reputed mob lawyer Roy Cohn. As uncovered in *EIR*'s Dec. 16, 1980 issue, ("Free Banking Zones: Selling U.S. Cities on the Black Market"), the key point about these giant realtors is that they siphon, rechannel, and launder large sums of money from the world's $200 billion illegal narcotics trade into their real-estate operations. Their interest then, given their access to this large illicit pool of money, is to bid real-estate prices into the stratosphere, and build a market in which only they can afford to build that will enhance their control of real-estate flows. They do this in connection with some of the large New York money-center banks.

The outcome of their plan can be seen in New York City, where low- or medium-priced single family or multidwelling-unit construction—the type the average homebuilder can afford to build—has collapsed. Instead, New York is filled with high-rise apartments, whose rents start at $1,000 to $5,000 per month, duplexes, and commercial real estate. What is emerging as the leading form of housing otherwise is rehabilitation, which by and large is a ruse put over on the future purchaser. As a result of their speculations, the New York City real-estate market is valued at $1 trillion, more than twice the value of all productive plant and equipment in the United States.

Their aim is to enlarge upon the New York City real-estate model throughout the country, in fact elevating it to the model of Hong Kong, where the center of the world's narcotics trade is located, and whose rents are the highest in the world.

The first aim of these giant Canadian and New York real-estate interests has been to clear the ground for such plans by intentionally wiping out the existing U.S. real-estate market, and the traditional housing-thrift institution loans structure, as well as the traditional homebuilding industry. This also included the plan to disrupt the very pattern of economic growth and family formation in the United States which is the underpinning of the U.S. housing market.

In its Nov. 20, 1980 report with recommendations on the U.S. housing market, the Council on Development Choices for the 80s proposed the following changes to impose on the United States:

Its first proposal is to "reduce the growth of energy consumption," which is the key for the Council on Foreign Relations and real-estate firms to wreck economic growth in the United States. The council then proposes to *"minimize long-term commitments in light of uncertainty about future conditions* [emphasis in original]. Public and private investors" the Council says, "are increasingly unwilling to make long-term commitments in light of uncertainty regarding future inflation, development costs, and regulatory volatility." The report recommends that a minimum of services be provided for communities that need housing, and finally, the acceptance of a new ultraliberal lifestyle: no new families with children. "The composition of households is changing rapidly. Households without children now account for over 50 percent of the total," the report gleefully states. This means, the Council on Development Choices on the 80s emphatically asserts, "Households will consume less space in the 80s."

While the council sets up the imposition of this negative set of constraints on the housing industry, the Washington, D.C.-based Heritage Foundation, then offers the further program it wants to impose. "We need to take the sort of action that will stabilize the New York real-estate market," stated Heritage Foundation Director Stuart Butler. Butler recommended that the "Hong Kong model be brought to the United States," to accomplish this. This would include shifting a large amount of capital into labor-intensive, low-wage jobs and "free-enterprise zones." This is the phony "reindustrialization" Volcker is talking about: Chinese coolie sweat shops.

To house the people who will work there, Butler recommended "rehabilitation of old housing" in ghettos and similar schemes. This will replace new single- or multidwelling-unit housing. To finance the operation, Butler recommends going outside the U.S. capital markets and bringing in billions of dollars from abroad.

Economic warfare

But as Volcker, the giant narcotics-connected Canadian real-estate firms, and the Council on Foreign Relations know, the U.S. homebuilders, construction workers, and the average family will not accept the alternatives they are proposing. Thus they will attempt to enforce this scheme through warfare. The first step in this warfare is the attempt to knock out government financing assistance to the U.S. housing market. The Nov. 28, 1980 newsletter of the San Francisco Federal Reserve recommends that "it will be necessary to bring the tax treatment of housing and other investments into line if the distortions of investment patterns are not to persist." The San Francisco Fed Bank says that the capital-gains exemptions for single family housing should be "reformed." It also lobbies heavily for the elimination of some or all of the government financing and government mortgage financing programs such as Ginnie Mae, and Freddie Mac, which account for about one-quarter of the annual $100 billion in net flow of funds that goes into the housing industry.

At the same time, Volcker is attempting to wreck the traditional source of all homebuilding: the thrift institutions. Volcker is placing interest rates at such a level that financing home mortgages for 30 years at 8 percent interest rates is not profitable. Instead, Volcker is offering the thrift institutions the chance to make floating rate, or variable mortgages, which tie the interest rate to both the prime rate and the inflation rate pushed higher and higher by Volcker's policies. This severs the secure relationship that once characterized housing-market financing, turning it into a volatile,

Residential vs. commercial construction

(millions of current dollars)

Year	I Contract awards for office buildings, stores, and other commercial buildings	II Contract awards for residential construction*	III Total construction	IV I as a percent of III
1973	12,846	43,137	99,304	12.9
1974	11,751	31,976	93,685	12.5
1975	9,233	30,165	92,659	10.0
1976	10,234	42,995	110,061	9.2
1977	13,575	60,993	139,723	9.7
1978	20,626	74,949	159,930	12.9
1979	24,215	71,950	166,378	14.5
1980 (est)	22,950	59,900	140,400	16.3

It can be seen that commercial construction (of which the largest element is office building construction) has been growing rapidly at the expense of residential construction. Most noticeable is that unlike the recession of 1974-76, when office building construction contracted as a percentage of the total share, during the current Volcker recession it is actually increasing by leaps and bounds.

* Single-family housing and multi-dwelling units

Source: Construction Review of U.S. Dept. of Commerce indexed, and therefore completely uncertain affair.

Volcker is indeed attempting to entice the thrift institutions out of the housing market altogether by giving, in exchange for his high interest-rate policy, the thrift institutions the right to start making commercial and speculative-type loans which will be more profitable. This is an incorporated feature of the Monetary Deregulation and Monetary Control Act of 1980, which ultraliberal Henry Reuss, outgoing chairman of the House Banking Committee wrote, and Volcker helped steer through Congress.

At the same time, Volcker and the large New York banks are pushing for the legalization of interstate banking through abolition of the Douglas Amendment to the McFadden Act and establishment of International Banking Facilities (IBFs) in the United States, which would bring the $1.3 trillion Eurodollar market back onto U.S. shores. This will swallow up more than half the thrift institutions and give huge profits to the New York banks which can afford to run IBFs. The money for the housing market will soon be transferred into lower Manhattan's hands.

This financial warfare is capped by Volcker's announcement of tight credit supplies for the whole of 1981. This will be the setting for the thrust to destroy the American housing market.

How it looks to the building trades

The following is excerpted from a recent interview with Ron Thelin, president of the Illinois State Conference of Plasterers and Cement Masons, and president of Cement Finishers Union local 502, the largest cement local in the United States.

Thelin: In 1940 you could buy a medium-priced home in the Chicago area for $4,000. My men were averaging anywhere from $3,000 to $3,500 a year incomes. Today, the medium-priced home is $97,000 and my men are averaging $17,000.

EIR: What would you say is the principal reason for this rise?
Thelin: There's no question about it: interest rates. In 1949, a medium-priced home in the Chicago area was $9,780, and you paid $5,140 interest. Today you are paying over half a million!

EIR: If you were to go out and try to get a mortgage in Chicago, how much would you have to pay?
Thelin: Anywhere from 15 to 16½ percent interest.

EIR: What about the value of the land? Has it been bid up?
Thelin: Land and financing are about 36 percent of a new home today. And in 1949, land and financing were about 16 percent.

Otherwise, in the Chicago area, housing prices are up 70 percent in five years, while wages are just inching ahead. So, they've really made a new home a vanishing dream.

EIR: What happened to housing in the Chicago area after October 1979, when Volcker first hiked interest rates, and then again in March 1980?
Thelin: Let me give some figures. On Jan. 1, 1979, a medium-priced home in Chicago was $79,000. Your interest rate was 10⅜ percent. So, if you put 20 percent down, your monthly payments were $577 per month. On Jan. 1, 1980, that home went from $79,000 to $97,000, interest rate from 10⅜ to 13 percent, your monthly payment from $557 to $1,140. That was one year ago.

Since then, they have raised the usury ceiling in Illinois and 25 other states. The interest rates were holding fast at 16½ percent. So now, it is absolutely impossible for any working person to buy a new home.

The qualifying income in 1979 was $38,869 to buy a medium-priced home. That meant that maybe three of my members might have to get together to buy a house.

EIR: What has happened to your members' employment?
Thelin: Bungalow work was approximately one-third of our work, so obviously, it's destroyed us. In Illinois, we have the highest unemployment since the depression. The rate is something like 10 percent.

EIR: How many are laid off?
Thelin: I can't speak for the other trades; some are affected more than others, but it's massive. The iron worker wouldn't be affected by the bungalows slowing down because he doesn't put any steel in them. Whereas the industrial contruction has slowed down, but it hasn't collapsed like homebuilding. One-third of our work is bungalow, another third is highway and road construction. Heavy [construction] and highway have been poor in the Chicago area. The remaining third is commercial and industrial.

EIR: What about commercial and industrial construction?
Thelin: That has been holding its own.

EIR: How would you say Volcker's policy has affected the need to get unemployment benefits and therefore, the budget?
Thelin: Well, Volcker is a jerk—how can I put it? He has

done more to create inflation than any man in America today (maybe with the exception of David Rockefeller, who calls the shots).

Nobody can afford the cost of a medium-priced home today, and that will have a ripple effect on other things. When you stop building homes, you stop building washers, driers, refrigerators, carpeting, TV, everything. . . .

EIR: The Development Council for the 80s, which was set up by Carter with a $650,000 grant from HUD, says it's greedy for people to want single-family homes.
Thelin: This is supposed to be a nation of the people, by the people and for the people. And I don't need David Rockefeller or any banker to tell me what's best for the American people. The government takes 42 percent of everything we earn in federal, state, and local taxes, and I think we're entitled to a say-so in how this country's being run.

EIR: Were you happy with the election of Reagan?
Thelin: Not really. I don't think we had a candidate on the ticket to choose from.

EIR: He's had some input from homebuilders. Do you think he will respond to their needs?
Thelin: I don't know. I'm watching his appointments. Carefully. He's replaced several members of the Council on Foreign Relations. But he's also made about six appointments of members of the Council on Foreign Relations. So, it's hard to say. I can't criticize the man until he's given a chance. It's sure that Carter was a disgrace to the American worker, and it's time we gave the Democratic Party back to the American worker.

EIR: According to some figures, utility construction went down from $13 billion in 1979 to about $5 billion in 1980, a lot of it having to do with the shutdown of nuclear construction in the Northeast and Midwest.
Thelin: Yes, it's as if they are doing everything they can to collapse anything that's productive in this country. Shutting down nuclear construction is a bad mistake. It's the answer to our energy needs.

EIR: Is there anything you would like to add?
Thelin: Well, if you were to walk out on the street and grab the first citizen you see, and ask him why a new house costs so much, he's likely to say it's those plumbers and electricians and carpenters that are killing us, charging too much in wages. I'd like to point out that in 1949, 31 percent of the cost of a new home was on-site labor, and that figure is down 15 percent today. In 1949, a painter used a paintbrush. Today he's using sprays and a roller. In 1949 a cement mixer didn't have ready-mixed concrete. They mixed it in a drum and spread it out with shovels. Now we've got pumps, machines to help finish it and so on. Productivity has tremendously increased. The labor is the only segment of the cost of a new home that has actually gone down.

But if you talk to the average citizen, they blame the worker. The worker is the most productive thing in a new home. And, the union worker is 22 percent more productive than a non-union worker.

When it comes to federal funds, the biggest losers were Illinois, Michigan, Ohio, New Jersey, Indiana, and Wisconsin. These are all industrial states. It is as if there is a conspiracy to hold back funds from those unionized states and sent it to the non-union states. Illinois is probably the most industrialized and unionized state in the county. And it gave the federal government $31.4 billion more than it received back in all types of federal spending. No one expects a dollar for dollar return on federal taxes. But it's obvious that for years, this state has been suffering from industrial anemia.

EIR: What about Southern states, where there is a great deal of new construction going on? Is there any organizing going on there?
Thelin: The vast majority of construction, in Texas, say, is non-union. Today, 62 percent of all construction is non-union, much higher than it was a few years ago. This despite the fact that productivity per employee is 29 percent higher in construction firms that use union building tradesmen, and this is wholly attributable to the labor, that the union employee is 38 percent more productive than his non-union counterpart. Therefore, it should be obvious that unions foster free enterprise; this was proven in a study conducted by Dr. Steven Allen at North Carolina State University.

EIR: What do you think it will take to get Volcker out?
Thelin: The only way you're going to get him out is to focus attention on the real cause of inflation, the fact that they're collapsing productive employment. This country was set up on the basis of productivity. Someone mentions productivity, and they think of the American worker. When they shut down all productive sectors of the economy, naturally productivity is going to go down.

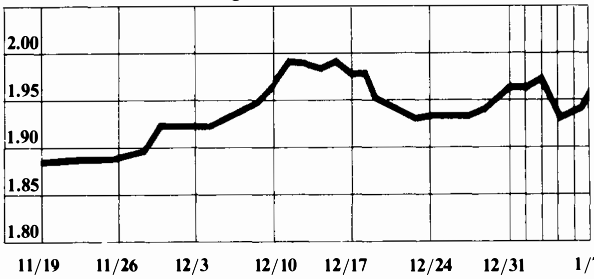
One of the foundations of our society was construction. That was a very productive sector of the economy. When they collapse construction, they collapse one-fourth of the economy, through its ripple effect.

What's causing inflation? High interest rates. A guy with a savings passbook is getting 5 percent. They're getting 16 percent when he goes in to buy a home. It is ridiculous.

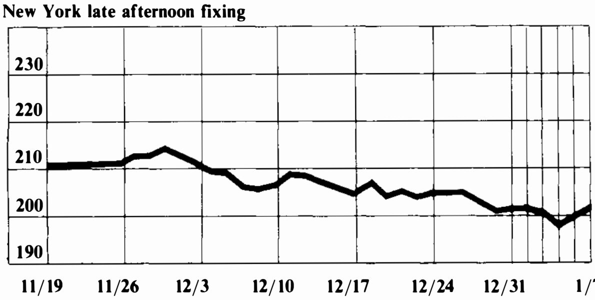
EIR: If the National Association of Homebuilders were to offer you their assistance in getting rid of Paul Volcker, would you accept it?
Thelin: Of course.

Currency Rates

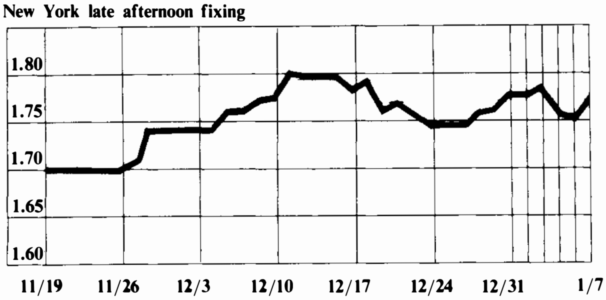
The dollar in deutschemarks
New York late afternoon fixing



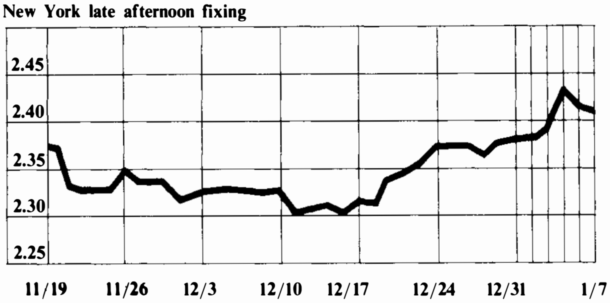
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Business Briefs

European Economies

The failure of monetarism

The economies of Europe have reacted to the adoption of monetarism by their own central banks and the Fed with a pronounced economic downturn in the fourth quarter. At the same time, inflation is out of control, despite the war against it, which was the excuse for the monetarist credit squeeze.

The European Community this week announced this week that consumer prices in the EC nations rose to 14 percent during 1980, compared with 8.6 percent in 1979. In Italy, consumer prices were as high as 21 percent. Italian prices accelerated at year's end to a 25 percent annual rate in November.

The West German economic miracle is suffering the worst downturn. The Federal Statistics Office announced this week that real Gross National Product fell from a 4.5 percent rise in 1979 to a 1.8 percent rise during 1980, close to zero growth.

In Holland, unemployment rose to a postwar record of 302,000 during December, up from 205,700 in December 1979.

In Britain, Europe's premier monetarist economy, new car sales dropped by 11.8 percent during 1980, the Society of Motor Manufacturers announced.

East-West Trade

Poland gets major West German credit

Poland has accepted a West German government offer of export credit guarantees totaling 300 million deutschemarks, Reuters reported this week. The German government may pledge up to 700 million marks pending discussions between Polish and Western government officials in Paris Jan. 16, sources said.

The loan guarantees are meant to stabilize the unsteady Polish economy and simultaneously to promote East-West trade. About three-quarters of the credits must be tied to purchase of raw materials and semi-finished products needed by Polish industry, hard hit by strikes and other unrest, and the rest to Polish food imports from West Germany.

Polish foreign trade ministry officials visited Bonn earlier this week to discuss additional loans.

The Polish finance minister, Marian Krzak, meanwhile told Reuters that Poland has no intention of declaring a debt moratorium, but seeks to encourage continued East-West lending and trade. "The main thrust of our activities is to secure new credits, and in many countries a moratorium automatically entails the suspension of additional credits.

"However, if one of our creditors were to suggest a moratorium on repayments while offering guarantees of additional credits, that would be an offer no one could refuse," said the minister, adding that Poland is not asking for a moratorium.

Poland's foreign debt is currently estimated at $24 billion, and Poland is faced with a debt-servicing charge of between $8.5 and $9.5 billion, he said.

Corporate Profits

Volcker squeezes fourth-quarter figures

Federal Reserve Chairman Paul Volcker's credit squeeze has had a serious effect on both fourth-quarter corporate profits and those for the whole year.

The rise in interest rates from 11 percent to 21½ during the last quarter means that most major U.S. banks will show a profit drop in the fourth quarter, Wall St. bank analysts forecast this week. "There will be varying degrees of disappointment" in the figures, Robert Alberson of Smith Barney Harris Upham said. Banks suffered a squeeze on margins, as their costs of funds in the federal funds market rose faster than their ability to raise lending rates to customers.

Citibank in particular is forecast to suffer a 12 to 15 percent drop in fourth-quarter profits, because its large consumer-loan portfolio yielded a fixed rate of return while the cost of funds rose.

The homebuilding and auto-supply sectors are also being badly hit. Champion Home Builders Company of Michigan this week forecast a flat loss in its fourth quarter, ending Feb. 27, because high rates destroyed the home-purchase market. The Borg-Warner company announced its 1980 earnings fell to $5.5 a share from $7.25 in 1979 because "depressed auto and housing markets cut earnings deeply." Borg-Warner produces machinery and construction equipment for the auto and housing industries.

International Credit

Eurobanks go fishing for the IMF

Seven leading international banks based in London announced Jan. 7 they will be issuing large certificates of deposit denominated in Special Drawing Rights (SDRs), the fiat currency circulated by the International Monetary Fund. The CDs will be offered to multinational corporations, central banks, and investment portfolios to "protect" depositors against the uncertainties of currency fluctuations.

SDR deposit acounts have existed in London for a few months, but the CD market was set up in the aftermath of the Jan. 1 introduction by the IMF of a different "composition" in the SDR currency basket.

The fiat paper used to be measured in 16 currencies; since Jan. 1, however, the IMF has reduced the composition to five leading currencies: dollars, deutschemarks, yen, French francs, and British pounds.

According to London reports, the IMF, which usually refrains from comment on technical commercial banking developments, greeted the SDR pool with enthusiasm. The IMF is hoping that a substantial SDR interbank market will develop, in expectation that during 1981 it will seek commercial banks loans on the Euromarkets. The IMF is widely reported to be about $10 billion short of the reserves it will need to meet emergency loan operations for countries in payments deficit this year.

Among the banks which have taken the lead in paving the way for such IMF borrowings is the Hongkong and Shanghai Bank, notorious for its involvement in vast illegal money transfers tied to international narcotics and related trafficking.

Banking

S&Ls hit by high interest rates

The Federal Savings and Loan Insurance Corporation announced that only its last-minute rescue operations, providing short-term credit bailouts, kept 35 savings and loan associations from bankruptcy during 1980. The corporation spent a record $1.3 billion in federal funds to save institutions with total assets of almost $4 billion.

Throughout the nation, S&Ls are suffering a sharp decline in profitability due to the Fed's interest-rate squeeze. Industry analysts say the profit fall has been particularly sharp in California.

Jerry Gitt, an analyst at Dean Witter Reynolds, estimates that net earnings fell an average of 44 percent at the six largest California S&Ls in 1980. Gitt and Shearson, Loeb Rhoades analyst Allen Bortel see only a modest improvement in S&L earnings in 1981, depending on the extent of interest-rate decline.

New loan volume has dried up, old loans are turning over slowly, savings flows are outflows instead of inflows, and the higher cost of funds may continue to hurt earnings through the first half of 1981, both analysts said. Bortel reported that mortgage lending has virtually ceased "because a growing number of S&L executives are refusing to make fixed-rate loans, ever again." This means that savings institutions are insisting on wider use of floating rate mortgages, whose interest rates fluctuate with market rates within certain limitations.

As part of the national turned toward deregulation, the California S&Ls are permitted to offer interest-bearing checking accounts beginning this year, putting them in direct competition with commercial banks. Early reports are that the S&Ls are pricing the accounts cheaper than the commercial banks to gain new customers. But the new accounts may end up hurting the S&Ls. "Many California banks think S&Ls will lose money on the accounts and will only steal bad customers of the banks," Gitt said.

Auto Industry

Fraser: 'Chrysler can't survive these high rates'

United Autoworkers head Doug Fraser emerged from the Chrysler Loan Guarantee Board meeting Jan. 7 to tell reporters: "The Chrysler Corporation cannot long survive in the present economic climate with the horrendous interest rates." As part of its attack on the effect of interest rates on the auto industry, the union has announced its willingness to forego contracted pay increases, on condition that Chrysler's bank creditors agree to the company's request for debt relief.

Chrysler is asking that $570 million in bank debts be converted into preferred stock. If the Loan Guarantee Board approves a new credit line to Chrysler, which is currently asking for $400 million, the company could avoid a shutdown in the near term.

The UAW is urging that Chrysler be allocated the full $700 million remaining in the loan-guarantee pool now, arguing that if interest rates decline by the second quarter, Chrysler will probably have been saved, at least for now.

But in the medium term, Chrysler will not survive without access to new sources of credit. The company's treasury, out of which cash flow and backup for current expenditures are financed, is $1 billion in the red.

Briefly

● **THE BANK FOR** International Settlements in Basel, Switzerland believes that there will be no further easing of the world's high interest rates. European and U.S. central bankers meeting at the BIS for their January conference made its focus a reaffirmation of commitment to a sharp curtailment of central bank credit.

● **HENRY REUSS,** chairman of the congressional Joint Economic Committee, called for a six-month wage and price freeze this week at testimony before the JEC by Bureau of Labor Statistics Commissioner Janet Norwood.

● **OIL IMPORTS** are down 25 percent compared to 1980, in the U.S. American Petroleum Institute figures for the week ending Jan. 2 report that daily oil imports fell 294,000 barrels to 4.83 million barrels per day compared to the same period last year.

● **PROF. HYMAN MINSKY** of Washington University in St. Louis predicts "a financial crunch or crisis sometime in 1981, most likely by spring," requiring more Volcker medicine. This will "plant the seeds for a subsequent inflation at rates that exceed recent rates." Reports Leonard Silk in the Jan. 9 *New York Times*, "Curiously enough, President-elect Ronald Reagan's favorite ... Milton Friedman" also foresees 25 percent inflation in the United States.

● **DREW LEWIS,** transportation secretary-designate, told a Senate Commerce Committee session last week that he will shortly unveil the Reagan administration's program for aiding the faltering U.S. auto industry. Lewis promised that the new administration will not stand idly by and watch the financially troubled Chrysler Corp. "go belly-up." Some regulatory requirements might be eased, he predicted, and action might be taken to reduce interest rates. He also advocated revamping government's role in mass transit.

Italy's future: Socialist coup or Gaullist republic

by Muriel Mirak

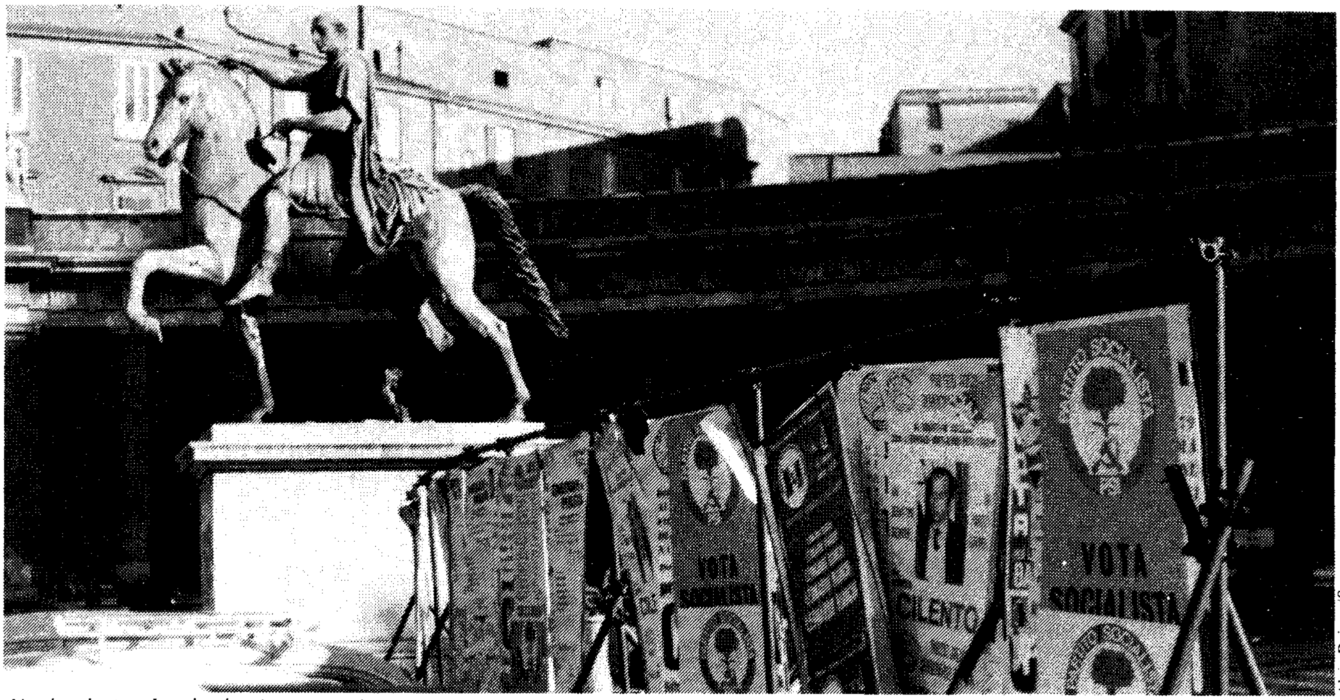
"Italy? Why that's not a country, it's a casualty. They change governments there every Saturday night whether they need to or not. That's the way it's always been and that's the way it will always be. It's the national character. It's what makes Italy tick."

This, in the words of an otherwise perceptive political analyst in New York, is the sentiment that has been echoing throughout political caucuses, parliamentary meeting rooms and press halls the world over. And the facts of the matter, over the past months, have seemed to fill out the picture. Increasingly since summer, Italy has been strapped with new, seemingly intolerable burdens to add to her secular woes. Double-digit inflation placed the country on a par with Latin America's most crisis-wracked economies, scandalmongering and political terrorism combined to make a mockery of parliamentary democracy and, as the winter cold of late November set in, it seemed that the wrath of God itself had been unleashed as vast stretches of the country's depressed south were ravaged by earthquakes.

Italy and its people seemed to be a hapless ship tossed about pitilessly on tempestuous seas, always about to go under yet always, somehow (miraculously?) reappearing on the horizon. Thus it has seemed to many that the tragicomedy called Italian politics was destined to continue into eternity, never knowing stability, yet never really being engulfed by disaster.

Such facile clichés aside, the truth about Italy is otherwise. That country, Europe's oldest and, in many respects, greatest modern culture, finds itself at history's crossroads. One road leads to a Latin American-style military coup, which would topple the pillars of Western European stability, Valéry Giscard d'Estaing and Helmut Schmidt, as if they were pieces of china poised on a vigorously pulled tablecloth. The other road leads to a new republican order heralding an era of economic stability and cultural renaissance for the continent as a whole.

Which road Italy embarks on will be determined by the outcome of the unprecedented political fight reaching its climax in the country at present.



Alain Dejean/Sygma

Naples during June's election campaign.

But what that outcome is depends in large part on the policy initiatives the incoming Reagan administration and its ambassador in Rome will undertake toward its strategic Mediterranean ally. That is why it is so important for Washington to understand more deeply "what makes Italy tick."

The fundamental fact of Italian political life is the factional struggle, dating back for millennia, between the country's productive workforce and business, on the one hand, and its parasitical nobility, anchored to feudal landholdings and the financial empires they support.

As Dante Alighieri knew six centuries back when these two opposing fronts appeared in the form of the White Guelphs and Ghibellines against the evil Black Guelph nobility, room does not exist for both factions. Either the forward-looking capitalist alliance of business and labor reorganizes the nation's economy and social structures to ensure progress, at the expense of the parasitical financial power of the oligarchy, or that parasitical power will sap Italy's energies.

The successions of political crises and newly formed government coalitions in recent history can be understood only in the light of this fundamental factional distinction. In today's Italian political spectrum, the dividing line often runs down the middle of single political parties. But, more broadly, the progressive industrial-labor alliance takes the form of the so-called Historical Compromise of the majority Christian Democratic party (DC), under Giulio Andreotti's factional leadership, and the Enrico Berlinguer wing of the Italian Communist Party (PCI). The enemy faction of landed aristocrats and

In this section

bankers is grouped around the Venetian black nobility and its spokesmen in Bettino Craxi's Italian Socialist Party (PSI), flanked by the so-called Preamble wing of the DC led by Amintore Fanfani. A cluster of "lay" parties, ranging from the Republicans to the Liberals and the Social Democrats, huddles around the Craxi-Fanfani axis in the manner of lapdogs adorning official portraits of dukes and ladies.

The last time Italy had a stable government was in the 1976-1979 period, when Giulio Andreotti led a coalition that in the spring of 1978 brought the PCI into the majority for the first time since World War II. That experiment was carried out successfully, despite the most violent opposition unleashed through terrorist acts. Former DC President Aldo Moro, who personally symbolized the DC-PCI agreement, paid for it with his life at the hands of the Red Brigades. When the coalition was shattered in late 1979, the succession of Craxi/Fanfani-controlled governments rapidly eroded the country's economy and institutions, bringing it to its knees today.

Typical of such wreckage were the two governments headed up by Francesco Cossiga, the Christian Democrat who, as interior minister, had been responsible for letting Aldo Moro's assassins wreak havoc. Cossiga's governments of 1979 and 1980 reversed every positive thrust of the preceding Andreotti regimes; where the Vatican-backed Andreotti had privileged programmatic cooperation with Giscard and Schmidt around the nascent European Monetary System, Cossiga allied with the recalcitrant British in efforts to sabotage the EMS. Where Andreotti opened new markets for Italy in the Middle East and Eastern Europe in the framework of a European effort at a Middle East settlement and consolidation of détente, Cossiga all but cut off relations with the Saudis, allied with the lunatic, terrorist regime of Qaddafi, turned over Italy's military to Carter's Rapid Deployment Force for anti-Arab adventures, and cut off trade credits to the East. Where Andreotti promoted massive U.S. investments in southern Italy, particularly in the framework of rapid nuclear energy development, Cossiga backed the antinuclear environmentalists and told American businessmen to go home.

But Cossiga, a man whose political credibility had been ripped to pieces during the Moro affair, was only a puppet prime minister. The real power behind his governments, especially his second coalition, was the PSI, the party most homogeneously dedicated to the deindustrialization and military adventurism he carried out. The man PSI boss Bettino Craxi coordinated his policies with on a weekly basis was Richard Gardner, the Carter administration's ambassador in Rome.

Internally, what made Cossiga's reigns possible, was a factional deadlock inside the majority DC. In the party's March 1980 congress, the Andreotti faction (allied with party secretary Benigno Zaccagnini) took a principled stand against the Black Guelph right wing headed by Fanfani, Toni Bisaglia and Carlo Donat Cattin. The issue was whether the party could or should allow a Moro-style government with the PCI to be repeated, as Andreotti urged, or whether such agreements on issues must be forbidden with the giant Communist Party. The DC right wing captured party president Flaminio Piccoli in a net rejection of the PCI, spelled out in a "preamble" to that effect which came to be the nickname of the faction thereafter. Andreotti's position, as leader of a strong 42 percent minority willing to open a dialogue with the Communists, was intransigent: until the party came around to his viewpoint he would not support any other coalition. His aim, in part, was to let the preamble lead the DC to disaster, then step in to pick up the pieces and shape future "historical compromise" attempts. For its part, the PCI maintained a principled opposition stance to the "preamble" and the governments that it might pull together.

The end of the preamble

When the PCI finally organized mass protests against the Cossiga-Craxi operation that was sinking Italy's economy, the Preamble grouping, its allies around Craxi, and the very possibility of such a parliamentary coalition were thrown into terminal danger. It is that process, taking place against the backdrop of the weak Forlani cabinet (a transitional, compromise solution), that adequately defines the shifting balance of the political fight in Italy since the summer of 1980.

First, the preamble, which had been the main obstacle to Andreotti's plans within his own party, has been torn to shreds. The vitriolic anticommunist Preamble leader Donat Cattin was forced in early fall to resign as DC vice-secretary under suspicion of having aided and abetted his Prima Linea terrorist son Marco to escape justice. Then, Preamble leader Toni Bisaglia was forced to resign from the industry ministry in early December for his involvement in the black-market Libyan oil scandal that convulsed the country in November. Another staunch anticommunist of their wing, Massimo DeCarolis, was divested both of his parliamentary seat and his DC party membership after having publicly drawn Aldo Moro's name into the mud of the oil dealings.

All these developments testified to Andreotti's gaining a hold over the DC party machine. Former Prime Minister Andreotti intended to occupy the DC presidency (left vacant when President Forlani became prime minister) at the party's December national leadership meeting. Although the vote was postponed, Andreotti scored a significant victory when the leadership voted to endorse "historical compromises" with the PCI on a regional basis in at least five areas. This was in effect tearing up the preamble and opening the door to

The PSI's Bettino Craxi: a profile

Bettino Craxi, the man whom the *Washington Star* recently reported "is on his way to the prime minister's office," has been general secretary of the Italian Socialist Party (PSI) since July 1976. He was installed there following Jimmy Carter's electoral victory in the United States, and has been kept there since by the combined efforts of U.S. Ambassador Richard Gardner and Henry Kissinger. The PSI is a party increasingly known as a major supporter of terrorism, drugs, and the deindustrialization of Italy.

Craxi takes his orders from U.S. Ambassador Richard Gardner, a close friend of Zbigniew Brzezinski and Kissinger, and Gardner's wife, Danielle Luzzatto. The Luzzatti have been an important part of the so-called Venetian black nobility, whose families have run a huge financial empire for 1,500 years with power based on the deployment of dirty tricks operations and terrorism against their enemies. Some of the most important families in this Venetian oligarchy have been the Luzzatti, and the Loredani.

Gino Luzzatto, the father of Danielle Luzzatto, was an important member of the Action Party, which, immediately following World War II, was used to ensure that Italy remained economically and politically tied to Britain, by carrying out a "cold coup" against the Christian Democrats and the Italian Communist Party (PCI) nationalists, to prevent them from taking power after the fall of Mussolini's Fascist government. The Luzzatti are also intermarried with the Agnelli family, owners of FIAT.

Two members of another Venetian family, the Loredani, based in Padua, helped found both the Red Brigades left-wing terrorists, and the Ordine Nero (Black Order) right-wing terrorists, whose 1969 Piazza Fontana bombings nearly resulted in a right-wing military coup.

Craxi himself has been one of the major advocates of "negotiations" with the Red Brigades terrorists, both during the 1978 kidnap-murder of former Prime Minister Aldo Moro, and again in the recent kidnapping of Judge Giovanni D'Urso. Other leaders of the PSI, such as Giacomo Mancini, have been investigated both for their links to the Mafia and to the Red Brigades; and Craxi himself was the subject of a parliamentary inquiry on his involvement in the Moro case. Craxi has defended convicted terrorists Toni Negri and Franco Piperno, both convicted on charges stemming from their participation in the Moro kidnapping.

Alongside this has been the PSI's support for drug legalization, a project undertaken together with the Yippie-like Radical Party of avowed homosexual Marco Pannella. The Socialist minister of health, Aldo Aniasi, authored a plan in June 1980 to decriminalize marijuana and methadone, and eventually heroin.

But, due to opposition to the proposal, including a denunciation by the Vatican, it has been shelved, except for a section that allows pharmacies to dispense methadone to registered addicts. Nevertheless, the PSI youth group, the FGSI, and the Radical Party, have been deployed all over Italy to push for full legalization of drugs.

Craxi and the PSI have also begun a strong push for the "DeMichelis Plan," authored by Craxi associate Gianni DeMichelis, the minister for state participation (state-owned industries). The plan draws heavily on Club of Rome and Davignon studies for the European Community, from the standpoint that steel, nuclear energy and heavy industry in general are the "sunset" industries, while electronics, computers and pharmaceuticals are the "sunrise" industries. Thus, the DeMichelis Plan calls for creation of a huge telecommunications industry, while dismantling Italy's state-owned energy conglomerate, ENI, especially its nuclear energy and engineering components.

Further, the DeMichelis Plan calls for use of energy conservation, solar energy, cutbacks in research and development, and increased austerity imposed on the Italian population, in the form of wage cuts and increases in costs of gas, electricity and other utilities.

To prepare the way for this, Craxi and his cronies have played a key role in sabotaging agreements with Middle East countries, especially Saudi Arabia, to furnish Italy with oil in exchange for Italian technology in the form of (largely) ENI-supplied nuclear power plants, steel plants, and other heavy industry, under agreements reached under the last government headed by Christian Democrat Giulio Andreotti.

Saudi Arabia was forced to withdraw from the agreement after Craxi and his collaborator Rino Formica, Socialist transportation minister, launched a scandal in 1979 against ENI's management for mishandling of funds. The scandal resulted in total cancellation of the Saudi-Italian agreement in December 1980.

Berlinguer, for the first time since the days of Moro.

Fighting in the rubble

Craxi's response was ruthless and immediate. His tool was the Naples earthquake, a disaster that claimed the lives of between 5,000 and 10,000 people, leaving hundreds of thousands homeless. While poverty-stricken victims struggled to climb out of the rubble, Craxi plowed ahead, exploiting the immense tragedy.

The PSI's political operation around the earthquake was twofold. First, the Socialist Lelio Lagorio, whose defense ministry held jurisdiction over the army and carabinieri forces, sabotaged relief efforts by *not* sending troops to the devastated areas. Simultaneously, the PSI, especially in the wealthy northern city of Milan, organized private relief operations which deliberately bypassed the central government's attempts. Secondly, Socialist press organs launched an international smear campaign designed to throw blame for tardy relief on Interior Minister Rognoni, a Christian Democrat, and on government and parliament as such. Central to this operation was Sandro Pertini, the PSI president of the Republic. The senile, anarchistic Pertini gave full vent to his populist prejudices immediately after the quake hit by appearing on nationwide television to denounce the national government.

The political and social effects of this ignominious maneuver cannot be underestimated. The immediate political response came from the Communists, who, riding the wave of popular discontent and disorientation, reversed their "historical compromise" perspective, announcing their intention to replace the DC as the central coalition party in an emergency government to be formed with "men of good will" from all parties.

The social effect was more profound. The entire population felt betrayed by what was presented to it as a conniving, heartless political system. It was not the responsible criminals who were being identified; nor was it even the specific Forlani government. What was being subjected to deliberate disintegration was the very structure of parliamentary democracy. The Italian people were being shown television films of suffering earthquake victims and were being told that "the government"—any and all government—was responsible.

Craxi, the new Mussolini

Bettino Craxi's aim, by now publicly aired on nationwide television and daily mooted in the press, is to become the second Mussolini. Like Craxi, Mussolini was a radical leader of the Socialist Party who exploited backwardness and social unrest in the post-World War I economic crisis to impose a fascist regime on Italy. Like Mussolini, Craxi intends to use the military backing Chief of Staff Torrisi can provide him, as well as the Red Brigades as shock troops. The immediate political target of such a fascist regime would be the PCI, the trade-unions and the Andreotti wing of the DC.

But who are the political forces behind the Craxi-NATO coup scenario? What do they want to achieve? The forces backing Craxi's coup as an operational, live option are led by the Venetian oligarchy. The same Toni Bisaglia, run out of office for corruption, is a part of the Venice network, heading up the powerful insurance empire Assicurazioni Generali, along with names like the Rothschilds, the Hambros, Giuseppe Medici, and the Luzzattos. (Luzzatto is the oligarchical Venetian family into which current U.S. Ambassador Richard Gardner is married.) A newcomer to the Assicurazioni is Angelo de Benedetti, the man who engineered a major deal with Libya's Qaddafi for FIAT, now heading up the Olivetti corporation. Both Olivetti and Assicurazioni tie into drug and terrorism networks through the former's Latin American connection to the Permindex outfit (involved in the Kennedy assassination) and the latter's Hong Kong affiliation with the drug-connected Jardine Matheson.

The Assicurazioni Generali, along with another Venetian insurance empire, the Riunione Adriatica di Sicurta (RAS), and the FIAT complex held by the Agnellis and Caracciolos are the financial entities used by the oligarchs to carry out their business, from importing black-market Libyan oil to drug and arms trafficking. In addition, this nexus provides the financial clout for carrying through the economic policy of a Craxi dictatorship.

Guido Carli, former president of Italy's Confederation of Industry, and an intimate of Venetian and Roman black nobles, has dubbed this scenario the "Argentinization" of Italy. In Carli's view, the Craxi military cabinet would be a technocratic government above and without parties. This idea has been endorsed by such factional allies of Carli, de Benedetti, Bisaglia, and company as PSI State Industry Minister Giovanni DeMichelis, Republicans Giorgio LaMalfa, Bruno Visentini and Pacciardi, and PSDI party president Longo. According to a white paper drawn up by DeMichelis, known as the DeMichelis Plan, the technocratic government would consolidate control over the information industry (electronics, telephones, etc. now represented by SIT-Siemens, STET and Olivetti) and use it to exert social control (see page 29).

That, in a nutshell, is the "fundamental change" in Italy that Michael Ledeen was talking about in a *Washington Star* column in late December. The Georgetown University think-tanker says that Craxi, that "bright young secretary-general of a vigorous and strongly anticommunist Italian Socialist Party," is the man for the job. The Hans Seidl Stiftung, a think tank controlled by Bavarian politico Franz-Josef Strauss, has also made public its conviction that "Craxi is the new

Mussolini." And Richard Gardner heartily agrees.

When Craxi and his Venetian stringpullers put the finishing touches on a coup plan, they were acting under enormous time pressure. Internally, their Preamble group was unraveling, and Reagan's victory sounded a potential death knell for their whole faction.

The Andreotti option

For that very reason, Giulio Andreotti, who had thrown his entire political weight behind Reagan, felt encouraged to make a move toward consolidating his own power base. But Andreotti faces a problem. Although his DC has been reorganized, the bad seeds having been sifted out, the process of social disintegration and erosion of public confidence in parliament has advanced so rapidly as to make the "old" approach to a "historical compromise" coalition unviable. The only way that Italy's economy can be salvaged from the technetronic nightmare Craxi plans for it, is through a far-ranging reform of the currency, credit and tax structures along the lines of the heavy lira proposal introduced by Lyndon LaRouche. And the only way such a policy can be implemented in the current crisis is through a top-down "Gaullist" reorganization, something Andreotti could readily achieve from the position of president, not of the Christian Democracy, but of the Italian Republic.

Among Andreotti intimates, it is no secret that the experienced statesman is fixing his sights on the presidential Quirinale palace currently occupied by the senile Pertini. But what will Washington do? If President-elect Reagan recognizes the Craxi danger, he cannot fail to grasp the urgency of providing Mr. Andreotti the political support due to a faithful U.S. ally.

The most immediate signal for such support would be Reagan's choice of a close personal associate from the business world to occupy Ambassador Gardner's position on Via Veneto in Rome. The danger is that Mr. Reagan will submit to pressure from the Kissinger camp and send someone to Rome with an anachronistic anticommunist profile. That grave error would play into the hands of the dangerous Craxi and virtually endorse an Argentinian-style coup, endangering European security and blackening Reagan's foreign policy image internationally.

If Reagan follows his better instincts and wiser advisers, he will provide Andreotti a diplomatic representative worth his salt. Andreotti, who was educated to politics by the great Pope Paul VI and postwar Prime Minister Alcide DeGasperi, is Italy's ablest statesman, as well as being one of Europe's foremost leaders. If Italy is to find the road that leads to a renewed republic and a future of economic and political stability, Giulio Andreotti must be the man in charge. In the current crisis, he is the man who knows what makes Italy tick.

Italian terrorism: a political weapon

by Muriel Mirak

Red Brigades terrorist Franco Piperno told a nationwide TV audience in Italy last week that "terrorism is not common criminality, it is political." Piperno knows what he is talking about. The young protégé of Italian Socialist Party (PSI) mafioso Giacomo Mancini was extradited last year from France on charges of involvement in the kidnap murder of Italian statesman Aldo Moro. During Moro's captivity, Piperno and his partner in crime Lanfranco Pace served as go-betweens for Moro's terrorist jailers and PSI party boss Bettino Craxi.

Today a repeat performance of the Moro affair, staged by the Red Brigades and kidnap victim Judge Giovanni D'Urso, has all the qualities of déjà vu.

D'Urso was kidnaped by the Red Brigades on Dec. 16. The terrorists' aim was to force the weak Forlani government to the bargaining table and thus rip up the last shreds of credibility retained by Italy's postwar republican institutions. This process would lead to strongman Craxi's stepping in to take dictatorial power.

But why Judge D'Urso? And why make the attack that day? The answers to these questions shed light on the wholly political character of the brutal terrorism wielded against the Italian state over the last decade.

In the first week of December, two crucial gatherings took place signaling a tip in the political balance in favor of Giulio Andreotti. At the Christian Democracy's national council meeting, Andreotti's open dialogue policy towards the Italian Communist Party (PCI) was officially endorsed and five regional governments—in Sardinia, Campania, Liguria, the Marches, and Calabria—were slated to host "historical compromise" coalitions between the DC and PCI. At the same time, *EIR* held a well-attended conference in Rome to present Lyndon LaRouche's heavy lira proposal for currency and credit reform. Both Andreotti's DC and his allies around Berlinguer in the PCI studied the proposal carefully, with an eye to implementing it once a national coalition government could be put together.

The terror attack was unleashed, exactly as in 1978, to bust up this embryonic PCI-DC agreement. This was absolutely clear in the shooting death of DC Mayor Marcello Torri on Dec. 11 in the small southern town of Pagani. Torri had been a "historical compromise" DCer, and had been fought tooth and claw by his factional enemy, Fanfanian deputy D'Arezzo. D'Arezzo had tried to run Torri out of politics, and, when the latter mooted running for office with the PCI, the D'Arezzo machine sent telephone threats into Torri's home. In the wake of the earthquake rescue effort, Torri had exposed Mafia efforts to pocket relief funds and had named the names of D'Arezzo's and Fanfani's Mafiosi involved. Torri was committed to rebuilding the devastated region through DC-PCI cooperation; the disaster area of Campania, in his view, was to become the model for similar such fruitful coalitions elsewhere.

Just days later came the D'Urso kidnapping. Judge D'Urso, responsible for security in Italy's top security prisons which house terrorists, was targeted because of the information he could divulge to his jailors, thus allowing many violent terrorists to be loosed. Just hours after he was kidnapped, Judge D'Urso's wife appeared on television to beg government negotiation with the Red Brigades. PSI boss Craxi immediately seconded her call, stating that "since Moro's life had not been saved, this time D'Urso's life must be spared." Although saner DC spokesmen, such as Interior Minister Rognoni, along with the entire PCI, rejected negotiations on principle, Craxi's maneuvering succeeded in bending the government to capitulate. On Christmas Day, the Forlani cabinet announced that it would vacate and close down one top security prison, the Asinara. This established the point Craxi was pursuing: the state would give in to a band of criminals.

Three days later the Red Brigades showed how they would deal with a government willing to get on its knees. On Dec. 28, a band of 70 armed men descended on the top security prison in Trani and kidnapped 19 security guards as hostages. It was only through the prompt intervention of a Carabinieri crack team that the guards were freed and the prison returned to normal. Responsible for leading the Carabinieri against the terrorists was Gen. Enrico Galvarigi, the right-hand man of antiterrorist General Dalla Chiesa.

On New Year's Eve, when Gen. Galvarigi was returning home from church with his wife, two young terrorists disguised as delivery boys with a gift package, filled him with bullets and fled. As if shaken out of a stupor, the government reversed itself and came down hard on any and all terrorist demands. No concessions would be made to D'Urso's jailors; no terrorist communiqués would be aired by the media.

Again the scene shifted. The terrorists and their patrons in the PSI were thrown on the defensive, while the DC, the PCI, and the country's police forces regained control of the situation. An important, however tragic lesson has been learned, and it is not likely that further concessions will be made to the Red Brigades.

Italy's growing awareness of just how political terrorism is, was underlined by another explosive development around the Galvarigi murder. This brought to light the central role certain proterrorist press organs have played in the entire affair.

The Espresso affair

Galvarigi, like D'Urso, was not a public figure. In fact, the extremely sensitive nature of his work as head of security coordination for the nation's prisons forced him to keep a low profile and lead the life of a simple Carabiniere. The facts of Galvarigi's job were known to very few inside the prison system. But his name appeared just days before his death in the Milanese daily *La Repubblica*, which is owned by the Caracciolo family of Italy's "black nobility." There Galvarigi was identified as "Dalla Chiesa's right-hand man"—exactly the same formulation later used by the terrorists who claimed responsibility for his death.

Simultaneously, another Caracciolo press organ, the widely read weekly *Espresso*, announced publication of an exclusive interview with D'Urso's terrorist jailors, including passages from the "confessions" the Red Brigades had extracted from their kidnapped victim. Allegedly Galvarigi was among those mentioned.

The magistracy was convinced there was no coincidence, and Roman Judge Sica issued an arrest warrant for Mario Scialoja and Gianpaulo Bultrini, the two *Espresso* journalists responsible for the featured articles. The publishers quickly took 40,000 copies of the magazine off the presses and sent them to the shredder while preparations were afoot to drastically revise the contents. Editorial board member Ripa de Meana, a nobleman and a leading PSI exponent, quickly presented his resignation from *Espresso*.

The *Espresso* affair, though not yet concluded, could prove to be a turning point in the Italian republic's war against PSI-supported terrorism. For the first time, the press organs controlled by the Caracciolo oligarchical interests, have been identified positively as witting tools of the terrorist apparatus. Mario Scialoja had been identified in an explosive dossier on the Moro case published by the European Labor Party in later 1978, as the man who sent out information and marching orders to terrorists in the field; but this is the first time Scialoja has been charged with aiding and abetting terrorists. At the same time, the government's toughened stance after Galvarigi's murder has encouraged other press empires to close their pages to the Red Brigades messages and documents. Already the three major national dailies have refused to print further terrorist material.

If current trends of this sort continue, by cutting off access to the press and exposing the oligarchic masterminds of terror, the spiral of violence can be halted.

The 'heavy lira' proposal dominates economic debate

by Nora Hamerman

Since the opening of the New Year, *EIR* Contributing Editor Lyndon H. LaRouche, Jr.'s proposal for a "heavy lira" currency reform as the solution to Italy's acute economic crisis has become the main topic of the Italian financial press. The LaRouche proposal was formally launched Dec. 4 at a conference in Rome sponsored by the *Executive Intelligence Review.*

The proposal involves 1) replacing the current lira with a new lira at a ratio of 1,000 to one (a thousand lira currently buys a loaf of bread); 2) simultaneously transforming tax and credit policy to provide incentives for productive investment; and 3) certain special operations to trap speculators, drug traffickers, and black marketeers, outflank them from diverting their capital, and obstruct "dirty money" flows. The most strenuous opponents of the proposal have been the Treasury and the Banca d'Italia, the nation's central bank. All editorial opinion, whether favorable or unfavorable, has tended to concur that the currency reform could only be promulgated as part of a broader reversal of current high interest-rate, low industrial-investment policy.

On Jan. 3, Italy's leading financial daily, *Il Fiorino,* read by every banker and financial manager in the country, featured a front-page editorial signed by veteran commentator Giorgio Vitangeli and titled, "Continuing Talk of a New One-Lira Note to Replace the Thousand-Lira Note." The editorial notes that the year-end holidays, the dramatic terrorist events and the rumors of a new government crisis had all but diverted attention from the country's most interesting "mystery story"—the fact that the official newspaper of the Communist Party, *L'Unità*, on Christmas Eve published a front-page box announcing that the "heavy lira" was about to be launched. *Unità* cited sources inside the Banca d'Italia and even claimed that the sketch for a new lira had already been drawn up.

A day later, according to *Il Fiorino*'s account, the Treasury Ministry denied the reports of a heavy lira operation in response to a press agency's inquiry, but did not put out an official press release, which "left quite a few doubts in the air." In fact, *Fiorino* continued, "a few weeks ago, journalists, economic personnel and politicians were widely apprised of a meeting organized in Rome at the Leonardo da Vinci Hotel by the *Executive Intelligence Review* and Fusion Energy Foundation, organizations associated with Lyndon LaRouche, an American . . . who recently participated . . . in the Democratic campaign for the U.S. presidential elections."

The Rome meeting, *Fiorino* continued, proposed "a Gaullist solution" for Italy based on the issuance of a new heavy lira, and had publicized its proposal by printing a sketch of the new one-lira bill (which *Fiorino* published on its front page). The editorial then asked if this lira-leaflet could be the source of the rumors of a "sketch already prepared" for the heavy lira, but concluded that this is unlikely, since *Unità*'s description is very different from the *EIR* lira.

Vitangeli went on to say that although projects for a currency reform had been debated in "authoritative circles" for years. Simply "knocking off three zeroes" would resolve nothing; "it makes sense only if it seals, with the added impact and commitment of monetary symbols, a policy of economic revival, of which the currency reform would be the symbol and the instrument. In sum: the launching of the heavy lira, if it is going to be serious, cannot fail to be accompanied by a new economic policy, radically different from the one that reduced the old lira to an abstract unit of accounting, pulverizing its value and transforming all Italians, even the poorest, into 'millionaires.' "

But, Vitangeli concluded, "whereas any government can print one-lira notes in place of thousand-lira notes, it is something totally different to launch an economic policy capable of keeping the so-called heavy lira from becoming a featherweight in a short time."

On Jan. 7, *L'Avennire,* a nationally distributed Milan-based Roman Catholic daily, published on its economics page a Banca d'Italia denial of the "heavy lira plan," and cites conflicting views on whether the heavy lira plan could combat inflation. The leading Genoese newspaper *Secolo XIX* reported Jan. 6 the same Bank of Italy story, adding that Treasury Minister Nino Andreatta has recently "firmly denied that the introduction of his new monetary instrument" was under way.

The postwar struggle for a 'heavy lira' reconstruction plan

by Marco Fanini

Lyndon LaRouche's proposal for "A 'Gaullist' Solution for Italy's Monetary Crisis" brings Italian political leaders, especially the men who guide Italy's two largest parties, face to face with the task of taking up again a battle that was interrupted in the period immediately following World War II. During that period, the Italian situation was analogous in many ways to that of today: skyrocketing inflation, administrative chaos, corruption, foreign interference. Under Alcide De Gasperi, the leader of the Christian Democrats, and Palmiro Togliatti, the head of the Communist Party, an attempt was made to create a "heavy lira" as LaRouche has proposed today, as a means for attacking speculation head on and thus restarting the national economy.

It is worth noting that not long ago Giulio Andreotti, the leader of the Christian Democratic faction that favors government collaboration between his own party and the Communists, re-evoked the two parties' postwar cooperation and the "heavy lira" attempt in particular:

> . . . Scoccimarro was a man of great worth, who to a much greater extent than Togliatti took a true interest in governmental activities and, even though he was not an economist, had succeeded in forming precise ideas about economics. For example, he seriously battled against the technocrats for a currency reform, and I think he was right, because if the currency reform had been carried out then, it could have constituted the basis for cleaning up the financial situation and for a notable relaunching of industry as well.

Thus in 1977, while he was still prime minister of Italy, Andreotti commented on the proposal of the finance minister of the postwar Parri and De Gasperi governments, the Communist Mauro Scoccimarro. The latter was one of the best minds of the Italian Communist Party and Togliatti's economic adviser; in his book *Intervista su De Gasperi* (*Interview on De Gasperi*), Andreotti reports the secret encounters among De Gasperi, himself, Togliatti, and Scoccimarro, in which economic questions were entrusted to Scoccimarro.

Scoccimarro's proposal was put out in the early months of 1945 when the Italian economic situation was desperate and reconstruction plans were being discussed: production had fallen by 50 percent, monetary circulation was running wild, and inflation was extremely high, due in great part to the unfavorable exchange rate imposed by the Allies (one dollar equaled 100 liras) and the unlimited diffusion of so-called *amliras,* currency printed by the occupation troops. Food was scarce; for many products there was a black market; and moreover, huge amounts of capital that had been illegally exported during the war could be re-imported from one minute to the next with disastrous effects.

Scoccimarro proposed:

1) rationing of consumer goods;
2) a currency reform and a one-time-only tax on property;
3) a census by name of personal property holdings; a tax on personal and real property of at least 100 billion liras;
4) a freeze on capital flight through the change in the currency, since illegally exported money would thus lose all value;
5) a freeze on one-third of monetary circulation, holding it under the form of bank deposits "whose availability is subjected to certain conditions of productive use."

In presenting his proposal, Scoccimarro commented prophetically:

"The reform of the currency is an absolutely necessary and indispensable measure in the current monetary and financial situation of our country: not to carry it out would cause serious damage, and we would feel the consequences for a long time."

Even without entering into the details of this proposal, it is clear that the intention was to strike a blow against speculative profits (not just war profiteering, but the vaster and more dangerous profits being formed thanks to the circulation of amliras) and to wield the fiscal lever in such a way as to relaunch production. The partial availability of currency held back from circulation, under conditions of productive investments, is a measure that brings very much to mind LaRouche's "two-tier credit system" in his book on a "Gaullist solution."

Another element to underline is the precision with which Andreotti grasps the key elements in the currency reform: to hit the "technocrats," to clean up finance, and to give birth to an industrial boom. The Catholic Andreotti and the Communist Scoccimarro were in accord on these fundamental conceptual matters; theirs was not a "factional alliance"; they agreed on how to build a national economy and their enemies, then as now, were the "technocrats."

This puts the alliance between Togliatti and De Gasperi in an interesting historical light, suggesting that the accord on the currency reform was the basis of the "historical compromise" of 1945, when the Parri government that ruled from June to December actually approved the currency change and related measures. Not accidentally, Togliatti was the personal mentor of Enrico Berlinguer, the present secretary-general of the Communist Party, just as Andreotti was the heir apparent to De Gasperi. Yet this alliance, which in the postwar period represented 80 percent of the Italian political panorama, was shattered in the brief span of two years, and came to an end in practical terms with the 1947 trip of Prime Minister De Gasperi to the United States. And the "technocrats," supporters of the "free-market economy," took power and pushed the Christian Democrats and Communists into a frontal clash that lasted 30 years. The question is, why?

During the war De Gasperi had been a secretary in the Vatican Library, and Togliatti held a similar post in the Kremlin. All evidence points to a pre-existing accord between Stalin and Pius XII to make Italy into an industrial power capable of controlling the Mediterranean and acting as a bridge between Europe and the rapid industrialization of the Third World. Such an accord would have fit perfectly into the framework of the "grand design" of President Roosevelt for collaboration with the Soviets to develop the former colonies and take them out of the dictatorial control of the British oligarchy. Andreotti himself in 1956—a period when Christian Democrats and Communists were at a maximum distance from each other—wrote that "De Gasperi, based on the situation of that moment, put his own thinking in the framework of Roosevelt's attempt at coexistence between the Russian and Western worlds."

But if such an accord existed, it must have been covert and disguised, given that the postwar agreements signed Italy over to the Anglo-Americans, or to put it more precisely, to Churchill, who had always seen control of Italy and the Balkans as the means for controlling the Mediterranean and the Middle East. The arrival in Salerno on March 27, 1944 of Palmiro Togliatti from the Soviet Union, and his astonishing speech offering collaboration with the Catholics, made the British and their Italian agents quite worried. Benedetto Croce, for example, saw Togliatti's "Salerno Turn" as a conciliatory move by the Soviets to enable them to intervene in Italian affairs.

When in June of 1944 the parties of the Committee of National Liberation set up the first Bonomi government, overturning the British-backed regime of Marshal Badoglio, Churchill sent a menacing telegram off to Joe Stalin asking him to immediately "communicate his opinion" on this development. Stalin in his reply professed to be in the dark about Togliatti's activities, and between mid-1944 and mid-1945 gestures of praise and collaboration multiplied between the Italian Communist and Catholic leaders, including the Pope himself. Even the efforts of the two other principal "liberation" parties, the Socialist Party and the Actionists, which were both under the direct control of British intelligence, failed to dislodge the growing alliance. When the Socialists refused to participate in the second Bonomi government late in 1944, De Gasperi and Togliatti set an important precedent for today by forming a Catholic-Communist cabinet without the Socialists.

Even though the Socialists were able to re-enter the next postwar government, inaugurated in June of 1945 under Action Party Prime Minister Ferruccio Parri, the majority alliance prevailed and in fact reached its zenith, establishing the date of March 1946 for the currency reform and promulgating the first preparatory measures. But this government lasted only five months. It was collapsed to bring in Mario Corbino, a pro-British member of the small but influential Liberal Party and a well-known enemy of the currency reform, as the new government's treasury minister.

Sabotage of currency reform

The first proposal for a change in the Italian currency had come early in 1945 from Treasury Minister Soleri, who suggested it in order to count the money in circulation and to apply a 10 percent tax to replenish the government's empty coffers. Almost everyone accepted this idea; the currency had already been changed in December of 1944 in Belgium and subseqently in France, Finland, and other countries; it was simply a technical necessity.

Scoccimarro declared himself in accord with the plan, but objected that to spend so much money and energy merely to find out how much was in circulation was foolish, and that an indiscriminate, across-the-board tax of 10 percent was unjust, since it would deal a blow to the impoverished masses without scratching the surface of the superprofits of speculators. Out of this thinking came his own currency reform proposal, described above, aimed substantially at obtaining a special tax on speculative profits and a tax on uninvested liquid capital; such a financial "cure" would favor the issuance of credit for productive investments industry and agriculture.

Togliatti's first press conference in 1944, after his return from Moscow.

After Scoccimaro put out these ideas, all hell broke loose. Among the Liberals, Soleri and his successor at the Treasury, Ricci, were in favor, while Corbino was against. No sooner had the government finally approved the reform and set the date than wheels were set into motion to topple the government. When Alcide De Gasperi became prime minister that December of 1945, it was with the albatross of Corbino as treasury minister around the neck of the new coalition.

Scoccimarro, still at his post as finance minister, insisted on carrying out the reform in February of 1946 so that it could be completed before the elections, which were slated for June. In February, Corbino announced that if the reform went through, he would resign. More importantly, the Allied military government, as Scoccimarro himself later reported, intervened with the demand for "privileges and notice of at least one month"! Obviously an action like changing the currency requires rapidity and decisiveness of execution, and the absurd demands of the Allies were aimed exclusively at "obtaining advance notice that would have made the currency change coincide with the elections," as Scoccimarro said in an interview published in *Milano Sera* on June 26, 1946, a timing that would have caused severe problems from the standpoint of law and order. Even though a lot of banknotes had already been printed, the reform was again postponed.

Not long after the June 2, 1946 elections, when the Italians voted to elect the constitutional assembly that would establish their republic, Treasury Ministry Corbino came up with a new ploy. This time, the photographic plates to print the new banknotes had been stolen, he reported. The Bank of Italy let it be known that, given the difficulties in the transport sector and in the area of public order, it would be too risky to send huge quantities of new currency to their principal branches. By now the battle had been lost, and a mountain of new bills remained unused. They were later sent to the shredder when the reform was officially renounced in March of 1947 by the new minister, Campilli. No investigation was ever undertaken into the theft of the plates that dealt the death blow to Scoccimarro's plan.

The long hand of the British

But the real motivations for that failure were to be found in the combined pressures of the British oligarchy and its financial arm, outside and inside Italy, and of the Allied military government.

The currency reform, the capital tax, the rationing of consumer goods, and the other measures approved in November 1945 by the Parri government were harshly criticized by the Liberals, by some elements of the Christian Democracy, and by Allied occupation officials. The economic section of the Allied Commission went so far as to threaten to block coal and other raw materials supplies as a reprisal against such "dirigistic" measures to rebuild the economy. The main mouthpiece of the City of London, *The Economist*, protested in its Nov. 24, 1945 issue in the name of the Allies against the tax on capital and against what they called "an investment policy oriented toward a redistribution of wealth." *Economia d'Italia*, purportedly the organ of the Italian industrialists' confederation Confindustria but really an Italian version of *The Economist*, wrote that the currency reform "would be an element of disruption in the already badly disheveled national economy." Another Italian spokesman for British economic liberalism, addressing the National Assembly shortly after Corbino had expressed a clear "no" on the currency reform in January 1946, rhapsodized that Italy would thus return to classical economic policy, that of the "free market," and that the other tendency, which through the currency reform would have imposed more state control and intervention into the economy, was being abandoned. In fact, by caving in to Corbino, Prime Minister De Gasperi was permitting what he called the "fourth party," speculative finance capital, to consolidate its position and strike roots in Italy as a cancer feeding off the real economy. Togliatti later wrote:

> Even ordinary acts of good administration such as the currency reform were made impossible by maneuvers strangely carried out in the shadows, and not without the connivance of those who controlled the organization of the country much more than the country.

The defeat of the currency reform package led De Gasperi to a series of ever greater concessions to the Americans (who had by then become, thanks to Churchill's efforts, the main spokesmen for the Cold War), culminating in the famous spring 1947 trip to Washington in which De Gasperi, in order to obtain loans and aid, agreed to break his alliance with the Communists and set up the first four-party coalition government.

Returning, he wrote to Togliatti: "It is a question of bread and a brief period of time." In reality, 30 years had to pass before Communists and Christian Democrats returned to a partial collaboration during the three-year period of national unity under Premier Andreotti, from 1967 to 1979.

As we have seen, the direction of Italian political life underwent an abrupt change of tack; Communists and Catholics clashed violently in the 1948 elections, and the climate of confrontation remained a constant for decades. Yet the attempt to construct a national economy along the "dirigistic" lines set forth by Scoccimarro and others was carried forward with partially positive results, which cost enormous efforts and in some cases the lives of the protagonists.

Giulio Andreotti (l) with Alcide de Gasperi in 1947.

An early success was the passage in 1951 of the "Vanoni Act," which established a progressive taxation system and constituted an important democratic reform for Italy. Ezio Vanoni was a brilliant economist who had been picked up by the Rockefeller Foundation and the Italian financier family, the Einaudis, in the 1940s and given scholarships in the best universities of the world in an effort to make him a "technocrat." But in the wake of what might be called a religious crisis, Vanoni embraced the economic point of view of the Augustinian current in the Catholic Church; he rejected the antinomy between Marxist planning and British free-market policies, in favor of a type of planning capable of orienting the market. This "Hamiltonian" outlook led Vanoni to support currency reform, even though in the 1946 National Assembly debate he had maintained an ambiguous and even contrary stance on account of the conditions that De Gasperi had accepted.

Let us summarize his speech on that occasion:

1) Given the situation of inflation and of money being printed in several different places, the currency reform is a necessary measure.

2) Changing the currency merely for statistical reasons is easy to carry out simply by gradually substituting the banknotes.

3) The reform is useful for freezing currency being held abroad. "The change has to be sudden and rapid and accompanied by a rigorous surveillance of the borders. . . . In Italy already there has been talk of the change for too long for the goal of nullifying illegally held currency to be valid any more. There is a widespread sensation that Italian currency holdings abroad have been already substantially reduced, precisely because of the fear of a currency change."

4) The reform, seen as an element of a maneuver for cleaning up the monetary system, has risks: for example, farmers would be forced to shift their monetary holdings, but they might prefer sending them off to changing them.

5) The currency reform will take out of circulation part of the paper money now in possession of private individuals. Every holder is obliged to present all the money he has in the bank: part of it gets changed into new banknotes and the rest is deposited into an account which for the time being is not available for withdrawal. The frozen part can later be gradually freed and transformed wholly or partially into government bonds. There are risks such as evasion (in Belgium even poorer people changed enormous sums of money) and the risk that a reduction in circulating money would lead to deflation.

6) The currency reform should be accompanied with a one-time-only tax on property. There are two possibilities: at the moment of exchange a fixed percentage is held back, say for example 10 percent; or instead, there should be a personal tax on holdings, that is, at the moment of exchange the person presenting the money is identified and the amount changed is noted down. A designated agency later collects the tax. "The advantage of clarity and fiscal justice which derives from the application of the reform and the one-time tax may perhaps justify the effort needed to overcome the problems."

Vanoni was thus, at least from the conceptual standpoint, in accord with the policy of currency reform. And he could not be otherwise, given his background, which already in July 1944 had led him, at the first National Council meeting of the Christian Democracy, to speak in favor of planning and a "controlled economy." In February 1946, during the meeting of the Finance and Treasury Committee of the National Assembly, while for the already cited reasons he no longer favored the currency reform, Vanoni presented an interesting

The Italian edition of A "Gaullist" Solution for Italy's Monetary Crisis.

scheme for "the state to take possession of the profits of war and exceptional profits from speculation." He became a minister but was immediately hit with a scandal trumped up by the Liberals and the British-controlled Sicilian Separatist movement, and did not extricate himself until 1948, well after the final phase of Anglo-American maneuvers to break the Catholic-Communist alliance.

It was Vanoni, returned to the finance ministry in 1948 for five years, who created Italy's national hydrocarbons agency, ENI, in 1953. This represented the crowning achievement of a long battle he had carried out together with Enrico Mattei to define a national energy policy in opposition to the domination of the Anglo-Dutch "Seven Sisters" petroleum multinationals. Unfortunately, Vanoni died in 1953, shortly after De Gasperi had given him the responsibility of preparing a plan for Italian development that became known as "The Scheme," and by 1954, De Gasperi was also dead.

As president of ENI, the masterful Enrico Mattei carried forward the battle, succeeding not only in giving a powerful impulse to Italian industrialization, but also in defining a foreign policy of openings to the Third World and to Eastern Europe. This was precisely the foreign policy that the coalition government of the postwar period would have been able to adopt if the currency reform had passed.

Why Italy's central bankers oppose the 'heavy lira'

The following interview was conducted with Paolo Raimondi, an EIR *Economics Editor in Wiesbaden, Germany, who gave a presentation at a conference sponsored by* EIR *in Rome Dec. 4 on the "heavy lira" proposal of Lyndon LaRouche, chairman of the advisory board of the National Democratic Policy Committee. Also participating in the interview was Leonardo Servadio, editor of the independent weekly Italian journal* Nuova Solidarietà, *and chief of the Rome bureau of the* EIR.

Q: The Rome Dec. 4 conference on the heavy lira focused very heavy criticism on the role of the Bank of Italy in sabotaging Italy's national economy.

A: The Bank of Italy [BdI] had already sabotaged a heavy lira project in the period from 1945-1947. Everything was ready, but a few days before the Bank of Italy—whose directors opposed the plan—was to begin printing the new currency, the plates were "stolen." Today, the Bank of Italy would follow the same policy, and this has been stated explicitly by BdI spokesmen to the *Executive Intelligence Review*. "The heavy lira," they have said, "is institutionally impossible."

The program of financial reorganization which must immediately follow the actualization of the heavy lira, the program that has been studied by Lyndon H. LaRouche, is based on principles diametrically opposed to those which the Bank of Italy adopts as its policies—free-market or Friedmanite policies. It is enough to think that the Bank of Italy has maintained the highest interest rates in the world in Italy, higher than the U.S. rates. Today the prime rate in Italy is over 23 percent. Thus, under the pretext of defending the value of the currency and of stemming inflation, the BdI is destroying the real Italian economy.

By statute, the Bank is independent of all elected power, from parliament or the government. The Bank was created by forces which today are presented in the Banca Commerciale Italiana, a group of private bankers close to Lazard Frères and the Venetian nobility.

Let us give one example to understand more directly why the BdI would not accept a cleansing of the Italian economy of its dirty money from drugs. Today Italy has become the largest drug-trafficking center; the drugs produced in South Asia, the Middle East, and especially Turkey are turned into morphine inside Italy and then sent all over Europe and to the United States. Thus, the Italian banks play an important role in mediating the dirty drug money. For example, 20,000 billion liras in drug money passes through the Bank of Sicily every year. Bank activity in Sicily during 1979 increased 400 percent. Now, given that the Bank of Italy has the full power of surveillance on banking activity in Italy, is it possible that they have noticed nothing?

There was a Judge Costa of Palermo who was seeking to investigate the origin of some funds tied to drugs, and in particular the activity of some suspected banks. He secretly asked the Bank of Italy for information on the flow of money through these banks. He was dealing with money and banks obviously connected to the Mafia and the drug traffic. Two days after he had secretly communicated his request to the BdI, Judge Costa was killed, and now nothing more is known of these investigations.

Today the Bank of Italy is requesting, and this already exists as a legal proposal, to be granted the status of a private bank. This is because its ex-president, Paolo Baffi, was arrested two years ago under the accusation of having illegally passed funds to SIR, the chemical company of Nino Rovelli, a close friend of Socialist Giacomo Mancini. Mancini is connected in his turn to persons like Piperno and Pace, two terrorists accused of, among other things, having participated in the assassination of Aldo Moro. No one knew where the funds given by the Bank of Italy ended up.

The BdI asks to have the same status as any other private bank because a private bank cannot be subjected to investigations if funds are transferred to someone. But in this case, the entire Italian economy would be controlled by a totally private institution. Some sort of David Rockefeller would practically be the godfather of the Italian economy!

For all these reasons, it is unthinkable that the Hamiltonian monetary and financial reform delineated by LaRouche would be feasible if the actual structure of the Bank of Italy remained intact. All the participants at the Rome conference said they were in agreement with this, from spokesmen for the Bank of Italy to spokesmen from some embassies who for diplomatic reasons could not say so publicly. Particularly interesting was the response of some DC parliamentarians, who sent letters of support to the conference.

Q: How do you propose changing the Bank of Italy to make it a true national bank?
A: The Bank of Italy must include statutes that its financial policies will be Hamiltonian, that credit will be given according to a system of two windows: low interest rates (4-6 percent), to finance businesses of a productive character, and high rates for businesses which cannot guarantee making productive investments in their business from the viewpoint of the national economy.

Such a principle has been discussed thoroughly in LaRouche's "Why Credit Can Be Greatly Expanded Without Adding to Inflation" as well as his proposal for a "Gaullist solution for Italy." In general terms, the policies of the BdI must be put under government control, except for so-called statutory conditions which would guide its conduct. Thus, its statutes of total independence, which date from the period of its creation and of the financial reform under Mussolini, will have to be totally changed.

Q: How will the small saver be protected under the LaRouche proposal? This was a concern that was raised during the Dec. 4 conference.
A: Since the LaRouche proposal would totally cut out inflation, this has come to be realized as the primary interest of the small saver. The LaRouche proposal cuts inflation because new credit is granted only for activity that will produce, in a well-defined period of time, tangible goods for commerce. These include activities that will improve social productivity. Thus, there will be no gap between existing goods and circulating currency.

Today the small savers are terrorized that their money is not worth anything and thus they invest in whatever seems to be the most tangible and durable of goods. Real estate, which increases in value exclusively by virtue of inflation, has been taken up by the large groups like the Assicurazioni Generali of Venice [insurance], the IFI insurance company of Agnelli, and so on. And all this only increases inflation.

The LaRouche proposal puts an end to real-estate speculation, because it penalizes nonproductive investments. But because it rewards productive investments, the mass of small investors will be able to profitably invest in new productive businesses, through the banking or stock channels.

Q: A very real concern for Italian management strata is the "class struggle" which has become aggravated over the last period through strikes, absenteeism and a continuous atmosphere of confrontation. What has to be done to correct this, from both sides?
A: This atmosphere of disagreement has been cultivated to its own benefit by the Bank of Italy, with its policy of blocking productive activity that is restricting industrial production and throwing out onto the streets thousands of workers and industries. It is a policy, consciously carried out, that is based on the proposed guidelines of the Club of Rome and other supranational institutions like the EC Commission, dominated by the British, which is imposing a real industrial triage of its own. Today the Socialist trade union leader [Giorgio] Benvenuto and his boss Craxi are working in this direction in Italy.

Political problems in Italy are dealt with by the DC, the party of management, and by the Italian Communist Party (PCI), the party of labor. If we put these two parties together to realize the monetary reform laid out by LaRouche, we will have resolved all the problems.

Q: LaRouche's book is titled quite provocatively *A "Gaullist" Solution to Italy's Monetary Crisis.* What is the attitude toward Charles de Gaulle in Italian policymaking circles? Do you think evoking the de Gaulle example will help in implementing the policy, and why?
A: Today, everyone in Italy is talking about a "Gaullist solution." That is the way the antihumanist factions in Italy react when they are confronted with a good idea by their humanist enemy. But by "Gaullist," they mean Craxi, as a strongman.

We intend, by the word "Gaullist," a solution that is in the best interests of the nation. It is unimportant whether there is one de Gaulle or many little de Gaulles.

The most recent example of "de Gaulle" in Italy is Enrico Mattei [founder of the Italian state oil company, ENI], the father of advanced Italian industry. It was he who constructed the first nuclear power plant in Italy and who succeeded in rendering Italy partially independent of the Seven Sisters oil companies, with respect to oil supplies.

Mattei was also the father of the policy of national solidarity. He constructed, in fact, large coalitions of all the parties, including the PCI at the local level, on the basis of precise construction programs for the national economy. His slogan was "Italian technology for the world," for his export of technology to Africa and the Middle East. With Mattei, Italy's economy had rates of expansion never achieved since.

Q: LaRouche strongly attacks the "technocrats" for their ignorance and botching of economic policy. Who is he talking about, and what have they done?
A: The technocrats are those who make the so-called policy of revenues. This policy, carried out under a series of other names, seeks to cut investments to productive industries under the pretext of reducing debt.

These have their center in a very specific group: They

Claudio Ciccani/NSIPS

The 'heavy lira' conference in Rome. Left to right: Dr. Giuseppe Filipponi, director of the Italian Fusion Energy Foundation; Webster Tarpley of the National Democratic Policy Committee; Leonardo Servadio and Paulo Raimondi of EIR.

are Enrico Cuccia, head of Mediobanca, [Bruno] Visentini, head of Olivetti and connected to the Assicurazioni Generali of Venice, and [Giorgio] La Malfa, who comes from the Luzzatto school in Venice, the Luzzattos being the family of the wife of U.S. Ambassador Richard Gardner, who has always favored this specific power group. This group is also connected to Lazard Frères. It was this group which recently proposed, through Visentini and his friend Craxi, a technocratic solution for Italy; that is, a government run only by technocrats, competent in the various sectors.

This is exactly the same as a corporativist solution, otherwise known as Nazi or Fascist, i.e., the exact opposite of the Republic delineated by Plato. You would have to have a pilot to represent the pilot category, a general to represent the military, etc., and then you would find a group of people who know little or nothing of art or politics to direct a national economy totally dominated by the Bank of Italy and its absurd interest rates. We need politicians who possess the necessary virtue to make decisions on which the lives of the whole country depend.

Q: What has been the impact of the distribution of the "new lira" notes designed by LaRouche's Italian collaborators?

A: On Christmas Day the press reported that someone had already prepared the design for printing the new heavy lira. This shows the impact of our proposal in general and also the sketch of the heavy lira (see page 38). The Partito Operaio Europeo (POE—European Labor Party) distributed 10,000 copies. When people took them in their hands, they were delighted; their response was at last, there is something good, the nation still exists.

Dante, whose picture is printed on our design, is the purest essence of the Italian nation, its culture and history. This is what makes Italy a nation, and not, as the Venetian oligarchy would wish, the garden where they experiment with methods of social control, such as the government of technocrats.

When the POE handed out the lira sketch, a porter in Milan said, "I don't believe in politics anymore, but with this proposal, something serious can happen." Large banks in the north told *EIR* that the proposal for the heavy lira is practicable and desirable.

The reaction of members of the Italian Socialist Party is different. One Socialist, driving a car, took a copy of the leaflet and tore it up with his teeth. A similar, but more educated, reaction came from the Banca Nazionale del Lavoro, whose head is Nerio Nesi, a Craxian.

Good news from Reagan-López Portillo talks

by Dennis Small

Ronald Reagan and Mexican President José López Portillo met for $3\frac{1}{2}$ hours Jan. 5 in the Mexican border town of Ciudad Juarez, and had—in the words of the American President-elect—"a very successful and wonderful meeting." Disregarding attempts by the Socialist International and the Heritage Foundation over recent weeks to set a confrontationist tone for the meeting, the two heads of state reaffirmed the historic friendship between the two republics, and established a personal relationship which lays the basis for further summits. The first of these is scheduled for six months from now and, according to both parties, will take up the pending substantive issues of economic cooperation between the two nations.

In one afternoon, Reagan thus reversed four years of disastrous U.S.-Mexican relations under the Carter administration, a state of affairs brought about by Carter's violent opposition to Mexico's plans to industrialize with advanced technology. If Reagan now proceeds to make a joint commitment to rapid economic growth the explicit basis of the new friendship with Mexico, by offering to trade American technology and capital goods for Mexican oil, then American citizens can once again look forward to a highly positive—and profitable—relationship with our southern neighbor.

Such a new U.S.-Mexico relationship could well serve as a model of what the "North-South" relationship as a whole can and should look like. The joint statement issued by Reagan and López Portillo after their talks indicates that the two heads of state are thinking along just those lines: "They committed their personal effort to develop the Mexican-American relationship such as to be an example to the international community."

The results of the summit are all the more encouraging since a major campaign was launched to sabotage the meeting—precisely because it may augur a new model for joint economic development between North and South. Over the past month, three different political timebombs were set by the international oligarchy in both the Mexican and American camps, each designed to blow up as López Portillo and Reagan were meeting. Yet each was skillfully disarmed at the summit by the thoughtful, flexible diplomacy of the two presidents.

• **Central America:** In mid-December, the opposition forces in El Salvador launched a "final offensive" to topple the governing civilian-military Junta in that country. Oligarchic elements within the Reagan camp—centered in the Heritage Foundation—encouraged the President-elect to commit American military forces to aid the Junta. Simultaneously, their "leftist" counterparts in Mexico, like Socialist International-linked Foreign Minister Jorge Castañeda, tried to push López Portillo to side actively with the rebels. The idea was to make of this divisive issue a central bone of contention at the summit.

The plotters failed miserably. Although the two heads of state clearly do not see eye-to-eye on the Salvador issue, they both refused to allow their overall relationship to be defined by this point. In fact they agreed to consult each other should the situation in El Salvador worsen, as Castañeda himself was forced to explain to the Mexican press.

• **Common Market:** "Bad apples" in the Reagan


Ron Edmonds/UPI

Mr. Reagan meets President López Portillo on the border Jan. 5.

camp, like National Security Adviser-designate Richard Allen, had for months counseled Reagan to push for the formation of a "North American Common Market" among the United States, Mexico, and Canada—a policy which Mexico strongly opposes on the grounds that it would limit its industrial development. But other U.S. politicians, like Democrat Lyndon LaRouche, had vocally advised Reagan that the proposal was poison, and that the United States should build on an oil-for-technology focus.

After weeks of equivocation, Reagan finally came down on the side of the anti-Common Market faction. When asked if the Common Market would be on the agenda for future summits, Mexican Foreign Minister Jorge Castañeda responded that Mr. Reagan himself had said, "It will definitely not be a priority theme."

The final paragraph of the joint statement—where the "difference in the level of development of both economies" is emphasized—is also a veiled rejection of the Common Market approach.

• **Fishing Accord:** In an eleventh hour desperation maneuver, Castañeda and his stepson Andrés Rozental, who works for him in Mexico's foreign ministry, attempted to sidetrack the U.S.-Mexico meeting by loudly announcing the week before that Mexico had decided to void its fishing treaty with the United States. Although Castañeda and family orchestrated a lot of hoopla from various Jesuit Mexican journalists to support this "anti-imperialist" sideshow, both Reagan and López Portillo ignored the issue altogether.

Within Mexico, Castañeda and Rozental appear to have overplayed their hand, and there are growing rumors that the foreign minister will soon be replaced. The Mexican Labor Party has spearheaded a national campaign calling for Castañeda's ouster, and a full-scale polemic has broken into Mexico's major press.

North-South

The hope of the oligarchic saboteurs was that they could irreparably split Reagan and López Portillo, and drive the Mexican president into a Castro-style tirade against the "ultrareactionary" Reagan. Lining up Mexico with the radical "insurrectionist" faction in the Third World is vital to pushing the developing sector into suicidal "wars of liberation." In tandem with this, the Socialist International has been trying to recruit President López Portillo to the anticapitalist economic strategy for the Third World expressed in the infamous Brandt Commission Report. They have pressured the Mexican president to sponsor a North-South meeting in Mexico next June to discuss the Brandt proposals.

Despite the pressure, López Portillo had refused to agree to the meeting. But at the summit, he unexpectedly invited President-elect Reagan to attend as a representative for the developed North. If U.S.-Mexico relations evolve along oil-for-technology lines over the next months, Reagan's presence at the North-South meeting could well "judo" it off the intended collision course between North and South. If that occurs, the joke will certainly be on the Socialist International and their allies, who tried to disrupt last week's historic first Reagan-López Portillo summit.

The communiqué

Following is the text of a joint statement by President-elect Ronald Reagan and President José López Portillo:

The President of Mexico, José López Portillo, and President-elect Ronald Reagan met today at Ciudad Juarez, Mexico. The occasion gave them the opportunity to meet again and have an exchange of views on various issues, unencumbered by a structured agenda.

The President-elect and the Mexican head of state held both a private conversation and a meeting with members of their respective staffs. President López Portillo hosted a luncheon for President-elect Reagan and his party.

The conversations were held in an atmosphere of friendship and mutual respect and laid the foundation for a personal relationship for the President of Mexico and the next President of the United States.

During the meeting, they reaffirmed their desire to further develop the friendly and cooperative relationship that has traditionally existed between both nations. They recognize that the diversity of issues of common interest to both countries implies a commitment to strengthen the extensive working relationship that exists between the Government of Mexico and the United States Government.

They agreed to develop bilateral mechanisms in order to make the cooperative relationship between both countries productive and beneficial. In particular, they agreed to take advantage of the direct personal link established during this meeting to deal with the future course of Mexican-American relationships.

President López Portillo and President-elect Reagan acknowledged that the relationship between their two nations is based on mutual respect and reciprocal understanding. Conscious of the fact that the cultures of their two nations have both common as well as different characteristics and taking into account the difference in the level of development of both economies, they committed their personal effort to develop the Mexican-American relationship in such a manner as to be an example to the international community.

Finally, they agreed to maintain close contact and to meet again in the near future.

The Foreign Ministry reports on the meeting

The following are excerpts from a press conference given by Foreign Minister Castañeda after the Jan. 5 summit, reported by Mexico City's daily, El Nacional.

"I dare to describe the meeting as a complete success. . . . They spoke of the need for a frank and in-depth discussion of Central America, of the respective conceptions of how such conflicts arise, and what kinds of useful and constructive things may be done to solve them.

"They agreed that Central America would be discussed more fully in future meetings, and they also agreed that if something important happens between now and the next meeting, some consultation mechanism between the two governments will be found."

Q: Mr. Secretary, wouldn't that be an interference in the internal affairs of other countries?

A: No, we are not thinking in terms of a consultation mechanism which could mean intervention in those countries' affairs. . . . [The idea is] to find out the international dimension of those problems, not the internal aspects, but their international dimension, discussing with each other to see how not to intervene, but rather how to stop the murder and suffering of those peoples. . . . That would mean no intervention, since that would be unacceptable to Mexico. [We discussed] the possibility of a summit meeting attended by a small, but representative, group of heads of state of developing and developed countries, including, hopefully, the President of the United States.

Q: Will the question of a common market between Mexico, the United States, and Canada be given priority in the coming meetings?

A: It won't be dealt with. President Reagan was quite agreeable in stating that he no intention of establishing, or that we should create, a common market between the two countries.

Mexico's shopping list for U.S. exports

An important factor in shaping the positive environment around the Reagan-López Portillo summit was the proposal circulated on both sides of the border by National Democratic Policy Committee Advisory Board Chairman Lyndon H. LaRouche calling for forging an oil-for-technology partnership with our southern neighbor. LaRouche's idea is to use such a breakthrough as a model for linking the advance sector and the underdeveloped nations in a policy of global industrialization.

If Reagan follows through on the positive accomplishments of last week's meeting with López Portillo, in the upcoming meetings with the Mexican president, the U.S. might reasonably hope to obtain an additional one million barrels per day of Mexican oil, on top of the 670,000 we now receive. Mexico could simply take the $10 billion yearly that 1 million bpd of oil would generate, and come to the United States with a $10 billion "shopping list."

In the four years of the Reagan administration, Mexico could give American exporters of industrial goods over $50 billion in business, and help create 1.6 million new export-related jobs for American workers in heavy industry.

How would this break down?

Two-thirds of Mexico's industrial imports come from the United States, which in 1979 totaled about $4 billion. The Mexican government's industrial development strategy projects 8 percent annual GNP growth rates for the next decade, with industry expected to grow at 10 percent. But a recent econometric study completed with the LaRouche-Riemann model demonstrates that Mexican GNP growth rates of at least 12 percent are totally feasible.

The specific project areas in which U.S.-Mexico cooperation can flourish are:

Nuclear plants: Mexico's just-announced National Energy Plan projects a 20 gigawatt target for the year 2000, to be met by producing 20 new nuclear plants. But Mexico could handle as much as 50 gigawatts by the next century, which translates into 9 nuclear starts during the next four years.

Agriculture: Mexico urgently needs to modernize its backward agrosector with the "American methods" that President López Portillo so admires. This means annual imports from the United States of over 5,000 90-horsepower tractors; an array of other agro-industrial machinery; and equipment needed to launch a major hydraulic project.

Capital goods: Mexico's population will double by the year 2000. The government is already engaged in a far-reaching program of city building, including public works projects. Three major "superports" are being constructed from scratch.

Machinery: The government is committed to build a solid capital goods sector, and this will demand $10 billion worth of steel products and machinery from abroad.

Mexico's import bill, 1981-84

Billions of dollars in cost/thousands of U.S. jobs created

	1981		1982		1983		1984		4-year total	
Sector	**Cost**	**Jobs**	**Cost**	**Jobs**	**Cost**	**Jobs**	**Cost**	**Jobs**	**Cost**	**Jobs**
Basic chemicals	1.0	30	1.0	30	1.2	36	1.5	45	4.7	141
Metal products	0.5	15	0.6	18	0.7	21	0.8	24	2.6	78
Machine tools	3.0	90	3.7	111	4.7	141	5.8	174	17.2	516
Electrical machinery	3.1	93	4.4	132	5.2	156	6.6	198	19.3	579
Transport equipment	1.2	36	1.4	42	1.6	48	1.0	30	5.2	156
Automotive	0.9	27	1.0	30	1.1	33	1.3	39	4.3	129
Total	9.7	291	12.1	363	14.5	435	17.0	510	53.3	1,599

The Partido Laboral Mexicano versus Jorge Castañeda

by Timothy Rush

"Among the Mexicans, it became evident that the guidelines were set by the president himself and by the Foreign Relations Undersecretary, Alfonso de Rosenzweig, despite all the efforts of the somnolent and disheveled Foreign Minister Castañeda to place himself in the front row, and of the shadowy director of U.S.-Mexico bilateral relations, Andrés Rozental, to move out in front of the caravan . . . to opportunistically genuflect before Richard Allen and Edwin Meese."

This is the devastating portrayal of Jorge Castañeda and his step-son Andrés Rozental, drawn by a leading reporter for the Mexican daily, *Excélsior*, Fernando Meraz, in his coverage of the Jan. 5 border meeting between José López Portillo and Ronald Reagan.

It reflects the intense dissatisfaction with the foreign minister within leading Mexican circles, a dissatisfaction catalyzed in recent weeks by a public campaign for his ouster launched by the Partido Laboral Mexicano (PLM—Mexican Labor Party).

The PLM kicked off the campaign Dec. 19 with a charge that the foreign ministry duo wished to undermine the Reagan-López Portillo visit and foment a U.S.-Mexico face-off in El Salvador.

Three major dailies covered the PLM denunciations in succeeding days, and *La Prensa* ran a photo of PLM Secretary-General Marivilia Carrasco talking to Luis Farías, president of the Mexican Chamber of Deputies, on the steps of the Congress during a rally where the PLM hanged Castañada in effigy. The caption reported that Mrs. Carrasco was informing Farías about the PLM campaign to oust the foreign minister.

Resounding confirmation of the PLM charges came through 10 days later, when Castañeda provocatively decided to terminate fishing treaties with the U.S. and called in Rozental to give the news to the U.S. press for maximum sensationalist play-up abroad on the eve of the Ciudad Juárez meeting.

A columnist for the daily *El Sol*, Armando Rojas Arévalo, termed Castañeda's action "traitorous" and tartly observed that "for some members of the cabinet, concretely Sr. Jorge Castañeda, it seems that foreign communications media are more important than national ones. Castañeda went over the head of the president's press secretary and his own press secretary . . . He decided to leak the news through Andrés Rozental to the *New York Times*."

Castañeda's friends

There's an old Spanish saying, "If you want to know who a man is, find out who he hangs out with." Mexican political circles have been taking careful note of who is leaping to Castañeda's defense.

The most profuse defense of Castañeda came from Roberto Jaramillo Flores, secretary-general of one of the Maoist left sectlets, the PSR. Jaramillo fulminated to an *Ovaciones* reporter who interviewed him inside the Congress building as the PLM rally proceded outside: "Those . . . those people are CIA. How is it possible that they attack the very best the cabinet has to offer?"

Manuel Buendía, a Jesuit-trained muckraker who currently writes for *Excélsior*, took up the cudgels for the beleaguered foreign minister the day before the border meeting. President López Portillo, in his meeting with Reagan, should follow Benito Juárez, said Buendía; it was Juárez who "knew how to victoriously confront foreign imperial forces." For this task, the President is fortunate "in being able to count on the counsel and advice of a new and excellent Minister of Foreign Relations, Jorge Castañeda, over the past 20 months."

Buendía particularly hailed Castañeda's action in breaking off the fishing treaties; this is a salutory "aperitif" to the meeting, he announced.

The fishing issue was not mentioned by either López Portillo or Reagan in the cordial border meeting the next day.

It was not the first time Buendía and Castañeda had teamed up. In mid-1980, Castañeda used Buendía as a journalistic funnel for diatribes against the two leading statesmen of the European Monetary System forces, France's Giscard d'Estaing and Germany's Helmut Schmidt. Castañeda arranged the hatchet jobs on behalf of Willy Brandt and other friends in the Socialist International, whose "Brandt Commission Report" is a factional attack on the EMS contracted directly by the World Bank/IMF apparatus.

Castañeda, in a mid-December magazine interview, became the laughingstock of Mexico for denying any connection between the Brandt Report and the World Bank; knowledgeable Mexicans are fully aware that World Bank President Robert McNamara launched the study and personally selected Brandt to head it.

Castañeda's insistence on the same occasion that the Brandt Report and López Portillo's World Energy Proposal were the "same thing" earned him another round of sharp PLM attacks. *Excelsior* writer Miguel Guardia turned over his Jan. 6 column to quotations from a PLM release which termed Castañeda's comparison "absolutely false" and the Brandt program "genocidal."

Speculation is rampant in some quarters that these attacks are taking their toll on a man already well-known for a drinking problem. The PLM placard which drew most guffaws—and rueful smiles—on the steps of Congress last week was one showing the foreign minister sharing a drink with his "best buddy," and a man hardly less well known for excessive drinking—"Willy Brandy."

DOCUMENTATION

Sour grapes in the U.S. press

Not everyone was pleased with the outcome of the Jan. 5 meeting between Ronald Reagan and Mexican President José López Portillo in Ciudad Juárez. Those who weren't are opposed to Mexico's dirigist industrialization program—which could lead Mexico down the "Iran" route, they warn—and to any truly cooperative relationship between the two nations.

What follows are their "sour grape" expressions of disappointment and their rage at Mexico's continued commitment to becoming a fully industrialized public.

The Wall Street Journal, Jan. 7, 1981: "The Juárez Rendezvous."

The Partido Revolucionario Institucional, or PRI, which Mr. López Portillo represents, has dominated Mexican politics through most of the country's postrevolutionary history. It has done so by the time-honored technique of . . . reaching accommodation with important sectors of Mexican society. . . .

This is a subtle and adaptive form of politics which has the primary weakness of blurring policy lines and thus making it difficult for the country's leaders to set clear directions and override parochial interests. It can be expected that Mexico will suffer greater dangers from this weakness as the combination of oil wealth, and a rising population confront it with the need for faster economic development and . . . social change. It could learn something from Iran on this point. . . .

The tough problem lies in the area of regional security.

The Baltimore Sun, Jan. 7, 1981: "Reagan: Across the Rio Grande"

Mexico's population, now 68 million, is likely to double in two or three decades. . . . Trade between the two countries will have a survival aura, with oil and natural gas flowing north . . . and U.S. grain moving south to alleviate chronic nutrition problems.

In concrete terms, this might appear a nice complementary fit, but it is not. Psychology enters in—the Mexicans with their sense of historic grievance, the Americans with their assumption of superiority. The potential for abrasion is so great that it will require high statesmanship to keep relations constructive.

The Journal of Commerce, Jan. 7, 1981: "Reagan At the Bridge"

Mexico is a revolutionary country. . . . But, despite its name, the PRI—until lately at least—has been anything but revolutionary. In a country where 10 percent of the population earns 40 percent of the income, where horrendous urban slums abut gleaming new skyscrapers, and where abject rural poverty is endemic, the party represents a cozy arrangement between the government and the privileged. . . .

Mexican Communist Party spokesman Raúl Jordán in statements to the Jesuit-influenced daily *Uno mas Uno,* Mexico City, Jan. 7, 1981:

[The meeting] had a purpose designed exclusively by Ronald Reagan, which was to strengthen his own image abroad. . . . It offers nothing for the improvement of relations between the two countries. . . . Under Reagan's regime, relations will the course set during recent years.

The PCM feels it is necessary to denounce the statements made by Reagan in Texas [referencing the situation in El Salvador—ed.]. . . . This proves his interventionist and aggressive attitude, which should be totally rejected by the Mexican government.

Who runs the police?

A reorganization of Israel's interior ministry is disputed and Bolivia's cocaine coup may answer why.

The shadowy activities of a retired Israeli general and controversy over Israel's lucrative illicit arms and dope-trafficking trade in Latin America may be the two keys to understanding a bitter political fight that has just broken out in Israel.

The fight centers around the Dec. 31 firing of Police Inspector-General Herzl Shafir by Israeli Interior Minister Yosef Burg, whose ministry has had control over national police activities since a 1977 reorganization.

Burg claimed that he was firing Shafir because of alleged irregularities committed by Israeli police investigators assigned to the case of Religious Affairs Minister Aharon Abu-Hatzeira, a member of Burg's National Religious Party. Abu-Hatzeira has been indicted by the Israeli courts for funneling state monies to members of his family.

Shafir has countercharged that Burg's real motive is to suppress evidence implicating Burg's interior ministry in financial irregularities and fraudulent activities.

The cabinet of Prime Minister Menachem Begin has rallied to Shafir's defense. The opposition Labour Party is assailing Burg's handling of the case. Supporters of Shafir have taken the issue to the Israeli Supreme Court.

One mystery man has gone unnoticed and untouched: General Rehavam Ze'evi. Ze'evi served as a special counterterror adviser to the Labour government of Yitzhak Rabin until 1976-77, when he became a special adviser to several Latin American governments. Before his departure, Ze'evi (also known as "Gandhi") began to be frequently mentioned in the Israeli press as a key controller of the growing international-in-scope Israeli mafia; he features prominently as a criminal operative in the 1980 book *The Israel Connection* by Jacques Derogy, a writer for the French magazine *L'Express.*

Despite these seedy connections, and admissions on Ze'evi's part during 1980 that he maintained friendly relations with organized crime figures in Israel, Ze'evi was appointed by Burg in spring 1980 to a special post as coordinator for relations between the interior ministry and the police. Included in this post were assignments to recommend alterations in the ministry's relations with police.

According to accounts published in the *Jerusalem Post* among others during the summer, Shafir was an outspoken opponent of the Ze'evi appointment, both to the man and his proposals, which involved shifting more and more power to the interior ministry and away from the police.

The controversy began to peak in August, when Israel's connections to the Latin American-based drug mobs began to surface around Israel's relations to the newly installed "cocaine junta" in Bolivia: in August, a major arms deal between Israel and Bolivia was announced, which was to be the precursor of Israeli assistance for production of Bolivia's coca crop. Shortly after the coup and the arms deal, Israel and Bolivia inked a contract for "rural agricultural development." Bolivia's leading cash crop is, notoriously, cocaine.

The Bolivia deal was just the tip of the iceberg. Latin America is the key target zone for hundreds of millions of dollars in Israeli exports for the next decade. This involves not only apparent above-board commercial deals mediated largely through the Israeli Bank Hapoalim, the banking arm of the Histadrut national labor confederation which has established branches across Latin America; it also involves arms sales to Latin America and an increase of Israeli mafia involvement in drug trafficking.

This new phase of Israeli-Latin American relations undoubtedly brought to the fore bitter institutional struggles in Israel.

These struggles reflect both a fight for control over the vast wealth being promised in Latin America and mounting resistance from remaining legitimate antidrug elements in Israel's police force.

Any honest cop in Israel knows that the interior ministry is a sieve for criminal operations. It has been traditionally run by the otherworldly figures of the National Religious Party, who provide a convenient "screen" for the free operation of criminals. By seeking to expand the interior ministry's role in policing operations, Ze'evi was undoubtedly trying to open the door wide in Israel for his mafia friends.

 by Josefina Menendez

López Portillo's India trip

Foreign businessmen can profit by watching the upcoming state visit in New Delhi.

As the U.S. businessman or his colleague in Europe or Japan looks for Third World markets for the West's industrial goods, two nations stand out as potential partners: Mexico and India. Both nations have deeply rooted modernizing elites, large populations, and government leaders committed to production advances through high technology.

So the match-up of India and Mexico which takes place at the end of this month, when López Portillo arrives in New Delhi for a three-day state visit, bears special watching.

All López Portillo's major trips—to the Soviet Union, Japan and China, France and West Germany—have closely intersected initiatives for new world development accords. The European Monetary System initiative of France's Giscard and Germany's Schmidt paced this effort from 1978 on.

López Portillo's trip to India, tentatively set to start Jan. 24, comes one year after Giscard's own ground-breaking state visit to India, and only one month after Brezhnev's equally important talks in New Delhi.

Sources have told *EIR* that Foreign Minister Jorge Castañeda, who tried to sabotage Mexican accords with Giscard and Schmidt last May, also counseled against the India trip. He was overruled.

The preparations for the trip were first begun by Mexican Industry Minister José Andrés de Oteyza in a trip to India in April 1980. De Oteyza, in meetings with his Indian counterpart Charanjit Channana and Indian Oil Minister Virendra Patil, laid the basis for cooperation in a number of fields and agreed to an initial sale of 1 million tons of Mexican petroleum to oil-short India. This sale was regularized in late November on an approximate 10,000 bpd basis. The planning for this month's trip originally included a possible stopover in the Middle East. It appears that option has now been abandoned, though Pemex director Jorge Díaz Serrano has established important links with Saudi Arabia.

López Portillo's personal staff is currently in India arranging final details. The list of members of the presidential party is not yet known, though it is expected to include his son, José Ramón López Portillo, and Cassio Luiselli, director of the Mexican Food System (SAM).

From the Indian side, *EIR* has conducted a series of exclusive interviews with high-level Indian planners who exhibit a profound grasp of the significance of the visit.

The creator of the Indian national oil industry, K. D. Malaviya, told *EIR* that the Mexican oil nationalization program and subsequent development into world-class oil and petrochemical power was a "daring action" which had "inspired" his own efforts in India.

"Under Cárdenas [president during the nationalization in 1938], conditions were set for Mexico's rapid economic growth in later years in much the same way that our first and second Five-Year plans, initiated under Jawaharlal Nehru, with their emphasis on basic industry, laid the groundwork for our economic growth.

"Special emphasis must be placed on nuclear energy—both fission and fusion," he stated. "India and Mexico . . . have rich deposits of nuclear minerals—uranium and thorium—and there is no reason why we cannot plan out both the transfer of technology as well as the rational utilization of these resources for increased nuclear energy production throughout the world."

The founding member of the Congress Party concluded: "India and Mexico must come closer to each other because such a process will have its own moral and material consequence toward improving the world's future."

Colone R. Rama Rao, of the Birla Institute of Scientific Research, New Delhi, highlighted for the *EIR* potential accords in "space technology . . . agriculture, industrial development, and scientific research," in addition to nuclear energy and "cooperation in the defense field also."

These interviews are appended to *EIR*'s just-released exclusive report, "The India José López Portillo Will Find." Interested readers can contact *EIR*'s New York and Mexico bureaus for details on this companion report to the influential study, "The Europe José López Portillo Will Find," prepared on the eve of the Mexican president's European trip in May 1980.

International Intelligence

Soviets: science is basis for progress

The "science faction" in Soviet policy-making is reaffirming itself in the context of the elaboration of the Eleventh Five Year Plan and preparations for the Feb. 23 Soviet Communist Party congress.

Pravda and *Izvestia* ran simultaneous editorials Dec. 18 entitled respectively "Science—The Basis of Progress" and "Science for Production"--the theme of a major draft plan being prepared for discussion at the party congress.

"Development of science and technology," writes *Izvestia*, "has particular significance in the draft plan, and must become to an even greater degree the underlying basis in resolving the most important problems of the future progress of Soviet society and the acceleration and transformation of the economy toward intensive capital development."

"To achieve scientific progress is unthinkable," adds *Pravda*, "without the constant concern of joining science and labor productivity."

The *Pravda* editorial also attacks various institutes and think tanks for failing to comprehend the importance of scientific development.

Materials shortage hits China's textiles

The kind of raw-materials shortage which *EIR*'s Jan. 13 survey showed hindering heavy industry has now crimped China's light industry sector as well. Chinese press articles focus on silk and cotton, which China had hoped to make major export items. An oil shortage has already precluded synthetic textile exports.

The press in Guangdong province chastises communes for building new silk mills, saying, "in Shunde County the state-owned mills were forced to stop production for the whole month of December due to a shortage of raw material. . . . The main reason why these two counties could not fulfill their cocoon delivery plans was that newly built mills took up part of the common supplies. . . . The quality of the products of the new factories is very far below that of the old factories."

An editorial entitled "Light Industry Must Not Develop in a Blind Way" in the press of Hubei Province similarly criticizes expansion of the cotton industry because there is insufficient cotton to supply it. Rather, the rule should be to modernize old plants but not to expand capacity.

Deng opponent on the way out

Ye Jianying, the aging Chinese military legend and current chairman of China's National People's Congress is apparently the latest victim of Deng Xiaoping's round-robin of purges. French wires reported last week Ye's arrival in Guangdong (where he is expected to remain until March) fueling speculation that he will be dissociated from important political decisions.

This week Kyodo news service reports that Ye will not receive a Japanese delegation to Peking, a delegation that Ye invited himself, further confirming the probability of Ye's ouster. Ye is known to be opposed to Dengist policies, in particular Deng's treatment of the military and his attacks on civilian officials oriented to heavy industry.

Ecoropa and the Crocodile Club

Two European organizations are currently agitating for a "Europe of the Regions," replacing national sovereignty with the rule of the European Community Commission in Brussels. The first is Ecoropa, headed by Bordeaux wine merchant and Club of Rome associate, Edouard Kressman. It calls for a "Senate of the Regions," opposes nuclear energy and all technology-based employment, and ran a candidate in 1979 for the European Parliament on a slogan of "ecology democracy."

Its members include Sadruddin Aga Khan, a billionaire supporter of Ayatollah Khomeini; Club of Rome director Aurelio Peccei; former U.K. ambassador to France Lord Gladwyn; marijuana advocate Marco Panella of Italy's Radical Party; and Franco-British financier Edward Goldsmith.

The second group is the Crocodile Club, headed by Altierro Spinelli of Italy, who demands "a constituent parliament for Europe working with national parliaments over and against national governments." The present head of the European Parliament, Simone Veil of France, has agreed to introduce his proposal to the body.

Assassinations fuel Central America scenario

On Jan. 4, the day before the crucial meeting between Ronald Reagan and Mexican President José López Portillo, two American advisers deployed by the AFL-CIO into El Salvador's "land reform" program, and the head of the Salvadorean Land Reform Institute, were assassinated in downtown San Salvador in a dramatic operation that left little doubt that the government and right-wing death squads were behind the killings. Indications are that the Americans and their Salvadorean associate, who were important "on-the-ground" operatives, were deliberately sacrificed to force a decisive crisis in the country before Reagan assumes office.

Spokesmen for the AIFLD, the Latin American branch of the AFL-CIO for which the Americans worked, are now demanding that the government bring the killers to justice and privately report that the disappearance at the time of the shooting of government guards normally assigned to the hotel lobby makes it clear that the government was involved.

The effect of the assassinations is to throw increased support to the flagging "left" side of the incipient civil war, whose weakness was apparent when its recent "final offensive" failed to last much longer than its announcement.

AFL-CIO opposition to the ruling junta is now assured, joining the Socialist International, Cuba, and the Society of Jesus in international support for the left. The assassination of the Salvadorean, José Viera, who also headed up the largest progovernment peasants' union in the country and who had been in a dispute with Junta leaders, will now build up the left guerrilla forces.

The two AIFLD advisers worked under the direction of right-wing social democrat Roy Prosterman, who played a leading role in designing the "strategic hamlet" policy in Vietnam and is the designer of the Salvadorean program. The military search-and-seal operations in El Salvador, which have created tens of thousands of refugees, are the core of the so-called land reform.

French leader offers Reagan a guideline

Jacques Mallet, the foreign policy expert of the Centre des Démocrates Sociaux (CDS), a French political party supporting President Giscard d'Estaing, assessed in an article in the French daily *Le Monde* that the Reagan administration offered prospects to "open a dialogue with a predictable partner."

Mallet warned, however, that if Reagan reverts "to the old concept of American leadership," France would be bound "to experience a resurgence of the anti-American feelings that came to the surface a few years ago."

American interests, Mallet continued, "would be served by treating Europe as an equal partner and not a vassal, by acknowledging that Europe has not only a regional role, but its own distinctive role to play in the world."

Mallet concluded by citing Africa and the Middle East as areas where European freedom of action and diplomatic experience are vital to peace and security.

Environmentalists scrap Poland's aluminum

The mayor of Krakow, Poland has closed down the country's largest aluminum smelting plant as allegedly "dangerous to the environment." The plant accounts for about half of Poland's total aluminum production. The action is the first time that the ideology of zero-growth environmentalism has been an open feature of the new Polish government's policy. The government has already imposed huge cuts in industrial investment and development projects, arguing that the cuts were necessitated by the country's labor troubles and could eventually be restored.

The closing of the aluminum plant was criticized by the national minister of metallurgy, Zbigniew Szalajda, who said it would cut the country's 1981 aluminum production by at least 25 percent.

Kissinger crony tours Mideast

Henry Kissinger, in his effort to consolidate a NATO expansion into the Middle East and trigger U.S.-Soviet confrontation in the region, has teamed up with leading Eurosocialist Michel Rocard, the number-two man in the French Socialist Party. Rocard spent the week of Dec. 24-31 meeting with high-level Egyptian officials, overlapping Kissinger's Dec. 27-Jan. 1 visit to Egypt.

Both men are trying to convince Israel that the only way it can get out of its present economic and social catastrophe is to become a gendarme member of a regional NATO-style military pact, focused on the oil-producing nations of the Persian Gulf.

Briefly

● **ALEXANDER BOVIN,** an influential Soviet journalist who often conveys the views of Leonid Brezhnev, wrote this week on the origins of the Iran-Iraq war that "finally Baghdad answered with war against the 'unfaithful Persians' and 'heretical mullahs,' " in response to provocations and threats from the Khomeini regime. This is the first time since the outbreak of the war four months ago that the U.S.S.R. has publicly taken sides with Iraq.

● **HELMUT SCHMIDT,** concluding a two-day visit to Morocco, called Jan. 7 for heightened dialogue between the industrialized and underdeveloped nations. The chancellor discussed with King Hassan the possibility of West German participation in the development of Morocco's nuclear energy industry.

● **WILLIAM KINTNER,** regarded as an advocate of a U.S.-China military relationship, is likely to be named assistant secretary of state for East Asia and Pacific affairs, according to Republican sources. A longtime associate of Haig and Kissinger, Kintner is currently director of the Foreign Policy Research Institute at the University of Pennsylvania. Previously, sources had discounted the possibility of his nomination due to longstanding and well-known "personal problems."

● **A FORMER U.S.** ambassador to an African country recently proposed to World Bank officials that salvageable equipment from U.S. railroads that were being torn up be used to build railroads in Africa. The curt response: "We don't build railroads in the Third World anymore."

● **ABBA EBAN,** former Israeli foreign minister, declared Jan. 7 that the government of Menachem Begin in Israel "is a theological phenomenon. It proves the existence of life after death."

The 'Agenda for the 80s': a deindustrialization scheme

by Lonnie Wolfe

In one of its last acts in office, the Carter administration two weeks ago leaked a draft report on urban policy of the President's Commission for a National Agenda for the 80s. Using language borrowed from 1960s "New Left" economic tracts and pamphlets from groups such as Students for a Democratic Society, the report announced that an America based on heavy industry and urban growth was finished. It proclaimed that America was entering the "postindustrial" era, and defined tasks for the incoming administration: "ameliorating the impact of people and places into a postindustrial America is a fitting and proper role for the federal government to assume in the decade ahead." At the press conference on Oct. 24, 1979 announcing the formation of the commission, presidential adviser Hedley Donovan, a Council on Foreign Relations member, announced that the specific mission of the new group was to set the national agenda for "the next two Presidents."

According to sources close to the commission, the report was pre-released in hopes of creating a national debate on America's "postindustrial future." Behind this operation are a number of policy groupings who want to force the Reagan administration to adopt the postindustrial policies of the Carter administration. These are precisely the policies that the American electorate overwhelmingly rejected at the polls on Nov. 4.

The key groups involved in this conspiracy are:

• **The Trilateral Commission/Council on Foreign Relations.** This group, which created and controlled the Carter administration, openly espouses policies of de-urbanization and de-industrialization for the U.S. They have published a blueprint for carrying the policy out on a global scale—the CFR's Project 1980s—which called for the "controlled disintegration" of the U.S. and Western economies into a "postindustrial" era.

• **The German Marshall Fund of the U.S.** and the Washington-based Institute for Policy Studies. The German Marshall Fund is a resource conduit for various projects run through the Socialist International. They funded, for example, the recent conference of European and American socialists in Washington, D.C. One of the prominent features of that conference was a discussion of the "coming postindustrial era," and how policies of de-industrialization could be imposed on both the U.S. and Western Europe. In addition, the fund has specifically financed an ongoing OECD project on "urban decline" which contains many of the same conclusions as the "Agenda for the 80s" draft. The German Marshall Fund, which is controlled by individuals associated with former U.S. ambassador to the Soviet Union, patrician Averell Harriman, also funds projects of the Fabian socialist-connected Institute for Policy Studies. IPS-linked individuals such as Richard Barnet, Gar Alperovitz, and Jeremy Rifkin participated in the recent Eurosocialist conference. These SDS- and terrorist-linked radicals have long supported the policies creating "postindustrial America" and have expressed their intention to impose such a policy on the Reagan administration.

• **The Heritage Foundation,** a "right-wing" Washington-based operation which has been accused recently of being a nest for Soviet KGB "moles." Heritage Foundation urban-policy analyst Stuart Butler has announced that he supports the postindustrial society. Butler, who is a collaborator of former British Fabian Society Chairman Peter Hall, sees the debate around the Agenda for the 80s proposals as a way to push through the Heritage Foundation's "postindustrial" urban policy centered around the creation of urban "enterprise zones" that would turn U.S. cities into Hong Kong-style low-wage economies. The foundation plans to offer its proposals as a less extreme version of the Northen exodus the Agenda is calling for.

The Heritage Foundation, meanwhile, remains a key channel of influence into the incoming administration. Said Butler, speaking of the Reagan administration, "We are going to use a right-wing government to impose left-wing policies on the country."

The debate on America's postindustrial future is being orchestrated by U.S. networks of the London-based Tavistock Institute for Human Relations, the Anglo-American-Dutch oligarchy's leading psychological warfare operation. It was Tavistock which first created the New Left in the U.S. and drafted its postindustrial program in the 1960s.

The postindustrial age

The draft report is the starting point of the debate. It recommends that:

- The federal government accept the "immutability" of the emergence of a postindustrial society. No efforts should be made to support failing heavy industry in urban areas or to bring heavy industry into cities.
- Current population overflows from Northeast and Midwest cities are going to continue. Policies should be devised to encourage relocation from those areas to the South and Southwest "sunbelt."
- Federal aid packages should be specifically designed to foster change toward a postindustrial society at smaller population levels. In other words, the federal government should encourage cities to adopt a policy of planned shrinkage, reducing service levels through targeted cutbacks. "Contrary to conventional wisdom," the draft report states, "cities are not permanent."

Technetronics and shrinkage

As further qualified by individuals working on the Agenda proposals, the report sees the drastic shrinkage of the U.S. industrial base. It further supports the additional growth of the service sector and the growth of the cybernetic "technetronic sector." A recent comprehensive study by scientists and economists of the Fusion Energy Foundation of various re-industrialization plans showed that if the policies recommended by the Agenda staffers were adopted the U.S. would rapidly evolve into a second or third-class industrial and military power. Such policies represent a direct threat to the national security of the United States, the FEF stated.

Behind the plot

The origins of the postindustrial conspiracy date back to 1967, when NATO commissioned its "unofficial" psychological warfare unit, the London-based Tavistock Institute, to study the impact of the space program on U.S. society. Tavistock, which is controlled by City of London banking circles, recommended that the space program be scuttled so that industrial and technological growth in the United States could be cut back and controlled. Tavistock and its NATO-connected networks have been in constant war with the productive U.S. economy and its industrial workforce.

That same year, the first of several national agenda commissions, this one on the "Year 2000," was set up. With some overlapping membership to the current commission, the Year 2000 group started talk about a postindustrial future for the United States.

The Tavistock network behind the President's commission are the same people who pushed the "limits to growth" debate through the Club of Rome. The anti-urban, anti-industrial policies outlined in the original 1973 Club of Rome document, and softer versions concocted by Tavistock in 1975, are the international backdrop for the "Agenda for the 80s." These networks are currently pushing the Carter administration-backed "Global 2000" report, which proposes to reduce the world's population growth by 2 billion people.

The Carter administration was specifically created by this grouping to carry out its Malthusian program. Carter administration officials, all members of the Trilateral Commission, all support these policies. National Security Adviser Zbigniew Brzezinski has written extensively on the postindustrial, "technetronic society."

The President's commission was in fact created at the insistence of Vance, Eizenstat, Daniel Bell, and Carter adviser Hedley Donovan, the head of Time, Inc. following a series of meetings at Camp David in July 1979. Paul Volcker was named Federal Reserve chairman following those meetings, and Volcker's high interest-rate, depression-inducing policies have set the stage for the "postindustrial" debate.

A critical choice

The current debate over the postindustrial future of the United States is occurring along classic Tavistock lines. The operation occurs on two levels. A basic assumption is presented—in this case, that America is entering the postindustrial age. That is never really debated. Instead, the debate occurs around the presentation of a shocking set of proposals on how to adjust to the new situation as it is presented.

The Agenda report, for example, is consciously crafted to focus attention and controversy on policy proposals—how much cities should shrink and where (i.e., North versus South)—while leaving the basic assumption about postindustrial America untouched.

In the end, the Tavistock network will allow "compromise" on the policy alternatives. This is how the brainwashing of America is to work.

The Tavistock operatives are quite open about their intentions. As a spokesman for the Washington-based Academy for Contemporary Problems, an urban policy think tank funded in part by the German Marshall Fund, stated: "The agenda proposals are deliberately controversial to provide a real start for the debate on the shape of postindustrial America. The proposals are a real shocker, but that is what is needed to get things going. As the debate goes on, the basic assumption will be shown to be correct—Americans must radically alter their view that progress in society is based on heavy industrial production. Once the shock settles in, we'll get down to business."

The spokesman for the academy, whose head Ralph Widener invented the term "deindustrialization" back in 1976, said that under normal circumstances the debate would not be possible. "After four years of Jimmy Carter, with the economy in trouble, people are now ready," he stated.

Playing both sides

Both sides of this debate are controlled, and so is its presentation in the media.

There is, for example, basic agreement between "leftist" Institute for Policy Studies circles and "right-wing" Heritage Foundation networks. IPS fellow Gar Alperovitz of the Exploratory Project for Economic Alternatives says that he is in agreement with the "basic assumption of the report that cities must shrink" and that the United States has entered a postindustrial era. But he opposes the wholesale depopulation of Northeast and Midwest cities, since it is possible, he says, to locate labor-intensive industry in the cities.

Alperovitz, who attended the Dec. 5-7 conference of European Social Democrats in Washington, D.C., said that the postindustrial society was the major topic of

London Economist: 'deindustrialization is fun'

Dovetailing the policy proposal of the President's Commission for a National Agenda for the 80s—that the U.S. must enter the postindustrial age—is the London Economist *Dec. 27 article, "De-Industrializing Is Fun." Excerpts follow:*

"America is moving rapidly but quietly from an industrial society (which means capitalist, bossed about, partly horny-handed) to an information society (which should be much more expansive, entrepreneurial and fun). . . .

"The proportion of American workers in industrial occupations has crashed since the early 1950s from over a half to under a third, while the proportion of information jobs has tripled from 17 percent to over 50 percent. . . .

"The most interesting features of the information society are that it spells the end to both capitalism and socialism, and means that 'small can once again be entrepreneurial.'

"Capitalism and state socialism were the alternative inconveniences of the dying industrial age. . . ." of large steel plants. . . ."

After referring lightheartedly to some of the problems this has caused, *The Economist* goes on to say, "Now for the good news. Unlike in Europe, the labour unions in America are not capturing the private sector information industries except among the learned professions (doctors, lawyers).

"The unionized proportion of America's workforce has dropped from 30 percent two decades ago to around 20 percent now, because most unionized industries are the old ones, like steel and cars, which became uncompetitive against Japan yesterday. Speed them to India today. . . ."

The Economist goes on to recommend: "It will be desirable to help the poor by excluding them from the unemployment-creating minimum wage. . . .

"Health care should by now be mainly an information industry. . . ."

"Mr. Reagan would also be wise to dismantle (preferably disband) most of the 10 major economic regulatory agencies, which exist to keep up or distort the prices of agriculture, most forms of transport, the cost of raising capital . . . and energy. America does not need an energy policy. . . .

"It needs free-market prices and a free climate for investment, plus retail taxes to curb the consumption discussion among leftists. "We welcome a full debate on the subject," he said.

The Heritage Foundation's Butler likewise agreed with the assumption that urban America cannot be based on heavy industry. Even if his enterprise zone proposal is enacted, Butler foresees a continued depopulation of Northeast and Midwest cities. "I differ with many liberals in that I don't think we should pay for the plane fare of these internal immigrants, but let them find their own way," Butler said.

Widener's Academy for Contemporary Problems, meanwhile, serves as the policy think tank for the Northeast-Midwest Economic Coalition, the group whose screams have been the loudest against the agenda's proposals. But a memo drafted for the coalition, while attacking the report for regionalizing the country, comes out in support of the Heritage Foundation's enterprise zone proposal—whose authors like Butler are committed to the postindustrial society.

In the week since the report was leaked, editorials have appeared in major papers including the *New York Times*, the *Washington Post*, and the *Washington Star*, on the report. The *Post* and the *Star* attacked the call for relocation, asking that it be re-examined, but stating that the debate was "essential." The *Times* editorial, written by Roger Starr, who first proposed "planned shrinkage," demands that a national debate take place on the report and essentially supports its proposals.

of energy. . . .

"Two other anti-inflation raids by the Reagan administration should be against subsidized homeowners and index-linked grandpa. . . .

"The cuts in old peoples' entitlements will eventually have to come either by at last imposing taxes on social security benefits or by stopping automatic rises in line with the consumer price index . . . or by raising the retirement age from 65 to 68 . . . or by all of these. . . .

"The unsupported don't starve. But some welfare measures do need to be phased out. Consider the strange story of America's (maybe) five million illegal immigrants who do not slink away in the night. . . . These people do not draw welfare money or unemployment pay, because they would be discovered, then deported if they did. They take illegally untaxed jobs at 50 cents an hour, well below the legal minimum wage (which the Carter administration is foolishly raising to $3.55 an hour) but are not dying of starvation at every street corner. They are becoming increasingly entrepreneurial. . . .

"The most useful private economic research in America would be into how far illegal immigrants have been able to prosper more dynamically than existing citizens . . . precisely because particular welfare rights (such as the legal minimum wage) do not apply to them."

What the Commission report recommends

Excerpts follow from the fifth section of the draft report of the President's Commission on a National Agenda for the 80s. All emphasis is in the original.

A major societal transformation, particularly evident since World War II, has been unfolding in this nation, causing urban and rural America to experience change at unprecedented rates. The populations of central cities in the larger and older metropolitan areas have been shrinking rapidly, while other communities have been experiencing rapid and unplanned growth. . . .

Because the changes are proceeding at a pace that makes adjustment often difficult and painful, these redistributions can easily be viewed as the cause of myriad forms of economic, fiscal, and social distress affecting individuals and their institutions wherever they are located. However, the Panel believes that such a view is shortsighted and potentially misleading. These trends are more accurately viewed as the consequences of a powerful transformation that is gradually ushering this nation from the industrial era into the postindustrial era. . . .

The concentrated poverty, dependence, unemployment, fiscal imbalances, tax-base erosion, and deterioration of physical plants and public service infrastructures within hundreds of communities throughout the nation translate into distress and despair for many who find themselves "left behind" in cities. . . . Throughout the report, however, the Panel has sought to understand these conditions in the context of our passage into a postindustrial era and to consider how that passage may be made with a minimal amount of distress. . . . The Panel believes that this is possible, provided that the nation first reconsiders what is meant by "urban revitalization." If it is defined as the attempt to restore our older industrial cities and regions to the influential positions that they have held throughout the industrial era, urban revitalization shall surely fail. . . .

To begin, certain understandings must be reached. . . .

The nation can no longer assume that cities will perform the full range of their traditional functions for the larger society. They are no longer the most desirable settings for living, working, producing. They should be allowed to transform into more specialized service and consumption centers within larger urban economic systems. The Panel believes that this nation should reconcile itself to these redistribution patterns. . . .

This can be done in a number of ways: by upgrading the unskilled through manpower development efforts so that existing local job opportunities can be exploited, by removing barriers to mobility that prevent people from migrating to locations of economic opportunity, and by providing migration assistance to those who wish and need it. . . .

First, recognition should be made of the near immutability of the technological, economic, social, and demographic trends that herald the emergence of a postindustrial society and that are responsible for the transformation of our nation's settlements and the life within them. These major formative trends are likely to continue, not only through the coming decade, but also well into the next century. Deflection or reversal of these broad-gauge trends is not likely to result from purposive government action. *Clearly, on the basis of these trends, a federal policy of active anticipation, accommodation, and adjustment makes more sense than efforts to retard or reverse them. The efforts to revitalize those communities whose fortunes are adversely affected principally by the inadvertent consequences of past public policies are entirely justified, but these instances are judged to be rare. It is far more judicious to recognize that major circumstances that characterize our nation's settlements have not been and will not be significantly dependent on what the federal government does or does not do. . . .*

Federal urban policy efforts should not necessarily be used to discourage the deconcentration and dispersal of industry and households from central urban areas. . . .

The energy and environmental implications of continuing trends toward relatively low-density development in new growth areas and the thinning out of existing high-density areas does not unequivocably justify the need for a national effort to encourage reconcentration in historically central locations. . . .

In close partnership with the private sector, *the federal government should develop strategies to assist localities in adjusting to economic base transformation and population shrinkage. . . .* Policy-guided contraction and disinvestment can help ease the impact of economic decline on individuals and local institutions and to position communities for regaining their health at new lower levels of population and industrial activity.

Haig and Kissinger act out London's NATO scenario

by Kathleen Murphy

Throughout his tenure as secretary of state, it was always possible to know what Henry Kissinger would do next by reading the pages of the high-toned London *Economist*. The same holds true today. The chief policy organ of the City of London—and Kissinger—both demand that NATO extend its military arena into the Persian Gulf.

The London *Economist* is also putting forward the strategy behind such a dangerous escalation of NATO's perimeters: a global policy of deindustrialization that only NATO could enforce.

In its latest issue, *The Economist* demands a transfer of industry and employment to the Third World—where workers would be paid at below-subsistence wages. Simultaneously, *The Economist* demands, the advanced sector must be transformed into a "postindustrial society," which would subsist on the basis of banking, insurance, drugs, and gambling.

This means, *The Economist* explains, the buildup of NATO's conventional forces and its deployment as a police force throughout Europe and the Third World.

Zero growth

Gloating that the current world economic crisis has already thrown 17.5 million advanced-sector workers out of their jobs and forced many industries to either close or flee south, *The Economist* insists that the migration of heavy industry to cheap-labor Third World countries is inevitable.

Because world consumption rates will approach zero growth in 1982, the magazine asserts, the advanced nations should give up any hope of saving their basic industries. Instead they should orient toward a "service economy" based on nonproductive paper-shuffling, as in insurance speculation, real estate, and "leisure" (gambling casinos, drugs, and prostitution).

In its economic program for the United States under the headline, "De-industrializing Is Fun," the magazine called on Reagan to kill off U.S. steel and auto industries in favor of an "information society," which foresees the application of cybernetics as the means of achieving urban decentralization and lowered energy consumption.

The journal's strategic and military proposals follow from its vision of "postindustrial" society.

In its lead editorial, the magazine calls on the new U.S. President to bludgeon our Western European allies into a military buildup and the expansion of the alliance beyond its present boundaries, especially into the Persian Gulf. *The Economist* demands that the Reagan administration concentrate on two main objectives. "One is to remove the danger of Russian nuclear superiority without trying to replace it with a new American superiority. That means asking the Russians to start talking, some time in 1981, about a revised SALT treaty which accepts the principle of 'parity,' but cures the defects of Mr. Carter's SALT II."

At the same time, states *The Economist*, the United States should pressure NATO members to accept a much higher level of spending on NATO conventional and theater nuclear forces.

"The second objective is to make it clear that the containment of Russia is now a two-front affair. The line drawn through Europe since 1945 has to be extended south-eastwards into a line which protects the oil-producing Gulf. The road to the Ruhr, and to Tokyo, lies through the Strait of Hormuz. One way or another," *The Economist* warns ominously, "America's allies will have to accept that."

Its call for reaching strategic arms agreement is by no means intended to ease tensions between the superpowers, as its strident calls for greatly increasing conventional arms production makes clear. Instead, it is intended to place a cap on Soviet high-technology development. This will then be used to justify placing a cap on Western science and industry.

Policy of Kissinger?

Their recommendations would, if adopted even in part by the Reagan administration, mean a total break with Western Europe, inevitable military confrontation with the Soviet Union, and the disintegration of the world economy. For these reasons, sources close to the Reagan team are wondering why Henry Kissinger and Secretary of State-designate Alexander Haig are promoting similar proposals.

Kissinger's British pedigree extends at least to the early 1950s, when he attended British intelligence's Wilton Park brainwashing center. He has spent the last week in the Mideast and northern Africa pushing *The Economist*'s policies. Trying to palm himself off as an unofficial emissary of the Reagan administration, Kissinger has repeatedly called for the United States and its NATO partners to increase military presence in the Mideast, the Indian Ocean, and the Horn of Africa.

In Somalia, Kissinger told reporters that he would urge the incoming administration to prevent a "free rein" for Soviet "expansionism," by strengthening alliance forces in the area. He repeated the same formulation in Jerusalem, where he also launched into a diatribe against Western Europe for its attempts to negotiate a settlement of the Middle East conflict. European intervention, Kissinger warned, could only "create obstacles."

Despite Kissinger's claims to want to create a "zone of stability" in the Middle East, his real objective is permanent instability, exactly what Europe is working to prevent. According to the French newspaper *Le Figaro,* Kissinger says that his Mideast policy is based on British policy in the Balkans during the late 19th century. That policy, as World War I demonstrated with brutal clarity, was a British strategy against continental European prodevelopment forces. Britain's policy now is to use continued instability in the Mideast to threaten Europe with a cutoff of oil supplies.

Haig in tow?

While Kissinger's political protégé Alexander Haig has been keeping a low profile since he was named as secretary of state to the Reagan cabinet, his previous public statements show his agreement with *The Economist*'s line.

During his short-lived presidential campaign last year, Haig made speeches stressing the need for NATO to transform itself from a military alliance into an integrated political, military, and economic supranational institution.

In a recent article for the *Washington Quarterly,* published by the Georgetown Center for Strategic and International Studies, and excerpted in the Jan. 4 *Boston Globe,* Haig converges with *The Economist*'s perspective on all major points. "Washington must inspire, persuade, urge and cajole other NATO nations to make decisions that will neither be straightforward nor easy," writes Haig. These decisions include "recognizing that NATO's problems do not stop at the Tropic of Cancer"; creating "a great power directorate" to oversee the "greater integration and coordination" of all alliance institutions, including the OECD and the EC; and committing NATO members to step up their monetary contributions to NATO to build up conventional and theater nuclear forces.

Like both Kissinger and *The Economist,* Haig is highly critical of Western Europe, particularly West Germany. "Bonn has disagreed with American policy regarding such issues as the transfer of nuclear technology to the Third World and nuclear power, and in general, energy, economic, and monetary affairs." It should not be allowed to fill the vacuum in NATO leadership left by the Carter administration, says Haig.

Heritage Foundation and friends

Scott Thompson and Lonnie Wolfe identify the 'convergence' with the Socialist Internation and KGB circles.

Stuart Butler, a policy analyst for the Heritage Foundation, stated in a recent interview: "In the case of the Reagan government, we are using a conservative government to impose a quite radical, left-wing program—all based upon solid, liberal economic principles. There really isn't so much difference between the people in the Fabian Society, people like myself, and Milton Friedman. We really overlap right in the middle of things on such ideas as local control."

Astonishing as it may seem for a conservative think tank to find common policy goals with the socialist Fabian Society of Britain, there are many who share Butler's opinion at Heritage, which has become a center for the "convergence" of British socialists and conservatives.

Who runs the Heritage Foundation

Founded in 1975 with the financial assistance of Joseph Coors, Heritage was transformed during a 1976-77 personnel shake-up into what one Heritage staff member recently called "an outpost for British intelligence in the United States."

Under Edwin J. Feulner, who was named president after the shake-up, many British citizens linked to the broader British Secret Intelligence Service (SIS) establishment were placed into key policy positions at Heritage. They range from Robert Moss, editor of *Foreign Report,* the privately circulated report of Evelyn de Rothschild's *London Economist* which draws heavily upon British SIS sourcing, to Stephen Haseler, one of the first Heritage Fellows and a leader of the British Fabian Society.

Many of these new personnel were affiliated with the International Institute for Strategic Studies (IISS) and/or the Mont Pelerin Society. IISS is largely an outlet for other agencies of British SIS. Its principal function has been to spread "disinformation," not to provide candid intelligence, through a network of daughter organizations spread around the world.

Mont Pelerin was founded in 1947 out of the merger of ultramonetarist economists like Friederich von Hayek, then employed by Beatrice and Sidney Webb at the Fabian Society's London School of Economics, with ultra-Keynesian liberals like Walter Lippmann. Today, the Mont Pelerin Society is a key institution in the present Margaret Thatcher government. Sir Keith Joseph and Sir Geoffrey Howe, the Minister of Industry and the Chancellor of the Exchequer respectively, are among the most visible Mont Pelerin agents.

Sir Keith Joseph is also the principal "case officer" directing the transformation of Heritage. He has been assisted in this project by Julian Amery, an extremely well-connected Member of Parliament, who was in Washington, D.C. in early December 1980 for meetings related to Heritage.

Free-enterprise zones

Stuart Butler has stated that he is presently in the United States "to inculcate America with British ideas." One of the main ideas for which he has become spokesman is that of creating "free-enterprise zones" within U.S. cities. Butler presented this proposal in a fall 1980 Heritage Foundation pamphlet titled "Enterprise Zones: Pioneering in the Inner City."

In this piece Butler confesses that, apart from Sir Geoffrey Howe, he is primarily indebted for this idea to Peter Hall, a current member of the executive committee and past chairman of the British Fabian Society. Both Hall and Butler are working in tandem to sell the idea of "enterprise zones" in the United States.

Butler confirmed this in a recent interview in which he stated: "I am trying to open some U.S. channels of influence for him [Hall]. It will be my task to put him in touch with members of the Reagan policy task forces." To accomplish this, Butler has arranged for Hall, who is currently at the Urban and Regional Planning Institute at Berkeley, to be a featured speaker at a forthcoming Heritage Foundation-sponsored event.

Hall's background as a Fabian socialist is further indicated by his close association with Anthony Wedgwood Benn, a leader of the British Labour Party's radical wing, and, like Hall, a past Fabian Society chairman. Benn and other Socialist International leaders gathered in Washington, D.C. for a Dec. 5-7 conference entitled "Eurosocialism and America" at which Benn acknowledged that his policies "converge" with those of Heritage, including especially the one for "enterprise zones."

It is apparent that Howe, Butler, and Hall view "enterprise zones" as a means to create pocket colonies, or "little Hong Kongs," owned by foreign interests within U.S. cities. According to these extremists, the minimum wage should be lifted and residents employed in small-scale equivalents of "cottage industry."

This foreign "buy-out" is to be encouraged by lifting restrictions on Eurodollar investment in real estate, a move that threatens to further inflate a highly speculative market and rents. Many financial analysts also see this proposal as merely the first step toward bringing dangerously unregulated offshore financial practices onshore.

One of the key selling points that Butler, Howe, and Hall have made is that "free-enterprise zones" represent a merger with the American left's call for "local control" or "community control." Butler quotes Howe to this effect in his Heritage pamphlet. "My proposals are not intended to be a politically exclusive idea. . . . I believe it would be worthwhile ensuring that part of any Enterprise Zone could be available to noncommercial groups who wished, for example, *to establish experimental workers' cooperatives. . . . If the . . . Socialist Workers' Party wanted part of an Enterprise Zone to themselves—well, why not?* [emphasis added]."

This "local control" aspect has been praised by Jeff Faux, a board member of the Institute for Policy Studies' Boston affiliate and codirector with Gar Alperovitz of the Exploratory Project for Economic Alternatives. Another point on which the IPS crowd agrees with Heritage's Butler is a desire for a "postindustrial society" free from heavy industry, which Butler also promotes in his writings. In a recent interview, Faux said, "We have reached the end of the line for heavy industrial development as a way to provide large numbers of jobs in urban areas. Small innovative business, local economic development, local control . . . is a really key concept. It is supported by people like us and by radical conservatives."

In a 1977 speech Butler indicated his agreement with this. "First, the Marxists are right: industry has been rationalizing. Large-scale organization has won out over small-scale. There have been massive increases in productivity—even in slow developing, low productivity Britain. *If we'd been efficient, it would all doubtless have been much worse* [emphasis added]."

In place of heavy industry—the bulwark of a productive, capitalist economy and a strong military—Butler called in the same speech for a new form of "cottage industry" for the cities. "Look at the classified ads in London's *Time Out*. You'll find a rich and even bizarre collection of enterprises, ranging from ear piercing to unisex sauna to air freight, from whole-food shops to a College of Acupuncture Clinic to Krishnamurti Videotapes. They may sound funny, but it may sound less funny in 1977 if they prove to be the growth industries of the 1980s."

In summary, what Butler et al. propose is that sections of U.S. cities be sold on the Eurodollar market as colonies featuring modern variants upon the backward, "cottage industry" economy which America once fought to be free of.

Left-right convergence on defense

The Heritage Foundation has made a significant point in its policy papers about the need for a strong U.S. military. Some Heritage documents have called for a $35-billion-plus annual increase in defense spending; however, this view is not shared by many members of the British SIS crowd who took effective control of the foundation in 1976-77.

In recent interviews Jeff Barlow, a Heritage policy analyst, and Richard Barnet, a cofounder and codirector of the Institute for Policy Studies, indicated convergence in their thinking about defense issues in the following areas:

• The necessity to control new weapons technology and scientific development with potential defense use.

Barlow: "All arms control is meaningless unless an effort is made to control new weapons technology."

Barnet: "Some effort to bring technology control into the SALT process is essential if there is to be a meaningful treaty."

It has been repeatedly shown that efforts to bring technology control into arms limitation are one-sided and that the effect spills over into the civilian sector. The United States is rapidly falling behind in nuclear technology and other critical areas of defense development, while the Soviets are on the verge of a new generation of beam weapons and fission-fusion energy sources.

• The necessity for a globally restructured, crisis management agreement with the Soviets to be worked through the Socialist International.

Barlow: "SALT does not lessen tensions; SALT cannot prevent war. It is now formally acknowledged that the Soviets have the right to deploy their troops within their Eastern Europe sphere of influence while the U.S. basically has the right to deploy everywhere else. A new agreement must say that military intervention by a superpower in a third country is not allowed. To accomplish this, the European channel would have to be opened wider than the Moscow-Washington chan-

Courtesy of the Heritage Foundation

The Heritage Foundation's board of directors. Back row, second from left: Frank Shakespeare.

nel. . . . The Social Democrats are experts at this. . . . This is their forte."

Barnet: "Only agreements which specifically reduce the risk of war enhance security. The SALT process must evolve into that. . . . Europe, especially the European Social Democracies, is key to this process. Willy Brandt takes a longer view of East-West relations and looks for things beyond arms control treaties."

Both Barlow and Barnet agreed that only a conservative Reagan administration could sign and pass this kind of SALT agreement, based upon technology control and Brandt's *Ostpolitik*.

Heritage has planted its people in key positions in the Reagan administration's transition task forces to implement these proposals. For example, Heritage Fellow John Tierney, Jr. works on the national security task force and has "input" on matters of strategic planning.

Heritage personnel have also run the international agencies task force from the outset of the transition. This team shapes policy for the International Communications Agency, the AID program, the Overseas Private Investment Corporation, the International Monetary Fund, and the World Bank. This team is headed by Heritage Fellow Frank Shakespeare; its staff includes Edwin J. Feulner and Ben Blackburn, respectively the president and chairman of Heritage.

Heritage public relations director Herb Berkowitz stated recently that the foundation has "far more influence over policy channels in the new administration than anyone would care to admit." Berkowitz further claimed that Heritage was acting as the unofficial employment agency of the new administration which, Berkowitz said, plans to place several hundred people from the foundation's "resource network" into key staff posts. "Through those positions we will exert tremendous influence over policy," Berkowitz concluded.

What is behind left-right convergence

The convergence of British Tory networks affiliated with the Heritage Foundation and their Fabian socialist counterparts at the Institute of Policy Studies and elsewhere represents an attempt to destroy the Reagan administration from within and without. From the promise of economic, military, and social revitalization of the United States, these British SIS-deployed networks are seeking to shift the new administration's policy toward that of a "postindustrial society." This is to be accomplished by programs that encourage "local control," a shift in the flow of investment capital from heavy industry to small-scale "cottage industry," and greater controls upon technological innovation.

Precisely the same program advocated by Butler, Barlow, and others in the British SIS faction of Heritage were presented as the program of the Socialist International at its Dec. 5-7 "Eurosocialism and America" conference in Washington, D.C. Present at this conference, in addition to Peter Hall's friend Anthony Wedgwood Benn, were such Eurosocialist leaders as former West German Chancellor Willy Brandt, former Swedish Prime Minister Olof Palme, and former Dutch Prime Minister Joop den Uyl, who is also chairman of the International Federation of Socialist Parties. Other lower level operatives present were IPS's Richard Barnet and Jeff Faux's colleague, Gar Alperovitz.

According to eyewitness accounts, the principal difference between the proposals of Butler, Barlow, et al. and those of the Socialist International is that the latter plans to use the economic difficulties the new Reagan administration will encounter to organize mass opposition, while seeking short-term goals through convergence. Benn, in particular, called for a new coalition between organized labor and the traditional "McGovern coalition" of environmentalists, the peace movement, women's liberation, etc., to carry out mass demonstrations against the new government and to stop leaders of the Democratic Party from bipartisan collaboration.

During the same early December period in which the conference was held, Brandt, Palme, den Uyl, and others also held lengthy meetings in secret with Soviet KGB-IMEMO operative Georgii Arbatov. It is notable that Arbatov is part of the same circles as British SIS, KGB General Harold "Kim" Philby, and the KGB-linked IPS associate Philip Agee. These are the circles that the Heritage Foundation has "converged" with.

John Block looks to a growth policy for U.S. agriculture

by Graham Lowry

John Block, President-elect Ronald Reagan's nominee for secretary of agriculture, announced at the Senate Agriculture Committee's confirmation hearing yesterday that his priority will be to lower interest rates to save American agriculture.

"Priority number one is to do what I can to improve the profitability of farming," the 45-year-old Illinois director of agriculture told the committee. "We have to get inflation under control and also interest rates. Nothing can be done that is legal that can return 20 percent," Block observed. "President Reagan plans to bring down both inflation and interest rates."

Block also voiced his opposition to the embargo on grain sales to the Soviet Union, emphasizing that "food can be an instrument of peace." Declaring his commitment to "develop our export markets," Block emphasized the benefits of improving the economies of Third World nations. "History has shown that as we help countries develop and industrialize and become more self-sufficient, they become more affluent and better customers. Some of our best customers now are countries we have helped develop."

Throughout his testimony, Block demonstrated that his policy outlook for U.S. agriculture runs directly counter to that of the Carter administration and its Agriculture Secretary Bob Berglund. On the question of federal support for research in agricultural mechanization, which Berglund had moved to virtually eliminate, Block declared his support for it and added pointedly, "During my visit to China, I saw how most people are on the land. Without mechanization we would be in the same place today."

Block repeatedly emphasized that his cabinet role would be to represent aggressively the interests of agriculture as an integral part of the U.S. economy as a whole, rejecting the notion of mediating an imagined "farmer vs. consumer" conflict. In his opening statement to the commmittee, Block stressed that the Department of Agriculture should be encouraging exports and productivity, and that agricultural exports are as beneficial to the steel worker in Pittsburgh and the auto worker in Detroit as they are to farmers.

"I strongly support the role of secretary in serving as a strong advocate of the agriculture industry," Block told the senators. "This is the best way to serve the consumers. The objectives are the same in the long run."

LaRouche testimony

Testimony in support of Block's nomination was offered by the National Democratic Policy Committee, the Fusion Energy Foundation, and the American Agriculture Movement.

Lyndon LaRouche, chairman of the advisory board of the NDPC, urged that John Block's appointment be confirmed and also that "the Senate exercise its duty and authority to advise the Executive Branch" by recommending to the incoming administration "a return to the twice-proven policy of fostering orderly marketing designed to ensure parity prices" to farmers.

LaRouche emphasized that a return to parity-price policies was essential "if we wish to maintain adequate food supplies for all of our citizens." He added that the fact that past price-support policies "have been sometimes grossly mismanaged is not proof that we need to repeat such mismanagement. Get more leading farmers into the Department of Agriculture, and the management of marketing programs will improve considerably by itself."

"We need not be intimidated by the bogeyman of burgeoning warehouses of rotting food," he asserted. If we energetically market those surpluses in excess of our strategic-reserve requirements, and if we improve consultation between government and farmers on marketing matters, the role of U.S. agriculture in a hungry world will lead to an orderly flow of product from farm to consumer.

"I do not envisage the use of a 'food weapon' in the negative sense of that term, but as a means which, properly used, can help to develop other nations into sovereign states with moral world-outlooks which will benefit our posterity. . . . For us in that great modern republican tradition of St. Augustine and Dante Alighieri, the general overcoming of the demands of necessity for nations and peoples generally can occur only through the fruits of continuing progress in science and technology."

American Agriculture Movement President Marvin Meek told the committee that "the American farm sector is more unified in this selection than any other because of Mr. Block's commitment to producers." Strongly endorsing expanded exports and parity pricing, Meek also blasted Federal Reserve Chairman Paul Volcker's interest rate policy. "Current interest rates will destroy the economy," Meek said. "If it requires a bill from the Senate to get control over the Federal Reserve, then so be it."

National News

AAAS hosts attack on livestock industry

David Pimentel, an agricultural economist at Cornell University, launched an attack on livestock and production at the annual meeting of the American Association for the Advancement of Science held in Toronto last week.

Pimentel, in his speech, claimed that Americans could help solve the energy crisis if they would cut their own protein consumption in half, and eat more grains and poultry.

Another speaker, Alex Hershaft of MITRE Corporation, extended this analysis by claiming that the American taste for beef is "responsible for the . . . abuse of rangeland and forestland and for the loss of soil productivity through erosion and mineral depletion."

Pimentel and Hershaft used the notion of a fixed energy-resource base, discounting increased utilization of nuclear energy, and the continuous improvement in agricultural production that comes about with increased energy throughput in the agricultural sector.

House panel finds defense base ailing

House Armed Service Committee Chairman Melvin Price released a special panel report Jan. 5 asserting that U.S. national security is in jeopardy because of a "serious decline" in the nation's defense industry.

The 52-page report was compiled by a 10-man panel headed by Rep. Richard Ichord (D-Mo.) after 13 days of hearings, with testimony from defense companies, military services, executive agencies and private analysts.

Of the findings, Ichord said: "A shocking picture has emerged from our investigation: the picture of an industrial base crippled by declining productivity growth, aging facilities and machinery, shortages in critical materials, increasing lead times, skilled-labor shortages, inflexible government contracting procedures, inadequate defense budgets and burdensome government regulations and paperwork. Also, we are not buying the required ammunition, equipment, and weapons systems to fight even a short war. . . .

"Plainly and simply, we are not prepared. Our defense production base is ailing, and in the event of a crisis, we do not have the staying power to sustain us until that base could come into play."

The special panel recommends various changes in government contracting procedures as an immediate, short-term solution. It also calls for the President and Congress to initiate action to solve the many problems relating to productivity, quality, manpower and critical materials that afflict the defense industrial base.

Sasser recommends two-tier credit rates

Charging that the Federal Reserve's high interest-rate policies are "threatening to destroy critical sectors of the American economy," Sen. James Sasser, Democrat of Tennessee, last week introduced a Senate resolution demanding that the Fed bring down interest rates.

The resolution, an expanded version of one introduced by Sasser and supported by several Democrats last session, calls on the Fed to "abandon its October 1979 policy of attempting to manage the monetary structure of the country."

In addition, the resolution says that the Congress "should abolish the Open-Market Committee and stipulate that decisions be made by the Board of Governors" and that "the Board of Governors reflect all sectors of the American economy."

The resolution further calls on the Senate Banking Committee and the Joint Economic Committee to "study the advisability of seeking other necessary institutional reforms in the structure and operation of the Federal Reserve System to improve the management of the nation's monetary structure with the goal of providing a stable and positive economic environment for growth and investment while reducing inflationary pressures. . . . The study should include an investigation of the feasibility of implementing a dual prime rate which can be used to channel credit to those sectors of the economy that have suffered from chronic credit shortages as a result of the Board's current monetary policies."

At a Jan. 9 press conference announcing the introduction of the resolution, Sasser was flanked by Merrill Butler, the head of the National Home Builders Association, and Wendell Miller, the head of the National Autodealers Association. Miller declared NADA's support, while the homebuilders are expected to vote their support at their national convention.

Sasser, who said that he has been in a "longstanding battle against the Fed's interest-rate policies," warned that if the Fed and its monetarist chairman Paul Volcker are "not more responsive" to the will of the Congress and the electorate, "it could lead to legislation for institutional changes."

Schmitt bill proposes 30-year space program

Senator Harrison Schmitt (R-N.M.) is planning to introduce into the Senate a bill, entitled the National Space and Aeronautics Policy Act, in the near future, reports Schmitt's office. The bill would commit the U.S. to a large-scale, 30-year program to develop the capabilities for colonization of space.

The bill would allocate 0.5 percent of the United States's GNP for NASA over the next 30 years, a sum estimated to be $5 billion in 1980, $10 billion in 1990, and $15 billion in 1995, as measured in constant dollars.

By 2010, the bill specifies, the United States should have developed the capabilities for routine earth-orbit activities, permanent manned stations in earth orbit and on the moon for scientific research, and for research on industrial and agricultural processes needed for permanent space colonies.

Schmitt's bill would also mandate the development of new power systems, probably nuclear fission and/or fusion-based, for long-range interplanetary exploration and colonization, and calls for manned missions to Mars and Venus.

Schmitt met with President-elect Reagan on Dec. 12, and reported that Reagan "showed a wide-ranging interest in science and technological policy issues, particularly space and strategic defense technologies . . . [and] indicated a strong interest in expanding our scientific and technological base."

British Fabian sketches alliance for decay

In a Jan. 8 interview, former Fabian Society Chairman Peter Hall expressed his full agreement with the recent recommendations of the President's Commission for a National Agenda on the 80s report that U.S. urban and economic policy be geared around the concept of a postindustrial society.

"There are two Americas," said Hall. "One is the 19th-century heavy-industry society; the other is the growing postindustrial society, in some cases built on the shards of the old America. It is the conflict between these two worlds that will produce the crisis and social cataclysm of the next decade. The two worlds are in fundamental opposition. They cannot coexist. In the end, the postindustrial world must crush the other one.

"There is no longer any real point in maintaining the phony ideological distinctions about left and right in economic ideas," Hall continued. "The way I see things, there is a real convergence between quite left-wing Fabian types and the so-called New Right, both here and in Britain, and on the Continent. Both groups unite in their support for local control and local initiative. It is really a question of understanding the roots of these ideas. Look how many members of the Mont Pelerin Society are former Fabians.

"How are such transformations possible? It is only because they are currents of the same liberal economic thought, like Adam Smith and Karl Marx. Both the New Left and the New Right are going to come together around the program of the postindustrial society; they can be bold and innovative. The problem is the center-left grouping, the part of the Labour Party and the Democratic Party that is tied to the labor movement. The labor movement is the main roadblock to the postindustrial era; they will make alliances with certain sections of the ownership of heavy industry to keep their plants open. The power of the labor movement to hold back progress must be broken."

Reagan seeking bipartisan support

President-elect Ronald Reagan asked for bipartisan collaboration this week to help solve the nation's economic problems. On Jan. 7, Reagan met with Democratic senators and announced, "I want to tell you frankly that I believe the problems confronting us are going to require bipartisan action and counsel and guidance. I've been privileged to have some of that advice already." Senate Minority Leader Robert Byrd responded, "I indicated to the President-elect our desire as Democratic senators . . . to work with the President-elect, with the Republican majority of the Senate."

At the same time, one of the President-elect's chief liaisons with Congress told reporters that the new administration wants to work with Congress on a bipartisan basis. He indicated that one particular House Democrat they hope to work closely with is Rep. Jim Jones, the new chairman of the House Budget Committee. Sources close to Jones indicated that the congressman and President-elect may meet shortly to discuss economic issues beyond budget cuts. The Oklahoma congressman is particularly concerned about a tax policy to increase production and industrial investment.

Briefly

● **THE HOUSE DEMOCRATIC** Caucus meets during the week of Jan. 19 to wrap up House committee assignments. Things may not go smoothly. Conservatives may be planning to challenge some of the liberals whom the House Steering Committee, under Speaker Tip O'Neill's direction, have nominated to the three major committees, Rules, Appropriations, and Ways and Means.

● **JAMES WATT'S** nomination for Interior Secretary came under heavy fire this week from the media of the nation's liberal Eastern Establishment. The *New York Times* on Jan. 6 said, "The Senate should be wary of confirming him [Watt]. The job at Interior requires judicious balance of competing interests, not single-minded extremism on behalf of economic development."

● **LYNDON LAROUCHE, JR.**, who chairs the advisory board of the National Democratic Policy Committee (NDPC) and is an *EIR* Contributing Editor, has issued a letter outlining a perspective for making the committee into a mass-based organization. LaRouche announced that he will circulate a videotaped State of the Nation address to fuel this expansion.

● **JOSEPH CALIFANO'S** law firm in the 1970s, Williams, Califano and Connolly, was the lawyer for the *Washington Post*, which helped hound Richard Nixon out of office. Califano, representing the *Post*, met often with Al Haig, his current client, during the Watergate crisis. The firm also represented international swindler Robert Vesco, whose illegal contributions to Nixon started the investigations into the former President's finances. The firm and its senior partner, Edward Bennett Williams, were also closely associated wtih the Mullen Company, where E. Howard Hunt, the Watergate burglar, was deployed as a front.

Energy Insider by William Engdahl

Natural gas and price decontrol

Increasing production without massive inflation; some thoughts on a very complex issue.

The recommendation contained in the Reagan Energy Task Force report to begin phased decontrol of "all gas prices as soon as possible" has received a good deal of publicity. That language was primarily the work of noted Houston independent geologist Michel Halbouty, who chaired the task force. It raises some tricky issues that need clarification if we are to work our way out of the dead-end energy policies of the previous four years. Let me point to the most important.

Under the Natural Gas Policy Act (NGPA) of 1978, a price regulatory nightmare established more than 30 categories of natural gas ranging from "vintage" (pre-1978) to "new." Prices of gas under NGPA are undergoing a phased decontrol, to be completed by 1985.

Numerous sources in the gas-producing business, in addition to Michel Halbouty, have pointed to a fall in drilling and discovery rates as the result of price controls on gas since 1954. Historically, the production and distribution of natural gas in this country has been manacled by some of the most bizarre restrictions. Exemplary is federal energy legislation which requires a gas-rich state, Oklahoma, to import coal from Montana for utility needs.

The head of the U.S. Geological Survey, Dr. McElvay, was fired by Carter in 1977 for stating publicly that this nation had some 1,100 *years* of natural gas potential left.

It is understandable that experienced geologists and producers such as Halbouty call for an orderly and expedited end to controls. Pre-1978 prices for the regulated interstate market were below economic breakeven in such a large range of cases that the supply side began a dangerous decline, producing such effects as the natural-gas shortage of 1977 and more long-term diseconomies.

But I took special notice when I saw the convergence of certain "free market" conservatives and environmentalists around immediate price decontrol. Reality is more tricky. Environmentalists favor decontrol to force more industrial stagnation which they find so beneficial to their "environment." This is precisely why it is necessary to proceed with caution.

The petrochemical industry alone feedstocks more than 5 percent of all gas consumed in the U.S. Synthetic fibers and fertilizers are heavily dependent on this. An immediate, sharp price escalation in the face of the present industrial decline, aggravated by 21 percent interest rates, would indeed be catastrophic to the nation.

I spoke with Ben Schlesinger, vice-president of the American Gas Association. While endorsing most of Halbouty's recommendations on natural gas, he pointed to the inclusion of vintage gas as economically indefensible at this point.

The vintage gas now under contract from producers for a typical 20-year contract term, will constitute an estimated 60 percent of total gas supply by 1985. The NGPA keeps price controls on this gas from already discovered fields. It reserves relative price incentive, then, for development of new reserves. There are signs this is yielding results.

In 1979, we increased our proved reserves by 35 percent more than the previous year, a 12-year high. Gas production itself also increased in 1979, reversing a downward trend since 1972. In short, the basic policy of fostering more production and building reserves is succeeding with establishment of a predictable wellhead price decontrol, phased over several years.

Government regulation has reached an unprecedented degree of absurdity and destructiveness over the last several years, particularly under Carter's neo-Malthusian economy of scarcity. The new administration comes in with a clear mandate to reverse this. In the heat of battle however, some producers occasionally seek to throw the baby out with the bathwater. A complex economy requires strong central government leadership to unleash this nation's productive potential. There are regulations and there are "regulations." Immediate and full price decontrol of vintage gas right now could tip the economic scales irreversibly. This must clearly be avoided, while we meantime bring gas prices more into line with pricing on a BTU-equivalent basis, to reflect its energy value. That doesn't mean there aren't other regulatory knots that should not be cut to further spur production.