EIR

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Mexico chooses its next president
What Japanese leaders say about Haig and Volcker
IMF annual meeting issues a death sentence

Remonetizing gold for expanded credit, not deflation: the LaRouche plan

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EIR

From the Editor

Gold remonetization is moving toward the center of the U.S. financial agenda; and although many administration spokesmen still foreswear the idea, and many of its sponsors intend to use gold as a contractionary tool in their deliberate triage of the world economy, *EIR* believes that the proponents of industrial development can employ this opportunity. Hence our Special Report.

As detailed in the remonetization proposal prepared for *EIR* Founder Lyndon H. LaRouche, Jr., the stabilizing, counterinflationary virtue of gold is realized when gold is used as backing for adequate and proper credit flows, to ensure tangible investment and the resulting productivity increases. The monetarist gold proposals circulated under the "supply-side" label propose that the amount of physical gold should determine the availability of credit; from LaRouche's standpoint, gold and paper are simply means to an end, expanding the rate of growth and technological breakthroughs.

The Special Report was written by Kathy Burdman and Richard Freeman, with an introduction by Economics Editor David Goldman. We think it should circulate very widely indeed.

This week's Economics coverage includes dispatches from Mr. Goldman and European Economics Editor Laurent Murawiec, who attend the Sept. 28-Oct. 2 IMF conference in Washington. Our International intelligence focuses on U.S. allies' resistance to the maniacally anti-growth policies enunciated at that conference—including a discussion by Mr. LaRouche of West German opposition to "green fascist" environmentalism.

I also want to call your attention to Robert Dreyfuss's report on the evidence of mass slaughter accelerating in Iran. Since Khomeini was put in power by the depopulation networks—and as we warned over a year ago in our July 15, 1980 Special Report on "Genocide in Iran"—the destruction of its own people has been the regime's goal. Action is needed at once to avert a new Kampuchea.

Robyn Quijano

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Special Report

Lyndon H. LaRouche, Jr. (third from right) with his wife, Helga Zepp-LaRouche, at the Seabrook, New Hampshire nuclear power plant site.

Virginia Baier/NSIPS

International

National

The IMF's annual meeting issues a death sentence

by David Goldman and Laurent Murawiec

Treasury Secretary Donald Regan's efforts to portray America in an aggressor role to the contrary, the principal victim at the International Monetary Fund's annual rites in Washington was the United States. That is not to minimize the ghastly demands placed on the oil-importing countries in the developing world, who were told to undertake sacrifices that will endanger the near-term existence of a large part of their populations. However, the events of Sept. 26-Oct. 1 might well be cited among future historians as the final coming apart of America's leading role in the postwar period. No one appeared to understand this less than President Reagan, who appeared before the delegates Sept. 29 to praise the "magic of the marketplace," at a moment when markets were going through the first squall of an international financial crisis.

The difficulty in sorting through the results of the world's chief forum for deliberation over the world economy is that the facade presented by the IMF leadership is ugly enough to divert attention from an even uglier underlying truth. IMF Managing Director Jacques de Larosière's annual assessment of the world economy was frankly chilling, and the demands for tougher economic restrictions on the almost-broken economy of the developing world he presented provoked screams of pain and rage from many developing-sector delegates. Treasury Secretary Regan, meanwhile, cast himself in the "tough cop" role in a grand exercise to intimidate the developing nations into accepting tougher conditionalities from the IMF, losing America more friends than any treasury secretary since John Connally in the midst of the 1971 currency crisis.

Zijlstra's policy

Nonetheless, Donald Regan's thuggishness and Managing Director de Larosière's brutal pessimism were merely instruments of another policy rather than ends unto themselves. Virtually ignored in the press accounts was the only major policy statement in which a fully elaborated policy was brought out: the Sept. 27 speech of the retiring president of the IMF's older and more powerful sister institution, Jelle Zijlstra of the Bank for International Settlements.

Zijlstra stated bluntly that the crude methods of the Federal Reserve, modeled on those of Britain's Thatcher government, would not outlast the immediate period ahead. He wants, instead, a world central bankers' dictatorship: management of the gold price, management of individual nations' exchange rates, credit controls in all national sectors, and wage controls in all national sectors. An index of how far the Zijlstra address stood above the dumb brutality of the IMF's pronouncement is that his speech, to the private Per Jacobsson Foundation, was the only one (excepting the South Africans) to mention the word "gold." The monetary management of the Federal Reserve merely

Peasants in Sri Lanka: no technology without credit.

produces self-feeding, uncontrollable consequences, Zijlstra implied, and the outcome must be some return to gold as a principal reserve asset, if only because the Federal Reserve will have destroyed the dollar's capacity to function as such. He additionally wants to ensure that the central banks, for whom the Bank for International Settlements acts as central banker, controls the entire process from the top.

'Unsustainable' proposal

The formal proposal of the U.S. Treasury, which colored the tone of the communiqué issued by the IMF's directing Interim Committee, is that the "unsustainable" $100 billion current account deficit of the developing countries must be reduced at the expense of these countries' imports. That such action is impossible is indicated by the sole fact that three-quarters of these deficits are due to the impact of record high interest rates on their debt service, and only one-quarter is due to their trade deficit. In an August speech, de Larosière argued that preventing "overpopulation" was the overriding issue determining all other policy toward the developing countries. But he reacted angrily to a journalist's suggestion that his proposals for import reductions in the developing sector would accomplish this goal through ensuing famine and disease.

In different ways, both American and European bankers treated this suggestion with contempt. Chase Manhattan Chairman Willard C. Butcher called for more IMF resources to cover the developing nations' deficits in an interview. More to the point, Deutsche Bank Chairman Wilfried Guth, the most influential West German financier, growled, "[Treasury Secretary Donald] Regan cannot get away with this. All of world opinion is against him."

The hard fact is that the bankers, who have been financing roughly 80 percent of the expanded Third World current account payments deficit, cannot continue to do so without massive support from the International Monetary Fund. Backhandedly, Secretary Regan acknowledged this by indicating sympathy for a plan for a "private loan guarantee agency" surfaced in the Joint IMF-World Bank Development Committee. But the IMF cannot provide the required resources, certainly not on the scale of its $12 billion annual rate of lending during 1981, for the simple reason that no one is prepared to give it the money. The U.S. Congress, in the midst of a bitter struggle over budget cuts, is less than likely to consider new contributions to IMF quotas. It therefore costs Secretary Regan nothing to oppose them, since he is not likely to persuade Congress to give them. The Saudis, who made substantial loans to the IMF earlier this year, have little intention of throwing good money after bad, and the Europeans view the IMF as an enemy. West German Finance Minister Hans Matthöffer reportedly made clear to the Americans during the Sept. 26 meeting of the Interim Committee that the Europeans would under no circumstances step in to replace the role of the Americans in financing the International Monetary Fund.

The world's path to financial crisis was neither slowed nor diverted by the exercise. On the contrary, the sudden collapse of international stock markets on Monday, Sept. 26, struck the delegates almost as a Sophoclean foreshadowing. Those interventions were important that started from this standpoint.

How the British set the United States up

The Bank of England cannot be accused of ignoring the important issues, in the same way that Britain's Chancellor of the Exchequer Sir Geoffrey Howe did in his performance during the monetary fund meeting. In its most recent quarterly review, released a week before the Washington event, the Bank outlined in some detail how a crisis in the $600 billion interbank market might bring the entire banking system crashing down. Briefly, the Bank explained that the enormous dependence banks have developed on each other's short-term deposits means that a crisis in any part of the system might immediately turn into a chain reaction that would engulf the entire system.

The logical assumption is that the Old Lady of Threadneedle Street is prepared for crisis. However, the

British Exchequer's principal activity over the past several weeks has been to set the United States up as the apparent culprit. As a senior British source explained, all of the Treasury's (and Federal Reserve's) monetarist bravado were imported from Britain's Thatcher government, largely through the Washington-based Heritage Foundation, the semi-official U.S. outlet for Thatcher politics. Once having persuaded the United States to adopt the Thatcher approach, Britain's Chancellor of the Exchequer Sir Geoffrey Howe proceeded to distance himself from the American position. At the Commonwealth ministers' meeting in the Bahamas Sept. 22-23, Howe put together a communiqué bashing the United States on the interest-rate issue, the tough loan conditionalities issue, and other relevant items. Britain is "building bridges to the developing countries," as Howe noted at his Sept. 30 press conference in Washington, letting the U.S. do the hatchet work.

Considering the short time between this meeting and the Cancún summit meeting at the end of October, the effect of this gambit will be to ensure that the United States has no capacity whatsoever to strike an agreement with the Third World, i.e., that President Reagan will be unable to talk sensibly with such developing-world leaders as Mexican President José López Portillo or India's Indira Gandhi. President Reagan's sermon on the wonders of the free market did not impress nations who are struggling to preserve the functioning of state-owned industries which, in the case of India, Mexico, and others, form the foundation of their economies. His praise for the Caribbean basin model for development was an insult, however unintentional, to every competent financial official in the Third World. The "Caribbean basin" slogan, hatched by David Rockefeller and a handful of American bankers, is a code-word for endorsement of Jamaican Prime Minister Edward Seaga's efforts to base development financing on the proceeds of the local marijuana crop.

British ambitions

As the attached interview with Commonwealth Development Corporation Chairman Peter Meinertzhagen indicates, the British are nursing imperial ambitions. They honestly seem to believe that the new incarnation of the old empire, the British Commonwealth, will emerge as the only functioning forum for negotiations between advanced and developing countries (a notion which senior Australian and New Zealand officials dismissed as a good try without much prospect of success). They envision Britain's role as a mediator between East and West, North and South, Europe and the United States—and set the dumb Americans up to this purpose.

Only slightly more surprising than this is the fact that the French "Imperials," the old Orléans crowd who put new French President Mitterrand into power, are wholeheartedly in on the game. French Development Minister Jean-Pierre Cot, a second-generation French anglophile, told *EIR* that "the British, and Sir Geoffrey Howe, have softened their position considerably over the course of the summer. With the British on this track, we now think that we can have a unified position toward the Third World." If the British are out to pick up the pieces of a shattered American century, the French "Imperials," the banques d'affaires and old nobility who pushed the Giscard government out last spring, want a piece of the action.

Canadian Finance Minister Allan MacEachen, the chairman of the Interim Committee this year, gave some indication of what the British have in mind for the United States, in a fairly blunt call for currency surveillance by the IMF over the American dollar. MacEachen stated in his address to the IMF, "I fully support the emphasis placed by the Interim Committee on the Fund's surveillance role and the need for timely and frequent consultations with member countries whose policies impact on the orderly functioning of the international monetary system. This is particularly important at a time of major payments imbalances and turbulent international financial and exchange markets." Politely stated, this is again Jelle Zijlstra's management of exchange rates on a supranational basis.

Survival tactics

Whether Britain's Imperial game will succeed is highly questionable, since most of the rest of the world has no intention of playing along. The West Germans came to the Washington meeting to lie as bold-facedly as they could, and draw attention away from the present negotiation of a DM 120 billion industrial deal with the Soviet Union. "I have never considered Eastern exports to be a stabilizing factor," said one German official in an off-the-record exchange. "They seem to be destabilizing the Reagan administration, for example." However, for the public record, Germany's big four banks called in the entire German press corps in the middle of the meeting to deliver a resounding, hypocritical endorsement of everything the Americans had to say.

Third World reaction divides itself into three areas. At the Interim Committee meeting, Philippines Finance Minister Cesar Virata was reported to have told the Americans that if the IMF did what the U.S. demanded, some Third World countries would simply pull out. He later told journalists that he had only said that the Third World might no longer come to the IMF for loans. As an adviser to the Philippines delegation explained privately, this country, like some other Asian countries, is confident that Japan will continue to support them with trade and development credits, no matter what the IMF does. Hence, they are confident enough to tell the IMF where to get off.

On the opposite side of the spectrum are countries who are cringing for the good graces of the IMF and the leading American banks, e.g., Turkey. They see themselves with little other choice than to knuckle under to the Americans' demands and hope for money. Turkey's Finance Minister Turqut Ozal explained his country's position eloquently in an interview with *EIR*. The same is true for Argentina, Uruguay, and a large number of other countries.

In a different way from the Philippines, the Indians came out fighting. Secretary Regan has made the IMF's proposed $5.8 billion loan to India a major issue, demanding a review of the agreement, even though India was entitled to that amount under the agreed present lending roles of the Fund. Indian journalists intervened at every press conference to denounce the American position, to the point of demanding that Sir Geoffrey Howe denounce Secretary Regan for this outrage during Howe's own press conference! (Taken aback, the British Chancellor demurred.) The simple point is that while the Philippines is close to Japan, India is close to the Soviet Union. Both countries have a fallback position outside the orbit of the United States and the International Monetary Fund.

Japan's delegate, the Bank of Japan Governor Haruo Mayekawa, told the meeting that "we intend to cooperate steadily with the developing countries so that the living standards of the public in these countries will be stabilized and improved." He emphasized that the "improvement of the economic fundamentals in each country is essential," which should be read as a statement that Japan will continue to do whatever it pleases, whoever likes it or not. Of course, the impact of Japan's policy is limited to a relatively small group of its Asian trading partners.

Centrifugal forces

As the outgoing Bank for International Settlements president recognized, the centrifugal forces set loose by the Federal Reserve's interest-rate program have taken over. Every nation in the world is scrambling for survival as best it can, and the status of friend and ally of the United States has lost its meaning, until American policy changes. Chiefly to be regarded in this situation is the danger and unpredictability of forthcoming events. Should the crisis merely proceed, the world might well end up in the hands of Jelle Zijlstra and his collaborators, to its great detriment. But other forces are at work. No matter how self-injuring was the performance of the United States at the just-concluded meeting, the possibility still exists that Americans will wake up one morning to the realization that the once-dominant world leader is becoming a second-rate power, and decide to do something about it.

Documentation

Regan: 'Financial resources are limited'

U.S. Treasury Secretary Donald Regan held a briefing for a small group of reporters attending the conference on Sept. 29:

Q: The problem with world liquidity, the LDCs say, is not the volume, but the composition and distribution; they have piled up $400 billion of debts in the last decade.
Regan: The argument has some validity. But what would happen to a new tranche of Special Drawing Rights? There are other means available: increase exports, watch the balance of payments carefully. . . . I am pleased that the idea shared by everybody here is get your own house in order, combat inflation, get the deficits under control.

Q: Is conditionality strong enough, in your mind?
Regan: For IMF conditionality, our concern is that perhaps, with the added resources gained by the Fund in recent years, there might have been an easing of conditionality. We do not want to see that happen, that's it. So we surfaced the problem, drew attention to it, got people alerted. They will be strict: we are satisfied.

Q: You have proposed to "graduate" countries into the hard-loan windows from the concessional or favored-loan windows. How do you want to do that?
Regan: If a country is able to get hard loans, it will be "matured" from IDA [the World Bank's International Dvelopment Agency] to the hard window. Other, more developed nations, will have to go to the market. They will not entirely be thrown out of the [World] Bank, but they will have to set more reliance on the markets . . . and many countries are still able to borrow on the private markets. . . .

Q: Will the Fund continue to borrow 5 to 6 billion SDRs a year, and will the U.S. continue to contribute?
Regan: Lengthy negotiations between the U.S. and the Fund will be required to determine this.

Q: What did you discuss with your fellow finance minister?
Regan: The ministers will leave Washington encouraged to get their budget deficits under control. There was no discussion on interest rates, and there was no pressure applied on us on the question of interest rates.

Q: Some Third World countries are very pessimistic after this meeting about their prospects of obtaining funding. Do you intend to provide them with assurance, or is the aim of your statements precisely to deprive them of such reassurance?
Regan: We are very sympathetic to the plight of these countries—but resources are limited. We are cutting our own expenditures. We do not have enough funds.

Q: The Canadian finance minister did not seem to adhere completely to your view that conditionality must be tightened. Does the communiqué of the Interim Committee fully reflect the U.S. position?
Regan: Well, they are all asking now for tighter conditionality. So we are pleased to see that our position has received support.

Regan: 'No effect on the Cancun summit'

Treasury Secretary Regan had the following discussion with EIR *European Economics Editor Laurent Murawiec on Sept. 29:*

Regan: I am pleased to see that in this whole IMF meeting, nobody at all brought up the subject of gold.

Murawiec: What about Jelle Zijlstra? His whole Per Jacobsson Memorial Lecture was a call for the remonetization of gold. I would not consider the 10-year head of the Bank for International Settlements a nobody.
Regan: Well, it is of course, interesting, interesting that someone has shed some light on this subject. . . . As far as the U.S. is concerned, we remain neutral until the Presidential Commission on Gold has delivered its conclusions.

Murawiec: Out of $96 billion that is officially required to finance the Third World's current account deficit in 1981, about $40 billion remain to be lent in the fourth quarter alone. Now you are talking about tougher conditionality while Third World countries have already cut down their imports to the bone. Are you just playing a Mutt-and-Jeff routine with them?
Regan: I don't know about Mutt and Jeff. They are comics. When I want to be comical, I am comical. We are just trying to put forth our view that the IMF should give a hard look to any loans they grant, and be strict on the rules.

Murawiec: Bankers here say they are desperate, that it is not going to be possible to finance the deficits, which will lead to many defaults and more rescheduling. Do you think your own well-publicized comments are helpful to them?
Regan: Are you implying that the bankers would ask the IMF to ease off on conditionality? That would be funny coming from bankers. I'd rather think they would want us to be tougher. With stable economies come more stable currencies, and that's it. Why intervene on the foreign-exchange markets? We think that fluctuations of the exchange rate set the terms of the rate of exchange properly. Intervention does not help. We have not intervened in the recent period.

Murawiec: You have intervened with interest rates.
Regan: With monetary policy, yes, naturally.

Murawiec: How do you think your behavior here and your line on conditionality is going to affect President Reagan's position at the Cancún [North-South] summit?
Regan: Not at all. No effect at all. Conditionality we discuss here; at Cancún they will discuss something else. Conditionality won't have any effect on the Cancún summit.

De Larosière: 'No other path to follow'

From the address by Jacques de Larosière, managing director of the IMF on Sept. 29:

The world is experiencing the ravages of persistent, unevenly controlled inflation and of economic stagnation, while still adjusting to the effects of the second increase in oil prices. These conditions are reflected in an alarming and rising level of unemployment, massive balance of payments disequilibria, high interest rates, and exchange markets more unstable than at any time since the major currency realignments of the early 1970s.

The world economy must adjust to the demands of the present situation. . . . This adjustment effort is already under way. It is only at its beginnings, however, and progress too often seems hesitant. The initial effects of adjustment policies are often hard to distinguish from the shocks of the crisis itself. Reaction to the measure adopted often masks the underlying progress achieved.

Progress is apparent in five areas. . . . First, the energy dependence of the industrial countries is continuing to decline. . . . Second, domestic monetary management has generally been more prudent than it was from 1974 to 1978. . . . Third, improved control over the growth of the money supply helped to explain the more moderate behavior of prices and wages . . . wages have reacted more moderately than after 1973 to the upsurge in prices during 1979 and 1980. . . . Fourth, whereas consumption by households rose faster than total output in 1974-75, it is productive investment that has performed especially well since 1979. . . .

Fifth and last, the balance of payments on current account of the major industrial countries, which had deteriorated sharply from 1978 to 1980 in the wake of the oil price increases, is now righting itself. . . . Whatever the criticisms and pressures in this area, however, I think it would be a great mistake to surrender to them by raising the monetary targets.

The fact remains that the current account deficits of the non-oil developing countries are still excessive, and reinforcement of their adjustment policies is essential. Half of these countries have deficits amounting to at least 13 percent of GDP, more than three times as large as a decade ago. Such imbalances cannot be long sustained. The debt burden involved in financing them is growing, rising from an average of 14 percent to 18 percent of exports of goods and services between 1973 and 1981. In some cases, this burden is intolerable.

Clearly the progress yet to be made in this direction will require great courage and perseverence on the part of low-income developing countries, for it is in these countries that adjustment is particularly costly in human terms. But there is no other path to follow. . . .

Reagan: 'The magic of the marketplace'

Excerpts from President Reagan's address to the IMF meeting Sept. 28:

We who live in free market societies believe that growth, prosperity, and ultimately human fulfillment, are created from the bottom up, and not the government down. . . .

The societies which have achieved the most spectacular broad-based economic progress in the shortest period of time are not the most tightly controlled, nor necessarily the biggest in size, or the wealthiest, in natural resources. No, what unites them all is their willingness to believe in the magic of the marketplace. . . .

So let me speak plainly: we cannot have prosperity and successful development without economic freedom. Nor can we preserve our personal and political freedoms without economic freedom. Governments that set out to regiment their people with the stated objective of providing security and liberty have ended up losing both. Those which put freedom as the first priority also find they have provided security and economic progress.

The domestic policies of developing countries are likewise the most critical contribution they can make to development. Unless a nation puts its own financial and economic house in order, no amount of aid will produce progress. Many countries are recognizing this fact and taking dramatic steps to get their economies back on a sound footing. I know it's not easy—but it must be done.

We are committed to a pragmatic search for solutions to produce lasting results. Let us put an end to the divisive rhetoric of us versus them, North versus South. Instead let us decide what all of us—both developed and developing countries—can accomplish together. Our plans for the Caribbean Basin are one example of how we would like to harness economic energies within a region to promote stronger growth.

Butcher: 'Conditionalities and more IMF resources'

Willard C. Butcher, the new chairman of Chase Manhattan Bank, had the following discussion with EIR's David Goldman.

Goldman: The Treasury's position seems to be hostile to any major increase of IMF resources. Doesn't this worry the private banks?

Butcher: I don't know how hostile the Treasury position is. What I think the Treasury is saying is that the IMF shouldn't lend for development—that's the World Bank's job.

Goldman: The Treasury is saying that the reduction in the developing countries' payments deficits is going to have to come out of their imports. Do you think this is realistic?

Butcher: We have imbalances, and that means we need an adjustment process, but it also means we need conditionalities to assure that the right kind of steps are taken by these countries. I believe that the IMF needs more resources. The developing countries have been helped in a way by the interest-rate situation, which has allowed them to earn more interest on their reserves, but they have also been helped by the fall in oil prices. That won't be with us forever. I strongly feel that the strength of the dollar has kept oil prices down, as well as the willingness of the Saudis to produce more—and we can't count on them to do that forever. So I think there will be a healthy demand for funds out there a year from now.

Goldman: Are you confident the market can handle the deficit countries' credit requirements over the next few months? When do you see the IMF needing additional resources?

Butcher: It's very difficult to predict the timing. I'd say roughly toward the third quarter of 1982. But the IMF isn't the kind of institution that can wait to assemble funds until it needs them. Look at how long it took us to get our last IMF quota increase through Congress. The IMF is going to have to—from the monetary side—have more resources.

Lazard: 'Private funds to Third World will drop'

A partner of Lazard Frères, Paris, in a discussion with Laurent Murawiec:

Q: What do you think of Secretary Regan's "more conditionality, less money" line for the Third World?
A: The IMF is the system of the carrot; you need to have a big, big carrot if you want countries to accept conditionalities. Now, Regan wants to cut off the carrot, diminish its size—it's crazy. It makes lending conditions of the Fund more impossible to accept. You can ask that of an individual, he will work more, consume less for some time—you cannot impose this on a government. Or then you will have military governments in these Third World countries, complete chaos. Either Regan displays the most amazing ignorance of the realities and the pathways of the financial flows in the world financial system, or he is determined to do "wishful harm." Why? Well, nobody, is going to be willing to invest in the Third World (except in mines and the like). Take Costa Rica: nobody will go invest there for years now. And the same goes for much of the Third World. The Americans are crazy. What I am concerned with is not so much the [World] Bank but the Fund. It is already extraordinarily difficult to have people go invest in the Third World—but if the IMF is going to give little money, less than until now, it becomes impossible! Regan says that by diminishing official flows of money we will generate an increase of private flow—this is insane! Private funds will not go, their flow to the Third World will diminish, since the Fund will put on less of a seal of approval.

Delors: 'Emphasis on the agricultural sector'

From the speech of French Finance Minister Jacques Delors on Sept. 29:

While stressing the urgency of concerted action with respect to exchange rates, I by no means wish to obscure the negative impact of high interest rates, especially when the effects go beyond the borders of one country and influence all money markets. In this area, however, the countries of the European Economic Community, including France, have as yet been unable to convince their U.S. partner of the seriousness of the resulting risks to the international community. These risks include a dangerous destabilization of the developing countries, crushed by their debt burden, and of the industrial countries, undermined by unemployment, and accentuation of inequalities, and the desperation of the younger generation knocking in vain at the door of the labor market. In other words, we are still faced by the interest-rate problem in all its breadth and with all its consequences. . . .

Likewise, France is more than ever in favor of organizing the major international markets for primary products. It is essential that the developing countries be able to count on more stable and predictable export revenues. . . . As regards the sectoral dimension, our view is that the emphasis must be put on developing the rural sector and agriculture, in conjunction with the other multilateral institutions.

Commonwealth chair: 'The United States is isolated'

Sir Peter Meinertzhagen, chairman of the Commonwealth Development Corporation, gave the following interview to Laurent Murawiec at the IMF conference:

Murawiec: Do you think that the Bank of England's warnings and scenario of a major crisis on the interbank markets are reassuring?
Meinertzhagen: I do not think that the Bank of England's comments are very reassuring. There are very rough experiences ahead for all of us. I do not think that the "escalator" effect the Bank described could play, because there are effective checks and balances. But if some—including the U.S. Treasury and the Fed—think that they could get a Herstatt started and controlled, they're just irresponsible.

Murawiec: Now that the U.S. has alienated the totality of the Third World with Regan's line on conditionality, and since the Fund will not have the money to help, is there anything politically, institutionally, that could help keep the world together?
Meinertzhagen: The Commonwealth could be a great help, in this situation defined by the very tough attitude taken by the U.S. administration. The Commonwealth is there, well operated; the machinery is there, and the U.S. is isolated.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$940 mn.	U.S.S.R./ Western Europe	The Soviets signed contract for 22 of the 41 compressor stations needed for the controversial 3,600 mile pipeline which will carry 1.4 trillion cubic ft. of natural gas per yr. from Western Siberia to Western Europe. The compressor contract goes to consortium of Mannesmann (W. Germany) and Creusot Loire (France) and will also give work to AEG (W. Germany) and John Brown (Scotland). Soviets getting 10 yr. credit at 7.8%. Contract means that the $10-$15 bn pipeline will be built, following opposition from Carter and Reagan administrations and some pricing conflicts.	See news article. Commerce Dept. has okayed use of G.E. parts in 7 gas turbines to be built by Hitachi for pipeline, says *Japan Economic Journal.*
$2.25 bn. plus	India from Western Europe	India has given contract for 1.3 mn. tpy integrated iron and steel making and rolling plant to consortium led by Davy McKee of England with Alsthom of France and MAN-GHH of West Germany. Davy-led group won because of better financing terms. Financing arranged by Lazard Bros., Parisbas, Commerzbank with big gifts from U.K. and French govts. covers complete project, including $720 mn. building costs in India.	India, with 10% of world's iron ore reserves, is doubling steel production.
$20 mn.	Argentina from Canada	Consort group led by Hydro-Quebec won contract for technical services in construction of power stations for 2 dams on Limay River. Further Canadian orders for dam equipment expected for this $1.5 bn. project.	
	Chile from Spain	Chilean air force buying 8 C-101 trainer and ground attack jets from Casa. Will be assembled in Chile.	Carries 30 mm. cannon.
$315 mn.	South Africa from France/ Germany	MAN of West Germany and Alsthom of France won contract for six 600 megawatt coal-fired turbines from South Africa Electricity Supply Commission.	
$53 mn.	Iraq from Italy	A sheet-metal working plant with 66,000 tpy capacity and two other factories for making frames and metal panels will be provided by Incomsa Engineering of Padua, Italy.	Contract signed.
UPDATE			
$multi-billion	U.S.S.R. from West Germany	Soviets offered visiting German Economics Min. Count Lambsdorff participation in 10 big projects following agreement on huge Siberian-Western European gas pipeline deal. Just one of the projects, coal liquifaction in Kansk, Eastern Siberia, involves $multi-bn. investments, estimates *Frankfurter Rundschau.*	
	Brazil from Europe instead of U.S.A.	Brazil and Europe Urenco partners have agreed for Urenco to provide uranium enrichment for Angra I nuclear power station which will go on stream in November. Reactor was provided by Westinghouse, which guaranteed enrichment services under 1972 U.S.-Brazil accords. Brazilians charge U.S. govt. retroactively applying anti-nuclear provisions of Carter's 1978 Non-Proliferation Act, which Brazil won't accept. State Dept. confirmed to *EIR* it was trying to force Brazilian acceptance of 1978 conditions.	Hopes that Reagan would make U.S. reliable nuclear supplier fading fast.

Stock-market slide: a warning?

That precipitous one-day drop in world stock prices may be a harbinger of worse blackmail.

While the dramatic drop and recovery of the world's stock markets Sept 28-29 seems to be over for now, international bank regulators and other major market players believe it could be a danger signal.

Starting in the early morning hours of Monday, Sept. 28, world markets began an oddly uniform slide, when the Tokyo Stock Exchange Nikkei index collapsed 4 percent by more than 300 points to 7037. The Hong Kong and Singapore markets followed suit, and the Melbourne Exchange dropped 4 percent in value as well.

The panic, which really began in Hong Kong and then escalated in Tokyo, was attributed to a general run against stock markets in the British Commonwealth, which were anticipating a major crash of the London stock market later in the day. This materialized right on cue, with the London Financial Times Index dropping 23.6 points to 451.1, a fall of $6.73 billion in value equivalent to a 40-point collapse of the Dow Jones index.

The British Broadcasting Company and financial services tried to lay all this at the feet of John Granville, the eccentric American investment adviser, whose precipitous "sell" order earlier this year caused a one-day panic on the U.S. stock markets. Granville had predicted in a London radio interview Friday Sept. 25 that the British markets would "crash" the following Monday. Granville noted, accurately enough, that the British economy is collapsing and that the British stock market ought to be sold.

In the event, the world "panic" lasted only a day, with most markets recovering to levels above their Sept. 28 lows on Sept. 29. What, precisely, is afoot here?

Knowledgeable market participants are well aware of the fact that while certain "little guys" in the market may take Mr. Granville seriously, he is viewed by major institutional investors at insurance, banking and brokerage firms as a kook, to be polite. Not one of them would move a nickel to sell on a Granville word, in Asia, London, or New York. In fact, during the "great Granville panic" earlier this year, the big institutional investors had the time of their lives buying blithly into the entire stock market at bargains.

More to the point is that the Bank of England, only days before, had jacked up the Bank's Minimum Lending Rate two full percentage points, in the full knowledge that this would probably trigger a stock selloff, as the London *Financial Times* had been warning editorially for days. The excuse at the Bank was that President Reagan's high interest rates are forcing Britain to tighten to defend the value of the pound sterling, but no one in London in fact seriously believes that the Bank is worried about the pound's rate.

Then, at the IMF annual meeting in Washington the next day, British Chancellor Sir Geoffrey Howe and French Finance Minister Jacques Delors both took the occasion to loudly denounce President Reagan's high interest-rate policy. America is "completely indifferent to the real problems of Europe," Delors stated. He warned that unless America submitted to more *"international cooperation"* on its domestic economics, Reagan might suffer the international strategic defeat of a refusal by Europe to station U.S. missiles, thus threatening to collapse NATO.

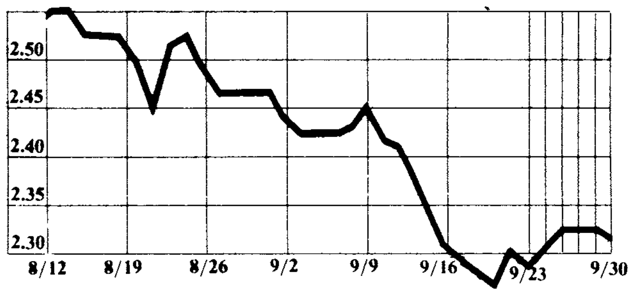
Someone in London and Paris is using the stock market threat as a "warning" to President Reagan, high-level Federal Reserve officials told *EIR* this week. "It's a chicken game."

First off, President Reagan is being totally discredited and the U.S. standing in world affairs is being emasculated by what is perceived as a world crisis of confidence in his economic policy. The market crash comes on top of a debacle on U.S. bond and Treasury bill markets as Wall Street rejects the President's program.

More dangerous, said the official, the British, French, and the Basel-based Bank for International Settlements are saying "I told you so," about Reagan's policy, and are demanding "more multinational coordination of U.S. macroeconomic policy." The Fed source said the BIS wants the U.S. to make an international agreement for more budget cuts and less military spending to bring down inflation. America, he said, should submit to monthly BIS and OECD "surveillance" of its budget and other policy. That is the message sent by way of the stock market.

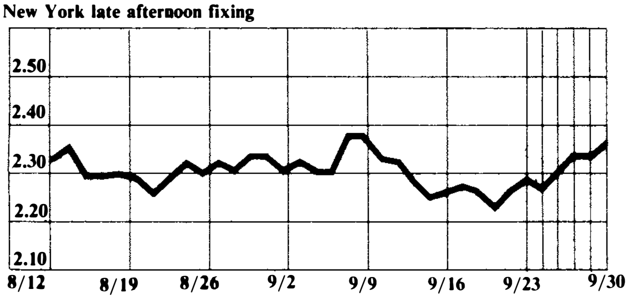
Currency Rates

The dollar in deutschemarks

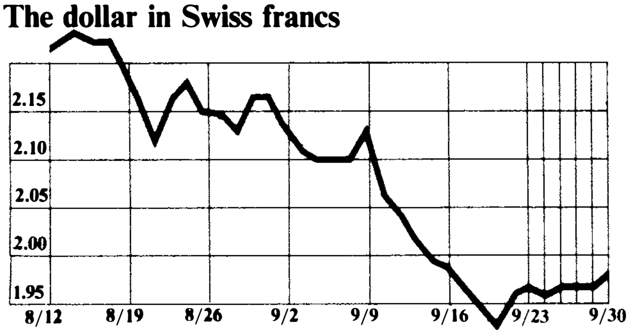


The dollar in yen

New York late afternoon fixing

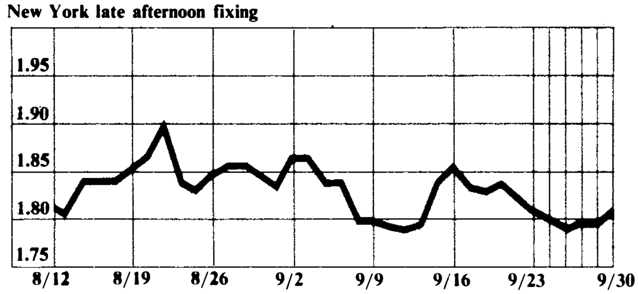


The dollar in Swiss francs



The British pound in dollars

New York late afternoon fixing



Business Briefs

International Trade

Bonn slated for Anglo-German cartel?

Germany must agree to cartelize its export markets with Britain, as a precondition for Britain's joining the European Monetary System, according to an economist at Morgan Grenfell bank in London.

The economist, who has intimate ties to the Royal Institute of International Affairs said Oct. 1 that Britain will stop Germany from selling German goods to British manufacturing and stealing British jobs.

London will emphasize to the Germans that it is one of the world's largest capital markets, and is self-sufficient in oil, but its industry is in a sorry state.

"The old sterling bloc of the Commonwealth created a situation of perfect financing of payments deficits between Britain and the raw materials sources. Now that the sterling block is dead, we can arrange a new perfect payments union with Europe," he explained.

The Morgan economist explained that he joined a Chatham House delegation to Bonn two years ago to propose this idea. "The Germans greeted us with dumb silence and shock." Bonn went on to keep Britain out of the EMS.

Domestic Credit

Volcker dismisses congressional powers

The Federal Reserve chairman, in a letter to the Senate Banking Committee made public Sept. 28, told the U.S. legislative branch that unless it immediately passes full banking deregulation he himself will impose it by fiat.

Volcker's letter stated, "In the absence of this legislation [allowing acquisition of ailing savings banks by bank holding companies] the board believes that the public interest may dictate that the Federal Reserve may soon need to use its existing broader statutory authority to approve bank holding company acquisition of thrifts on a case-by-case basis."

Volcker claimed that the Federal Reserve has statutory authority to approve acquisitions of thrift institutions by bank holding companies, though not by the banks themselves. This would favor those larger banks that have holding companies.

The 187-page report accompanying Volcker's letter argued that the benefits to the banks would include primarily the bypassing of state restrictions on branch banking, and federal restrictions on interstate banking, making clear that bank deregulation, not saving the S&Ls, was the primary motivation for the move. The report conceded that the financial soundness of a bank holding company and its subsidiary banks could very well be damaged, in fact, by acquiring S&Ls, given the depressed state of that industry.

Banking

Morgan Bank joins Polish Solidarists

The New York *Journal of Commerce*, the unofficial voice of Morgan Guaranty Trust, cited unnamed American sources within the Multinational Task Force of banks dealing with the Polish debt stating the American banks will demand a "market-oriented economy" of Poland.

According to the *Journal*, the American banks are pressing four demands, three of which are common to the Polish Solidarists; concentration on agriculture rather than industry, scrapping of industrial projects reliant on foreign resources, and greater autonomy for factory managers. The additional banking demand is for "steep increases in consumer prices."

"Western bankers want to see Polish officials and key groups in Poland—like the Solidarity Union and the Catholic Church—work together so that an economic plan could be adopted and work successfully." said the banker.

The *Journal* quotes the anonymous banker as saying if the Russians invade, U.S. bankers could take legal measures to seize Polish assets in the United States. Poland owes American banks less than 10 percent of its foreign debt.

Insurance

Giants to remain in insurance shakeout

In a speech delivered to the National Association of Mutual Insurance Companies, Bernard Daenzer of Daenzer Associates warned that with the industry suffering $6 billion in underwriting losses already in 1981, "the year 1982 has to be a bad year." There will be many companies, he said, "who will be mortally wounded and have to take drastic steps to unload portfolios at the most inopportune time."

Those that remain, however, will "have a very big pie to share. Although we will have the help of new European, Asian, and Middle East investors, all the new reinsurers, captives and new exchanges, it will be hard to handle the sheer volume available."

Once insurance companies have been jarred loose from traditional functions such as industrial and municipal lending, the small club of remaining companies can concentrate on such high profit items as malpractice insurance, which is eliminating independent doctors' practices, and product insurance, which covers consumer suits against producers.

U.S. Housing

OMB plan will hurt new home expansion

According to a spokesman at the Government National Mortgage Association (GNMA), which issues government securities against Federal Housing Administration-insured home mortgages, the reductions in guarantee levels proposed by the Office of Management and Budget will not only fail to save money, but will diminish the profits that GNMA returns to the government each year.

"Last year we returned $87 million in our total guarantee activity," he claimed. "If the government makes further cuts, it only means that if the conditions allow for a housing boom there will be no federal guarantees to make it work."

The OMB leaked to the press last month that it plans a $20 billion reduction in loan guarantees each year, with most of the cuts eroding GNMA's secondary market operations. The GNMA official said that press reports were the first he heard of the proposed cuts.

It is OMB policy to discourage lending for home mortgages to lighten "the government's impact on the financial markets."

The OMB proposals, which amount to a phase-out of agencies like GNMA, the Eximbank, the Farmers Home Administration, the Rural Electrification Administration, and eventually the Federal Housing Administration itself, may result in increased business for private insurers.

International Credit

Overseas Japanese lending trebles

A leading Japanese banker estimates that total overseas lending by Japan in the April 1980 to April 1981 Japanese fiscal year will prove to have risen to $30 billion, perhaps triple the estimated lending rate during 1980.

"Japanese banks are being very aggressive in lending to developing countries," the banker stated. "If [Treasury Secretary Donald] Regan's sought-for cutbacks in lending by multinational institutions occurs, then the Japanese banks will probably adjust to it by increasing their lending to the developing countries in cooperation with European and American private banks."

This represents a return to the policy of the Fukuda administration of 1976-78, interrupted by the austerity policies of Ohira, an ally of former U.S. Secretary of State Henry Kissinger.

Major moves include a $3.4 billion syndicated loan to Mexico's industrialization program, which is expected to be supplemented by additional export credits from Mexico. The new credits could be very large if Mitsubishi Heavy Industries becomes the successful bidder for a pair of 1-gigawatt nuclear reactors for Mexico; this would be the first instance of Japanese nuclear export.

Most of the enhanced Japanese overseas lending is based on an inflow and recycling of OPEC funds.

Population Strategy

Canada's foreign minister upholds Peking model

Mark McGuigan, Canadian foreign minister, told a eporter Oct. 2 that "There cannot be a solution to any problem in the world without population control." "China," he said, "is one of the most advanced countries in terms of population control. China makes it a point to have heavy economic and othe disincentives if you have more than one child."

Transportation

Largest air freight firm cuts 27 percent

The Flying Tiger Line, which carries 30 percent of the nation's air freight, has announced that it chopped more than a quarter of its domestic flights as of the first of October.

Russ Emerson, senior vice-president for scheduled services, blamed a slumping economy and the effects of the continuing air traffic controllers' strike.

The Tiger Line's reduction indicates that air freight will be diminished in proportion to the permanent 25 percent reduction of airline passenger service, preplanned by the industry, blamed on the strike.

Tiger-Lines, however, will increase its London-centered European flights.

Briefly

● **ALLIED-GENERAL** Nuclear Service Corporation, which operated the spent nuclear fuel reprocessing plant in Barnwell, South Carolina until it was closed by Jimmy Carter in 1976, will get international help in reopening the plant. Japanese sources report that the White House has asked Japan, West Germany and Great Britain for over $1 billion in financing to produce at maximum capacity, or enough fuel for 62 one-gigawatt light water nuclear reactors. The Reagan administration says it will export fuel to Taiwan and South Korea.

● **BARCLAYS BANK,** in its latest financial survey, predicts that U.S. and U.K. interest rates will decline next year, but adds: "Until the precipitate fall in sterling is firmly arrested, any other consideration regarding interest rates will be subordinate. The National Westminister economic outlook is that British interest-rate policy makes it less likely that the U.K. will join the European Monetary System.

● **ELIZABETH BAILEY,** a member of the Civilian Aeronautics Board, has issued a "preliminary final" report asking for the end of all collection and reporting of airline carrier financial data. All statistical data on passenger and freight transportation on airline segments will also be eliminated. Challengers to air rates will no longer be able to use CAB figures to argue for rate adjustments.

● **PAUL VOLCKER** ran into our European Economics Editor, Laurent Murawiec, at the IMF conference several times. On Sept. 29, as soon as *EIR* founder Lyndon LaRouche was mentioned, Volcker retorted: "You haven't impeached me yet." He turned away, then came back. "Where do you people get your money?" Murawiec: "From people who hate you."

A return to gold: world deflation or expanded credit?

by David Goldman, Economics Editor

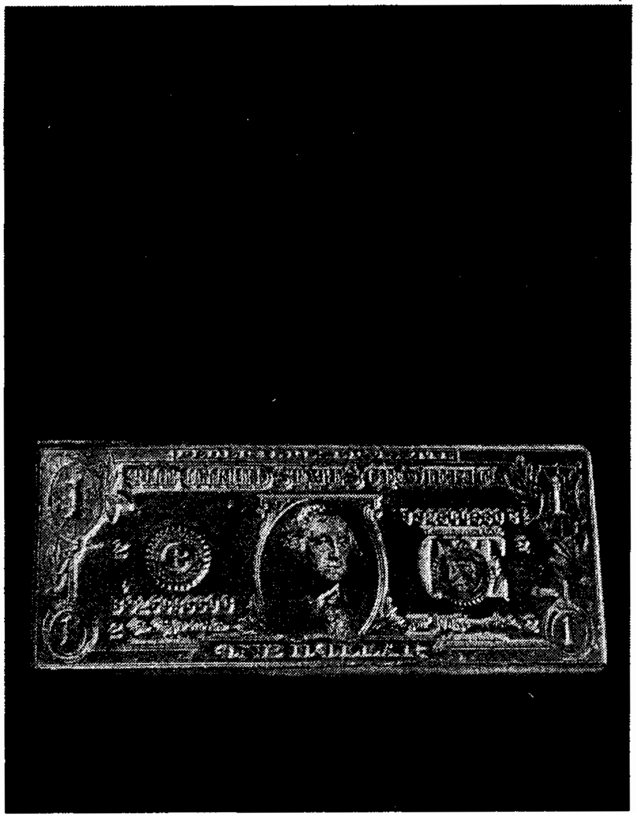
The U.S. Federal Reserve's determination to take the world monetary system to the point of crisis, in an exercise of economic brinksmanship, has forced the option of returning to a gold-based monetary system into the international forefront. However disappointing have been the results so far of the President's study commission on gold, the attention given it reflects an undeniable underlying reality: that "gold is no longer a dirty word," as Dutch central banker Jelle Zijlstra told an elite banking audience at the International Monetary Fund meeting in Washington.

Not if, but when and how, are the right questions to ask. The U.S. dollar unsupported by gold cannot function as the leading international reserve asset during the 1980s as it did, poorly, during the 1970s.

The 10 years since gold backing for the dollar ended on Aug. 15, 1971 have culminated in a classic bubble of credit expansion on the Eurodollar market, mainly to capitalize the pricipal and interest due on the previous Eurodollar expansion. For the first time, the leading body of the International Monetary Fund, the Interim Committee, pronounced the deficits of the oil-importing developing countries—estimated for this year at $96 billion—to be "unsustainable."

The 1970s dollar monetary system, based on manipulations of uncontrolled international markets operating without reserve requirements on bank deposits or any other form of central bank supervision, has gone to ground on these "unsustainable deficits." Whatever form the repair takes—and matters could proceed either for good or ill—the world's central banks will have to mobilize the one means of payment they have whose validity cannot be challenged, namely gold.

Gold's remonetization began, in fact, with the pooling of 20 percent of Europe's gold in early 1979 through the European Monetary System (EMS). The pooled gold was matched to credits that Europe's central banks could draw against each other for intervention on the foreign exchange markets, to



Philip Ulanowsky/NSIPS

maintain the eight member currencies of the system within a fixed-parity band of fluctuation. The EMS buffered Europe's economies from the potentially devastating effects of sudden swings in currencies' values, intolerable among countries whose economies are intimately linked with one another. The delimited achievements of the EMS would not have been possible without partial remonetization of gold.

However, it says little to point out that when the Eurodollar market gives way, gold will become the basic international means of payment among central banks. What monetary and *economic* program that implies is another, and fundamentally more important question.

The actual issue under debate is whether gold's reintroduction into the world's official monetary life occurs through a brutal *deflation,* or whether gold-based credit is oriented towards an *expansion* of international trade and productive investment.

We include in this section a proposal prepared at the request of *EIR* Contributing Editor Lyndon LaRouche, Jr., now circulated through the National Democratic Policy Committee, whose advisory committee LaRouche chairs. Under the LaRouche plan, nations would obligate themselves to settle their current-account payments balances with each other through transfer of gold, in order to discipline their domestic credit issuance in favor of productive credits.

LaRouche proposes to combine gold-reserve status for the dollar with a domestic issue of U.S. notes to replace existing Federal Reserve notes. The latter would enter the economy through Treasury participation in commercial bank loans to expand manufacturing and other goods-producing activity. The argument is simple: the United States can issue any volume of credit it wishes so long as the *effect on the real economy* of this credit is to expand output of tangible wealth. Gold settlement with trading partners disciplines Americans to produce sufficient goods for export to ensure this takes place.

We also present in some detail the competing proposals for gold remonetization, including those associated with "supply-side" economists Lewis Lehrman, Jude Wanniski, and Arthur Laffer, as well as the proposals of the Bank for International Settlements and the U.S. Federal Reserve System. To our knowledge. *EIR*'s publication of the latter two plans is exclusive at this time.

Monetarism revisited

In one fashion or another, both the "supply-side" and the central bank plans amount to a supposedly improved form of *implementation* of the same monetarist policies that got the world into its present crisis status. Outgoing Bank for International Settlements President Jelle Zijlstra agrees with the "supply-siders" that the Fed's present methods of monetary management are haphazard and incompetent; like them, he ultimately seeks for ways to prevent credit issuance more effectively than the Federal Reserve policies. Although some of the "supply-siders," such as Jude Wanniski, argue that their plans will not produce deflation and economic downturn, careful analysis of the programs in circulation makes it difficult to foresee any other possible result.

The European Monetary System, drawn in part from a plan for a European "Golden Snake" LaRouche published in 1974, and the LaRouche program presented inside, agree with the others on the inevitability of gold remonetization; yet the underlying economics involved are fundamentally different. The present bankruptcy of the dollar has one simple cause, namely that the Eurodollar market—now counted at about $1.3 *trillion* in offshore dollars—has grown *seven times faster than international trade* during the past 10 years. The Federal Reserve's mismanagement has severed the growth of credit from the growth of productive investment and trade.

Fed Chairman Paul Volcker's tight-credit regime has accelerated the "wedge" between credit expansion and real economic growth, because high interest rates shift funds into short-term, quick-turnover forms of speculation, away from long-payoff productive investment. The cure must take the form of the restriction of credit expansion to nonproductive, speculative sectors, and availability of credit to the goods-producing sectors of the economy. What ultimately will make the dollar "as good as gold" once again is American productivity.

The LaRouche gold proposal: averting economic depression

The National Democratic Policy Committee under the direction of Advisory Board Chairman Lyndon LaRouche, issued the following urgent resolution on gold policy Sept. 22.

Even at this late hour, the re-introduction of gold into the world monetary system can prevent a major financial crisis and economic depression. The Federal Reserve's incompetent, destructive monetary policy has already pushed the U.S. economy into the second stage of a depression that began immediately after Chairman Volcker's "Saturday Night Massacre" of Oct. 4, 1979. Between now and year-end, unless appropriate countermeasures are adopted, the U.S. financial system will endure a liquidity crisis on a scale worse than that of 1929-33.

This is a war for the survival of the United States, not—as the Fed has argued—payment for the past sins of largesse committed by previous administrations. America's banking system is already under the dictatorial control of the "offshore" money markets, which the Fed has transformed into the only source of liquidity available to American borrowers. Remonetization of gold is the step required to win the war on behalf of American productivity and living standards.

Step one is to remove the gold issue from monetarist incantation over "market perceptions," "inflationary expectations," and "monetary control." Those disciplines which the American financial system requires may be reduced practicably to a single overriding constraint: we must restrict the expansion of credit to those uses which will improve productivity, output, and exports. That is, we must do the opposite of the Federal Reserve's supposedly "restrictive" program, which has added $25 billion per year to federal debt-service costs and deficit-financing needs, and a debt-service burden to the private sector that forced a 35 percent annual rate of credit expansion during the first eight months of this year.

The proper use of gold is to build such a constraint into our financial system, through our financial relations with other nations. The specific measures required to bring about this arrangement are straightforward and clearly understandable to a majority of the American population, once we agree that monetary controls exist to address the real problem, the state of the economy's productive base.

Below, we outline the requirements of a return to gold-based monetary stability, and explain why the competing monetarist versions of the gold standard have no hope of success.

1) Remonetize American Treasury gold reserves at $500 per ounce or the market price, whichever is higher.

In current capital-goods and labor costs, $500 per ounce is the marginal price of gold, i.e., the price at which new gold mines may be brought into production on sufficient scale to assure an adequate supply of new monetary gold.

2) Establish the value of the U.S. dollar as a fixed weight of gold, e.g., one-five hundredth Troy ounce of gold, and agree to exchange gold in payment for current account deficits or surpluses with nations who follow a similar monetary policy.

By agreeing to exchange gold with nations to balance our current account payments (merchandise trade plus shipping, insurance, tourism, and similar services), we are making a commitment to pay our own way in international trade.

However, we will do this only with nations that adopt the same program. In practice, there is little question that most of the nations that now belong to the European Monetary System, a gold-reserve and fixed-currency agreement among the eight leading European countries, as well as Japan, would join such an agreement enthusiastically.

By making the dollar as good as gold on international markets, this action would immediately bring down interest rates, by eliminating hundreds of billions of dollars in currency speculation and hedging in foreign markets, which consumes the biggest portion of credit generated worldwide.

3) Issue a new series of U.S. Notes against our gold reserve, through participations in productive-investment credits in the banking system.

To make good our promise to pay gold to cover our international accounts with our trading partners, we must simultaneously ensure that the credit we issue at home expands productivity and output. At present the Federal Reserve "prints money" by adding funds to the New York money market, i.e., to the large international banks. Under this system the American banking system opened up $49 billion in credit lines for inflationary, speculative corporate takeovers, but lent on net virtually nothing to basic industry.

The Federal Reserve's method of creating credit is inflationary. We propose, instead, to return to the monetary policy of the Lincoln administration—U.S. Notes issued for productive purposes, and backed by America's ability to back the dollar with gold.

Instead of an independent agency with unlimited discretionary powers to create money, the Federal Reserve should be reduced to a mere agent of the U.S. Treasury, by amendment to the Federal Reserve Act. All discussion at the Federal Reserve or otherwise about "monetary targets" and "desired rates of money growth" at the Federal Reserve or elsewhere is pure bunk. We can create as much credit as we want, provided that Americans can absorb it into new investments in industry, agriculture, mining, construction, and transportation, i.e., activities that add to the nation's tangible wealth.

The Treasury will lend out U.S. Notes at 6 percent interest for investment or working-capital purposes in manufacturing, agriculture, mining, construction, and transportation, according to this procedure: any private banker may apply to the local Federal Reserve banks, acting as the Treasury's agents, for a U.S. Notes *participation* in a credit for these designated areas. Only when a private corporation will initiate such investment, and a private bank will take at least half the credit risk, will the Treasury issue U.S. Notes.

There is no great complexity or threat of bureaucracy in this program. Presently, local bankers have to turn to the mirror-world of the money centers, e.g., overnight repurchase agreements, federal funds, correspondent loans, and so forth to raise funds, and turn their operations upside-down with every new patch of regulation or "deregulation" introduced by the Fed or Congress. We will reduce bankers' sources of funds to two: deposits generated by business activity in their localities, or direct infusions of low-interest loans of U.S. Notes where required.

Although monetarists will throw up their hands at a distinction between "productive" and "nonproductive" credit, despite the insistence upon such a distinction in all economics up through and including Adam Smith and David Ricardo, every local banker will understand precisely what is involved. Any intelligent banker knows that certain types of business put "real tax-base" into a community, e.g., manufacturing, agriculture, and mining. He knows that a community which invests exclusively in fast food restaurants, high-rise office towers, and the other staples of the late 1970s U.S. economy will go broke.

Gold backing for this credit issue constitutes a basic discipline on our actions. America's slippage into trade deficit during the 1970s is a consistent and accurate measure of our declining productivity, brought on largely by the malfeasance of the Federal Reserve. Correction of these policies and restoration of our productivity growth will also revive our export potential; otherwise our gold will flow out to foreign nations.

4) Prevent inflationary credit from undermining the U.S. Notes program.

The principal source of inflationary credit in the U.S. economy is not the "printing-press" money of the Federal Reserve but the accumulated "book-money" of the Eurodollar market. With no reserve requirement, the foreign branches of the Wall Street banks, along with the British and Canadian international banks, create unlimited book-credits among each other. This $1.5 trillion mass of fictitious paper is the world's principal source of inflation. Inflows of Eurodollar book-credit account for virtually all the speculative credit lines for corporate takeovers in the U.S.

Monetary inflation can be eliminated overnight by two simple, long-overdue measures:

1) The Federal Reserve shall cease to be a net issuer of credit, and act only as the Treasury's transfer agent for U.S. Notes. U.S. Notes will gradually replace the unconstitutional issue of Federal Reserve notes as circulating currency of the United States of America.

2) The Treasury shall institute a policy of *transparency of sources of credit* to prevent the influx of inflationary, Eurodollar book-credits. One rule will suffice: as a matter of simple banking safety, no substandard paper will be permitted to circulate in the American banking system. A Eurodollar loan to an American company is a right to draw on a Eurodollar account unbacked by any reserves, contrary to American banking law. No such fictitious money may be lent into the United States, period.

Such action will immediately break the stranglehold over world credit now exercised by the Anglo-Canadian banking cartel, the main beneficiary of the Federal Reserve's unconstitutional policy of money issue.

5) Except for participations in productive credits, the Treasury will create U.S. Notes on only one other condition, to buy gold from U.S. citizens presented to the Treasury.

The Treasury will buy such gold at the price fixed at the outset of such a program.

6) The United States and other nations participating in this gold-reserve system will trade gold among each other at a fixed price, regardless of the behavior of the free market price. No U.S. monetary policy shall be subject to the whims of gold speculators.

Since the basis for determining the fixed price of gold is the required production-price of new gold supplies, this price fixing will endure—provided that credit issue contributes to anti-inflationary gains in productivity. Any attempt by speculators to push the price above the level at which central banks exchange gold among each other might, temporarily, produce a "two-tier" gold price of the type seen between 1968 and 1971. However, we have no doubt who would come out the victor in this sort of economic war.

The flaw in the various monetarist proposals for gold restoration (e.g., Laffer, Lehrman, Wanniski, Ron Paul) is elementary. The United States must conduct a form of economic warfare against an international financial cartel whose principal objective is to have the carcass of the U.S. economy to pick over. Their ally is the Federal Reserve, and their chief operator is Federal Reserve Chairman Paul Volcker. Without the two fundamental safeguards described above, i.e., *transparency of sources of credit*, and *priority for productive credits*, the United States monetary authorities will have little say in the management of the monetary system relative to the London and Cayman Islands offshore centers. Either, as the Federal Reserve proposes, the monetary authorities will bring about a deflationary collapse of the credit system by tightening credit to prevent gold outflow, or the U.S. will simply lose its gold stock to speculators.

By making the dollar "as good as gold" through the above plan, the United States can return to international economic pre-eminence.

Questions about the LaRouche strategy

Below are replies, provided by Richard Freeman, to the most frequently asked questions about the LaRouche gold proposal.

Q: Which specific agency, authority, or special committee shall make the decisions as to which are the productive and which are speculative investments? In other words, who decides where the gold-based notes go?
A: The specific agency is the Federal Reserve Board of Governors, based in Washington, D.C. But the Federal Reserve will be changed, by an amendment of the Fed Act—passed by Congress—into the status of a mere agency within the U.S. Treasury. Therefore, the Treasury Department will make the final decision.

Q: What volume of gold-based notes is foreseen?
A: The LaRouche proposal proposes to freeze the level of U.S. Federal Reserve notes in circulation—currently $125 billion—at its present level. It will then increase the money supply solely through the mechanism of Federal Reserve issuance of gold-based currency notes for loans for productive purposes. The Fed will cease creating new currency through any other procedure, including monetizing the Treasury debt.

Q: What happens to credit issuance before your new system has taken effect?
A: Nothing. Unlike the proposal of Art Laffer, the LaRouche proposal does not plan to have a waiting period of a year or more, to determine the "free-market" price of gold. The idea of a "free-market" price of gold for a government gold system is ridiculous. Governments, by treaty agreement, will set the price of gold, and therefore, the system can go into effect immediately. One day there will be one system of credit issuance, the next day the LaRouche system.

Q: Explain in detail the international exchange of accounts. How would bilateral trade work?
A: The United States will settle its accounts with its bilateral trading partners in gold. This means whichever of the two countries, the U.S. or its trading partner, runs a current-account deficit at the end of the year (that is, a deficit on trade, insurance, freight, tourism and other invisibles) will remit the amount of that deficit in gold to the country it is in deficit to. By the end of the year, all current-account imbalances will be squared away.

Q: Is LaRouche proposing the creation of a new international financial institution based on the use of gold?
A: Yes. LaRouche has long been of the view that the world financial system is troubled by the uncontrolled Eurodollar market, now totaling over $1 trillion, and by the overhang of $500 billion of non-oil-producing third world indebtedness, the bulk of which is nonperforming. Therefore he has proposed an international gold based fixed exchange monetary system, in which currencies are set in parity bands relative to one another; and the creation of a new international credit-issuing banking institution based on the use of gold.

The basic principle of the new bank is that it would reorganize world debt, and issue gold-denominated new currency notes as the terms of the new loans. The interest rate on the loans would be 2 to 4 percent.

First, the bank will acquire its currency at the time that the charter creating the new banking institution is adopted. Deposits will consist of gold-reserve currency notes of sovereign nations deposited at the bank, for which the sovereign nations, such as the United States, will receive stock subscription in the new bank. Against this pool of notes, the new bank has the collateral to issue its own gold-denominated currency notes.

New loans by the new bank will be made to any nation or economic entity that has signed the treaty creating the new bank. The loans are made by the new bank essentially *as discounts on loan agreements between participating members of the new bank.*

An importing nation, say Brazil, would contract a loan with Germany, for example, or with a German exporting agency and that agency's bank. Once the loan is determined to be for productive purposes, Brazil would submit that loan to the new bank, asking that bank to discount either part or all of the loan. This means that the new bank, after examining the loan itself, would make available to the German exporting agency's bank either all or some of the value of the loan in gold-denominated currency notes at 2 to 4 percent interest rate. This money is then lent by the Germany exporting agency's bank to Brazil.

Q: Which nations would participate immediately in this new gold-based monetary system, and why? What about the Third World?

A: The leading eight European nations of the gold-based European Monetary System, most importantly Germany, as well as Japan, which bought 68 tons of gold this July alone, would be more than glad to join the United States immediately in a world gold-based system. These nations and the United States combined have large enough gold reserves to make the system work and preserve its integrity.

The Third World nations would be encouraged to join. If they were low on gold reserves, they would pledge future productive capacity for goods production as security for their loans. A redistribution through open-market sales of gold reserves could be easily conducted to provide Third World nations with ample gold to conduct their current-account settlements.

Q: How does the LaRouche proposal help to dry out the enormous liquidity being wasted by corporate mergers, money-market funds, and the Eurodollar market?

A: The Eurodollar market is like an international "crap game" in that it sloshes around the world, controlled by no national government and swelling the money supply of key nations, especially America's. The Eurodollar market creates a mass of fictitious paper values; it is the major cause for double-digit U.S. inflation. Corporate mergers, which totaled $34 billion in the first six months of 1981, are nonproductive, but as you suggest suck up a tremendous amount of liquidity.

The LaRouche proposal begins with the distinction of productive versus nonproductive and inflationary forms of economic activity. The Fed will reward loans to productive industry, by agreeing, under the LaRouche proposal, to take participation in any private commercial-bank loan that the private bank makes to manufacturing, mining, construction, transportation, or agricultural entities. The Fed will participate by agreeing to discount up to 50 percent of any private bank loan it deems worthy. The private bank must risk its assets for the other 50 percent of that loan. The Fed will issue to the private bank up to 50 percent of the value of any productive loan in gold-based U.S. currency notes at interest rates of 2 to 4 percent.

On the other hand the Fed will refuse to make credit available for nonproductive, speculative, wasteful or overhead loans except at the prevailing free-market rate, which is now 19.5 percent. Under these conditions, banks will choose to make productive loans. The spread on the difference between what a bank can earn when it pays 2 to 4 percent for its money and when it pays 19 percent, is enormous, even if the productive investments have lower profit margins.

A bank knows that if it relends the money it got from the Fed at 4 percent for 6 percent interest, it will get its earnings back, because the investment will produce a real-wealth profit. Individual investors, having to pay correspondingly higher interest rates if they borrow from a bank for non-productive purposes, will also chose to invest in productive investments.

And the Euromarkets will dry up as soon as the new treaty agreement is signed. Under this agreement, no bank will be permitted to lend dollars, unless the loan conforms to the terms of the treaty, and that includes meeting reserve requirements. Most Eurodollar banking thrives on its reserve-free status.

The speculative outlets that are the chief lending objects for the Eurodollar market will be dried up. Very soon, all international lending will take place in gold-denominated currency notes—these will be the only type that governments and private institutions and individuals will want to hold. All non-gold-secured dollars that are not earmarked for productive loans will not be discounted internationally by the new lending bank, and will not be trusted by private investors.

Q: Why doesn't the issuance of new LaRouche gold-based currency notes add to the money supply?

A: It will add to the money supply; however, this will be a noninflationary increment. Each new increment in credit, C, will be lent to industry or agriculture to increase its absolute surplus or overall profit. Insofar as overall profit grows faster than C, then goods production is exceeding money supply, and that is noninflationary. Moreover, since the new productive loans generate will go primarily to industries employing high technology, the the cost of production will decline, and that is in fact *counter*inflationary.

From Robert Peel to J. P. Morgan: what is a British-style gold standard?

by Richard Freeman

As admitted by most of the professional economists cited below, the model for all the gold proposals on the table other than the LaRouche plan is the British gold standard. We outline here how this system worked to cripple credit, industry, trade and national sovereignty.

The British gold standard was presented in germinal form at the 1810 bullion debates, by David Ricardo of the East India Company, under the standard principle of that company to "buy cheap, sell dear." The idea was that by backing the pound sterling with gold to make the money supply contract, the rest of the world would have to pay back its debt to Britain—the world's leading "pursestrings"—in "heavy pounds."

Through its control over world trade, Britain controlled the world's gold supply. By 1844, the Bank of England had accumulated £15 million of gold—an enormous sum in those days. And the bullion houses, led by N. M. Rothschilds had a huge hoard. If a country had no gold, if it were thrown into deficit, it could not settle its trade accounts and therefore was at the mercy of the terms of the British gold bullion traders.

Gold was fully established in 1844 by a Bank of England committee headed by Ricardo's lieutenant Sir Robert Peel.

The 1844 Reform established the following rule: £12 million of British bank notes could be circulated against an equal amount of securities held in private British banks; another £2 million of British bank notes could be circulated against "unemployable deposits." But not a British half-penny more could be circulated above this initial startup level of £14 million unless the currency was backed up on a strict one-for-one basis with gold by either British private banks or the Bank of England.

John Stuart Mill observed that if Britain ran short of gold, the Bank of England might have no alternative, except to "stop payment on British notes," thus creating a liquidity crunch. In a moment of candor, the May 3, 1845 London *Economist* stated that if the object of the British gold standard had been to "increase the intensity of a . . . crisis," then no "more certain plan" could have been adopted to achieve that aim.

The plan conformed to Ricardo's dictum, uttered several decades before during the 1810 bullion debate that "England, in consequence of having a bad harvest, would come under the case of a country having been deprived of a part of its commodities." The only way to adapt to a situation of reduced commodities on a permanent basis, was to "diminish the amount of circulating medium," through the contractionary gold standard.

The American System

To appreciate fully the implications of the British gold standard, it should be compared to the credit policies of the American System of Treasury Secretary Alexander Hamilton.

The purpose of a gold system, properly conceived, is to increase, not to contract credit. But to avoid speculation and inflation, the gold system must specify that credit created against gold be funneled into new productive investments in mining, manufacturing, construction, agriculture, and transportation. This increases the real-wealth base of the economy, and thus the rate of goods output expands faster than the growth of gold-based currency notes.

To limit the amount of credit creation to the amount of a yellow metal that can be dug out of the ground is the height of absurdity. There is no economic causality between the level of desired and potential economic output and the level of gold mining that could possibly be established. Such an assumption, however, is a cornerstone of a British gold standard.

With the amount of credit now firmly in the control of a small group—the Bank of England, the big British merchant banks, and the gold bullion houses—they used it for purposes of economic warfare, first against British industry. The regional banks that supplied the great quantity of credit to the so-called British industrial revolution, were collapsed. British industry, built on taking patents from France and Germany, soon began its long downhill course.

The same private cabal brought the world economy to its knees. Peru, in the mid-19th century, was extended a loan that was discounted—i.e., interest was taken out in advance, and Peru got only 65 percent of the loan. Peru was then told that it had to keep another 20 percent of the original loan as an immobilized compensating balance at a British bank. This left Peru with cash equal to 45 percent of the value of the loan; but interest had to be paid on the full 100-percent value of the loan. Moreover, if Peru ran a trade deficit with Britain, it had to acquire gold from a British bullion house, at huge expense, to pay the deficit. Most nations were thus reduced to labor-intensive agriculture and raw materials extraction. Perhaps the country got a railroad—to ship the commodities.

Simultaneously this tended to brake the industrial-expansion capabilities of the industrialized sector, by limiting the amount of surplus they could create and export, in the form of capital goods, to the third world.

The only way the major nations at that period—Germany, Japan, the United States, Russia—could grow, was to break free of the British world gold standard, creating their own sources of credit.

The Specie Resumption Act

In the late 1870s, Britain moved with its Anglophile associates on Wall Street to attempt to put the United States under the same gold standard that Britain was on. By linking the U.S. credit system directly to Britain by the gold mechanism, U.S. credit was doled out according to the wishes of the City of London.

The United States was the fastest-growing "developing-sector" nation during the second half of the 19th century, specifically because of American moves to keep the U.S. as free as possible of London's gold system.

The United States had opened up its vast potential for economic development by jettisoning the anarchistic Jacksonian banking system of the 1840s and 1850s and replacing it with a Hamiltonian banking system under the reforms of the Lincoln Administration passed by the Congresses of 1861-65. These reforms were part of a package of subsidies and tax breaks for construction of the railroads and industry, the adoption of strict protectionism (not free trade) for manufacturing, and agricultural development.

The key feature of the system is that, along with maintenance of the gold system for international settlements, the banking reforms created $450 million in U.S. Treasury notes, which were called greenbacks, and made legal tender, and circulated through national banks. State banks were practically abolished by the impositon of a tax upon them.

Thus Lincoln, acting on the advice of his great economic adviser Henry Carey, worked to dirigistically direct the private banking system to funnel credit to productive industrial-agricultural purposes.

The U.S. economy responded by taking off on an industrial surge, starting in 1861 and not ending, effectively until 1900.

As the economy produced tangible wealth, federal tax revenue and other ordinary government receipts outstripped expenditures every year from 1866 through 1879; there was a budget surplus each year, because of the Lincolnian government-dirigistic policy. Inflation, which had shot up during the war—largely because of speculators attempting to undermine the dollar—started to decline immediately after the Civil War's end.

The passage of the Specie Resumption Act followed a rigged financial crisis, the Overend-Gurney crisis of 1866. The collapse of one of the largest British merchant banks of that name spilled over into a liquidation in 1871 by British holders of U.S. Treasury and stock securities to get ready cash. This liquidation took the specific form of an attempt by key Anglophile banks in the U.S. like the Drexel, Morgan bank of Philadelphia, to bring down the leading American investment house of Jay Cooke.

The Act specified that only the amount of U.S. government notes—the greenbacks—were convertible into gold. It said no new greenbacks could be issued, and therefore the only new credit that could be issued was private bank notes. Thus, credit was concentrated in private hands—mostly Wall Street's—and the volume of these notes was linked to the U.S. gold hoard.

The gold standard meant that each time the British overextended themselves, the United States went into severe recessions. This included, in addition to the 1873-79 crisis, an 1883-86 crisis, the 1893-97 severe panic and the 1905-07 crisis. U.S. financial markets became attached like a yo-yo to the boom-bust cycle of British gold-based monetarism.

For example, the U.S. held $100 million in reserve at the Treasury, deemed the minimum level that must be maintained at all times. As the London-Latin American crisis of 1891-92, which included the near bankruptcy of the Barings, played itself into the U.S. in 1893, the house of J. P. Morgan led a raiding expedition on the U.S. Treasury. Morgan would redeem U.S. legal tender greenback notes, drawing the gold supply at the Treasury below $100 million. The Treasury would then have to purchase gold abroad, through a London gold-selling house. The U.S. paid exorbitant interest rates on the borrowings to get the gold; Morgan intermediated and took a cut on the U.S. purchase of gold from London. Once the gold was parked in the U.S. Treasury, Morgan, joined by Jacob Schiff, Ned Harriman, and others, presented the U.S. Treasury with greenbacks for redemption and drew the level of gold at the Treasury below the critical $100 million once again. And U.S. industry went into collapse.

The Zijlstra-Mundell plan for BIS credit restriction

Jelle Zijlstra

by Kathy Burdman

Addressing the annual meeting of the Per Jacobsson Foundation of the International Monetary Fund on Sept. 29, Bank for International Settlements Jelle Zijlstra outlined the official BIS central bankers' proposal for a return to gold. It is based on a sophisticated plan, not for an overtly deflationary British system, but for a return to a "neo-Bretton Woods" gold/dollar exchange standard, at least in its first phase.

While the BIS plan might seem to be a reasonable version of a reinvigorated dollar-centered monetary system with gold backing, the intent is otherwise. Zijlstra proposes to enforce nations' adherence to the new gold standard through *supranational* control at the BIS and the OECD over national credit issuance and budget policy. He specifically called for nations to impose credit controls, and if necessary, incomes policies.

The day following Zijlstra's speech, Robert Mundell, chairman of the Italian Siena Group and stepfather of supply-side economics, issued a remarkably similar proposal on the editorial page of the *Wall Street Journal*. Although Mundell told *EIR* in an Oct. 1 interview with Kathy Burdman that he hadn't personally consulted with Zijlstra, the Siena circle has long worked directly with BIS Director of Economics Alexandre Lamfalussy; and Professor Mundell characterized the two plans as "identical."

The Mundell plan, or BIS plan for short, is the only proposal on the table other than that of *EIR* founder Lyndon LaRouche's which proceeds from the international need to *remonetize gold as a medium of exchange between, primarily, governments*. Both propose that the Bretton Woods system of gold valuation be reinstated, in which central banks would convoke an international monetary conference to attempt to establish an official central bank gold price in the region of \$300-\$600 per ounce. Under the BIS plan, the dollar would remain a reserve asset of all participating nations, and the central banks would undertake to jointly use their reserves among central banks, to maintain the agreed-upon official gold price backing the dollar. The BIS plan would not involve a formal gold peg at first.

Under the initial phases of the BIS plan, only central banks would have access to each other's gold reserves, and there would be little danger of a run on American gold reserves by central banks. Neither foreign nor American private dollar holders would have the right to demand U.S. gold assets. There would be no U.S. domestic "gold peg." The private gold market would be allowed to continue on its own, alongside the new central bank official gold market, which would be insulated from the private gold price. Professor Mundell refers to this as the "first or transition phase" of his program.

This system, as far as it goes, is inferior to the LaRouche proposal, in that it provides for no new credit generation from the remonetized official gold reserves. However, it is a perfectly sound gold/dollar system; and if all nations pursued domestic policies of credit expansion for high-technology investment in capital goods and exports to the developing sector, it could support acceptable growth in world trade.

Mundell told *EIR* he wants a "second" phase to the BIS plan which would do the opposite. The BIS proposes instead to slash world credit creation, first by clamping drastic central bank controls on the Eurodollar markets, and then imposing equally drastic supranational control over domestic credit policies in the West. Through these "transitional" measures, the central banks would seek to reduce credit supply throughout the world to the point where the official central-bank gold price could be brought into "synchronization" with the private-market gold price. That is, a fully convertible British 19th-century gold system would be eventually restored.

Mr. Zijlstra does not elaborate this, but announced that the new central bank gold system is to be "managed" through supranational agreements to impose "multilateral" economic policies upon soverign members' economies. Among the programs suggested by the BIS were credit controls and whatever other policies deemed necessary to reduce incomes and inflation to internationally established levels. In the past, the BIS has demanded in particular huge budget cuts in the United States and Europe.

Even if the BIS is not contemplating any early move to full gold convertibility, this program would be deflationary enough to ensure an international depression—not to mention trampling on the national sovereignty of the United States. Professor Mundell, however, argued to *EIR* that the central-bank negotiations on the official gold price should lead to "negotiations on how to impose discipline on international monetary creation so as to eventually bring the private market gold price into line with the official price."

First, Mundell noted, "is the Eurodollar market, which has $1.2 trillion in stateless money and which must be reduced to manageable size." He advised that the central banks would negotiate restrictions on the Eurodollar market, such as reserve requirements and outright Euromarket credit controls, so as to reduce international liquidity there, in particular reducing loans to the Third World. This was precisely the subject of a BIS meeting in Washington of the International Conference of Banking Supervisors during the last week in September. There, U.S. Federal Reserve Governor Henry Wallich and Bank of England Director of Bank Regulation Peter Cooke made extensive statements urging central banks to negotiate mechanisms in order to reduce the level of credit in the Euromarkets and bring them under close BIS control.

Simultaneously, Mundell told *EIR*, central banks are to negotiate supranational "stabilization policies" for their domestic economies. Each central bank and finance ministry is to join in what Mundell's 11-point plan calls "multilateral surveillance of the balances of payments problems and exchange rate policies of major countries ... along with multilateral discussion of anti-inflation policies and unemployment-stagnation problems."

Such policies would be aimed at greatly restricting credit to industry within each economy, such as "incomes policies.... and budgetary surpluses" in inflationary periods like the present one, Mundell writes.

Eventually, he said, "we will drain enough inflationary liquidity from the system to return to the world as it was when the British ran the banking system in the late 19th century. Gold will be fully pegged, and we will be able to reform the central banks so as to remove discretionary creation of credit by the monetary authorities. We can use the central bank discount rate then as a penalty rate, as the Bank of England did, and as Lewis Lehrman has proposed. The only difference between my plan and Lew's is that I propose taking a slower route to the same ends."

Mundell: 'Surveillance'

From Prof. Robert Mundell's commentary in the Sept. 30 Wall Street Journal, *titled "Gold Would Serve into the 21st Century":*

The basic ingredients of a restored *Equilibrium Atlanticum-Pacificum* would involve the following elements:

1. Stabilization of the dollar price of gold, probably in the $300-$650 range, to be determined by the U.S. in consultation with its allies.

2. Issuance of a gold coinage (various fractions of an ounce) with a face value equal to the stabilized gold parity.

3. Stabilization of other currencies—particularly the DM to the dollar in the DM1.80 to DM2.20 range.

4. Attention to the gold "discipline" by the U.S. such that the U.S. money base is allowed to increase or decrease with gold purchases and sales.

5. Attention to the balance-of-payments discipline by the non gold-pegging countries such that the national money base rises or falls with increases and decreases in holdings of gold and foreign exchange.

6. Co-ordination of interest rates to prevent excessive disparities from developing between money market centers and gales of hot money disrupting confidence and purchasing power parity relationships of exchange rates and price levels.

7. *Multilateral surveillance of the balances of payments problems and exchange rate policies of the major countries within an OECD-OPEC institutional framework, along with multilateral discussion of anti-inflation policies and unemployment-stagnation problems.*

8. Programmed adjustment of dollar-gold portfolios of major reserve holders to encourage more expansive or restrictive monetary policies in the center reserve country or countries (initially the U.S.).

9. *General* budgetary policies and if necessary, incomes policies, should be employed to mitigate the business fluctuation, with tax cuts and extra government expenditures to stimulate aggregate demand, and reduce unemployment during recessions, and budgetary surpluses to restrain aggregate spending in periods of inflationary boom.

10. Reform of tax rates and structure in the U.S. and other countries to enhance incentives for more employment saving, productivity and growth of potential output, to offset distortions arbitrarily produced by past and anticipated inflation; replacement of the income tax by a 20 percent value added tax should be considered.

11. Balance of government budgets over the cycle at levels of deficits necessary to keep debt ratios at realistic proportion to GNP, thus making central bank finance of the government-sector deficits unnecessary.

The Lehrman-Laffer neo-monetarist plan

Perhaps the most ballyhooed gold proposal now in active circulation, said to be taken quite seriously by President Reagan and some of his advisers, is that of Lewis E. Lehrman, chairman of the Lehrman Institute in New York. Lehrman, in his 44-page February 1980 "Monetary Policy, The Federal Reserve System, and Gold," demands a systematic reform of U.S. domestic central banking, monetary, and international monetary policy based entirely on the 19th-century British model.

The Lehrman plan would, internationally, remove the U.S. dollar and all other national currencies as reserves from the system, forcing central banks to trade strictly on gold account. This would constrict world trade.

Dr. Lehrman is a spokesman for Europe's Warburg banking family, which belongs to and finances the Siena Group, and has long worked with the Bank for International Settlements to promote the reduction of population and economic activity. He is a life-long protégé of conservative Republican lawyer Maxwell Raab, currently U.S. ambassador to Italy, who has been the family lawyer for the Warburgs in the United States at the firm of Strook, Strook & Lavan for the past 20 years.

It was Raab, former chairman of the New York Republican Party and chief Reagan fundraiser in New York, who promoted Lehrman as the nation's leading exponent of a new gold standard during the 1980 presidential campaign, for which Dr. Lehrman's proposal was expressly written. Lehrman became the official adviser on gold to Rep. Jack Kemp (R-NY).

In their sales pitch to President Reagan, Lehrman and his supply-side propagandists sturdily denounce the austerity policies of Britain's Thatcher government, and present themselves as the "all-American" alternative. Lehrman claims that his program is a break with the Thatcher program and its architect, Milton Friedman, a program which he correctly says constricts credit and causes economic depression.

"[My] new financial policy would rely on the creation of real economic growth and more jobs—not on unemployment and reduced demand—in order to produce more goods, not less," he writes. In both its international and domestic aspects, the plan would do the opposite.

Lehrman calls for the United States to "convoke an International Monetary Conference, under the leadership of the U.S., with the goal of establishing a true gold standard, one which would rule out the special privilege of *official* reserve currencies and thus remedy the most profound defect of the Bretton Woods exchange-rate regime [emphasis in original]." Under the Bretton Woods system, the U.S. dollar was a reserve held as such by central banks, "as good as gold," and it added new gold-backed liquidity to the international financial system. Under Lehrman's plan, the credit base would be profoundly constricted.

Lehrman's gold standard, as he himself emphasizes, can only be understood within the context of his call for sweeping reform of the U.S. banking system. First, before any gold remonetization takes place, the Federal Reserve chairman must take all credit creation more tightly under control by terminating open-market operations, the current means by which the Federal Reserve System provides cash to banks dealing in the Treasury debt market. No mechanism for ensuring adequate credit flows replaces this (unsound) open-market arrangement. Instead, only "the market" can properly allocate credit, he argues, and it must be left to "the market," i.e., Wall Street and the Eurocurrency bankers, to decide how much credit shall be created. Under this system, the only recourse would be to what Lehrman calls a "remobilized discount rate," the use of the Federal Reserve discount window at punitive interest rates on the model of the old Bank of England "bank rate."

The Federal Reserve has accurately derided this plan as a widely deflationary tight-credit policy which would send interest rates in the market as well as at the discount window soaring, as banks and corporations scrambled for scarce discount funds; Lehrman admits as much.

Lehrman is actually proposing, he explained to journalists early this year, a fully 19th-century style U.S. free gold market, under which both U.S. and foreign citizens have the right to come to the U.S. Treasury and demand gold in return for this dollars. This means that if Wall Street bankers decide that they want higher interest rates, they will have the right to line up at the Treasury window and buy U.S. gold reserves. The only way the central bank will have to stop a run on U.S. gold stocks would be to jack up the discount rate, cutting all credit to the economy, until the banks began to need liquidity badly enough to raise their interest rates as well. That would attract funds into dollars out of gold, but strangle the economy in the process.

The Laffer version

Arthur Laffer, a leading "supply-sider," wrote his February 1980 document, "Reinstatement of the Dollar: The Blueprint," as a campaign document for Ronald Reagan. It amounts to a popular translation of Lewis Lehrman's proposal. The most distinctive aspect of

Laffer's plan is that it is somewhat more specific than Lehrman's: Laffer proposes that before any gold price can be set, the Federal Reserve act to halt *all* credit to the economy by the central bank.

Laffer's plan is explicitly based on then Treasury Undersecretary Paul A. Volcker's 1972 "U.S. Proposal to the International Monetary Fund," in which Volcker proposed a return by the U.S. to the gold standard in such fashion as to contract credit in the U.S.: "Any radical change in our monetary order . . . would require not only Volcker's acquiescence, but more likely his enthusiastic support. It is quite conceivable that Volcker could actually lead the search for a new order," Laffer quotes from Volcker's 1972 plan throughout.

Laffer claims to seek a system, he told *EIR* in an interview, in which the dollar, contrary to Dr. Lehrman's proposal, would be re-affirmed as the world reserve currency. Laffer claims that merely by setting a gold backing, other countries will be forced to use the dollar as their basic reserve.

Laffer proposes that "The Federal Reserve will stand ready to sell gold to all demanders at a price 0.7 percent higher than the official price in exchange for units of its liabilities." It is unclear whether this includes private as well as official liabilities. In any case, the opening for foreigners to dump Treasury securities for gold, remains, as in Lehrman's plan.

Like Lehrman, Laffer calls for a "transition period": "The U.S. would announce its full intention of returning to a convertible dollar at some prespecified time, say three months," at which time the *market* would set the price. During this period, "money supply" through open market operations and all other Fed loans through the discount window would be halted. "The U.S. could announce that during this three month interval, neither the Federal Reserve nor the U.S. Treasury would 'take a vacation' so as not to disrupt the natural forces in the private markets." As Laffer notes, this would reduce new credit to the economy to zero at a time when the U.S. economy needs a 35 percent annual rate of credit growth merely to stay afloat.

Laffer proposes that the "free market" then set the U.S. gold price at whatever level it reaches after the credit crunch has taken effect. It is possible that the shutoff of Federal Reserve credit could plunge the economy into such a slump that U.S. prices would fall sharply enough to lead the dollar to rise vis-à-vis gold. If that happened, the United States would have to peg the dollar to gold at a low price ($300 or less), then keep reducing credit to maintain the peg. If the dollar collapsed on world markets due to the recession, the dollar would be devalued drastically with respect to gold. In either event, the new gold price would reflect and maintain industrial collapse, rather than paving the way for recovery.

Wanniski: 'A Specie Resumption Act'

Jude Wanniski, the former Wall Street Journal *editor turned supply-side economist, has embarked on a wide campaign boosting a return to the gold standard throughout the national press. A close ally of Arthur Laffer, he has been the publicist for Rep. Jack Kemp on supply side issues and is now supporting Kemp's campaign for gold remonetization. Mr. Wanniski's most recent piece on the gold standard "Now Money," was published by his new economic consulting firm Polyconomics in August 1981.*

Mr. Wanniski, a collaborator of Lewis Lehrman, has endorsed the Lehrman plan and his writings on gold conform to it, although they are much less detailed. We print here a Sept. 28 interview with him by *EIR*'s Kathy Burdman which exposes one of the most important flaws in the Lehrman free-market ideology.

Burdman: You say you object to the statement that your gold proposal would lead to the sort of credit contractions advocated by Milton Friedman. Given the large volumes of inflationary credit now in the U.S. markets, how would you keep the dollar on the gold standard without cutting credit?
Wanniski: We want to expand credit to the economy. When the dollar is linked to gold, people will automatically decide to lend long. Everyone who has money to lend will begin to lend it to the economy. Credit will grow.

Burdman: But there are 1 trillion Eurodollars out there, over $300 billion in speculative real estate earnings a year, there are speculators in the Treasury debt, and all of them may decide to dump now, and demand gold for their dollars. Your whole argument rests on "confidence." If the confidence doesn't materialize, what's to keep the dollar from collapsing?
Wanniski: We will have to limit our credit creation according to the lines of people lining up asking for gold. But there won't be any lines.

Burdman: You said a year ago that the supply side program of budget and tax cuts, and tight money, would create a stock and Treasury bond market boom, and a recovery. That was based on your assertions that these programs would produce "market confidence." But instead, Wall Street is lining up to dump stocks and Treasury bills. How do you know they won't dump dollars?

Wanniski: If they do, we simply sell our gold on the free market until the gold price stabilizes. We conduct all our open-market operations focused on their effect on the gold price. We sell gold for dollars, removing dollars from the system and tightening up.

Burdman: And when the gold stocks get low?

Wanniski: Then we conduct Treasury-bill open-market operations for the purpose of stabilizing the gold price. We go right out the back door, and sell off the Fed's Treasury bill portfolio for cash, and take the cash, and buy gold from private dealers, and sell that on the open market.

Burdman: You mean you drain liquidity from the banking system by selling treasury bills?

Wanniski: Right.

Burdman: And you will do this no matter how much the market asks for Treasury bills, even if the market bids the interest rates on Treasury bills up to, say, 20 percent?

Wanniski: That would be our commitment. The government would conduct monetary policy solely to maintain the gold price, and it would not use monetary policy for any other purpose. Let the money supply do what it wants. Let the fed funds rate do what it wants.

Burdman: And let interest rates go as high as the market wants?

Wanniski: Yes. Give me control over money creation and we can afford to set any price of gold. But the market won't demand high rates, they'll have more confidence. . . .

Burdman: If they don't happen to have confidence, then you stand ready to suck in all the money in the system necessary. . . .

Wanniski: Yes. Suck in M-1A, suck in M-1B, take it and sell gold.

Burdman: And anyone with a dollar to dump is entitled to step up and demand the gold?

Wanniski: Anyone who has dollars; citizens, foreigners.

Burdman: Any British investor with one of the Eurodollars created out of thin air by the Euromarket banks, can walk into the Fed and demand U.S. gold reserves?

Wanniski: Yes. First they have to leave the Eurodollar market and become U.S. dollars, but yes. But they won't come; they'll have greater confidence in the dollar.

Burdman: Why don't you make a distinction between which dollars are good and legitimate, and those which are not? Why not decide to honor dollars from other governments under treaty arrangement, but not unregulated offshore dollars?

Wanniski: How can you say which is which?

Burdman: Why not make a distinction between dollars earned productively, as in a corporation's manufacturing profits or a worker's paycheck, and dollars from real-estate speculation?

Wanniski: You sound like [Lazard Frères partner]Felix Rohatyn. You want credit allocation. You want to tell me where I can earn my money and what I can do with it. That would damage the free market. We can't be the ones to step in and tell people what is productive. There is no way to tell. I'm going to let the people decide what is a productive investment.

Burdman: And if they choose, like Wall Street, to speculate in real estate and Eurodollar book credits, you will honor those dollars at the gold window?

Wanniski: A dollar is a dollar.

Burdman: And you will tighten credit to keep the gold prices so honored?

Wanniski: All monetary policy will be aimed at the gold price.

Burdman: Could you then explain to me just what is the difference between your plan and the Specie Resumption Act of 1879?

Wanniski: There is no difference conceptually but the actual gold price. The Specie Resumption Act set a lower gold price than was current; it was very deflationary because it attempted to restore an earlier price level. All we want to do is set the price at whatever the market opens at tomorrow, say $420 an ounce, and then say, "Beyond that, we will stop all inflationary credit expansion."

Burdman: Once the price is set, you are adhering, as in the Specie Resumption Act, to tightening domestic credit to maintain the price of gold.

Wanniski: Yes.

Burdman: How can you say you disagree with Milton Friedman? That is exactly the sort of credit contraction he wants.

Wanniski: Because, I told you, people won't dump.

Burdman: How can you rest your program on the confidence of Wall Street, which has already shown its colors?

Wanniski: Wall Street will have confidence, because it represents the people. I have faith in the people. Wall Street represents Main Street.

Federal Reserve's disciplinary plan

Under the direction of Federal Reserve Chairman Paul Volcker and International Finance Division Director Edwin Truman, during June 1980 the Federal Reserve began a series of in-house studies on "possible gold remonetization scenarios," one Fed official told *EIR*. These, the official stated, were "feasibility studies" on the February 1980 gold proposals of Lewis Lehrman and his protégé Arthur Laffer.

The first such published study, "Gold Remonetization and Gold Discipline," was revised and published in August 1981. While the Fed claims it is not pushing a gold standard, in fact this is a proposal for an extremely tight-money version of the Lehrman proposal. "The purpose of this paper is to provide a framework suitable for analyzing various gold monetization policies," Flood and Garber write. "And . . . we analyze a transition to a gold standard of the Laffer-Lehrman type."

The Fed makes one objection: Lehrman has not provided for cutting enough credit to the economy.

The first goal, writes the Fed, is to fix a general level of price deflation. They therefore endorse all aspects of the Lehrman model with the exception of Lehrman's plan to allow the *markets* to fix the gold price after the central bank has drained credit from the economy.

Instead, the Fed must fix both the gold price and a general price deflation level in advance, and cut back on credit creation to enforce both.

After the price level has been fixed, the credit to the economy cut enough to enforce this, then the gold price may be fixed at the lowest rate possible, forcing the monetary authorities to continue to tighten credit, the Fed study writes.

The purpose of the exercise is to give total political control over the economy to the central bank, which is to enforce the gold standard by the strictest "monetary control." "The monetary system can be readily characterized as a 'gold-paper-gold' cycle," the Fed writes disparagingly of the paper U.S. dollar. "Since the current 'paper' phase has allowed price-level instability, there has been some agitation to return to the gold standard. . . . The basic point of this paper is that such policies will lead to price-level stability *only in the presence of very specific monetary control.*" [emphasis added]

From the August 1981 study, "Gold Monetization and Gold Discipline" by Robert F. Flood and Peter M. Garber, published by the Federal Reserve Board of Governors.

We must expand on some of the proposals [for government fixing of the gold price], which are incomplete as presently specified....

There are a number of ways to specify a complete policy. First, the government may designate the time for fixing the nominal gold price and the paths of its currency issue and of its gold reserve holdings. Such a specification will imply paths for the nominal price level and the relative price of gold, particularly the market value of gold at the time of fixing. . . .

Ostensibly, this approach appears different from the policy recommendations of those who wish to monetize gold by fixing its price at some market-determined level on some future date. However, since the goal of such a policy is not to monetize gold *per se* but to stabilize the nominal price level, the actual policy target is a given path of prices. Since merely fixing the gold price at some market determined level will not, in general, produce price level stability and may, indeed, be quite inflationary, it is reasonable to study gold monetization in the context of a policy specifying desired paths for the nominal price level. In this way we can readily determine a policy for currency and reserve gold holding which is consistent with price level stability....

Even the seemingly innocuous policy of zero discretionary money growth can lead to the collapse of a gold standard. . . . We will derive a constraint on gold price and on the path of the money supply such that a gold standard will not collapse. We refer to this constraint as *the discipline of the gold standard.* [emphasis in original]. . . .

The sequence of items upon which the monetary system has been based in modern times has been so limited that it can readily be characterized as a "gold-paper-gold" cycle. Since the current "paper" phase of the cycle has allowed price level instability, there has been some agitation to return to the gold standard. Proponents of such a return presume that simply allowing the market to determine the price at which gold will be fixed is sufficient to produce an "appropriate" price. The basic point of this paper is that such policies will lead to price level stability only in the presence of very specific monetary policies. . . . In the absence of such monetary control, specifying a policy to set the gold price according to a given day's market price may lead to a situation even more inflationary than that produced by the current system. . . .

All the analyses of gold remonetization proposals contained in this final section of the Special Report were contributed by Kathy Burdman.

Khomeini's 'final solution' proceeds throughout Iran

by Robert Dreyfuss, Middle East Editor

Reports beginning to filter out through the totalitarian censorship of Ayatollah Khomeini's Iran indicate that horrors far worse than previously suspected are under way inside the Islamic Republic. Khomeini and his regime of deranged mullahs have reportedly begun to implement their own version of Hitler's "final solution."

According to published reports, accounts from eyewitnesses recently inside Iran, and telephone contacts with the Iranian capital of Teheran, the secret services and Revolutionary Guard of Iran have begun a policy of systematic genocide. Behind a screen of silence, Khomeini's men have executed thousands upon thousands of Iranian men, women, and children, hurling their bodies into mass, unmarked desert graves and into lakes and rivers.

Although it is impossible to determine the full scope with precision, it can now be said with certainty that a crime of staggering proportions is already proceeding. Based on fragmentary evidence, it is certain that at least 1,000 and perhaps as many as 2,000 Iranians daily are being put to death by the mullahs' regime—as many as 30,000 to 60,000 per month! Added to the deaths of Iranians due to war, economic breakdown, and general civil strife, which has exploded into street warfare in many of Iran's cities, *the very existence of the Iranian population is now at stake.*

In the mid-1970s, the Pol Pot regime ruthlessly put to death three million Kampucheans. In Iran, the Khomeini regime is pursuing the identical policy in its early stages.

The responsibility for the slaughter inside Iran rests with those forces that helped Khomeini come to power in 1979. The British Secret Intelligence Service (SIS) and the Trilateral Commission, together with Jimmy Carter's U.S. administration, which viewed "Islamic fundamentalism" as a "bulwark against communism," are chiefly to blame for the horrors unfolding in Iran. Behind them, the intellectual authors of the Khomeini movement, such as the zero-growth Club of Rome and the designers of the State Department's "Global 2000" scheme to eliminate 1 to 2 billion of the Third World's population, forged the ideological weapons for Khomeini's Muslim Brotherhood shock troops. Truly, as these gentlemen intended, the New Dark Ages have descended on Iran.

'Butcher of Teheran'

The official figures released by the authorities in Teheran concerning executions by Khomeini's gang do not even begin to tell the story. By their own count, Khomeini's courts have sentenced to death—without trial—about 1,500 people in the last four weeks. Each day, there are new announcements that 50 "hypocrites" and anti-"Islamic" activists have been shot in Teheran's Evin Prison. Now, however, it is gradually becoming clear that carnage of an equal or more extensive nature is occurring throughout the main cities in Iran. From Tabriz, in the north, come reports of 35 killed; in Isfahan, 55 executed; and so on throughout the 20 or so cities and towns that are spread throughout the country.

By conservative estimate, a figure of 1,000 *official executions* daily is considered certain.

There is more. Ayatollah Moussavi Tabrizi, one of Iran's chief revolutionary prosecutors, called "the butcher of Teheran" by the Agence France Presse, has "'unleashed a veritable bloodbath" in recent weeks. From his headquarters in Evin Prison, Tabrizi sends hundreds of elderly people and children, even pregnant women, to the firing squads. One evening alone, on the night of Sept. 26-27, Tabrizi shot 218 Iranians.

Twenty-five miles south of Teheran, in a remote desert area, Tabrizi has established the "Cemetary of the Atheists," AFP reports. There, without juridical procedures, thousands of Iranians have been thrown into mass, unmarked graves. At Teheran's airport, a squad from Tabrizi's office, armed with lists of many thousands of "political undesirables," searches all arriving passengers and from each plane-load escorts an unfortunate handful to Evin Prison and the death squads.

Questioned about his methods, Tabrizi grunted to AFP, "It's legal according to Muslim law."

In mid-September, Tabrizi and other officials of the Khomeini regime took emergency steps to shore up their position by inaugurating the current reign of terror. Teheran Radio, quoting Khomeini himself, announced that henceforth criminals and opponents of the regime would not be arrested and brought to trial, nor even to prison, but were to be "shot in the streets." A special security and intelligence service is being assembled to blanket the country.

Qom's lake of death

The situation in Teheran is repeated throughout the country. According to Iranian sources, there is a lake outside of Qom, Iran's holy city and center of Khomeini's theocracy, which has served as burial ground for untold thousands of anti-Khomeini activists and apolitical middle-class Iranians as well. "Hundreds of bodies have been thrown into the lake at Qom, and none of this is officially stated. One former member of the *pasadaran* or Revolutionary Guard, quit in disgust recently after having been assigned the task of dumping at least 300 bodies in that lake in a few weeks," said the source.

To get an idea of the magnitude of the killing in Iran, he said, it is only necessary to look at Iran's daily newspapers. Each day, each newspaper carries between 50 and 100 classified ads for missing persons, usually people who have disappeared to the Islamic gestapo.

"Now, the murder machine is being expanded. The regime has announced that it intends to hire more judges for the Revolutionary Courts," said the Iranian source. "This has already started. The so-called judges are being sent everywhere throughout the whole country. Each judge brings with him somewhere between 10 and 20 executioners. Wherever they go, deaths follow." Gradually, these judges and executioners are becoming unified into a nationwide extermination system.

Last week, the minister of education announced that 40 percent of Iran's young schoolchildren would be expelled from school due to alleged opposition activities, and a special school intelligence service was established to supervise children as young as seven years old. Now, Iranian parents must sign a document that their child will not engage in any political activity while in the school; should that rule be violated, the children themselves are whisked away without notification to the parents, and executed. One nine-year-old girl was sent to the firing squad for scrawling "Death to Khomeini" on the wall. The official prosecutor has announced that no lower age limit would be placed on those eligible for execution.

It is also the case that political chaos, utter economic breakdown, and war have been taking a heavy toll on Iran's population. On this level, as well, it is evident that a qualitative shift is occurring.

This week Teheran Radio announced that the government militias loyal to Khomeini were preparing a military offensive against the village of Bukan in West Azerbaijan, a stronghold of the Kurdish opposition to Khomeini. The radio warned the entire population of 20,000 in Bukan to flee the city before the Khomeini Guard arrived—indicating the potential for mass slaughter and disruption of the most basic aspects of life.

Already the population is reduced to subsistence levels. Since coming to power in 1979, Khomeini's regime has utterly destroyed the Iranian economy. Iran's oil production, which once fueled the country's economic growth while pumping 6 million barrels of oil per day, has been reduced to barely 10 percent of its former stength. Industry has been leveled, and factories are either closed or operating at a fraction of their old output.

Since Khomeini arrived in Iran, well over $100 billion in development projects in industry and vital infrastructure has been canceled outright. The result has been mass unemployment and hardship. The string of 32 planned nuclear power plants contracted by the Shah's regime is nonexistent, and a severe power crisis persists in every city. The steel and copper industries, once the pride of Iran, have almost disintegrated. The regime has adopted a policy—first advocated by President Bani-Sadr, who now claims to oppose the former regime after the mullahs turned against him—of deliberate deurbanization. With varying success, Khomeini has sought to compel millions of Iranians to leave the cities and return to the countryside, where it is almost impossible to find work.

Mexico chooses its next president

by Timothy Rush

The Mexican presidential succession process came to a sudden conclusion on Sept. 25 when the three sectors of the governing Revolutionary Institutional Party (PRI) jointly announced that Miguel de la Madrid Hurtado will be the party's candidate for the 1982-88 presidential term. In the Mexican system, the president has extraordinary powers for six years—but cannot succeed himself. This means that in the fifth year of each term all political energy becomes focused on who will be tapped as the next PRI candidate; whoever is chosen becomes virtually certain of election because of the PRI party's overwhelming electoral dominance. The PRI has not come close to losing a presidential race in its 52 years of existence.

Like the current president, De la Madrid taught constitutional law at the National University before assuming a series of positions in the government economic and financial ministries. He served under López Portillo when the current president was head of the Finance Ministry in the early 1970s. De la Madrid joined the cabinet as secretary of planning and the budget in May, 1979.

The planning and budget ministry had been created three years earlier by López Portillo as the centerpiece of an ambitious development-planning effort. Two ministers before De la Madrid failed to come up with the Global Development Plan López Portillo wanted. De la Madrid succeeded.

In the course of his administration, López Portillo has been able to stay on good terms with the international banking and business community, which backed him as the successor to Luis Echeverría in 1976. Mexico's oil boom has in fact made the country one of the great bonanzas for international lending in the past three years. At the same time López Portillo has oriented domestic policy toward extraordinarily high rates of industrial and general economic growth.

Miguel de la Madrid shares this backing from the international financial community. However, unlike 1976, the present international climate is poisoned by U.S. Federal Reserve chairman Paul Volcker's high interest-rate policies. López Portillo and other top Mexican officials have given repeated warnings that the persistence of the Volcker policy in the United States and erosion of North-South economic cooperation for development is leading to world economic catastrophe.

In such a climate, Mexico may not be able to satisfy both worlds much longer; the demands of IMF-run international finance will increasingly clash with Mexico's domestic industrial development orientation.

The signals of this impending conflict can be clearly traced in U.S. Treasury Secretary Donald Regan's statements the last week in September, sharply questioning Mexico's right to receive "soft" lending conditions on loans from the World Bank.

It remains to be seen how López Portillo deals with such pressures in the remaining 14 months of his term. And the issue is certain to dominate when De la Madrid assumes power.

It is believed the accelerating international collapse, bringing economic decision-making to center stage, may have been one of the elements tipping the nomination in the final weeks to De la Madrid and away from his strongest competitor, Labor Secretary Pedro Ojeda Paullada.

'Politicos' or 'technocrats'

As each of the six "pre-candidates" jockeyed for position in the months preceding the Sept. 25 *destape*—unveiling—partisans of each rallied around the code-words "politico" and "technocrat." The "politico" label signified those candidates in the cabinet with direct experience in the PRI party structure or direct work with the PRI constituencies within the country. The leading "'politico": Ojeda Paullada. In the other camp were the "technocrats": those who rose to the top in the administrative bureaucracy. Leading light: De la Madrid.

López Portillo, in comments the evening of the *destape,* dismissed the distinction as meaningless in the Mexican system where the same man can play both roles. There is some truth to this; López Portillo's own history is that of a "technocrat" who did not flounder when handed the country's supreme political power.

But there is some reality to the distinction as well. While it can be assumed De la Madrid will stay personally on top of the evolution of foreign and domestic economic policy, he will have to draw on others to forge a working political machine. This means that the post of Interior Minister (*Gobernación*), always powerful, will be especially key as his cabinet is announced in late November 1982.

The formation of this political apparatus will be a matter of jockeying and negotiation for most of the intervening 14 months. It's too early to trace that direction now, but signposts to watch will be the campaign appointments over the next weeks, including the staffing of the PRI party think tank, IEPES, and possibly including the PRI hierarchy itself.

Whose candidate?

The final and most decisive say in choosing the presidential successor is that of the incument president. First and foremost, De la Madrid is López Portillo's choice. And more than in previous years—though such predictions are notoriously risky—the similarities of background point to more than rhetorical continuity.

The personal link to López Portillo (the two are reported to be close friends) is underscored by the presence of José Ramón López Portillo as De la Madrid's Undersecretary of Evaluation in the Planning and Budget ministry. As word spread the morning of Sept. 25 that De la Madrid had gotten the nod, and as well-wishers began to stop by the planning minister's office, De la Madrid was joined by José Ramón and the current industry secretary, José Andrés de Oteyza.

But no PRI candidate emerges on the mere say-so of the incumbent. The final tracks of an involved process of consultation and negotiation with power centers throughout the party converged on the presidential residence, *Los Pinos,* in the final days.

Mexican press columnists report that López Portillo met with former president Luis Echeverría on the Tuesday before the unveiling. On the Friday morning of the announcement, the President met with the only other living former president and, like Echeverría, a major head of a faction in the party—Miguel Alemán. Alemán had met 10 days previously with U.S. Vice President Bush during Bush's trip to Mexico for Independence commemorations. According to informed U.S. sources, Bush conveyed to Alemán US. concern over any Mexican candidate who might swing too far "to the left." It is believed the prime target of the warning was Ojeda Paullada.

In between, on Thursday evening, López Portillo summoned De la Madrid and Ojeda Paullada to *Los Pinos* for final parlay with each. In the same hours, the leaders of the PRI's three branches—the CTM workers confederation, the CNC peasant confederation, and the catch-all category of middle-class groupings, the CNOP—were attempting to reconcile final differences in preparation for a joint statement to be issued the next morning.

The "odd man out" was reportedly the CTM's Fidel Velásquez, who had backed Ojeda Paullada as one of his top candidates. Though Velásquez did put his name on the final statement, the initial coolness of the CTM to De la Madrid was evident as no major labor leaders went to congratulate the nominee for several days after the announcement.

But it would be a mistake to think a serious split is necessarily at hand. Knowledgeable observers believe Velásquez is negotiating to increase the number of posts going to labor representatives as the De la Madrid team comes together. And there are joint political projects which bring Velásquez and De la Madrid together. Most notable is the dismantling of Carlos Hank González' machine in the State of Mexico. The new governor there, Alfredo del Mazo, had been backed by Velásquez against Hank, with back-up from De la Madrid. Del Mazo had been the director of the CTM's Workers Bank. When he ran for the governorship of Mexico's most powerful state, a close friend of De la Madrid's going back to days together as graduate students at Harvard in the mid-1960s, Manuel Uribe Casteñeda, moved in to the Workers Bank post.

In fact, the real "odd man out" in the designation of De la Madrid appears to be Carlos Hank González. Several sources confirm that the strategy of Mexico City's mayor and former Mexico State governor in the last months of the campaign was to knock out both De la Madrid and Ojeda Paullada, and install a candidate of lesser stature who would be subordinate to Hank's control. There are reports that when he went to greet De la Madrid a few days after the *destape,* he was kept waiting while De la Madrid met with Del Mazo and issued an extraordinarily warm statement of praise for the Mexico State governor as an example of the "new breed" of Mexican politicians the country required. After a 10 minute wait, Hank reportedly stalked off in a rage.

Few political professionals had doubts about Hank's motivation in announcing the municipal takeover of Mexico City's previously privately held bus lines on the same day as De la Madrid's selection. The news strongly competed with the PRI unveiling on the front pages of all Mexico City newspapers.

Unexpected timing

Lópz Portillo had been expected to make the final decision on the succession immediately after the Oct. 22-23 North-South summit in Cancún. He had gone so far as to publicly request that the PRI wait until that time, and the PRI had concurred. What changed López Portillo's mind?

One factor could certainly have been the deepened international financial problems with which Mexico must deal. It may also have been that the president was able to come to foreign policy understandings with President Reagan at their meeting in Grand Rapids Sept. 17 which allowed him room to more quickly resolve the pending domestic political question. And finally, as suggested by a prominent Mexico City columnist who accurately forecast when the "unveiling" was at hand, it may have been a desire to "shake the system" out of a spreading political and administrative paralysis which accompanies the prolonged uncertainty of a succession choice.

Ratification of De la Madrid's nomination in the PRI's full congress is now set for Oct. 9-11. On the 12th he will begin a grueling nine-month campaign throughout each of Mexico's 30 states with a one-week hiatus late in October to be sure to steal no thunder from López Portillo's direction of the Cancún summit. Though De la Madrid does not face a serious challenge in the polls the first Sunday of July, 1982, the campaign serves as a vital vehicle for renewing constituency support for the PRI in Mexico.

One feature of the Mexican system—the "renegotiation" of constituencies—is highlighted this year, since 46-year-old De la Madrid is one of the youngest candidates ever to be nominated. He brings with him a new generation of contemporaries known in Mexico as "los juniors." López Portillo warmly noted in his first comments after the selection that De la Madrid had been his own student in the early 1950s, and that it gives the teacher special pride to recognize a student who "is better than he is."

Wall Street's scenario for Mexican austerity

No sooner had de la Madrid been named as López Portillo's successor as Mexican president than Wall Street began to issue orders that, if implemented, would set up de La Madrid to be politically destroyed.

On Sept. 28 the *Wall Street Journal* played up de la Madrid's history of good relations with the international business and banking community, and insisted be serve as Wall Street's tool in administering economic shock treatment to Mexico. The *Journal* quoted a political-risk analyst: "The selection of de la Madrid gives confidence to U.S. bankers at a time when some are worried about Mexico's ability to borrow as much money as it will have to. Some very tough decisions will have to be made about the economy, and I think de la Madrid is the man to make them."

Not missing a beat, *Time* magazine wrote the same day that because de la Madrid had worked intimately with Mexico's economic planning, he's "in a good position to ponder austerity measures."

Wall Street knows that such a scenario would immediately pit de la Madrid against the powerful Mexican labor movement, led by Fidel Velásquez, and would threaten the very fabric of the PRI party. And it would strengthen anti-Velásquez labor radicals, "Poland style." Top Anglo-American "establishment" strategists have long targeted the PRI and the PRI-connected labor confederation (CTM) for liquidation.

The *Wall Street Journal* disingenuously added that "the extreme age of Mexico's labor union boss, Fidel Velásquez [he's in his eighties] portends changes in union leadership that could require the president to help smooth the transition and mediate between union and business."

An additional element in the scenario is to build the credibility of a new "unity of the left" movement grouped around the Communist Party in Mexico. George Grayson, a Virginia professor regularly accorded space in the *Washington Post, Christian Science Monitor* and *Foreign Policy* magazine to level diatribes against the PRI and Mexican industrialization, was reported by associates last week to be delighted with the de la Madrid selection—because he thought it would be easy to paint de la Madrid as the candidate "of the right" and correspondingly feed the propaganda mill of the Communist Party coalition.

Inside Mexico, Grayson's thinking was echoed in the words of Martínez Náteras, the liaison between the Communist Party and the new Social Democratic Party. Náteras told the press Sept. 25 that De la Madird was "Mr. Rightwing" and that he presented an ideal target for left propaganda.

From De la Madrid's acceptance speech

A few hours after the ruling Mexican Institutional Revolutionary Party (PRI), announced the nomination of Miguel de la Madrid Hurtado as presidential candidate for 1982, the almost certain next president of Mexico delivered an acceptance speech to thousands of followers in Mexico City's central plaza. Excerpts follow:

To be the candidate of my party means to continue iu my profession of servant to a nation. . . .

We will continue advancing on the path of democracy. We will strengthen popular participation in policy decision making, in order to strengthen our movement . . . in order to strengthen our nation.

We will continue to respect liberties in order to broaden their benefits and in order to match individual liberties with group liberties within a just democracy and freedom.

We will continue strengthening our nationalism in order to protect and to develop with passion all the social activities which our political, economic, and cultural independence allow us.

We will continue following the popular and nationalist path of our movement, whose brilliant current phase is being led with exemplary patriotism, with total dedication, rationality, and social commitment by the current leader of the Mexican Revolution: José López Portillo.

This administration [López Portillo's—ed], with its progressive work will continue to work until its last minute for the benefit of the people. The party will continue to support López Portillo.

Now, as always, the party will continue to follow the inexorable principles of our foreign policy: self-determination of the people, non-intervention, peaceful solution of conflicts, international cooperation for development and world peace and the construction of a more just and balanced new world economic order. In this context, Mexico's participation with José Portillo in Cancún, demands full solidarity and strong support from our party.

Together we will create, but especially with the support of our youth . . . a new image of politics, anchored on the ideological conviction of our authenticity, loyal commitment, and moral integrity.

A biographical sketch: Miguel de la Madrid

Miguel de la Madrid Hurtado was born in 1934 in the western state of Colima. From 1952 to 1957, he attended the National School of Law at Mexico's National Autonomous University (UNAM). López Portillo was one of his professors. He later taught constitutional law part-time at the same school in the 1960's. His 1957 thesis: "Economic Thought of the 1857 Constitution."

Since his college days, de la Madrid started working in financial-related institutions. He first worked at the National Bank of Foreign Trade. Immediately after he collaborated with José Campillo Saínz, professor of law who later became minister of industry and commerce, in studies regarding the nationalization of Mexico's mining.

He then joined the Bank of Mexico, Mexico's central bank. In 1964, the bank gave him a grant to study public administration at Harvard University, where he earned a masters degree in 1965. Back from Harvard, he was named subdirector general of credit of the Finance Ministry, 1965-70. From 1970 to 1972 he was subdirector of finances of Mexico's state oil monopoly, Petroleos Mexicanos (Pemex), which allowed him to become well acquainted with what is today Mexico's most crucial industry "from the inside."

López Portillo, then minister of finance, promoted him to the post of director general of credit in the Finance Ministry. In 1975, when López Portillo became the PRI presidential candidate, De la Madrid was named undersecretary of finance where he remained until 1979 when he was named minister of planning and budget.

De la Madrid joined the PRI in 1963 and worked with the PRI's think tank, IEPES, during the presidential campaigns of Luís Echeverría and López Portillo.

Economic Diplomacy

Germans, Soviets, Japan pursue growth

by Rachel Douglas, Soviet Sector Editor

Keystone NATO member West Germany is about to secure a huge economic deal with the Soviet Union, and maybe not just one. West German officials right up to Chancellor Helmut Schmidt say frankly that the arrangements for Soviet fossil fuel deliveries to repay West Germany for investments, far from making Germany economic hostage to the U.S.S.R., are in the German national interest.

The export-oriented West German economy stands to benefit from exploiting the huge East European market. And East-West relations grounded in industrial development efforts, the West Germans believe, are conducive to detente in the military/strategic realm as well. In May 1978, Schmidt and Soviet President Leonid Brezhnev signed a 25-year economic cooperation agreement based on that principle.

For Schmidt, East-West trade was an essential element of war avoidance diplomacy with Brezhnev, when the unstable psyches of the Carter administration ruled Washington. So far, the Reagan administration has given Schmidt no reason to alter West Germany's posture.

Japan and Italy, too, advanced toward participation in the largest of the West German Siberian development deals during the month of September.

That project is the Urengoi natural gas pipeline, to transport gas from deposits in the Yamal Peninsula, on the Arctic Ocean at approximately the longitude of the Ural Mountains, to Western Europe. The Urengoi natural gas investment package will ultimately be worth between $10 and $15 billion.

German industry and banking sources say that all the technical problems of this deal, including interest rates for its financing, have been solved. The final agreements, to cover the price to be paid for the Soviet natural gas, should be signed in the next few weeks, before Brezhnev's November visit to meet Schmidt in Bonn. An official of Deutsche Bank, one party to financing the Soviet purchases of equipment for the pipeline, described the pricing issue as a relatively minor one.

On Sept. 29, Mannesmann AG and the French company Creusot-Loire announced that they had signed the first big contract for the development of Urengoi, to sell the Russians $948 million worth of natural gas compressor stations for the pipeline.

Details of the Urengoi project were on the agenda of the Soviet-West German economic cooperation commission, which met in Moscow in late September. On the eve of his departure for that meeting, West German economics Minister Count von Lambsdorff explained to reporters that the Soviets were unlikely to manipulate future fuel deliveries to the West for political gain, since that would provoke a shutdown of all East-West trade—a shutdown the Soviet Union could ill afford. Lambsdorff said that Bonn considers "economic cooperation with the East . . . an important stabilizing factor." He had no knowledge of American objections to finalizing the gas deal, the economic minister added, and West Germany in any case would be foolish to turn down potential foreign sources.

The $10-$15 billion Urengoi natural gas deal has been set between Bonn and Moscow, and Japanese-Soviet trading is expanding again. Further large-scale projects and joint ventures in third countries are under discussion. Italy is looking for openings as well. The U.S.S.R. wants to make Siberia into 'a Ruhr region.'

The Soviet and West German officials resolved to pursue further large-scale projects and to secure a greater portion of East-West contracts for medium-sized and small Western companies. They also pledged to expand trade in the machine tool sector, which will be the topic for next year's session of the commission.

Siberian coal

It was during the Lambsdorff delegation's stay in Moscow, that the Soviets made public their intention to contract several new, major investment deals with the West.

According to the West German business daily *Handelsblatt*, the Soviets put on the table their plans for exploitation of the gigantic Kansk-Achinsk surface coal deposits in Eastern Siberia. This development project, which Soviet Deputy Foreign Trade Minister A. Manzhulo put at the top of a list of 10 construction ventures in which Western investment would be welcome, is to center on a coal gasification and liquefaction complex.

The value of the Kansk project will be 120 billion deutschemarks, counting in the related Soviet domestic economic activity. Handelsblatt reports that, although the portion of this belonging to foreign orders is not yet determined, the financing needs will be too great for the German banking system to handle, so that other European nations will come in.

The Soviets described their plan as a "Ruhr region" in Siberia, referring to the great heavy industry in West Germany.

The opportunity to produce for export is irresistible to other hard-pressed European nations. On Sept. 16 sources in the Italian government, Schmidt's host during an early September trip to Rome, confirmed they had made quiet progress towards signing Italy's share of the Siberian gas pipeline deal.

Japanese interest

On Sept. 22, the Export-Import Bank of Japan granted a credit line to the Soviets for the import of Japanese equipment for the Urengoi pipeline, although Japan will be paid back in cash, not natural gas. The loan of $600 million was extended for eight years at an interest of 7.8 percent. Not only did this undershoot the OECD floor of 8.5 percent interest for loans of longer than five years, but the credit demolished the trade sanctions against the Soviet Union, imposed by the Carter administration and agreed to by Japan after the Soviet military intervention in Afghanistan.

Japanese-Soviet trade has already recovered this year by 28 percent over 1980 as Prime Minister Suzuki began to relax the post-Afghanistan sanctions.

Although Soviet criticism of Japan for tightening military collaboration with China remains at a high level, the first glimmer of political reconciliation is visible. After the Japanese and Soviet foreign ministers conferred at the United Nations Sept. 23, Suzuki told reporters, "Japanese-Soviet relations, long strained, have now begun to move forward." From Brezhnev came a signal in his Sept. 8 communiqué from a meeting with Vietnamese leader Le Duan, which concluded that "the cause of peace in Asia could only benefit from Japan's joining in constructive efforts to establish genuine good-neighborly relations among Asian states."

From Oct. 3 to Oct 22, the Japanese head of the industrialists' association (Keidanren), Y. Inayuma, will lead a government-sponsored delegation of businessmen on a tour of European nations. Their mandate is to iron out wrinkles in trade policy troubling Japanese-European relations. One route to solutions, which the Japanese delegation will follow, is to arrange joint ventures in third countries, not excluding Eastern European countries.

German labor sees environmentalists as new Nazi menace

by Lyndon H. LaRouche, Jr.

Data now available explain fully the reason for the humiliating defeat of Willy Brandt's Socialist International during this past weekend's elections in the West German state of Lower Saxony. With officials of leading German trade unions warning that the "environmentalists" are the "Nazi menace" of 1981, the hard-core of trade union voters boycotted the Lower Saxony elections, sending the policies of Willy Brandt and of Social-Democratic (SPD) parliamentary leader Herbert Wehner to a stunning 8 percent loss in the voting.

Growing hatred of the "environmentalist" hooligans of Germany boiled over in West Berlin last week, with the leader of the Berlin section of the DGB, the national trade-union federation, supporting police-action to clean up the lawless mess the SPD has supported heretofore in that city. The policy-statements of the Berlin DGB leader were quickly picked up by trade-union leaders elsewhere in Germany. *Einheit*, the official organ of the IG Bergbau [miners' unions], accurately compared the "environmentalists" to the Nazi hooligans bitterly remembered by older German trade-unionists.

In this circumstance, many trade-union voters reacted to shameless support for the "environmentalists" from local SPD leaders, by boycotting the election.

Although the growing hatred of Germany's trade-unionists is directed against the policies of Willy Brandt, it was the policies of Herbert Wehner which went directly down to defeat in the weekend's voting. Although Brandt's left-wingers are seen as the political allies of the "greenies," as the "environmentalists" are called here, it is Wehner who is viewed as committing the SPD as a whole to a policy of assimilating the "greenies" into the party. Psychologically, trade-unionists view Brandt as spiritually an outsider to the German party itself, and have voted for that party despite Brandt in the past. Wehner is seen in their minds as the symbol of the regular party organization, and it was the regular party organization those trade-unionists boycotted this past weekend.

'Green fascism'

Since U.S. Secretary of State Alexander Haig began his campaign to topple the government of Chancellor Helmut Schmidt, the West German "greenies" have qualitatively escalated their hooliganism into forms exactly imitating the street-violence tactics of the Nazis, as *Einheit* rightly described the situation in its current issue. In the view of some among Haig's German admirers, it is proposed that popular reaction against the Brandt left-wing of the SPD and the left-wing's policy of soft measures against green hooliganism and terrorists will split the SPD-FDP coalition and create a potential landslide in favor of the nominally conservative opposition parties.

For the historian, and also for political figures in their sixties and seventies who witnessed Nazi violence first-hand, what the greenies have become is not only almost identical to the Nazis, but greenie violence today is seen as representing the same kind of threat to the constitutional order that the Nazi violence represented at the end of the pre-Hitler Weimar Republic. Now, when older German leaders openly compare the greenies to the Nazis, they supply the name which many younger Germans from the postwar period quickly recognize as the right name for the green pest.

Some opposition party circles are gloating over the eruption of green-fascist violence, at the same time that they denounce the green hooligans publicly. Not so the majority of Christian-Democratic Union (CDU) members. The world-outlook of the more typical CDU voter was reflected in a current interview with Gerhard Stoltenberg published by *Der Spiegel*. Stoltenberg, the head of government for the state of Schleswig-Holstein, was asked by the interviewer if the green violence was not causing him to smile with one eye and weep with the other. "Yes, exactly," replied Stoltenberg, a probable chancellor candidate for the 1984 general elections.

Terrorism, a related development

In a related development, law-enforcement sources have issued the report that two leading Baader-Meinhof figures, Christian Klar and B. Monhaupt, were identified by finger-prints as principles in the attempted assassination of U.S. Lieutenant Gen. Frederick J. Kroser in Heidelberg. The connection of this act of terrorism to the green-fascist violence generally is twofold.

First, as recent law-enforcement intelligence reports in Germany have emphasized, the hooligan forces of greenies occupying houses and conducting nightly street-violence in Germany include a hard-core of terrorists, some of whom are safehoused on the premises occupied by the greenies' hooligans. This is consistent with the pattern of evidence over the period since the launching of the international terrorist and internationalist environmentalist mass-movements simultaneously, during 1968. The international terrorists are the killer fighting arm of the environmentalist movement, and it is the environmentalist movement, with complicity of the Socialist International, which provides the logistical support, safehousing, and which runs political interference for the terrorists.

Second, the U.S. zone of occupation in the state of Baden-Württemberg has been the principal launching-pad for both terrorism and the greenies in West Germany. The second generation of the Baader-Meinhof Gang was produced in Heidelberg, the U.S. command center, out of a London Tavistock Institute-designed project known as the Heidelberg (Mental) Outpatients' Collective. The same region produced the present form of the greenie movement, and continues to be a major support base for that movement up to the present instant.

In addition to Heidelberg, the key center of this problem in Baden-Württemberg is the city of Stuttgart, a nest of pagan cults and gnostic pseudo-Christian sects, from a powerful concentration of highly placed members of the anthroposophic cult on down. Within the SPD nationally, the leading spokesman for the greenie upsurge has been Erhard Eppler, until recently the dominant figure of the Baden-Württemberg SPD, and still one of the three lay directors for the Evangelical Church in Germany.

Viewed in international context, the alliance of pagan cultists and left-wing nominal Christians is the same phenomenon seen in the creation of the late Reverend Jim Jones's People's Temple by the Disciples of Christ and with aid from Rabbi Maurice Davis. It is the "left wing" of the World Council of Churches which exploits religious cover in a massive way to support environmentalists and strange cults, provide political sympathy for terrorists, and pour masses of church funds into creating left-wing guerrilla insurgency in such places as Central America.

In Baden-Württemberg, as is the case internationally, the international drug traffic, terrorism, and environmentalism are closely interlinked. In Stuttgart, for example, there has been a recent increase of known drug-usage by an officially estimated 70 percent, compared with an estimated 20 percent for the BRD as a whole. The explanation for this scandal in Mayor Rommel's city was provided earlier this year in connection with massive drug arrests by Italian authorities in Bolzano, south of Innsbruck in the Italian Alps.

Bolzano was exposed as linked to the Socialist Party in Italy (the party of Bettino Craxi, as formerly of Benito Mussolini) through the financial network of the fascist P-2 Freemasonic lodge. The arrests showed that the drugs are run by truck, with aid of the TIR system, up from Turkey and Iran, through Bulgaria and Yugoslavia, into Bolzano. From Bolzano, the drug traffic jumps to Stuttgart, where a local Stuttgart Italian mafia has been identified by a pattern of drug-arrests as leading distributors locally. (Nationwide in the BRD, Turks are most prominent in running the drug traffic.)

Generally, the focal point for spread of the drug traffic is U.S. military bases. Throughout the BRD, the highest rates of drug usage in the German population are in the vicinities of U.S. military bases. U.S. military personnel have been exposed by repeated arrests in the Frankfurt area and elsewhere to be a large part of the drug-running activity in the nation.

The heaviest concentration of drug usage is among the environmentalist and terrorist circles and their sympathizers. As massive arrests in Italy have shown, it is the Qaddafi-linked drug traffic which funds much of the terrorist-linked arms traffic and logistical support for the terrorist operations. The Sicilian drug-mafia, organized under the auspices of Venetian wealthy families and the Italo-Libyan Friendship Society of Billy Carter's cronies, is the principal interface to the drug traffic run through Italy into France, Switzerland, and southern Germany.

Attack the drugs in the Stuttgart region, and one soon finds oneself under the libelous and slanderous attack by powerful circles linked into pagan-cult families influential in that locality.

The Hitler parallel

The Austrian hippie, Adolf Hitler, was a hard-core enthusiast for the Odin-Thule cults sponsored by Houston Chamberlain and the famous protégé of Chamberlain and of Bertrand Russell, Major-General Professor Karl Haushofer. It was Chamberlain and Haushofer who screened Hitler to become leader of the Nazis, and Haushofer who assigned his personal aide Rudolf Hess to become Hitler's ghostwriter for *Mein Kampf*. There is a direct connection, as well as a parallel, between the cult-shaping of Hitler's ideology and the cult-shaping of the ideology of today's green fascists. It is in this connection that the concentration of pagan-cult and pseudo-Christian sects around Stuttgart obtains its special significance today. The appearance of former neo-Nazi political figures from the NPD within even the political election-lists of the greenies is consistent with the cult-ideology behind both Hitler and today's green fascists.

It is also relevant that top-level Jesuit circles in

Germany identify Hitler's chief Nazi competitor, Gregor Strasser, as an anthroposophist and secret member of the Solidarist international. It was Strasser, not Hitler, who recruited the Nazi youth movement out of the ranks of the back-to-nature counterculture movement of Weimar Germany. It was those fascist "environmentalists" of the 1920s and early 1930s who contributed the hard core of the Nazi SA and SS.

Normal, moral people can not produce evil movements such as the Nazi hard-core was, nor movements which support the mass genocide of the Club of Rome or Jimmy Carter's *Global 2000 Report.* No "objective factors" can explain the immorality of the Nazis then, or the green fascists and terrorists of today. There must be an element of insanity in the persons who participate in such movements, and a special sort of moral insanity among the behind-the-scenes forces who sponsor the spawning and deployment of such movements. It is indispensable in such cases, to seek out the source of a special kind of ideological contamination to explain support for the Nazis, for the Club of Rome, and for today's green fascists. It is in this respect of the matter that the concentration of pagan and other cults around Stuttgart becomes the key to the security problems of U.S. forces stationed in West Germany.

SPD policy

Herbert Wehner makes no secret of the fact that he was a Karl Korsch-type leading figure of the German Communist party from the middle 1920s up through the time of his wartime imprisonment in Sweden, from which he emerged as a social-democratic leader. The relevance of that reference here, in the setting of the past weekend's Lower Saxony elections, is to compare Wehner's approach to the menace of fascism then with his posture toward the problem of green fascism today. The question posed by this comparison is: Did Wehner ever learn truly the basic lessons of his party's failures under Weimar? Has he learned the lesson of Communist Party collaboration with the Nazis in the pre-Hitler Berlin public-transit strike?

Wehner has publicly defended a policy of assimilating the green fascists into the SPD's organization. The argument employed by Wehner and others for such a policy is the false argument that the Weimar Republic was destroyed from within by the proliferation of small parties. True, the liberal parties led by Schacht, Hugenberg, and Stresemann made the Brüning and Hitler dictatorships possible; it was not small parties which destroyed Weimar, but the treachery of the Weimar liberals in the Social-Democratic and Liberal alliance of the period of the Young Plan. The liberals demanded that the Social-Democratic Müller government adopt extreme Friedman-Thatcher-type austerity measures, the issue over which later Nazi Finance Minister and Hitler-backer Hjalmer Schacht toppled the Müller government.

It was liberal treachery, Friedman-Thatcher austerity, and fascism in the streets which enabled the Weimar Republic to be destroyed. Pressures to cause the liberals to bring down the Schmidt government, pressures for Friedman-Thatcher imitations of Schacht's austerity, and green fascism running amok in the streets is the danger of today—as trade-union spokesmen are beginning to say openly and quite accurately.

The Wehner-backed policy of attempting to bring the green fascism closer to the SPD gives the SPD the worst of all possible worlds. In order to avoid offending the green fascists, the SPD in Lower Saxony refused to present a policy in the interests of the region or the nation. Worse, the Lower Saxony SPD leadership shamelessly courted a political alliance with the green fascists, driving away a significant part of the hard-core of the SPD's trade-union and other voter base.

The pragmatic opportunism and back room maneuverings which have given Wehner the reputation of "the old fox" during the postwar period, is a "littleness" of spirit and intellect which erodes and ultimately destroys those parties and governments which delude themselves that "practical opportunism" is the recipe for all good political dishes.

Under ordinary periods, when employment is relatively plentiful, when business and farms are relatively prospering, and in which the day-to-day affairs of the local communities and streets are in reasonable order, the ordinary, "little" citizen adapts to matters of national and international policy in a certain way. The "little" citizen is not particularly interested in anything more than the cosmetic features of national policy; it is the "little" things which occur in his immediate neighborhood, directly affect his family, and his pension and next vacation, which really occupy his mind. In such ordinary periods, the pragmatic opportunism of a Wehner appears to succeed quite well.

In a crisis, when unemployment is looming, bankruptcies erupting or looming, chaos and violence in the streets, and when every "little" interest of the ordinary citizen is visibly in jeopardy, pragmatic opportunism becomes immdediate practical folly, to the point of political suicide or even national suicide.

Wehner, it seems, has so far refused to understand the difference between the two kinds of political conditions. He manifestly never understood it while he was a leading figure of the Communist Party and Communist International. Apparently, according to visible signs, he has not improved his understanding on this point since.

One hopes that some forces within Germany's SPD—and elsewhere—learn that lesson before it is entirely too late. The lesson of the past weekend's Lower Saxony election ought to be taken as a warning.

The Shimoda conference: what Japan's leaders say about Haig and Volcker

by Richard Katz

When Emperor Hirohito went to the radio a few days after the explosions at Hiroshima and Nagasaki to inform his subjects that Japan would have to surrender for the first time in its history, he explained the decision thus: "The war situation has developed not necessarily to Japan's advantage."

This masterpiece of Japanese indirectness is a paradigm of the behavior pattern American policy-makers have learned to expect in even their private discussions with the Japanese. A "yes" interjected after an American official's or businessman's statement will often mean, "Yes, I understand what you are saying," rather than, "Yes, I agree." If asked *in public* about their estimation of the possible success of President Reagan's economic program, top Japanese policy-makers will evade the question by saying, "We *hope* it will succeed."

The object of the indirectness is to avoid tension and loss of face for either side. It is used especially with the Americans—on whom Japan depends for energy, food, markets, and military protection.

Some Americans, misjudging the patience and capabilities of the Japanese, have abused their desire to avoid tension. Classic is the case of Henry Kissinger. When a top Japanese banker, a man almost as important as the prime minister, entered Kissinger's National Security Council offices 10 years ago, he found Kissinger still sitting with his feet up on his desk, not bothering to stand up and greet the guest. The seething banker did not acknowledge the affront; instead, he swallowed his pride and forced a polite smile. The Americans came to expect deference from Japan.

Imagine, then, the astonishment felt by top U.S. governmental and private policy-makers when, at a recent closed-door bilateral conference in Japan, the Japanese participants almost unanimously criticized American policies and strategic perceptions in the bluntest terms. From high U.S. interest rates, to the China Card, to what one Japanese told *EIR* was Haig's inclination to "see the Soviets behind every tree," the Japanese attendees indicated that they regard current Washington postures as simple-minded, ignoring the most basic Asian realities. One business leader, unable to contain himself in criticizing the inconsistency of U.S. policies, stunned the Americans by charging, "You change so fast you can't even remember the name of your current wife."

On the China Card issue, according to an unofficial summary of the discussions, "several Japanese participants pointed out that some Southeast Asian countries regard China as a more serious long-term threat than the Soviet Union, and that U.S. efforts to strengthen China's military capabilities would result in increased fears of China throughout Southeast Asia." One American attendee told *EIR*, "I was astonished to hear the Japanese express this view. I knew some of the Southeast Asian nations felt that way, but I didn't know the Japanese were sensitive to their feelings on this." This individual was being somewhat ingenuous—Japan had sided with Southeast Asia to soften Peking's unqualified backing for Pol Pot at the July United Nations conference on Kampuchea (see *EIR* July 7, and Aug. 40). It is nevertheless true that such a forthright statement from the Japanese is unusual.

The occasion for this most un-Japanese frankness was the Shimoda Conference held in Japan Sept. 2-4, the fifth in a series held every few years named for its first site at Shimoda, Japan. Bringing together approximately 40 individuals from each nation's public and private sectors, the conference was cosponsored by the Japan Society of New York and the Japan Center for International Exchange of Tokyo. The 80 individuals met behind closed doors to thrash out some of the key issues facing the two countries. U.S. attendees included Special Trade Representative William Brock, Deputy Assistant Secretary of State for East Asia Michael Armacost, Rear Admiral Donald Jones, Assistant Secretary of State for Economic Affairs Robert Hormats, nine members of Congress, Borg-Warner Chairman James Bere, and Atlantic Richfield Senior Vice-President John Simmons, among others. The head of the U.S. delegation was former ambassador to Japan Robert Ingersoll. The Japanese delegation led by former ambassador to the U.S. Nobuhiko Ushiba, whom *EIR* interviewed (see below), included former Vice-Minister of International Trade and Industry Naohiro Amaya, former Foreign Minister Saburo Okita, 10 members of the Diet, and the chiefs of such corporate giants as Sumitomo, Nissan Motor (Datsun), Fuji Xerox, Sony, Nomura Research, and Toyota, plus a number of academics and newspapermen.

'Need for a finely tuned response'

In addressing the closing day of the conference, Prime Minister Zenko Suzuki mentioned again the "deep-rooted wariness toward China" held by the Southeast Asian nations, to which he added, "Since Asia's dynamism is accompanied by diversity and multipolarity, there is a certain amount of concern in some Asian countries that the U.S. will deal with the Asian situation in a cut-and-dried manner, treating anyone who is not a friend as an enemy. I would like to point out the need for a finely tuned response on the part of the U.S."

Much of the closed-door discussion, according to participants, revolved around Japanese complaints about the lack of such a "finely tuned response," particularly in regard to the China Card and Haig's overall posture toward the Soviet Union. Some of this is indicated in the background papers. In citing the fears of China by the Southeast Asian nations, Tokyo University's Tatsumi Okabe warned, "If advanced technology supplied by the U.S. is used against Vietnam, the fear will only be intensified." Okabe added, "It is still necessary not to unduly provoke the Soviets in the process of cultivating friendship with China." Questions were also raised about the reliability of Peking; "The possibility of Sino-Soviet rapprochement, although not a revival of the honeymoon period, does exist and is becoming more real."

A similar warning was sounded by another Shimoda attendee, Kiichi Saeki, the head of Nomura Research Institute. Known as a prominent advocate of a Japanese military buildup, Saeki had nonetheless cautioned a conference in Washington last June, "The concept of a united front strategy involving Japan, the U.S., Europe, and China to counter the Soviet threat is perhaps going too far. . . . It is dangerous to corner the Soviet Union."

The China Card is only the most ostentatiously foolhardy of what the Japanese regard as an overly simplistic approach to foreign policy first by Carter and now by Reagan. One Japanese attendee told *EIR*, "The U.S. sees the Soviets behind every tree. But look at the Middle East. The source of the danger of war there is not the Soviet threat but the Arab-Israeli tension." In addition, many Japanese participants told the Americans that other global problems, e.g. the danger of new Irans, the failing economy, the energy crisis, are at least as important and frequently more immediately pressing than any current or expected Soviet military pressure on the West.

By focusing almost exclusively on the Soviet Union and by relying primarily on an (attempted) military buildup to meet Soviet political and diplomatic pressures, the Reagan administration is making itself incapable of dealing adequately with either the Soviet Union or the other problems, the Japanese attendees feared. Can neutron bombs prevent a new Iran? they asked. Instead, they advocated a more "comprehensive security" approach, that would include U.S. economic recovery, aid for development in Third World countries, and a conventional military buildup.

The vacuum of American leadership

In his conference speech, Suzuki declared, "At present there does not exist in East Asia such a crisis as is likely to bring the house down around us, but I believe that the presence of U.S. 'power' is itself the most important factor guaranteeing peace."

The Japanese feel that, although "the era of Pax Americana based on the overwhelming superiority of American military and economic power is over . . . there is no country outside of America that can assume leadership of the free world," in the words of Saeki to a June conference in Washington.

To be sure, such leadership has to include U.S. military strength i.e, genuine in-depth conventional and strategic forces rather than Weinberger's tactical nuclear warfare gimmickry. The Japanese, however, put greater priority on the necessity for an economically strong America to lead global economic growth. Congressional sources told *EIR* that many Japanese businessmen fear the United States suffers the "British disease" of low investment and low productivity. The Japanese were very skeptical about the ability of the Reagan economic program to reverse this. "They hope it will succeed, but they don't think it will."

The Japanese feared the administration was relying too much on tight-money policies and, as Ushiba told *EIR* (see interview) "high interest rates may aggravate rather than reduce inflation." Should the Reagan program fail, not only will Japanese-U.S. frictions increase, but so will global political instability. Former Prime Minister Takeo Fukuda repeated last month in Indonesia his warning that the economics of the 1930s produced the wars of the 1940s and that the current economic situation is the worst since that period.

The Japanese fear the United States at present is economically unable to produce either strong recovery or a defense buildup. Given a trade-off between a defense buildup or a U.S. economic recovery, Japan Society President David MacEachron told *EIR*, (see below) the Japanese attendees preferred the United States to get its economic house in order.

Folding the U.S. military umbrella

Several American participants warned that, in the words of Trilateral Commission member and Columbia University Prof. Gerald Curtis, Japan's failure to accede to U.S. pressure to rearm could provoke "the escalation into a major political controversy of differences on this fundamental issue as we saw happening repeatedly with economic issues in the past decade." Earlier this year, U.S. Ambassador to Tokyo Mike Mansfield had sent a secret memo to Washington cautioning that such heavy-handed pressure might backfire. Mansfield admonished, say reliable sources, that the result might not be a rearmed, U.S.-allied Japan, but the unleashing of a nationalist group seeking a rearmed, autonomous Japan. A preparatory staff paper for Shimoda had warned about a minority of pro-rearmanent Japanese whose "objectives are not a strengthening of the alliance but the creation of an alternative to it." State Department careerists had labeled Mansfield "a senile, old fool."

As long as the United States can be the "guarantor of peace" cited by Suzuki, through combined economic-political and military leadership, the danger Mansfield points to is small. But should the U.S. economic-military slide continue, e.g. allowing Saudi Arabia to become a new "Iran" and cutting Japan's oil, the danger Mansfield identified could become very real.

The image of such a U.S. slide can only have been increased by the Shimoda presentations of Sen. John Glenn, the ranking Democrat on the Senate Foreign Relations Committee, and by Richard Solomon, a former Kissinger aide at the National Security Council from 1971-76 who now heads the Rand Corporation's International Security Policy Research Group.

Glenn pointed out that, during the 1970s, Japanese defense spending increased 8 percent per year after inflation, compared to only 2 percent in NATO as a whole and a 2 percent *decline* in the United States. Pointing to the decrepit U.S. industrial base, Glenn said even large budget increases could not yield a sizable arms buildup for years. In addition, the diversion of much of the U.S. forces from both the Atlantic and Pacific to the Persian Gulf "may last a decade or longer."

As a result, said Glenn, even though Japan's defense budget is one-twelfth of America's, in the Western Pacific "Japan now possesses about one-and-a-half times as many combat aircraft as the U.S., more than double the number of naval combatants, and twice as many attack submarines."

For Japan, this situation means, "that it would prove extremely difficult . . . for us to provide adequate conventional defensive forces. Although the American nuclear shield will remain intact, a crisis in the Middle East, a war on the Korean peninsula, or a major conflict in Indochina *might hinder our ability to respond to a contingency involving Japan* [emphasis added]. Though Glenn might believe such statements hasten Japan's defense buildup, nothing could more move Japan to develop an autonomous military or to go neutralist than a belief that the United States had accepted Glenn's forecast as a given state of affairs.

Glenn then proposed in essence that Japan substitute for the diminished U.S. presence. He complained that due to prohibitions in Japan's constitution "Tokyo's allies cannot depend on Japanese forces being used where they might be needed most: in the Korean peninsula or Indochina." Was the senator proposing that Japanese troops aid the next Chinese invasion of Vietnam to further Peking's intention to bring back Pol Pot to Cambodia? Acknowledging that "we know that the political consensus required to change [Japan's exclusively self-defensive policy] will come only slowly," he proposed an eventual East Asian regional military organization including a regional military role for Japan. The latter is feared even more in Southeast Asia than in Japan.

Though Glenn did not indicate if China should be included in his regional military scheme, Richard Solomon did. Solomon discussed the China Card and limited nuclear warfare strategies—both opposed by Japanese leaders—in ways that indicate many U.S. officials regard them as indivisible and *link rearmament to those concepts.*

"The U.S. will not participate in China's nuclear modernization program," Solomon said. "Yet other forms of U.S.-PRC cooperation may help the Chinese to strenthen the security of their nuclear deterrent. Sales of early warning radar components and other command, control, communication and intelligence-relevant technologies could improve the security of Peking's strategic forces."

Solomon followed this up by discussing the role of Japan in limited nuclear war planning. The deployment of U.S. sea-launched cruise missiles to the Western Pacific will be important to neutralizing this threat of a limited Soviet nuclear attack and thus securing our allies and our air and naval facilities in the region. To the extent that Japan and the Philippines make possible the effective operations of the U.S. Seventh Fleet, they will contribute to the neutralization of Moscow's enhanced theater nuclear capabilities." Solomon did not mention land-based siting of theater nuclear weapons but Admiral Long, in attendance, had earlier this year discussed with the Japanese such siting, perhaps in Korea. Japanese leaders have already stated their opposition to 'limited nuclear war' strategies (see *EIR* Sept. 8).

Solomon then added his pitch for the "usefulness to Japan and the U.S." of China's 1979 invasion of Vietnam, and suggested "common or coordinated measures" between Washington and Peking in Cambodia as well as Afghanistan.

What is at issue here is not a Japanese "free ride" on American defense spending. Japan is steadily rearming

and may be the only major country in the West to show a significant after-inflation defense hike this year. The issue is that even pro-rearmament Japanese leaders believe current U.S. security policy is wrong on the following counts: 1) Washington has reduced security to purely military terms and cannot even deliver on this as seen in Reagan's budget; 2) in the absence of genuine conventional and strategic military strength, Washington proposes such dangerous follies as the China Card and limited nuclear warfare chimeras, and Japanese rearmament is conceived of as part of the China Card/ limited nuclear warfare tactics; and 3) in its single-minded concentration on Moscow, Washington is ignoring the need for political-economic activity to deal with other problems. These are the issues that produced the hot debate at Shimoda.

In our next installment, we will cover the Shimoda economic discussions.

Conference discussion: 'serious problems with U.S.'

The following is excerpted from the "Summary of Discussion" issued to the press following the Skimoda Conference. It was prepared by an American staffer assigned to the sponsoring organizations. It is not a communiqué approved by the participants, but discussion that took place behind closed doors.

Most participants shared the view that the Soviet military power is growing. . . . Moreover the Soviet Union is more willing to use its military power to extend its political influence. . . . But Japanese and American participants differed profoundly in their views of the policies both countries should adopt to respond to this threat and in the weight they attached to it in gauging the overall threats to their security.

For the most part, American participants viewed Soviet policies and military capabilities as constituting the paramount threat to world peace and security and argued that a substantial increase in American military efforts is needed to offset Soviet power. . . . Most American participants also strongly emphasized the importance of greater Japanese military efforts and some stressed that a Japanese failure to be more forthcoming could result in growing antagonism in the United States that could spill over to adversely affect other dimensions of the bilateral relationship. . . .

There was less consensus about defense issues among Japanese participants than American ones, but no Japanese participant supported the notion that Japan should opt for an autonomous "Gaullist" security policy or that it should seek to become a military superpower. While some Japanese participants indicated their essential agreement with American views of the centrality of the Soviet threat, others emphasized that many of the sources of instability in the world have little to do with the Soviet Union, and, in any case, could not be effectively counteracted by reliance on military power. Furthermore, several Japanese expressed the concern that the defense program sponsored by the Reagan administration, if enacted, would create further inflationary pressures in the United States economy and make economic recovery more difficult. . . .

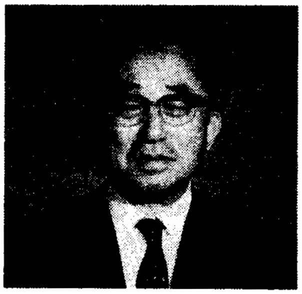
There was no disagreement that the interest of the two countries were being well served by . . . elimination of the need for the U.S. to deploy military forces to deal with a potential conflict in China, and by expanded economic interchange with a country representing a quarter of mankind.

Discussion of how much further political and military relations with China should be developed, however, was marked by deeply conflicting views. Although several Japanese participants indicated support for U.S. military assistance to China in the form of the sale of a case-by-case basis of specified defensive weapons, concern was expressed that the development of a strategic relationship with China would further exacerbate tensions with the Soviet Union . . . several Japanese argued that China was politically unreliable and militarily weak and that it could not play the role in maintaining a balance of power in East Asia that many Americans felt it capable of playing. Furthermore, several Japanese participants pointed out that some Southeast Asian nations regard China as a more serious long-term security threat than the Soviet Union and that U.S. efforts to strengthen China's military capabilities would result in increased fears of China through Southeast Asia. . . .

[Regarding China's economic development,] on the whole, Japanese participants tended to be somewhat skeptical of the influence of outside economic assistance and more pessimistic about China's ability to promote its economy as long as it maintained a state controlled, centrally managed economic system. . . .

Both Japanese and American participants expressed the hope that the Reagan administration's efforts to reinvigorate the private sector of the economy would be successful. Some Americans and many Japanese, however, expressed concern about the policy prescriptions being adopted to carry out this effort. . . . Japanese were also concerned about American inflation, but their criticism focused more on the international impact of what they regarded as the administration's overreliance on monetary policy. In this view, the high interest rates being produced by a restrictive monetary policy are causing serious problems in the bilateral relationship by strengthening the value of the dollar and widening the Japanese trade surplus.

Interview



Nobuhiko Ushiba 'Volcker spurs inflation'

EIR *interviewed Nobuhiko Ushiba, the Japanese cochairman of the Shimoda Conference, during a postconference trip to New York. Ushiba, a close associate of former Prime Minister Takeo Fukuda and Japan's ambassador to the United States in 1970-73, is one of Japan's top officials in the area of Japan-U.S. relations. In 1977 he was appointed minister for external economic affairs with special responsibility for negotiating Japan-U.S. trade disputes. A career foreign ministry official, Ushiba currently serves as the Japan chairman of the Japan-U.S. Economics Relations Group (the "Wise Men Group"). The following are excerpts from the interview:*

EIR: The Shimoda Conference showed remarkable frankness by the Japanese side on certain economic and foreign policy issues and our readers would like to hear directly from a Japanese participant his views on some of these issues. One of the areas of difference between the two sides was the Volcker interest-rate policy.

Ushiba: We Japanese are not very happy with the high U.S. interest rates, and we have expressed this view to the U.S. through various channels. The U.S. participants countered that the high interest rates are necessary to combat inflation. The U.S. does not seem to see any other way. So for the time being we must wait and see.

However, the high interest rates are causing problems. The U.S. dollar is too high because of the interest rates and this is causing U.S. exports to lose competitiveness, which leads to a U.S. trade deficit and balance of payments problems.

There should be other ways to fight inflation, not just monetary policy. Some people in the U.S. are afraid that high interest rates may aggravate inflation rather than reduce it. Japan is also afraid of this. So we hope that the U.S. interest rates will come down.

EIR: Let me turn to foreign policy. There was a big difference of view on the China question.

Ushiba: We both agreed that it is very important that China be a friendly country in light of the international situation, i.e., implying the Soviet threat.

However, there was a difference in what the two sides thought China could do. The U.S. was much more optimistic on the pace at which China's modernization could proceed. The Japanese participants thought it would take a much longer time.

EIR: What about the U.S.-China security partnership?

Ushiba: Both sides agreed there should not be a U.S.-China military alliance. Japan was concerned that the U.S. might hasten sale of offensive weapons to China. The U.S. side made it quite clear, however, that the only intention was to sell small arms, defensive weapons. So, if the U.S. sells only these defensive small arms, then we don't disagree.

EIR: There has been some debate about the kind of economic aid that should go to developing countries. Whether it should be for industrialization, or small-scale basic-needs type aid?

Ushiba: There are two categories of countries. Countries which are industrializing should get aid to help this process, but the least- developed nations need aid in agriculture and basic-needs infrastructure. Japan has pledged to double its economic aid in the next five years.

EIR: There is a question of which countries go in which category. For example, where do you put Indonesia or Malaysia.

Ushiba: Oh, Indonesia definitely belongs in the industrializing category and Malaysia even more so.

EIR: Is there concern in Japan about ASEAN [Association of South-East Asian Nations] fears regarding China, or Soviet reaction to U.S. security ties to China?

Ushiba: Yes, there are these concerns. We mentioned this repeatedly to the U.S. participants, particularly the ASEAN concerns. ASEAN nations definitely don't want the U.S. to ally militarily with China.

EIR: Could you elaborate Japanese views on the Soviet threat question?

Ushiba: Both sides agreed that there is a Soviet threat because of its military arms buildup. But we are not clear about the intentions of the Soviet Union. The U.S. believes the Soviets intend to use the armaments buildup as a political weapon. The presence of Soviet armaments may be felt very keenly.

Japan looks at the situation in a local or regional manner. The U.S. keeps telling us to look at it globally. As far as the possibility of a Soviet armed attack in the Far East, we don't think that it is a great possibility.

So there is a difference of views between Japan and the U.S. participants on the degree of Soviet pressure and on the urgency.

EIR: There are a number of hotspots, e.g., Indochina, Afghanistan, Mideast. Do you see these as posing the danger of a major war?
Ushiba: The key hotspot is the Middle East. Both sides agreed that the major cause of trouble there is not the Soviet Union, but the unsettled situation internal to the region.

EIR: Mr. Amaya indicated he saw the Israelis as a major problem and the overall Arab-Israel tension.
Ushiba: Not only Israel or Arab- Israel tension. The American participants pointed out the internal instability in Saudi Arabia was also a problem.

EIR: Mr. Haig seems to think the Soviets are the biggest problem in the Mideast.
Ushiba: Well, they may be, but the majority of American participants at Shimoda felt internal regional problems were more important.

EIR: Some Japanese commented that, to the extent that a Soviet threat exists military responses alone are not sufficient.
Ushiba: For Japan, what we must do is strengthen our own defenses while at the same time keeping channels open to the U.S.S.R.

EIR: Senator Glenn at the conference and Henry Kissinger in a *Yomiuri* interview indicated Japan should play a regional military role. Do you agree.
Ushiba: Japan will have to play a regional role rather than a global role. We can make contributions regionally on both the military side and the economic side. Our regional military contribution is to strengthen our own defenses. On the economic side we can give economic aid to strategically important countries like the ASEAN countries and China.

Interview

David MacEachron: 'We are seen as too volatile'

The following is excerpted from an interview with David MacEachron, President of the Japan Society, the U.S. sponsor of the Shimoda Conference. Prior to taking this post at the Japan Society, MacEachron served 12 years as assistant to the president of the Council on Foreign Relations. For five years he was employed by the U.S. government during the Marshall Plan program in Europe.

EIR: The Shimoda Conference was marked by major disagreements between the Japanese and U.S. delegates, in which the Japanese expressed their disagreements in unusually blunt terms. Why are the disagreements so strong?
MacEachron: The disagreements are there, but they are somewhat muted. The disagreements stem from the basic difference in the circumstances of the two nations. The U.S. is global, with global responsibilities. Japan still looks at itself as an Asian country, as regional. Even though Japan acts globally, particularly on economic matters, it still thinks regionally.

The two countries also have a different history in the past four decades. The U.S. has assumed world leadership in a global coalition. Japan mostly focused during the same period on its own reconstruction.

I still remember in the late 1930s how the U.S. population wanted to stay out of world turmoil. In 1940, when the war in Europe had already begun, the U.S. draft won by only one vote. The U.S. forgets how strongly we wanted to stay out of world affairs at that time. Japan has a similar feeling. And, of course, its one real experience with world affairs in the 1940s was a disaster.

But, to be candid, the other problem is that we have not had good leadership in the U.S. for the past 20 years but particularly in the last couple administrations. This is not a party matter—it has occurred no matter which party was in power. Often feckless and dangerous policies have been launched.

Look at the Carter era. For no good reason, Carter got this idea of withdrawing U.S. troops from South Korea. I don't know why. The Koreans didn't want them withdrawn, neither did Americans, except for a small minority. This worried the Japanese.

On energy, the U.S. really flip-flopped. For years we had been telling Japan nuclear energy was fine, and aiding their nuclear development. Then, for the certainly laudable reason of dealing with nuclear proliferation, Carter suddenly told the Japanese in rather blunt terms to stop their nuclear fuel-reprocessing facility at Tokaimura.

Then, after the Soviet invasion of Afghanistan, Carter made that silly statement that he had learned more in 24 hours than he had ever known about Soviet intentions. Then Reagan and Haig come in. And they make it sound like the only problem in the world is the Soviet Union, which is certainly a big problem but not the only problem.

Now I know from working with allies since the Marshall Plan days that there is a certain tendency on their part: if the U.S. is weak, they complain; if the U.S. acts too strong and doesn't consult with them, they complain. So, I'm familiar with all that. But this is different. In the past two administrations there have been some very worrisome policy trends, and, of course, the Johnson administration's Vietnam policy.

The Japanese see the U.S. as too volatile, and there is a great deal of nervousness about the extent to which we are dependable. One Japanese said, "You change so fast you can't even remember the name of your current wife."

EIR: What about Reagan's economic program?

MacEachron: On the economy, they see Reagan going for a gigantic defense buildup. Now, we give Japan a hard time on the economic issues, i.e. trade. They turn around and tell us that U.S. productivity is lousy, U.S. investment is lousy, etc. Reagan comes in and announces some drastic measures to revive the economy. Japan applauds this effort. They want the U.S. to take leadership; they want a strong U.S. economy. But they see Washington going on a hell-for-leather defense buildup, which in turn leads Volcker to apply monetary tightness to counter the fiscal looseness. The Volcker high interest rates in turn raise the value of the dollar and hurt U.S. exports, and cause bilateral problems with Japan.

They hope Reagan's program would succeed. And both U.S. and Japanese delegates felt if it didn't, U.S.-Japanese economic frictions would increase. But, there is a great deal of skepticism in Japan about the Reagan economic program. They wonder about the high interest rates—they are not as negative as what I read in the papers about Europe—but they say it causes trade deficits.

They also wonder about tax cuts.

They see Reagan going for both defense spending and anti-inflation. They think the anti-inflation fight is more important. One participant pointed out that in the 1960s the Soviet Union could count on support from indigenous communist parties in many countries; now there is hardly any party loyal to Moscow. So they see a Soviet problem, but it is not alarming to them. And it is not overriding. They think the U.S. exaggerates the danger of the U.S.S.R., and they are skeptical of U.S. perceptions. So for the Japanese, reviving the U.S. economically is more important than a defense buildup.

EIR: They also criticized the U.S. strongly on the China issue.

MacEachron: They think the U.S. is moving too fast and too far with China. On the economy they know that economic development is inherently destabilizing to a certain extent. They had their own China romance a few years back and got burnt with all those canceled contracts.

They also wonder how dependable China is. With only a few men running the regime, changes can be very uncertain and quick.

One point that kept coming up was the fear by the ASEAN countries of China, particularly by Indonesia. Incidentally, they also mentioned ASEAN's concern about any big Japanese military buildup.

The U.S. delegates generally responded by saying China was so backward militarily it would be years before China was a threat to anybody, ASEAN or the Soviets.

EIR: Japan is moving ahead in many areas of technology. We see some signs of technology tieups with the West. Is this a few token concessions to avoid frictions as in auto, or is this substantial?

MacEachron: This was not discussed at that much length at the conference. I would say this, however. The leadership of Keidanren [the major big business federation] and of the government wants the U.S. to be strong. Japan is really prepared to work with us.

On the other hand, they are still a very insular people. They still don't appreciate the degree to which their behavior affects the whole world and feeds back into Japan. They still feel they can go as fast as they can. And they feel we should too.

The older generation in Japan, which is still running the country, is very grateful to the U.S. for helping them rebuild after the war. However, the generation now in their thirties and forties do not feel as grateful. They recognize the U.S. must be strong—but this is out of cold rationality, not gratitude.

The business people are, of course, business people, but if they can succeed with cooperation in technology with U.S. firms, they will do it.

EIR: If you look at Japan's work in technology and finance, they could be number one in these areas. Do they really want to be, given the political responsibilities it entails?

MacEachron: The Japanese find it hard to see what they can do politically even in areas where they have a great interest, like the Middle East.

But I think we are going to see a much different Japan in 5 to 10 years or so. The generation coming to power in Japan is much less insular, much more international. I don't mean by this that they are all out for the U.N. or globalism. What I mean is that they are much more aware of the effect on the whole world of Japan's actions; they are no longer a small country that can take the world as a giver. And they are prepared to throw Japan's weight around, be assertive—I don't mean this in a pejorative way.

On the technology issue, this means that with Japan's security vulnerability, having a technology edge gives them leverage.

Mitterrand's policy: an inflationary crunch

by Dana Sloan

What French President François Mitterrand was doing in Saudi Arabia Sept. 26-29 had less to do with furthering his own political objectives for the Middle East region than with convincing the Saudi regime not to pull the rug out from under the French economy.

Having lost the political credibility that his predecessors built over the years with Saudi Arabia and countries like West Germany, Mitterrand is reduced to the role of beggarman. Whether the French economy has even the smallest chance of surviving the fourth quarter of 1981 depends largely on Saudi good will.

Early in September when the warning signals began flashing, French Treasury director Jean-Yves Haberer went to Saudi Arabia to ask for a $2 to $3 billion loan to help finance France's trade deficit with Saudi Arabia, which is currently at about double that amount. Haberer was told that the most he should expect would be in the order of $750 million—a small sum considering the value of French-Saudi trade. Within the first three months after Mitterrand's election, Arab investors began a pull-out from the French economy, to the minimum tune of 1 billion francs. When the French government recently floated a $1.4 billion bond issue at extremely attractive interest rates of 17 percent, only 10 percent of it was bought up with Arab capital, compared to past rates of 20 percent or more.

Since the West German central bank, the Bundesbank, has been less than eager to spend its own reserves in an attempt to keep the franc within acceptable parity-reach of the deutschemark in the European Monetary System snake, the Banque de France has had to dip into its own reserves to an astounding degree. Since the end of July more than 46 billion francs, or slightly more than $8 billion, has been spent in this effort to avoid an official devaluation. During the course of a single day, Sept. 18, the Banque de France had to spend between 5 and 10 billion francs to support the national currency, in what amounts to one of the single largest interventions anywhere in recent history.

Despite these and other emergency measures to support the franc, characterzed by one leading French banker in New York as "artificial interventions" intended to postpone a devaluation of the franc in the EMS, that devaluation will not be long in coming anyway.

During the weekend that followed that massive intervention, Economics and Finance Minister Jacques Delors announced two additional measures intended to prevent capital flight from the country. Taking his cues from Paul Volcker at the Federal Reserve, Delors jacked up the rate at which the central bank lends short term from 17.5 to 20 percent. The French twist however is that—unlike in the United States—the government of France has demanded that the banks which then lend out this money stick to a basic 14.5 percent prime rate. Only a few weeks before, Delors had forced the banks to lower their prime rate by warning that heads would roll in the large—and soon to be larger—nationalized banking sector.

In addition, Delors slapped down a series of strict, Italian-style exchange-control measures, which prohibit importers of foreign goods from buying foreign currencies at the time they contract to buy the goods; the currency has been used later for payment on their purchases. Delors' measures mean importers will now be unable to protect themselves from unfavorable currency fluctuations. Importers will have to purchase foreign currencies at the time they settle their transactions, potentially at exchange rates vastly different from those that prevailed at the time the purchase was made.

The exchange controls were immediately challenged by the European Community and might, like similar Italian measures taken last May, have to be reversed within a few months. But the effect of the overall package was short-lived in any case. Although the franc temporarily rose to 5.3 to the dollar, in contrast to the near-record 6.1 rate of a month ago, it was still well below the 4.5 mark that prevailed before Mitterrand's election in May. By the end of this week, the Banque de France was again forced to intervene massively to keep the franc from falling below acceptable levels vis-à-vis the deutchemark. Within a few days, the French interest rate is expected to be jacked up another notch, and an official devaluation may follow soon after, despite all the emergency measures.

Marriage of Keynes and monetarism

There is more involved here than just a general reaction in the capitalist world to the presence of four Communist ministers in the French government. They, after all, do not make Mitterrand's policies. The French government itself reduced the value of the franc to an increasingly worthless piece of paper by its decision to use billions of francs, not to create new wealth, but to manage and spread the poverty. As Jacques Delors, reputed to be the "moderate" in the cabinet, has put it, the government wants to take the "best" aspects of Keynesianism and of monetarism and roll them up into one. This borrowing from two equally bankrupt forms of economic policy is a sure prescription for disaster.

This year's budget deficit will already be near $17 billion. By next year, that figure will skyrocket as a result of the nationalization program and hiring policies that will add 50,000 functionaries to the state payrolls. The nationalization program alone will cost the state a minimum of 35 billion francs (or about $6.5 billion) in compensation to stockholders. In addition to the large, relatively healthy conglomerates such as Pechiney Ugine Kuhlmann, Saint Gobain, Compagnie Générale d'Electricité, the 36 banks and two arms manufacturers that will become state-owned at the beginning of next year, the government is also taking over two large steel companies fighting for their very survival.

Bankruptcies are now occurring at a rate of 2,000 a month, almost 30 percent higher than at this time last year. Unemployment, poised to break the 2 million mark by the end of the year, has accelerated at a pace of 27 percent annually. The inflation rate for the month of August was 1.2 percent, a record rate for that month which guarantees that the annual inflation rate will be at 15 percent by year's end.

The social security system is expected to register a 7 billion-franc deficit by the end of the year, a figure which is expected to increase to 23 billion by 1982. The unemployment insurance fund, Unedic, is also 7 billion francs short this year, with predictions of a 15 billion shortage by next year. For the first time in its history, Unedic was forced to borrow the majority of funds needed to compensate unemployed workers at the end of August.

Spreading poverty

The French government has made much ado about its intentions to stimulate consumption through an increase in buying power. After increasing the minimum wage rate, however, the government announced a series of tax increases which will offset any positive impact on consumption the minimum wage increase might have had. Two new taxes have been announced: The first, a tax on "fortunes" in excess of 3 million francs ($550,000), with provisions for a 2 million-franc abatement on what is termed "professional equipment." The small businessmen who can't afford to pay the tax will just have to sell their businesses to those who can. The second tax is being called the "solidarity tax" and will affect about 2 million middle-income households. Its proceeds are to be channeled into Unedic in an effort to make up for half of next year's projected deficit. Ironically, the tax will hit the whole section of middle-income working people who normally vote conservative and who had swung in large numbers to Mitterrand in the last elections hoping to improve their economic positions. A couple with two children, earning a combined income of 12,000 francs a month ($2,200), would be typical of the taxpayers hit hard by the new tax.

This "solidarity tax" is only one example of the vicious form of Malthusian economic thinking that has taken over since the change in government. In a government that now contains a specially created "Minister of National Solidarity," this concept of sharing the wealth, i.e., distributing the poverty, has become pervasive. A day does not go by when some minister, in talking about either the domestic economic policy or policy toward the developing-sector countries, does not use the term "solidarity." "Social justice" is another preferred phrase heard in the hallways of ministries these days in Paris. All it signifies is that France's national energies will be channeled into parceling out already-existing wealth, instead of creating new wealth for further progress and development.

Return of Pétain

This zero-growth mentality was illustrated with a vengeance when Prime Minister Pierre Mauroy laid out his plan to fight unemployment—not through the creation of new productive jobs, but through the sharing of already-existing jobs. So shocking was the Mauroy program, so reminiscent of the solidarism that prevailed during the days of Marshal Pétain's wartime Vichy regime—in which Mitterrand served—that a well-known Gaullist party member, Robert Vivien, greeted the announcement of the program with cries of "we're back with the Marshal."

Mauroy's program contains the following points:

- financial incentives for business to reduce the workweek to 39 hours;
- lowering of the retirement age to as early as 56 years of age;
- institution of "part-time retirement" in which individuals nearing retirement age would first work only 30 hours a week, and then only 20; a younger worker would come in to work for the duration of the freed-up hours;
- a "civil service" job program for youth in which young people leaving school would go to work for one year to "fight pollution," or to maintain forests and national parks in exchange for room, board and a $200 a month allowance;
- "solidarity contracts" in the newly nationalized sector, which employs several hundreds of thousands of people; these contracts will reduce working hours to the level of part-time work, with corresponding pay cuts.

When solidarism comes to France in full force, the French economy can't be a long way from the Polish "model."

Haig caught sabotaging AWACS

The secretary of state is playing Kissingerian roulette with U.S. interests in the Arab world.

Secretary of State Alexander Haig's latest round of treachery is not going unnoticed in Washington intelligence circles.

According to high-level Senate sources, Haig is secretly working to prevent President Reagan from winning congressional approval of the sale of AWACS radar planes to Saudi Arabia.

"The Reagan administration already has the Senate votes it needs for the sale to go through," revealed one well-placed source, "but Haig is deliberately obscuring that fact in order to be able to turn to the Saudis and ask for their acceptance of a modified deal entailing joint U.S.-Saudi command of the AWACS beyond the originally agreed-upon training period ending in 1989.

"In response," the source continued, "the Saudis will have to reject such a deal and will withdraw their request for the planes, thus canceling the proposed sale in its entirety. After all, who ever heard of buying planes and having another country control them for you? Haig will then blame the collapsed deal on the Saudis for not accepting the compromise."

Should Haig succeed in his sabotage efforts, the consequences for U.S. policy and credibility in the Middle East will be, by all assessments, catastrophic.

What is at stake is not merely the AWACS sale but the future of U.S.-Saudi and U.S.-Arab relations. This was underscored by President Reagan Sept. 25 when he described the AWACS sale and the maintenance of U.S.-Saudi ties as critical to "our ability to bring peace to the Middle East."

Failure by the Reagan administration to secure congressional approval of the deal will alienate the Saudis, undermine the moderate Prince Fahd and bring to the fore a more radical, anti-American faction tied to British and Soviet Philbyite intelligence networks who will favor oil production cutbacks and eventual withdrawal of assets from the United States.

In addition, the collapse of the AWACS sale would completely destabilize Egyptian President Sadat, whose political (and economic) fortunes are very much tied to Saudi Arabia. Sadat is currently the target of a British-sponsored operation to topple him from power, a plot linked to a parallel operation to weaken Prince Fahd.

This is precisely the crisis scenario that Haig and his anti-American British sponsors are gunning for.

The "compromise deal" involving permanent U.S.-Saudi joint control of the AWACS as favored by Sen. John Glenn and the U.S. Israel lobby has been rejected by the Saudis on the grounds that such an arrangement impinges on Saudi national sovereignty.

Intelligence sources in Washington report that the Saudi refusal to accept the compromise was to be expected, and that the unacceptable compromise was quietly backed by Haig. "It is unrealistic to think that the Saudis can afford to be seen as compromising their sovereignty," said one source.

According to most estimates, prospects for congressional approval of the AWACS sale, as is, are a grim 70-30 against its passage. What could boost the President's efforts to swing the Senate into line before the scheduled vote at the end of October are the conclusions of a just-released Senate Foreign Relations study, which states that failure to sell the AWACS to Saudi Arabia would severely damage U.S. interests in the region. The study also asserts that the sale would not pose a military threat to Israel. With the odds stacked against the sale's approval, Britain and France are scrambling to replace the United States in the Middle East. On a trip to the Persian Gulf last week, British Prime Minister Thatcher eagerly reiterated an earlier offer to sell Saudi Arabia a British AWACS equivalent. Similarly, French President Mitterrand traveled to Saudi Arabia to ingratiate himself with the Saudi royal family.

A Reagan victory on the AWACS issue, although a long shot, is nevertheless still possible and would constitute a dramatic and welcome development for all parties concerned. However, AWACS or no, it is shortsighted of Reagan to think that the Middle East can be stabilized by arms sales alone. To the extent that Saudi Arabia and Egypt are to be made into useful allies, they have to be built up economically and their political stability thereby ensured.

International Intelligence

Italy's P-2 scandal bobs up against Craxi

The P-2 Masonic scandal in Italy was revived at the end of September, with the target of the new revelations on the secret neo-fascist organization being none other than Bettino Craxi, the Italian Socialist leader who is Alexander Haig's choice to become the new prime minister.

The new revelations stem from the court testimony of Roberto Calvi, the leading Italian banker arrested this summer for his illegal money trafficking in behalf of the P-2 conspirators. Calvi testified that he was blackmailed by the P-2 into giving about $21 million to the Socialist Party coffers, and specifically to Socialist chief Craxi.

The blackmail on behalf of Craxi, Calvi continued, was carried out by Umberto Ortolani, currently the Knights of Malta ambassador to Uruguay and a key zero-growth agent in the Catholic Church. Calvi's testimonies revealed the details of a telephone conversation with Craxi after Calvi had deposited the required sums into the Socialist Party bank account, and Craxi "thanked" him for the money transfer, implying that Craxi personally was part of the secret dirty-money transferred to the Socialist Party.

Oxford planners link oil to population

The annual symposium on world energy cosponsored by OPEC and Oxford University's St. Catherine's College at the end of September made population a topic of discussion for the first time.

Nordine Ait-Loussaine, formerly of the Algerian oil company Sonatrach and now director of Maurice Strong's Geneva-based International Energy Development Corporation, declared that over the next 20 years, only the underpopulated OPEC nations—Saudi Arabia, Kuwait, Libya, and the UAE—will export a sizeable volume of oil and maintain their petrodollar balances. Such heavily populated nations as Nigeria and Indonesia, he said, would be written off as oil exporters.

Robert Mabro, director of Oxford's St. Anthony's College, followed with the prediction that underpopulated oil producers will use the oil weapon most readily and effectively, since they do not need high revenues to sustain their populations.

U.S. ambassador to Nigeria wants genocide

The U.S. Senate has received the nomination of Thomas Pickering, a leading sponsor of the genocidal *Global 2000 Report*, to be the American Ambassador to Nigeria.

With a population of about 80 million, Nigeria is the biggest country in Africa, accounting for approximately 20 percent of the entire population of the African continent.

The largest oil producer in Africa, Nigeria is the second largest supplier of oil to the U.S., and Nigeria is detemined to use its oil wealth to industrialize. "If one nation in Africa is important," said a demographic profiler for the Population Reference Bureau, "it is Nigeria."

Pickering was assistant secretary of the Oceans and International Environmental and Scientific Affairs section of the State Department under the Carter administration. He oversaw the preparation of the *Global 2000 Report*, working directly under secretaries Vance and Muskie.

Britain takes 'soft' approach to Poland

Referring to Alexander Haig, the London *Times* editoralized Sept. 23: "There is a school of thought in Washington . . . which holds that the Soviet empire should be left to destroy itself by the force of its own inner contradictions and by violence if it comes to that. . . . If the Russians invade, the argument goes, communism will be further discredited, Soviet forces will be tied down. . . . The Western alliance will be pulled together." The *Times* proposed instead that the West consider offering Poland large-scale economic aid "tied to IMF-type conditions" and "in consultation with the Russians." The article reflected Foreign Secretary Carrington's pursuit of geopolitical deals with the U.S.S.R. rather than bald confrontation. David Watt, who heads the Royal Institute of International Affairs, publicly endorsed this approach Sept. 25.

Poland's creditor banks and KOR are meanwhile demanding a guarantee that Poland will emphasize agriculture rather than industry, and accord plant managers more "autonomy," according to the Sept. 29 *New York Journal of Commerce*. In this connection the rabidly anti-industrial KOR, the radical "Workers' Defense Committee" synthesized by British intelligence five years ago, dissolved itself Sept. 28 in order to exert more influence as officials within Poland's Solidarity organization.

López Portillo talks about De la Madrid

Mexican president José López Portillo, interviewed on Sept. 25, the day the candidacy of his successor, Miguel de la Madrid, was announced, responded to a question as to whether the new PRI candidate is "a technocrat of a *politico*: "I refuse to accept these conventional divisions. . . . A technocrat can be a good politician, and a politician can be a good technocrat; I believe in the integral man."

A further question was, "Some people are criticizing Mr. de la Madrid for the considerable contact he necessarily had with the private sector in the course of his work as Planning Secretary. Do you think he is close to the private sector?

Could this hold some danger?"

López Portillo said: "There's nothing special about the nature of his contracts with the private sector, because he also had lots of contact with the social sector and the public sector. Our country is only one unit; such Manichean speculations as yours split the human personality as if it were a cake or a cheese. A human being is neither cake nor cheese; it is complex, as society itself is complex."

Promising signals on U.S.-Mexico trade

Mexico was host late last month to the first full meeting of the special U.S.-Mexico Trade Commission (STR) set up by Presidents Reagan and López Portillo at Camp David in June. Some 30 officials came down from the U.S. side, headed by Commerce Secretary Malcolm Baldridge and Special Trade Representative William Brock. On the Mexican side, Commerce Secretary Jorge de la Vega Domínguez and Industry Secretary José Andrés de Oteyna headed the slate.

The U.S. side declared keen interest in re-establishing the U.S. as a reliable nuclear technology supplier to Mexico, after the debacle of the Carter years, and that Mexico indicated it was "receptive" to the request. And, at a Sept. 29 Mexico City seminar on U.S.-Mexican nuclear cooperation, Ambassador John Gavin said the Reagan administration intends to return the U.S. to the status of a reliable supplier of nuclear technology. Gavin spoke on the same day that Mexico's Federal Electrical Commission opened bidding on technologies for Mexico's next two nuclear plants, under conditions in which the technicians who will build and operate the 20,000 megawatts of nuclear power will be fully trained, and the technology transferred to Mexico. Many European suppliers are in the bidding.

A determined faction in the U.S. is still attempting to use the Reagan "free-market" dogma to force Mexico toward a labor-intensive, light-industry Hong Kong model. One of their point men is Jerry Brady, a Washington consultant contracted by the STR office to make an official study on U.S.-Mexico trade issues. Known as the Ventura Report, the study stresses that "the two nations are most likely on a collision course over trade." Brady says that a labor-intensive focus was played down in the study to avoid antagonizing the Mexicans.

Henry Wallich describes Third World loan shutoff

In a semisecret speech to the International Conference of Banking Supervisors on Sept. 24, Federal Reserve Governor Henry Wallich emanded that the supervisors force private U.S. banks under their jurisdiction to consider rescheduled loans as defaulted loans and take the loss on their books, and/or set up reserves against the prospect of defaults.

This would mean that banks halt lending to any nation or entity from whom full repayment on time was not guaranteed.

"The world has reached the point," the veteran austerity specialist Wallich said, "where a slowing down in the rate of growth of debt is necessary. First the higher proportion of rescheduled debt should make us uneasy, especially if the interest itself is capitalized, and second, the high level of interest rates unfortunately also adds to the risk inherent in any given level of debt."

In a press conference at the annual conference of the International Monetary Fund, Wallich said that the Cooke Committee, set up after the rigged 1974 collapse of the Herstatt Bank to propose regulations for the Euromarkets, is beginning to enforce "consolidated balance sheets" for banks.

Under this policy, whereby rescheduled loans of a foreign branch must appear on the headquarters' books, greatly reducing the latter's solvency, and forcing a reduction in Third World loans.

Briefly

● **LYNDON LAROUCHE,** *EIR* founder, announced Oct. 1 that "an urgent action program" is required to quarantine the Khomeini regime and halt the process of genocide in Iran. Among the measures pursued will be condemnation of the regime by all relevant official bodies, removal of diplomatic immunity for Iranian officials, their arrest by local authorities under the Nuremberg code, and cessation of all international aid to the regime. These issues, LaRouche stated, will be raised at once with the governments of the major Western powers, the U.S.S.R., Israel, and leading Third World governments, along with United Nations authorities.

● **FRANCOIS** Mitterrand and Maggie Thatcher each arrived in the Persian Gulf at the end of September seeking influence and arms deals should the U.S. Congress reject the AWACS sales to Saudi Arabia. The British Nimrod and French Atlantique were offered as substitutes.

● **VENEZUELA** blocked a World Bank loan to Guyana for a hydroelectric project in the disputed Essequibo region, a project counted on for power generation and bauxite smelting, to save oil import costs. Prime Minister Ptolemy Reid also reports that the Venezuelans are scaring off private investment in Guyana, while Great Britain has proposed that Guyana launch "an emigration program" to ship citizens to Belize and other locations described as "non-white."

● **U.S. SENATORS** active on behalf of international "nuclear nonproliferation," such as Democrats Alan Cranston and John Glenn, have protested Pakistan's drive toward an "Islamic bomb" but say that they will vote for the U.S. military aid package to Zia nonetheless.

Covert administration support for Global 2000

by Barbara Dreyfuss

A substantial part of the Reagan administration is now in an open conspiracy with the advocates of the Carter Administration's *Global 2000 Report*, the document calling for a reduction of the world's population by two billion by the year 2000. Eight administration officials participated in and effectively endorsed a Sept. 30 conference sponsored by the Population Action Council and Republican Charles Mathias of Maryland, the only senator to hold hearings on the *Global 2000 Report*. The conference was designed to consolidate cooperation between the Reagan administration, Congress, the corporate community and the depopulation networks.

"There is going to be blood," said the population-control expert from the Overseas Development Council. "We are entering a long, dark gloomy night, the horror show people warned about for some time. There was a time maybe ten years ago, when if people had listened, all this could have taken place smoothly. Now there is going to be blood. Five years or so from now there will be a real horror show. I don't like talking about the millions who will die. You would not want to be alive in Africa, South Asia, or Latin America five years from now. Wars, famine, death. . . . It will not be painless," he concluded.

The totally unpublicized Mathias conference was a new step in the *Global 2000* lobby's mobilization vis-à-vis "hold-outs" in Washington and the private sector. Over 40 corporations were invited to attend the meeting, titled "New Corporate Responsibility: Business's Stake in Solving the World's Population Problem." Companies attending included Textron, International Harvester, General Electric, Bell & Howell, and McDonnell Douglas. High-level representatives from the Commerce Department, the NSC, Treasury and State Departments also attended, as did William Draper III, president of the Export-Import Bank.

The Population Action Council's board includes Stewart Mott and Russell Hemenway (head of the National Committee for an Effective Congress, which funds liberal Democratic campaigns); along with the Global 2000 network inside the administration, they are trying to recycle the idea of population control with conservative rhetoric. "Population stabilization is indispensable to the free market system," the meeting was told by David McDonald, the administration's deputy Special Trade Representative.

"This administration is very oriented to private business so the population lobby is trying to schmooze up to the private businesses and get them interested. Before the discussion was on quality of life. Now it will be on trade. The argument is marketed and packaged better and new people have to be persuaded," declared a researcher for the Alan Guttmacher Institute, one of the major think-tanks for the population reduction advocates.

Private companies are being told that countries with large population growth rates are risky investments.

The chief population analyst for the Overseas Development Council, whose most prominent official is Father Theodore Hesburgh of Notre Dame, admitted that they are now using free enterprise rhetoric to sell their genocide schemes. "The thinking at the State Department is that a pull back of U.S. development assistance can force a major policy shift. What they want to happen is that there will be an overall reduction of lending into the developing sector. The developing sector is being told that no money will come unless you get your house in order, stabilize the population. They will force developing nations to adjust their development strategy away from the high price-tag infrastructure and heavy industry. . . This will lower growth rates in the developing sector. There will be two tiers in the developing sector, those countries who are viewed by the private sector as lesser risks. These will be the people who make the commitment to readjust their development policies or who have already achieved population stability. Then there will be the basket cases and the ones who may not agree, like India. This is who will get their lending cut. They are being written off."

The organizing of the Reagan administration to back the Global 2000 perspective is the particular job of the Committee for the Year 2000, an elite group of policy makers, many of whom, like former Secretary of State Cyrus Vance, were directly responsible for the *Global 2000 Report*. "We will use the different backgrounds of our board members to enlist the support of the Reagan administration," declared a staffer for the Committee. "Reagan is the type of President that if his advisers and people under him support something, he has the reputation for listening to them, especially if it comes from people he knows and trusts. That's our approach to the Reagan administration."

Mathias and population control

Senator Charles Mathias keynoted the Sept. 30 conference. "There is no longer much serious disagreement that the present rates of world population are unsustainable," he told the assembled businessmen and government officials. "It is not inevitable that the present rate of world population growth continue. No group has more at stake or more to contribute to slowing the global population growth than the business community."

Mathias and the Population Action Council then presented their Man of the Month Award to Republican Charles Percy of Illinois, the chairman of the Senate Foreign Relations Committee, which oversees foreign aid appropriations. Percy urged strong commitment by the business community to population control measures. "All economic assistance will be for naught," he declared, "unless overpopulation is solved." Percy stated that it was his understanding that the Reagan administration "realizes its responsibility" to push for population control measures in the Third World.

Certainly the administration officials present gave credence to the Senator's claim. One of the most outspoken was, not surprisingly, Meyer Rashish, undersecretary of state for economic affairs, who was the special assistant to George Ball at the State Department in 1965, when Ball did the studies leading to the creation of the population office at State. Rashish also ran a conference as far back as 1953, set up by John D. Rockefeller III, which was designed to found the environmentalist movement. Rashish told the meeting that overpopulation is indeed a critical issue and if the U.S. doesn't deal with it now, nobody else will.

David McDonald, the deputy Special Trade Representative, spoke, following a presentation by an Illinois Chamber of Commerce representative who told the meeting that his state's farmers were eagerly looking for markets in the Third World. McDonald declared bluntly his "feeling" that countries with high population growth rates would not make good trading partners.

Also at the rostrum was Peter McPherson, the Director of AID, whose appointment to that post was hailed by the Committee for the Year 2000. Population control measures are "an excellent investment," he told the businessmen present. He claimed that countries like South Korea were able to reduce their need for foreign aid by taking steps to limit their population growth.

In the audience were Richard Benedick, who heads the State Department's Office of Population Affairs; Deputy Treasury Secretary Tim McNamar, who heads the administration's Multinational Development Banks task force; Assistant Treasury Secretary Marc Leland, who married into the Rothschild banking family; Secretary of Commerce Ray Waldmann, who worked in Henry Kissinger's State Department; and Alan Lenz of the National Security Council. "There are people in this administration who understand the problem," a spokesman for the Population Action Council noted happily. "Benedick, McPherson, Haig are the key ones."

The corporate leaders attending the conference sat quietly for the most part while these rantings went on. Some were even enthusiastic, which is not surprising, since among the 40 companies represented were some of the corporate backers of the depopulation lobby, including Percy's own family's company Bell and Howell, and Phillip Morris, funder of the World Wildlife Fund's American head Russell Train. The corporate leaders were brought together with the help of the Congressional Clearinghouse for the Future, run by a member of the Club of Rome, the originators of the "limits to growth" doctrine.

Mathias circulated a number of policy papers to the corporate executives, to help drive home the demands for population control. The papers were written at the Congressional Research Service under the direction of Dennis Little, a member of the Institute for the Future, set up by the Club of Rome networks. The papers claimed that overpopulation is a "national security" question, that overpopulation creates riots and instabilities in Third World areas vital for our strategic mineral supplies. Benedick was overheard telling Dennis Little that he was so delighted with the papers he intended to use them to indoctrinate State Department personnel in population control.

Volcker issue forced to a vote in Senate

by Susan Kokinda

Nine Senate Democrats joined nearly every Republican in attendance on Sept. 28 to defeat an amendment to the extension of the federal debt ceiling which called for the President to consult with the Federal Reserve Board and bring down interest rates within 90 days. Despite the 56 to 32 vote, the measure's sponsor, Senator John Melcher (D.-Mont.) announced on Sept. 29 that the previous day's vote was only "round one," and that he intends to bring the same amendment to the floor at every opportunity, until it passes. Given an agenda jammed with appropriations bills, that strategy could translate into a weekly referendum on the issue of the Federal Reserve Board's usurious interest-rate policy.

The political and economic significance of the vote and the ensuing strategy lies not so much in the continued ritual suicide of the administration, whose spokesmen took the Senate floor to defend Paul Volcker, but in the potentiality that the moderate Democrats who have fought to break the insanity of the controlled "budget/tax" debate by bringing the issue of interest rates to the economic forefront, are beginning to crack through. Efforts by the monetarist wing of the Democratic Party—led in the Senate by individuals such as William Proxmire (Wis.), Paul Tsongas (Mass.), Gary Hart (Colo.), and Bill Bradley (N.J.) and in the House by Tip O'Neill (Mass.) and Richard Gephardt (Mo.) and in the Democratic Party by Democratic National Committee chairman Charles Manatt—to prevent Melcher and his allies from bringing the Fed issue to the floor have been set back. The Senate Democratic leadership of Robert Byrd (W.Va.) and Alan Cranston (Calif.), who one week ago were firmly in the camp of the "Paul Volcker protection squad," was forced by the intensity of political pressure to vote with Melcher and give him at least nominal backing in his continuing strategy.

That intensity was indicated by the base of support Melcher mustered from constituency groups, including open endorsement from the National Association of Home builders (NAHB), the Grain Terminal Association, the National Farmers Union, the International Brotherhood of Teamsters, the AFL-CIO, and the American Public Power Association. Melcher and his allies, particularly Senators David Boren (D-Okla.), James Sasser (D-Tenn.) and Paul Sarbanes (D-Md.), took the floor in the debate to underscore the urgency of the economic crisis and the necessity for action on interest rates now. Said Melcher, "We cannot wait any longer to begin getting interest rates back to reasonable levels. We need action now, and this is the right bill to take it on. High interest rate payments on government borrowing are the major reasons we are forced to once again increase the temporary debt limit. As a matter of a fact, we are increasing the temporary debt limit now so that the Federal Government can borrow more money. It is for that reason that we should address a basic problem that causes the need to borrow more money. That is quite simply because interest rates are high." Melcher and his colleagues warned that the President's economic recovery program could never take effect as long as recessionary interest rates were in effect.

But despite those obvious arguments, and despite the clear evidence of President Reagan's own political base demanding action on interest rates—such as the small businessmen represented by the NAHB and the 2-million-member Teamsters Union, which supported the President's candidacy, Senate Republicans continued their lemming-like support of the President's deadly embrace of Paul Volcker. Senate Banking Committee Chairman Jake Garn fulminated: "It [the amendment] is show business, an attempt to convince our constituents that we are trying to do something about interest rates. . . . It won't work . . . there is a more important principle. . . . That is the independence of the Fed." Garn was joined by Finance Committee Chairman Robert Dole, who also defended the sanctity of the Fed and who declared Congress unable to legislate a reduction in interest rates.

The hidden agenda

What angered the Democratic sponsors of the bill was the opposition of a section of the Democrats. The Banking Committee's ranking Democrat, William Proxmire, infuriated his party colleagues by joining Garn and Dole in openly attacking the Melcher amendment. Proxmire distinguished himself by conducting a 14-day filibuster against the extension of the debt ceiling and invoking the virtues of Milton Friedman.

Heavy lobbying had gone on the week before the vote to prevent the Melcher amendment from being raised, by the "monetarist Democratic faction." In the House, the companion to the Melcher proposals was put forward to the House Democratic Steering and Policy Committee by Bill Alexander (D-Ark.) to gain party backing, and was argued down by Tip O'Neill's ally Richard Gephardt. O'Neill's faction argues that the Democrats should merely let the Reagan economic program and the Republican party suffer the consequences of its own economic imbecility. Such crass political opportunism translates into open support for

Volcker. Senators Hart, Proxmire, and Nunn, who voted against the Melcher resolution, and Gephardt and his friends in the House, all accede to Volcker's demand that only cutting the budget or raising taxes can reduce the federal deficit, and hence reduce interest rates. And behind that stands Volcker's hidden agenda of wage gouging, as the accompanying interview with Gephardt makes chillingly clear.

But as Teamster president Roy Williams's letter of support to Senator Melcher shows, the moderate Democrats enjoy the support of a base that is becoming increasingly economically aware. With that behind them, the moderate Democrats stand poised to make high interest rates not only "their" issue, but the dominant issue of economic debate. As one participant remarked, upon hearing the content of the Gephardt interview, "I'd like to see him *run* on a platform of wage controls, tight money and recession!"

Melcher is confident that he can pick up more votes with each new effort to raise his amendment. Several senators, probably including Russell Long (D-La.), Lloyd Bentsen (D-Tx.), John Glenn (D-Oh.), and Mark Andrews (R-N.D.), voted against the amendment on the first round because of technicalities of the debt ceiling extension to which it was attached; they are expected to back Melcher in the next go-round. More importantly, constituency groups now have a target list based on the first call and can now go about the business of ensuring that their senators vote for lower interest rates on the next vote.

Rep. Gephardt applauds the Federal Reserve

EIR*'s Barbara Dreyfuss conducted this interview with Rep. Gephardt on Sept. 28:*

Dreyfuss: Congressman, I understand that you favor the tight-money policy now followed by the Federal Reserve as the way to solve the economic crisis.
Rep. Gephardt: The problem that manifests itself with this economy is that of too high inflation and too high unemployment. The basic problem is too high inflation. There are only a few ways to get rid of it. Given the loose fiscal policy of the last eight years, only an incomes policy, wage and price controls, or tight-money policy can deal with the situation, and since we haven't had an incomes policy, only a tight-money policy can deal with it. I see no reason to withdraw from that. To go to a loose monetary policy would lead to inflation. Unless we can get the fiscal policy tight, which the President indicated last night he wants to, there is no alternative.

Dreyfuss: Do you agree, though, that tight-money policies lead to higher interest rates?
Rep. Gephardt: Yes, but we can't avoid that, unless tight money results in a recession and there is no demand for money. But we are not in a recession, so therefore it leads to higher interest rates.

Dreyfuss: A number of people believe that Paul Volcker and the Federal Reserve Board could actually lower interest rates if they wanted to.
Rep. Gephardt: There is no question that [Volcker] and his board could lower interest rates by letting up on the money supply. The problem with that is that it would result in more inflation, higher interest rates, and a deep recession. Sure, he could do it and we would go into a round of hyperinflation. It's like a patient who is having chemotherapy for cancer, and his hair is falling out and he is nauseous, and asks the doctor to stop it. The doctor says, yes, he can, but the patient will die. . . .

Dreyfuss: Then you disagree with the legislation proposed by Senator Melcher to require the President and the Fed chairmn to lower interest rates in 90 days?
Rep. Gephardt: I think it's a copout and would lead to greater economic problems. It wouldn't cure the basic disease. It is what we have always done in the past; we put the blame on the Fed, say they are causing the problem. It is not the case. We have tried to paper over our declining standard of living caused by oil-price hikes, price hikes, by increased government spending. We can cure it by a recession, by slowly bleeding it out, or by wage and price controls.

Dreyfuss: Do you think wage and price controls would work?
Rep. Gephardt: They are a theoretical alternative, not a practical one. People would gin up the economy under it. They would be hard to administer. Wage and price controls aggravate shortages.

Dreyfuss: You said that it is necessary to bleed the economy—
Rep. Gephardt: I would have preferred, in the situation that Reagan was in, to have a tighter fiscal policy, less of a tax reduction and therefore less of spending cuts. We have to slowly bleed inflation out of the economy. We have to have slow growth. What happened in Britain is what is happening here. It led to 11 percent unemployment in Britain. We can't deal with the inflation which is due to the oil shocks, food shocks, tight money, and loose fiscal policy. There is no painless way out.

Dreyfuss: Your aide told me that you are very close to the Federal Reserve Bank of St. Louis, that you meet with them often and agree with their policies.

Rep. Gephardt: Right. The St. Louis bank has a traditional monetarist view and is one of the strong advocates of tight-money supply. It is safe to say their view is expressed in the Fed chasing the money supply and not interest rates. I think it's correct.

Dreyfuss: Volcker and Frederick Schultz of the Federal Reserve have stressed in recent congressional testimony that it is vital to curb wage increases. Do you agree?
Rep. Gephardt: Sure. The underlying inflation rate is 10 percent . . . caused by wage demands not done on basis of increased productivity. The question is how to keep wages down. There are essentially four ways—wage and price controls that are mandatory, jawboning and a social contract, a recession, and fourth, a slow, moderate recession, which is what I am advocating. . . .

There is a lot of discussion and disagreement in the party. We have members railing against Paul Volcker and the Fed. We are split on this. I think that those who feel that the fiscal policy is central predominate, though.

DOCUMENTATION

What senators said about interest rates

From statements on the Senate floor Sept. 28:

Sen. Melcher

Throughout the August recess, I held a series of interest rate hearings across my home State of Montana.

Always, it has been the same sad economic story:

First. Farmers and ranchers tell me that high interest rates will cost us an entire generation of young farmers and ranchers, and the damage they are wreaking will soon begin to show up on grocery store shelves in higher food prices;

Second. Housing, timber, wood products, and construction representatives have testified that current interest rates are literally breaking the backs of their industries;

Third. Economists have pointed out that . . . there can be no growth whatsoever in the economy;

Fourth. Utilities and other industries are unable to raise capital; and

Fifth. Workers once again find themselves on the unemployment lines. . . .

At one of the high interest-rates hearings I held last month in Montana a farmer said that the Volcker approach reminded him of one of his neighbor's attempts to save money by teaching his dog to go without food. When I saw him a couple of months later, I asked him how his dog was getting along with his training. He replied that his dog had almost learned to go without food, but, for some reason, the dog had up and died first.

Sen. Sarbanes

Current interest rates have created an absolute disincentive to investment. Businessmen and women . . . now ask whether it makes good financial sense to do so when they can earn an immediate, greater return simply by investing their capital in money market funds.

This striking disincentive to investment runs precisely counter to efforts to strengthen the national economy by promoting investment. . . .

High interest rates are undermining the ability and willingness of businessmen to make investments that will improve their efficiency and productivity. . . .

At just the time when state and local government jurisdictions face sharp reductions in financial support from the Federal Government, they also face serious obstacles in the bond market. . . . Important capital improvements are being deferred, to the detriment of the economic infrastructure of local communities. . . .

I want particularly to underscore—a disturbing trend toward a two-tiered economy . . . where there are virtually no homes being built for lower- or middle-income people. . . . We risk a situation in which home-owning becomes the prerogative of those at the very upper end of the income scale rather than a goal to which most Americans can aspire.

Sen. Boren

I refuse to accept the idea that nothing can be done to bring down interest rates in the short term. There are mechanisms available to help those people who are now facing personal and corporate ruin because of high interest rates. This joint resolution is one of them.

The President of the United States has available to him the power to direct the Federal Reserve to bring down interest rates through the Credit Control Act. . . .

Sen. Sasser

I was the first Senator to offer a resolution to the U.S. Senate to have appropriate congressional committees and the Federal Reserve Board look into the feasibility of having a "dual prime rate" that would provide lower cost credit to those sectors of the economy that have been devastated with high interest rates. . . .

Sen. Garn

Believe me, there are other years I would have preferred to become chairman of the Banking Committee than in a year when the prime rate reached 21.5

percent. Before I pray for my wife and children at night, I pray for lower interest rates so I can have a day of peace as chairman of the committee without getting calls from automobile dealers, homebuilders, all down the line.

I am simply saying this Senator does not disagree with the Senator from Montana as to the nature of the problem and how serious it is. . . . But prairie populism has been coming out of this Congress since we came back from the August recess. . . .

That is my major criticism of Congress . . . that we respond to emergency situations. . . . So we hold hearings on high interest rates that make us look good. We are going to have road shows across the country. Most of all, we are going to blame the Federal Reserve. . . .

You just cannot arbitrarily order interest rates in this country. It does not work. You do not have to have a Ph.D. in economics to understand that. . . .

Sen. Proxmire

There is no way that Chairman Volcker can act as Chairman of the Federal Reserve Board now under present circumstances that will not in the long run either increase interest rates or result in a terrific inflationary effect. . . .

So if there is any remedy for high interest rates, that remedy should come from a saner fiscal policy. . . .

Recently Walter Heller appeared before the joint Economic Committee and . . . recommended a consumption tax that would be progressive. . . . It may be too complicated, but it is a challenge that I hope the Finance Committee and Congress will consider. . . .

If we really mean business about having an anti-inflation policy, an anti-high-interest rate policy, the way to do it is to cut Government spending. The way to do it is to balance the budget, if necessary, by taking on some painful tax increases in the consumptive area. . . .

Teamsters demand action on Melcher resolution

Senator Melcher read the following letter from International Brotherhood of Teamsters president Roy L. Williams into the record during the Senate debate on Melcher's amendment. This summer the 2.2-million-member union passed a resolution against Paul Volcker's policies at the Teamsters' national convention.

Washington, D.C., September 11, 1981
Hon. John Melcher, U.S. Senate, Washington, D.C.
Dear Senator Melcher:

On July 30, Senator Melcher introduced S.J. Res. 104, a proposal directing the President to begin immediate consultations with the Federal Reserve Board in order to reduce, substantially, interest rates within 90 days after its adoption.

It is our understanding [that] Senator Melcher, together with Senators Andrews, Pressler and others, will offer this measure as an amendment to S. 884, the Omnibus Farm Bill, and that bill is expected to be taken up next week.

We urge your active support for S.J. Res. 104 because it will provide a concrete vehicle for swift resolution of a very serious problem.

Under the Federal Reserve Board's current policy of so-called tight money, there are precious few beneficiaries other than those who are cash rich.

Moreover, high interest rates are having a devastating effect on our members, both in terms of jobs and as individuals. Without reasonable credit, employers in industries like construction and automobiles will make fewer sales, thereby making less work for many of our members.

Our organization represents over two million members, and virtually all of these people depend on credit in their daily living and the current interest rates make it virtually impossible for workers to purchase homes and other goods.

Beyond that, we find it shocking that a member of the Board of Governors of the Federal Reserve System now considers a decline in wages as one of the conditions for loosening the nation's money supply.

Originally, tight money was supposed to strengthen the dollar in international markets and reduce inflation at home.

Both of those objectives are, to a certain extent, being realized.

Now, we hear from Mr. Lyle Gramley, the board member advocating wage cuts, that we must earn less in order for interest rates to come down.

We consider that beyond the bounds of reasonableness and reality.

In sum, we urge you to support Senator Melcher's effort to begin a program that will reduce interest rates.

Thank you for your consideration in this matter.
Sincerely yours,

Roy L. Williams
General President

William Webster

Senator Williams sues Abscammers

by Mary Jane Freeman

At an Oct. 1 press conference in Washington, Sen. Harrison Williams announced a $6 million lawsuit against nine Justice Department and FBI officials and former officials involved in Abscam, including then-Attorney General Benjamin Civiletti and current FBI Director William Webster.

The suit seeks damages for violation of the senator's constitutional rights and asks appointment of a Special Prosecutor for FBI misconduct.

The suit names, but does not seek damages against, current Attorney General William French Smith, seeking "actions which may or should be taken in the future relating to information in possession of defendant Smith or his subordinates concerning the wrongs of the other defendants."

Sued for $1 million in compensatory damages and $5 million in punitive damages are: Benjamin Civiletti, former attorney general; William Webster, director of the FBI; Philip Heyman, former deputy attorney general; Irvin Nathan, former deputy assistant attorney general; Thomas Puccio, prosecutor for Abscam; Mel Weinberg, FBI "special employee" for Abscam; John Good, Anthony Amoroso and Richard Farhart, FBI special agents.

The following are excerpts from the charges contained in Senator Williams' complaint to the court.

This is an action for damages for deprivation of civil rights secured by the Constitution and laws of the United States by current and former officers and officials under color of authority; for conspiracy to wrongfully defame, indict, convict and imprison plaintiff; for declaratory and injunctive relief. . . and for referral to the appropriate three judge panel for the appointment of a Special Prosecutor as to one official of the United States. . . .

Weinberg, after these events, carried his conspiracy to cover up his artificial inculpation of Plaintiff on June 28, 1979, to its most logical perverse extreme, and after having falsely claimed tapes which he knew would establish his entrapment of Plaintiff were "lost or stolen" he, true to his criminal nature, perjured himself at Plaintiff's trial. . . .

As a result of this close working relationship with Weinberg during the course of the Abscam operation, Amoroso would often allow Weinberg to freelance and direct many inculpatory scenarios. Based upon that relationship, as seen from that which follows, Amoroso lost his professional judgment and became seduced by Weinberg's con man approach to the point where he also began soliciting rather than eliciting the appearance of criminal or improper conduct by Plaintiff.

Weinberg and Amoroso conspired to conceal in every regard from the assistant United States attorneys the criminal nature and outrageous character their suborning conduct had attained.

Defendant Puccio's role in the phase of the Abscam operation directed against Plaintiff involves the most sordid conduct that has ever stained the United States Department of Justice or besmirched the reputation of the bar.

Defendant Puccio provided this false information to these members of the Justice Department to keep Abscam's targeting of Plaintiff alive and to provide a false basis for the eventual indictment of Plaintiff. . . .

Defendant Civiletti, having conspired with others to conceal the due process infirmities directed against Plaintiff and the exculpatory documents which memorialized them testified before the Congressional committee in a purposely deceptive fashion as a fundamental part of his conspiracy to conceal the aforementioned facts. Further conspiring to prevent the disclosure of the aforesaid material documenting these infirmities, defendant Civiletti conspired with others to prevent the Jan. 6, 1981 "Nathan" memorandum to defendant Heymann from being released to Plaintiff's counsel. He did so in direct bad faith for the purpose of denying Plaintiff and his counsel access to certain exculpatory materials which would be fundamental to Plaintiff's case.

Defendant Smith, a fine and honorable man, is sued only in his *ex officio* capacity as Attorney General. . . .

The aforesaid wrongs of all defendants against whom damages are sought below violated Plaintiff's rights secured by the First, Fourth, Fifth and Sixth Amendments to the Constitution of the United States, as an individual, as well as Plaintiff's rights as a United States Senator and a member of the legislative Branch of government to be free from conspiracies directed against him by the Executive Branch, or agents thereof, in derogation of his Senatorial function.

Science & Technology

U.S. budget axe targets NASA, fusion

by Marsha Freeman,

The proposed future cuts in the fiscal 82 budget announced by President Reagan on Sept. 24 could cripple the nation's major science and technology programs. As yet it is unclear whether the Congress will redo the 1982 budget to bow to the President's request.

In the first round of cuts announced last spring, both the space and fusion programs were cut back from the Carter budget request but survived with a small real increase that at least kept pace with inflation.

The additional twelve percent cut that is now mandated by the Office of Management and Budget would wipe out those increases and set back, not only future projects, but some already under development and construction in both the National Aeronautics and Space Administration (NASA) and the fusion program.

Fusion under the gun

After the 1980 Magnetic Fusion Energy Engineering Act was passed by Congress one year ago, the goal was set for an operational engineering device by 1990 and a demonstration reactor by the turn of the century. A budget level to begin the engineering design phase of fusion work was projected to require $525 million in FY 82.

After the first round of cuts in the spring, the fusion budget stood at the level of $460 million, to which about $14 million was added by Congress. Now the OMB is requesting that $50 million be cut from the $460 million, which will bring the fusion budget back down to nearly where it stood in FY 81. In constant dollars the program would not even keep up with inflation.

Sources in the fusion community report that they are not only concerned that the engineering design phase cannot get off the ground at that budget level, but that crucial experiments which have been previously authorized will not be built and one already under construction will be scrapped.

The Fusion Materials Irradiation Test facility being built in the state of Washington is the only experiment under way to test new materials for future fusion power plants under simulated fusion conditions. The Reagan administration has threatened to cancel the project. There is also concern that the Elmo Bumpy Torus (EBT) proof-of-principle experiment, which was approved by Congress last year to test a different magnetic fusion configuration than the mainline Tokamak device, will not be built.

According to the staff of the Senate Appropriations Subcommittee on Energy and Water Development, programs that survived the first round of cuts with increases are the "prime candidates" for cuts this time around. These include fusion, the Clinch River breeder and some water projects. It is also possible that the defense programs in the Department of Energy will be cut back.

Will the Shuttle survive?

The projected NASA budget is equally gloomy. The first Reagan cuts reduced the $6.7 billion Carter request by over $600 million. According to the Senate staff, the OMB will ask anywhere from 6 to 12 percent more be sliced out.

This could result in a further $300 to $700 million cutback.

President Reagan has threatened that he will veto the FY 82 NASA appropriations bill if the Congress does not adhere to the new cuts. Senator Harrison Schmitt (R-N.M.) and other congressional space-program supporters have not yet seen the details of the proposed cuts and have not formulated their response.

If the NASA reduction is on the order of $300 million, it is likely that all of the space science projects will be eliminated. This would include the Galileo mission to Jupiter, the Venus Orbiting Imaging Radar mission, and the followon work in the manned space program for an orbiting space station.

If the proposed reduction is over a half billion dollars, there is no way the Space Transportation System, or Shuttle, can escape the ax. The Shuttle program is already running into cost overruns for the FY 82 budget year, and it is possible that the number of flights could be cut significantly and scheduled scientific missions may be eliminated.

The office of the White House science adviser is carrying out a review of NASA programs, looking into the role of the Defense Department in space. A mooted attempt to defray some of the Shuttle costs through expenditures by the DOD will anger the Congress, since the civilian space program is to be kept separate from the military applications according to the law that established NASA in 1958.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Close vote expected on Davis-Bacon

Capitol Hill sources expect a close vote in the Senate in early October, on a measure which would substantially weaken the Davis-Bacon Act, the 50-year old legislation that guarantees the payment of prevailing wage levels on federally funded construction projects.

Barring unforeseen developments around the budget, the Senate is expected to vote at the beginning of October on a rider to the military construction appropriations bill which would exempt all military construction projects from Davis-Bacon coverage. The vote will be so close that it will be decided by last-minute lobbying say aides to Sen. Strom Thurmond (R-S.C.), the sponsor of the rider, and Sen. Don Nickles (R-Okla.), a key coordinator of the efforts for Davis-Bacon repeal. "Our count is that it is about 45 for, 45 against," said one aide.

These senators are being urged on by OMB Director David Stockman and Federal Reserve Board Chairman Paul Volcker, who see it as the first step towards full repeal of the act.

Nickles has devised several strategies on the rider. Should there be enough votes to pass the waiver, the bill will go to a House-Senate conference committee, where the House conferees could be expected to kill it. To prevent that, its supporters will try to deadlock the conference and force a vote by the full House, where Nickles hopes to have the votes to pass it. Should the head count come up short of passage, the waiver may be withdrawn and an effort made to go for full repeal. Although Nickles's aides are not confident they could win such a vote, they hope to show that there is enough backing for repeal to make it feasible.

Amendment to prevent bank takeovers fails

A last-minute attempt by Lawton Chiles (D-Fla.) to extend a moratorium against interstate branching or acquisition of trust companies by national bank associations failed by a vote of 32-60 in the Senate Sept. 24. This means that as of Oct. 1, 1981 trust companies will be able to expand interstate.

"We think that this will allow major banks from the major financial centers to take the cream off of the trust operations of smaller institutions," a spokesman for Chiles said. "We have a situation where the big banks and the big corporations are taking over everything."

The Chiles amendment cosponsored by Paula Hawkins (R-Fla.) and Lloyd Bentsen (D-Tex.) was amended to the legislation providing for temporary continuing appropriations for government operations in fiscal year 1982, pending final passage of regular appropriations bills. When asked why the Senator attached his amendment to such an unrelated vehicle, a Chiles spokesman pointed out that Banking Committee Chairman Jake Garn (R-Utah) supported the expiration of the moratorium and had refused to consider any legislation in the Banking Committee itself.

New water legislation on the drawing boards

President Reagan's renewed insistence on waterway user charges in his Sept. 24 address to the nation is likely to yield new legislative initiatives in the Senate.

The chairman, Sen. James Abdnor (R-S.Dak.), and the ranking Democrat, Sen. Daniel Moynihan (D-N.Y.), of the Water Resources subcommittee of the Senate Environmental and Public Works Committee are reported to be preparing legislation to impose user charges for port development. While not going as far as the President's and OMB director David Stockman's demand for nearly 100 percent cost recovery on port construction and operations and maintenance, the new legislation will still accept the philosophy of user fees—a significant departure from the 200-year-old tradition of federal support for internal improvements.

In addition the chances for a badly needed omnibus rivers and harbors bill being introduced this session look dim in light of Stockman's fiscal austerity. If new water projects are to be started, according to Capitol Hill sources, they will probably have to be financed by a mix of federal, state, and private sources. Assistant Secretary of the Army for Civil Works Bill Gianelli has already called on Congress and the administration to explore these forms of "creative financing." Some have noted that Gianelli's "creative financing" sounds similar to the kind of approach being offered to the Third World for development projects by the administration.

Gonzalez: impeach Fed Open Market Committee

A resolution introduced by Rep. Henry Gonzalez (D-Tex.) Sept. 18 to impeach the members of the Federal Reserve's Open Market Committee was referred to the House Judiciary Committee. Now that committee has been sent another resolution by Gonzalez to impeach Federal Reserve chairman Paul Volcker. Gonzalez at the same time put forth a bill to abolish the Open Market Committee.

Congressman Gonzalez took to the House floor a few days after introducing his resolution to explain that what prompted his actions were the disastrous interest-rate policy of the Fed and the complete arrogance of the central bank in refusing to listen to Congressional demands that interest rates must come down.

"The Federal Reserve Board has been not only runaway, but it has been wholly unaccountable to the point that it has reached a degree of unacceptable arrogance. It is a creature of the Congress. It is not a body that was born from the outpouring of the great god, Angus, as the Greeks used to describe it. It is a humanly created body . . . I am sure the Speaker will agree with me that we had always thought before that charging interest above a certain rate was illegal, and yet this board has legalized usury on a national level . . . Why not bring them in and have them confront the charges? What I am speaking of are high crimes and misdemeanors. Senators in their august and pristine grandeur across the Capitol dome, and us on the House side . . . have noted the arrogance with which the Federal Reserve Board condescends to take time and come before us and then snort at us and say: 'It is your fault; you have social programs you still must cut further.' . . . Since when has our American Government permitted the creation, the existence, and the perpetuation of a system where the most important constitutional power granted this Congress has been unsurped by this body and then dares challenge the Congress as to its jurisdiction?"

"I told Mr. Volcker, and that is the only time he has lost his cool, to his face that he has been responsive not only to less than eight banks, not the general banking industry, the 14,000 or so of them that the Federal Reserve Board is supposed to be representing, but just the Chase Manhattans, the Chemical Bank and Trust, Continental Trust of Chicago, those that are the plutocrats of our financial markets in this country."

Surgeon general nomination comes before Senate

Months of obstructionist tactics were finally cleared away, as the Senate Labor and Human Resources Committee began hearings on the nomination of Dr. C. Everett Koop for surgeon general of the United States Oct. 1.

Koop's nomination had been held up for months by critics who disagree with his opposition to abortion. Technicalities such as Koop's age were used by various pro-abortion members of Congress and their supporters to hold up the nomination.

Support from professional colleagues and public health officials was overwhelming, but pro-abortion representatives staged a last ditch effort to stop Koop. Jane Wells-Schooley, national vice president of the National Organization for Women charged that "Koop as Surgeon General may be hazardous to women's health. Dr. Koop has demonstrated a significant bias against the comprehensive reproductive health care needs of women." Capitol Hill observers noted that the intensity of opposition to Dr. Koop was a product not only of his anti-abortion views but of the fact that he sees abortion as only the first step to mercy killing and euthanasia.

While several liberal Senators, including Senators Kennedy and Metzenbaum touched on the issues of unwanted pregnancies, neither voiced any serious opposition to Koop's nomination, and it is expected to pass the committee and the Senate by a substantial margin.

National News

Allen tied to anti-AWACS lobby

Richard Allen, the President's national security adviser charged with managing passage of the President's proposed Saudi AWACS sale through Congress, and Allen's key aide for Mideast affairs, Douglas Feith, are members of the Zionist extremist organization, the Center for International Security (CIS). Both are presently on leave from positions on the group's board of advisers.

At a Sept. 28 CIS symposium on Capitol Hill, called for the purpose of lobbying against the AWACS sale, another board member of the organization, retired Air Force Gen. George Keegan called the proposed sale part of an "Arab consensus" to invade Israel and cut it in half. Keegan also claimed that Saudi pilots lacked the intelligence necessary to learn to fly F-15 airplanes included in the AWACS sale package.

National Security Council spokesmen have admitted to *EIR* that Allen and Feith are CIS members, a fact previously denied by the NSC, but claim that because the pair are on temporary leave from the racialist group's board, they have no connection to its activities.

Melcher says his fight will continue

Senator John Melcher has pledged to continue his fight to secure passage of his bill to force lowering of interest rates and to assure affordable credit for industry and agriculture.

In a press release issued Sept. 29, the Montana Democrat said, "We're going to keep bringing this issue before the Senate until we get the message through to the administration that the tight-money, high interest-rate policy of the Federal Reserve Board is costing the nation jobs and dragging down the possibility of economic recovery."

On the tabling of his anti-Volcker amendment, S.J. Res. 104, he said, "While we did not win this round, my proposal, sponsored by a dozen of us in the Senate and 40 in the House, is still pending as a joint resolution for direct action to bring down high interest rates. This is just the start of a fight for survival of a decent U.S. economy, and a fight we have to win."

Volcker attacks Labor Unions

Not counting the large number of state and municipal employee contracts coming up for negotiation, nearly 2 million unionized workers in basic industry will meet management at the bargaining tables in the next twelve months.

In a speech to the National Press Club late last month, Federal Reserve Chairman Volcker said that not only will he maintain the high interest rates, but he will "bring wage increases under control." Next year, he said, "will be a crucial period in this respect. Unlike this year, it is a major bargaining year for pattern-setting industries, beginning with refinery workers and truckers and running through auto in the fall."

This is the first time Volcker has specified the industrial unions whose wages he is determined to crunch. The 60,000-member Oil, Chemical, and Atomic Workers contract comes up Jan. 7, the pact covering 300,000 over-the-road drivers in the International Brotherhood of Teamsters comes up for negotiation March 31, and the 600,000-man United Auto Workers contract expires in September. In addition, the rail unions have been in negotiations since last April; negotiators do not expect any settlement at least until after the results of the Teamster bargaining are known.

Every one of the major unions coming up for contract negotiations, including rubber, meatpacking, and airlines, has already been forced to grant wage freezes, givebacks and other concessions for significant portions of their memberships.

Givebacks have been heaviest in industries immediately producing for the consumer-goods sector. Meatpacking has been dotted with concessions since the Monford Company of Colorado closed its Greeley plant rather than give its striking unionized employees a raise. Armour Company has followed suit, and the press has made a cause célèbre of the 17 percent wage cut voted for by workers at Schluderberg-Kurdle hog packers in Baltimore, where Teamsters agreed to a cut from \$7.35 to \$6.10 an hour plus a loss of 75 cents an hour in fringe benefits after they were threatened with a plant closing.

Next year, assuming only 10 percent inflation, \$6.10 an hour will be worth \$5.50, and the following year \$4.95, if the company does not ask for further reductions.

Heritage free zones termed depopulation plan

Legislation proposed by New York State Sen. Joseph Galiber, a Bronx Democrat, would pave the way for concentration work camps in urban ghettos, charged National Democratic Policy Committee representative Leif Johnson, an *EIR* economic specialist, in hearings on the Galiber bill held in New York City Sept. 24.

The bill would broaden the concept of enterprise zones from light manufacturing districts where minority workers are employed at below the minimum wage, with no labor or safety standards, into a combined industrial and residential area where the workforce is drawn predominantly from the immediately surrounding buildings.

Johnson told Senator Galiber that the fundamental policy of the "E-Zones" is to prevent family formation. "People don't raise families in work camps," Johnson asserted, "You will remember that the Warsaw Ghetto was established as a work camp to produce Luftwaffe, uniforms, ammunition, and gun mountings. Its victims were slated for extermination in 1942 only after a change in Nazi policy." Senator Galiber, a black, represents a largely minority population in the impoverished South Bronx, site of the first proposed E-Zone.

Stuart Butler, the British specialist on enterprise zones who works for the U.S.-based Heritage Foundation, testified in support of the plan at Galiber's hearings, along with Peter Ferrara, author of a widely circulated plan to eliminate Social Security.

The sponsors of the E-Zone plans, expecting that congressional passage of the Kemp-Garcia enterprise zone bill may not come for another year, have focused their efforts on state legislation.

'Right to die' to be voted on in capital

On Oct. 13, Washington, D.C. will legally compel city physicians to commit euthanasia against comatose and terminally ill patients. A bill, given preliminary approval in the City Council on Sept. 29, will not only permit certain patients to refuse treatment, but prosecute doctors who refuse to "pull the plug."

The bill, if passed, would give adults the "right" to declare in advance that they would rather be allowed to die than kept alive in a comatose or terminally ill condition. Doctors who abide by their Hippocratic Oath rather than the "death with dignity" bill will be subject to fines of up to $5,000 and revocation of their medical licenses.

The bill's sponsor, Council-woman Polly Shackleton, drafted and promoted the legislation under direction of Sidney Rosoff, president of the Society for the Right to Die. This Society is successor to the Euthanasia Society of America, which was unable to successfully promote such ideas at the time of founding in the 1930s.

In modern times, euthanasia, the murder of "useless eaters," has been a widespread practice only in Nazi Germany. Naturally, reintroduction of the crimes outlawed at Nuremberg is generally supported by the "zero-population-growth" movement, whose sources of funding and ideas overlap heavily with those of the "right-to-die" movement and other parts of the genocide lobby.

Today's Euthanasia Society claims the proposed Washington, D.C. legislation goes beyond similar laws already existing in Alabama, Arkansas, California, Idaho, Kansas, Nevada, New Mexico, North Carolina, Oregon, Texas, and Washington State.

The City Council has come under fire from the Archbishop of Washington, the Most Reverend James A. Hickey, who warned in a Sept. 8 letter to Shackleton that her bill "could contribute to a declining respect for human life, especially the life of the feeble, sick and handicapped."

Michigan coalition to act against interest rates

A Michigan-based coalition of trade unionists, business, and political associations announced at a Sept. 29 press conference in Lansing, the state capital, that they will rally against the high interest-rate policies of Federal Reserve Chairman Paul Volcker on Oct. 9, in Washington D.C.

The coalition includes representatives of the Building Trades, Laborers International Union, auto dealers, savings and loan bank associations, the American Agriculture Movement, the National Farm Organization, and the National Farm Union. The group intends to fill the 6,000-seat Lansing Civic Center.

A spokesman for the coalition at the press conference said the group's planned event will have three demands: the resignation of Paul Volcker; an immediate lowering of the usurious interest rates; and a conference between Congress and the executive branch on the interest rate question. Pressure will be focused on Michigan's congressional delegation.

Briefly

● **THOMAS P. PUCCIO'S** nomination as U.S. attorney for Washington, D.C. has been withdrawn, according to presidential aides. The move to appoint Puccio, who from his position as Federal Prosecutor Eastern District New York led the Abscam entrapment conviction of Sen. Harrison Williams (D-N.J.), had come under intense fire from many political factions, partly because of his declining credibility.

● **HENRY REUSS** has made the following recommendation to President Reagan for filling the upcoming vacancy on the Federal Reserve Board: "Bankers and monetarists are already well represented in this government. Why not find for the . . . governorship some compassionate human being who cares about farmers and small businesses, and housing, and productive capital investment; someone who will work, day in and day out, to produce a climate of lower interest rates, stonger economic growth, and lower inflation?" Reuss advocates credit controls which would compound the Fed's economic squeeze.

● **ROBERT BYRD** hosted a rural retreat where 41 out of 42 Democratic senators were scheduled to hear defense expert James R. Schlesinger, pollster Lou Harris, and economic pundit Lester Thurow, author of *The Zero-Sum Socity*. The purpose of the retreat, held in Byrd's home state at the Canaan Valley State Park, near Elkins, West Virginia, was according to Byrd, to get together "away from the day-to-day interruption of Capitol Building activities."

● **DAVID STOCKMAN,** at a White House press conference Sept. 25, attempted to clear up the confusion surrounding the so-called social safety net. The OMB director characterized it as "a term of art whose contents are defined for each case as it comes up."

We'd better start breeding

Some little-known facts about the world's energy situation are revealed in a new EIR Special Report.

Despite the current wave of short-term bankruptcies plaguing the U.S. uranium mining industry (see *EIR*, June 2, 1981), the world actually faces a crisis in its supply of uranium to fuel nuclear power before the end of the 1990s. These are the conclusions of a new *EIR* Special Report titled "World Prospects for Nuclear Energy." In light of the continual footdragging by the administration on bringing the nuclear industry back from the edge of the abyss, it is worth reviewing some aspects of this report.

Most recent long-term global energy demand predictions have about as much scientific value as a Joe Granville stock market prediction: in the long term, they tend to be dangerous, if taken seriously. Nonetheless, some projection of future world population and economic growth to the end of the century must be at least a flexible tool of planning for expanded power needs.

The *EIR* study starts with this modest assumption, and estimates a series of scenarios of high-growth, modest-growth and low-growth requirements. For convenience, we use the same basis as the massive and little-discussed International Fuel Cycle Evaluation (INFCE) study. That report, made public in the final months of the Carter administration, and the most comprehensive forecasting attempt to date, involved the International Atomic Energy Agency and the Organization of Economic Cooperation and Development, and entailed geologic analysis of the uranium potential of 185 countries.

INFCE had some sobering conclusions that should give those in the administration who, like the overcomputerized Mr. Stockman, pursue the same Carter policy under the thin veil of "free enterprise." It estimates the availability of less than 1.850 million tons of what are termed Reasonably Assured Uranium Resources at an extraction cost of $30 per pound of uranium oxide, or lower. The current sale price in the U.S.A. is about $25 per pound.

Now, it is interesting to know that more than 84 percent of this most strategic mineral, which could fuel fully half of some industrial nations' power by the 1990s, is concentrated in only four places (data for the U.S.S.R. are unavailable): The United States is far and away the most important source with some 37 percent, followed by Africa (21 percent), Canada (19 percent), and Australia (7 percent). Europe has about 11 percent, with by far the majority being in the Swedish deposits of low-grade shale, putting it above the $30-per-pound range.

In the INFCE low-growth projection, we assume 850 gigawatts of nuclear power will exist in the non-communist countries by 2000. Today, we have 136 gigawatts in operation worldwide and 212 GW more under construction. A one-gigawatt nuclear plant the size of Diablo Canyon can provide electricity to a city of 1 million for about 30 years. The INFCE high-growth projection (which is hardly "high" in anything but current terms), projects 1,200 GW of nuclear capacity by 2000.

Now, assuming that there is no significant contribution from commercialized fast breeder reactors or fuel reprocessing—as is quite likely unless we change policy quickly—we will face a world uranium supply crisis under the most "benign" low-demand scenario by some time in the 1990s. If we begin to develop our nuclear base, the shortfall becomes evident by in the end of this decade!

Go back, then, to the present Volcker-induced bankruptcies of major portions of the U.S. domestic mining industry. With the world's largest economically recoverable uranium reserves, we have a strategic responsibility to the rest of mankind to take immediate steps to preserve and expand this mining industry. Given recent experience, it can commonly take a "lead time" of 10 to 15 years from the time of a new uranium field discovery to first commercial production, even with a reasonable Department of Interior and EPA administrator. This underscores the importance of every ounce of mining.

But more profoundly, since the world will grow in population and economic standards of living will rise, the *EIR* report underscores the stupidity of any further delay on all-out government support for reprocessing and breeders.

To order the EIR *Special Report. "World Prospects for Nuclear Energy," write Peter Ennis, EIR Box M, 304 West 58th St. New York, N.Y. 10019.*