

## Post-Williamsburg prospects for the world economy

by David Goldman

Henry Kissinger's old summit format, revived for possibly the last time starting May 28 at the Williamsburg restoration, requires a script written well in advance. Despite the much-publicized "informal" agenda, what will take place when the leaders of the seven major industrial nations meet was well known in advance, according to an analysis issued by *EIR*'s editors early in the week of the summit.

President Reagan's major blunder—as forecast by Secretaries Shultz and Regan in preliminary briefings—would be to tell his colleagues that the American recovery will, at its own pace, solve the world's major economic problems. The major banking institutions will immediately flood the press and congressional hearings with arguments that no conceivable pace of recovery will deal with the world debt crisis.

Ironically, the unkindest cut will come from the adviser to George Shultz whose projections informed Shultz's original Feb. 16 argument (before the Senate Foreign Relations Committee) that the recovery would solve the debt crisis: Morgan Bank's Rimmer de Vries. Before an elite Swiss audience, de Vries issued a preview April 29 of a new Morgan study arguing that the so-called recovery will provide no remedy for the world debt situation.

Whatever de Vries and his colleagues say, the salient event is the ongoing confrontation between Brazil, the world's biggest debtor, and the two major international institutions, the International Monetary Fund (IMF) and the Bank for International Settlements (BIS). Brazilian Finance Minister Ernane Galvéas informed a May 20 press conference in New York that Brazil would be 30 days late in making the \$400 million repayment due at the beginning of June of a bridge loan from the BIS. Galvéas explained that, despite Brazil's sincerest intentions, it would not pay the BIS because the IMF was withholding for 30 days the \$400 million which it

was scheduled to lend Brazil May 31.

Galvéas made his announcement the day after Fritz Leu-twiler, the president of both the Swiss National Bank and the BIS, thundered at a Brussels forum that the BIS would not permit any roll-over of Brazil's debts to it.

The Brazilians, however, could celebrate their default on the despised BIS. Galvéas briefed the reporters that the terms of the BIS agreement hold that Brazil has to pay it only on receiving IMF drawdowns. "If the BIS wants to get its money earlier, let them collect from Mr. de Larosière and *not* from Brazil," Galvéas emphatically concluded as the reporters broke into laughter.

Around the end of June, President Reagan must decide whether to re-appoint a Fed chairman whom the White House (correctly) views as a conspirator with the domestic and foreign opponents of increased American defense spending. He will almost certainly appoint, instead, someone who is loyal to the administration's most important single objective—restored American defense capability; this will most probably be the Californian vice-chairman of the Fed, Preston Martin. A nasty crisis on the long-term side of the federal bond markets is already in preparation upon Volcker's anticipated departure from the chairmanship. This prepared "perceptions crisis" coincides with the emergence of fundamental pressures upon the federal bond market, of which an unmistakable warning was the Treasury's announcement that it registered a \$3 billion deficit during April, the peak month for tax collections. The backing-up in both short-term and long-term interest rates during May appears to be a foretaste of a much worse situation towards the end of the second quarter.

### What the President will do correctly

Despite the pre-planned blunder over basic economic policy, President Reagan's stance will be guided by his most

important recent policy initiative: the March 23 announcement of a plan to develop defensive directed-energy beam weapons. As *EIR* has shown in numerous studies, the beam weapons military doctrine includes the elements of a "science driver" for economic recovery.

This is a central point of debate within the administration. One senior official, the director of planning for the National Security Council, Dr. Norman Bailey, emphasized the economic benefits of the policy as comparable to the 1939-44 period in a May 17 speech in Brussels (see excerpts, page 7). Secretary of State Shultz, briefing reporters on the summit May 24, insisted that the "recovery" is in no way dependent on military spending; Shultz, in any event, has opposed the beam-weapons program on what he considers to be military and diplomatic grounds.

Shultz and his advisers at Morgan Guaranty Trust are the domestic supporters of demands from abroad—principally from Britain—that the United States reduce its budget deficit in order to further world recovery. In practice, this means reducing the defense budget. Since the BIS annual meeting of June 1981, this has been the principal theme of the international organizations' demands upon the United States; Volcker's collaboration with these demands is the principal reason he has little chance of re-appointment.

French President François Mitterrand's pre-summit call for a "new Bretton Woods conference" included the unfortunate allegation that the rest of the world is paying for the American budget deficit (through high American interest rates and capital flows into the United States).

According to authoritative administration sources, the principal advocate of such concessions, Undersecretary of State for Economic Affairs W. Allen Wallis, has failed to win administration approval for a memorandum he issued the third week in May arguing that the United States should permit the IMF to conduct a study of the need for a new international monetary conference. Wallis, a longtime friend of George Shultz, heads the American summit preparation (or "Sherpa") team; his memorandum was leaked to the *New York Times* and *Washington Post* May 18. In penance, Wallis was hauled before the Washington press corps May 25 to explain that the memorandum many of them had heard of represented no agreement of any sort, but merely reflected topics which various people were interested in discussing.

Demands that the United States modify its economic, and especially its defense budget, posture, have taken the form of proposals to manage the exchange rate system on a model more closely resembling the old "Bretton Woods" system of fixed exchange rates. This simply means, in the formulations offered May 17 by Henry Kissinger, Rep. Jack Kemp, and others, that America should submit to controls over its defense and other spending on the pretext that such issues influence the exchange rate of the dollar.

This the administration will refuse to do. Senior British officials are already expressing alarm that the United States will appear to be conciliatory without being conciliatory.

Even if a study of a new monetary conference is agreed at Williamsburg as a last, consensus-saving concession, this will merely be a means to bury such British and related objections.

At the same time, the intervention of Japanese Prime Minister Nakasone, who is considering presenting a proposal for a "Global Infrastructure Fund" to provide the economic basis of a solution to the world depression, may strike important chords in the U.S. administration.

One senior U.S. official said that the Japanese will propose a "Global Infrastructure Fund" to put hundreds of billions of dollars into "Great Projects" in the developing sector, as a means of beating the world depression through rising productivity. Some Reagan administration officials are taking a reluctant interest in the Japanese position, given the danger of world monetary collapse. "I hope that Nakasone brings up the debt issue in a big way," said one. "It will make the President listen."

## Beam weapons

The implicit subject of the summit will be President Reagan's March 23 change in military doctrine to "Mutually Assured Survival," emphasizing defensive anti-missile weapons based on relativistic physics. The administration is entering the summit in full awareness that, despite the actions of Kissinger, Britain's Lord Carrington, and others, the European nations have no option but to support the United States in this program. That fact has produced a wave of upset among senior British officials and their friends in place in other European governments, who complain that the United States is dealing unilaterally.

A potential policy rupture over international monetary issues between the United States and European nations at Williamsburg "merely reflects a natural drift apart" and "a growing tendency towards European neutralism," according to a source close to Bank of England top management.

In response to reports that the heads of government would agree to study an international monetary conference, the source predicted that the governments would nonetheless fail to offer any solution to the explosive international debt problem. "Agreement on a study of a monetary conference is amusing. Studies are a way of diffusing an issue. The administration can be apparently conciliatory by agreeing to it without giving up anything at all. If you really want to run it into the fan, do a study on it," he concluded.

However, the basic issue in all this was "the U.S. attitude towards the Europeans," he added. With no agreement on this subject, "the United States and Europe will continue to drift apart. Europe will become more neutral, more of an economic backwater. I see a natural drift in the opposite direction." Referring to the speech delivered at the American Bankers Association conference in Brussels by Norman Bailey, in which Bailey told the Europeans that they had no choice but to support President Reagan's beam-defense program, the Bank of England official exclaimed, "Bailey can't

get away with what he is demanding. This sort of thing can't be imposed on Europe."

### Carrington's threats

The underlying threat that Britain raises—European neutralism as the penalty for failure to accept IMF demands concerning American deficits—was the subject of a diplomatic, but tense, exchange between Britain's former Prime Minister Lord Carrington and NSC official Bailey at the May 17 Brussels conference. This counterposition was not lost on the *Neue Zürcher Zeitung*, the leading Swiss daily (and Europe's most important Freemasonic newspaper), whose account ran as follows:

"Lord Carrington, who discussed global tensions and antagonisms in practically all their manifestations, spoke, with a view to the European-American alliance, of the continual requirement for explanation and understanding; and in the context of this requirement only could the Atlantic Alliance be elaborated, not last in the presumption that only on this path could solutions to problems be found. . . .

"The relations between the superpowers and their allies had a key significance in the field of world tensions, according to Lord Carrington. From the standpoint of the West, it is of special significance to convince the new, i.e., the younger generation of the rightness of the West's cause. . . .

"From the standpoint of National Security Council Director for Planning Norman Bailey . . . the goal of the Soviet Union is to undermine the will of the West to maintain the necessary defense posture, and this with the goal of reducing pressure on itself. In Bailey's judgment, the Soviet Union can reach its goal of maintaining its present military supremacy only in the case that the West permits its efforts to restore the balance to fall through. The new Soviet leadership, in Bailey's portrayal, is the most intelligent since Lenin; it has not only a pronounced feeling for the psychological status of the West, but also an equally keen awareness of the limitations of Moscow's own resources. Moscow will nonetheless continue to give absolute priority to military expenditures. Bailey predicts, in conclusion, that the Soviet Union will restrict its activities in the international field to two priority areas, namely the Mideast, where the economic basis of the West may be buried most easily, and the Caribbean, where the security interests of the United States may be threatened most immediately and at the lowest cost.

"In Bailey's analysis of world tensions, the shift in the world economic center of gravity to the Pacific also figures. Meanwhile, the military-political center of gravity remains, as before, between the Mississippi and the Urals. In conclusion, Bailey indicated that the economic factor in international relations must, at least before the end of the decade, play a key role. A new, deeper, and worse recession than the present one might lead to widespread political and social unrest, to coups and revolutions, if not indeed to regional conflicts. And the American concluded with the statement that the now apparent recovery might be brought down easily

by the world debt crisis."

### Europeans support U.S. defense policy

Bailey's reference to the shift in the economic center of gravity translates into a blunt message to Carrington and his friends: if Japan and the United States manage to settle their differences, it does not matter what the European allies think. They will shut up and take orders, so long as the United States proceeds on a fundamentally correct path toward the development of an anti-missile technology which guarantees Europe's security as well.

This tone of address to the Europeans offends British

## NSC planning director: 'Technological revolution can restore prosperity'

*The following are excerpts from the speech delivered by Norman Bailey, Director of Planning of the National Security Council in Washington, D.C., to the International Monetary Conference in Brussels May 17.*

The future is an embryo in the womb of the present. . . . I will confine my remarks to only three of many embryos presently awaiting maturity.

The first of these is the evolution of Soviet policies and strategies. In my view, the Soviet Union currently has its most intelligent and subtle leadership since Lenin. Mr. Andropov has a well-developed sense of the psychology and state of mind of the Western world (mostly gleaned from extensive discussions with his son, who travels widely, and not from Scotch whiskey and rock recordings as has been breathlessly reported by certain media). He also has an acute understanding of the resource limitations of the Soviet Union and the consequent necessity to get the biggest bang for the buck, or rumble for the ruble, if you like. Finally, and for the first time in Soviet history, his power bases are in the secret police and the armed forces, not in the Communist Party. . . .

As a result of these factors, Soviet policy will be directed to sapping the will of the Western countries to adopt and pay for the necessary defense buildup, in order to take the pressure off themselves to match this buildup. Maintenance of their existing margin of superiority is the goal, of course, and that can only be done if the Western alliance abandons its efforts to redress the balance. It will maintain absolute priority of military expenditure, as required, of course, but direct use of Soviet military forces will be avoided if possible, both

sensibilities, but has already won support in West Germany and France. According to well-informed West German officials, the administration's efforts to "clarify" the March 23 shift in military doctrine has won at least the Kohl government to Reagan's perspective.

The Reagan administration's problem is that unless it can rapidly carry through the promise opened by the March 23 presidential address, the result will be chaos in all the major OECD economies, perhaps triggered by major Ibero-American defaults. In such chaos Carrington's perspective may prevail. That makes Japanese Prime Minister Nakasone's role in this process especially interesting: he has important

cards to play in both the developing sector (see article, page 8) and in Washington.

Nonetheless, on the fundamental strategic issues, President Reagan holds all the important cards, and has no reason to accept any limitations on his range of action. The danger the United States faces on the eve of the summit is not so much that its enemies will lure it into dangerous plans that will limit American sovereignty. It is that the collapse of the world banking system following, for example, a Brazilian default, will throw America's relations with its NATO allies into chaos before the United States can elaborate a competent program to deal with the crisis.

because it is very expensive and also because the professional military man, contrary to myth, is by nature cautious. It will also prioritize its foreign operations much more carefully than in the past, abandoning or lessening activities in areas of peripheral importance, and presenting these tactical withdrawals as important concessions which should be responded to by the West. I have no doubt that first priorities will be the Middle East and the Caribbean Basin—the Middle East because there it can most easily threaten the economic underpinnings of Western Europe and to a lesser extent Japan, and the Caribbean Basin because there it can most directly threaten the security interests of the United States at a very low cost, using its local proxies—countries, guerrilla movements, and terrorist groups. . . .

Internally, Andropov will try to apply some of the Hungarian economic reforms while applying a very repressive political and social policy.

The second topic I want to touch upon briefly today is the fact that the economic center of gravity of the world is rapidly shifting to the Pacific Basin. . . . The Pacific Basin is a huge, poorly defended, and fabulously rich prize, and it is obvious that it would be to our benefit to continue to fill the military vacuum in close cooperation with the Japanese. If this is not done, it will represent an open invitation to future international conflict. . . .

The final topic I wish to analyze is the primacy of economic factors in international relations which will probably last at least to the end of this decade. The collapse of the international monetary system between 1968 and 1972, due to a conscious decision on the part of the Johnson administration at that time to finance the Vietnam War and the Great Society programs through debasement of the world's trading and investment currency, has led to a decade and more of stagflation, decapitalization, growing insolvency, destruction of the capital markets, low rates of savings and capital formation, and violently fluctuating exchange and interest rates in most of the Western world. Cyclical downturns occurring during this period of decreasing strength of resistance have been as a result increasingly severe and dangerous, and

if the present recovery from the recession of 1980-82 remains a consumption-led recovery with little upturn on the investment and export side, resistance to the next downturn, probably around 1986, will be even weaker and less effective than before.

From the security standpoint, we must recognize that another even more severe recession or even worse, a depression, following on a weak recovery, would undoubtedly result in widespread social and political unrest, revolutions, coups, local wars, and perhaps even region-wide conflicts.

To this we must add the present international financial crisis, which could abort the recovery much earlier if not successfully handled.

the excellent analysis of Mr. Wolfensohn, which I commend to your careful attention, particularly when he points out that not just rescheduling but restructuring will be required and suggests what this restructuring might involve.

There is nothing new in all this, of course—it has happened over and over again since the industrial revolution. As one generation's technological innovations yield lower rates of return, capital is frozen and vested interests dig in; stagnation leads to collapse, unrest, and war. Then, as in 1939-43 in the United States, by main force the grip of the vested interests is broken, resources are forcibly channelled into the new technologies under the whip of the national security threat, and the new era of prosperity begins.

But unlike natural laws, social laws are not immutable. Necessary adjustments *can* be made without intervening social collapse and war. This is why the President's initiative to divert resources to the development of defensive technologies is so important. What could be a more important national security objective than freeing the Western world from the overhanging threat of nuclear conflict in a *realistic* and technologically and economically productive way.

No—social laws are not immutable. What makes them seem so is the cumulative crushing weight of little minds of weak will and no vision. What is required and what we must have is a positive vision of attainable goals, and the will to attain them.