EIR
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Marijuana lobby wins in Jamaica
Behind the flood of Israeli emigration
Critical juncture for West German growth

Mandate against Volcker economics: Will Reagan put America back to work?

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EIR

From the Editor

The election landslide of 1980 surprised the world. The American population said a loud and clear "no" to Fed chairman Volcker's tight credit policies and the austerity and unemployment that have resulted from Carter's depression economics. The voters rejected Carter's groveling before Ayatollah Khomeini, and 26 percent of registered Democrats, disgusted by Carter's last minute hostage deal pranks, came out to vote against a Democratic President.

The Reagan landslide, more than a victory for Reagan, was a rejection of the Trilateral Commission's most hated experiment, James Earl Carter. It was a mandate for a return to a progrowth perspective, and a healthy American economy. The question now is whether President-elect Reagan will fulfill that mandate.

Our cover story this week was put together by our U.S. intelligence staff, directed by *EIR*'s National Editor Konstantin George. This same group put together a special report on the elections for our July 15 issue, in which they predicted that if Carter won nomination at the Democratic convention, the Republicans would win control of the Senate and at least 30 seats in the House.

This team now examines the effects of the heavy Democratic Party losses in Congress, including a run-down on the changing committee chairmanships and what they will mean for future policy. We analyze Reagan's advisers and the factional line-up of the conservative nationalist tendency and the Kissinger Trilateral crew. We also examine the failure of the pollsters and the major media to even hint at the landslide proportions of the Reagan vote. And we reprint in full a statement by Lyndon LaRouche, chairman of the National Democratic Policy Committee's advisory board, on the meaning of the Reagan landslide and the rebuilding of the Democratic Party.

Robyn Quijano

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U.S. allies vote against Carter policy

by Renée Sigerson

It was not just the American population which turned out this week to overwhelmingly reject James Earl Carter's economic policies. In the days leading up to Carter's landslide defeat, European, Asian, Latin American, and Middle Eastern leaders wrapped up a series of economic contracts which jeopardize the major foreign economic policy goals of the outgoing administration and its allies at the Federal Reserve: to increase the powers and funding of the International Monetary Fund (IMF) as the vehicle for implementing zero growth worldwide.

Japan, Brazil, and Mexico

The most important move against Carter's pro-IMF policies came from Tokyo on Oct. 30. Following intensive negotiations with Japanese bankers and industrialists, Brazilian planning minister Delfim Netto made public that day that Japan would provide Brazil with \$1.78 billion in trade and development investments.

With this announcement, two important components of Carter's foreign economic policies were torn up: Washington's 18-month behind-the-scenes deal with the Japanese government to cut lending to Third World debtor nations, and a U.S. commitment to force Brazil to go to the IMF for debt-refinancing loans.

As the Brazil deal was being worked out, Japanese banks also announced a \$150 million loan to Mexico to finance Gulf port development. Two weeks ago, when Mexican oil industry head Díaz Serrano went to Tokyo to negotiate a broad oil for technology deal, his proposals were rejected. Up to that time, Japan's business leaders were still acting out of deference to the Carter administration.

Across the board, U.S. financial analysts had predicted that Delfim Netto would also be rejected by the Japanese and sent home empty-handed. Now the over \$1 billion financing from Japan guarantees that Brazil will meet its financing needs for this year, making a Brazil-IMF deal unnecessary.

As Brazil was finalizing the last details of the credits from Tokyo, Delfim also took off the gloves and issued a harsh denunciation of the New York-London financial networks. At a press conference on Oct. 29, he stated: "Japanese banks don't let themselves be contaminated by the cowardice which has overtaken a part of the international financial community in the face of the difficulties of the oil-importing countries."

Saudi Arabia and Japan

As underlined by New York Federal Reserve chairman Anthony Solomon at the Oct. 20 National Foreign Trade Council convention, if the Carter administration had prevailed on international monetary policy, the IMF's powers would be increased by the placing of large oil-country "petrodollar" loans with the IMF. The European, Third World and Asian industry leaders who reached this week's financing agreements are committed to "recycling" the petrodollar surplus through institutions representing sovereign governments.

This September, the IMF negotiated with Saudi Arabia for $10 billion in loans for 1981. The Saudis rejected the IMF's request, demanding instead that the IMF reassess its policy of attaching loans to debtor countries to austerity "conditionalities" which make Third World economic development virtually impossible. As reported by the Brazilian press, at his press conference in Tokyo Delfim also urged that the IMF stop trying to compete with private banks in taking petrodollar deposits. If lent by the IMF, Delfim noted, petrodollar loans would be attached to IMF "economic stabilization programs" which undercut economic growth.

While the Brazil-Japan deals were being signed, the Saudi Arabian Monetary Agency (SAMA) announced that it plans to purchase $200 million per month of Japanese bond issues, until the end of 1980. The SAMA commitment to investment in government securities, following several months of heavy Kuwaiti and Saudi capital inflows into Tokyo corporate stocks, allowed the Japanese central bank to ease up on domestic credit issuance this week.

In an oil-for-technology 15-year agreement with Saudi Arabia, Japanese firms led by Mitsubishi plus the government will now expand their financing of a 600,000-ton methanol facility at Al Jubayl in exchange for 4,000 barrels of oil per day extra, to be raised to 20,000 barrels a day in five years. This ongoing project includes 30 percent Japanese government funding, 20 percent private Japanese funding and 50 percent Saudi funding, and has been underway for many years.

On Nov. 6, the Bank of Japan lowers its discount rate charged on funds to Japanese banks by 1 percent to 7.25 percent. In December, the central banks will revise all interest rates—from home loans to trade credits—downward. This easing of credit will permit a continuation through 1981 of petrodollar recycling loans to developing Asian countries, which under Carter administration pressure had dropped to half a billion dollars in 1979. This week the Japanese government also announced nearly $1 billion in loans to Malaysia and Indonesia, both for projects which had been previously stalled under Carter administration and IMF pressure.

Iraq and France

France and Iraq also participated in the recent round of "anti-Carter" agreements. Two weeks ago, France paved the way for the consummation of a Brazil-Japan deal, by giving government guarantees to $900 million in credits to Brazil. French leaders were also instrumental in finalizing an emergency oil supply deal last week aimed at protecting consumer nations from the cutoff of Iraqi oil supplies due to the Iraq-Iran war.

Last week, Saudi Arabia's oil firm Petromin, along with Kuwait, Abu Dhabi and Qatar formally agreed to deliver to France, Brazil, and Japan any oil supplies lost from Iraq halting production. Brazil reciprocated by promising that as soon as the war ends, Iraq can make use of Brazilian oil refineries to process resumed oil output, while repairs are done on Iraqi refineries.

France has also played an important diplomatic role in negotiations which could launch India into the forefront of nations working on petrodollar deals for Third World development. The Indian government has just passed new investment regulations aimed at soliciting direct petrodollar investments for the first time.

On Nov. 18-19, West German chancellor Helmut Schmidt, who coordinates all foreign policy initiatives with French president Valéry Giscard d'Estaing, arrives in the United States for formal discussions with President-elect Ronald Reagan. It is impossible to predict how Reagan will react to Schmidt.

At the same time, however, there is no question that if Reagan decides, to any degree, to either support or at least not to obstruct, European-Arab-Third World efforts to restore world economic stability, the chances for an American economic recovery some time during 1981-82 will have been greatly enhanced.

On matters of foreign economic policy, Reagan has a great deal to learn. His advisers are a completely mixed bag. Those like George Shultz who came from the Nixon administration showed little willpower during that period to stand up to IMF and British manipulations.

Nixon himself in fact is reported to have recently observed: watch out for George Shultz (his former treasury secretary), he's too enamored of international bureaucrats.

One of the facts which Reagan's administration will have to face is that, for many of America's traditional allies, one of the lasting "achievements" of the Carter years has been that the U.S. experiment in monetarism has only served to prove to them that the policies of Milton Friedman don't work.

This was stated clearly this week in a public speech by Mexican President José López Portillo. In remarks aimed at silencing Friedman's friends in the Mexican branch of the Mont Pelerin Society, who have been attacking Portillo's defense of Mexico's nationalized industry sector, Portillo stated: "Production is the only fundamental path to end inflation. . . . We refuse to put the brakes on the economy to reduce demand in the Mexican population. The answer is in the other direction: there is no other road to fight inflation and correct the structure of the country, than productivity."

These remarks could just as easily have been addressed to U.S. Federal Reserve chief Paul Volcker.

Heimann's rationalization plan

Led by Comptroller of the Currency John G. Heimann, several planners for the lame duck Carter administration are demanding a sweeping reform of the U.S. bank regulatory agencies including the Federal Reserve System. If implemented, these programs would have the unconstitutional effect of placing the nation's central banking and bank regulation in the hands of the great multinational banks led by New York's Citibank.

Comptroller Heimann's most advanced plan is a "rationalization of the structure" of the nation's seven bank regulatory agencies, as he told the annual meeting of the American Bankers Association in Chicago Oct. 14. In a backgrounder to reporters afterward, Heimann openly called for the consolidation into one large bank regulatory agency of all seven: the Federal Reserve Board, the Comptroller of the Currency, the Federal Home Loan Bank Board, the National Credit Union Administration, the Federal Deposit Insurance Corporation, the Depository Institutions Deregulation Committee, and the Federal Financial Institutions Examination Council.

The result would be a superagency under the control of Heimann and Federal Reserve chairman Paul Volcker, and responsive solely to the pressure of the major U.S. multinational banks. The major purpose of the rationalization is to eliminate the influence of the broad constituencies of the present regulatory agencies.

The nation's 5,000 smaller savings banks and savings and loans, for example, currently have a strong voice in federal policy regarding savings, mortgages, and home building through their regulator, the Federal Home Loan Bank Board. Even the limited moves made to subordinate the FHLBB to the Fed and Comptroller's office under the deregulation bill, however, have already significantly "limited the voice" of the thrifts in their own regulation, Ira L. Tannenbaum, a deputy counsel of the FHLBB, charged last month. The thrifts are disturbed at the extent to which the Depository Institutions Deregulation Committee (DIDC), created under the dereg act and dominated by Heimann and Volcker, has "harmed savings and loans, which are outnumbered and overpowered by the larger commercial banks and other institutions" in dealing through the DIDC, Tannenbaum said.

In his speech, however, Comptroller Heimann lauded just this tendency of the DIDC and its companion Financial Institutions Examination Council to centralize all regulatory power. He called for "moving beyond" them to "a framework which provides for equal regulatory treatment of equal players" including the savings institutions, a "rationalization of the structure" into "either of two basic options which have been proposed, a single agency or separate agencies for federally and state chartered depository institutions."

The new super-regulatory agency, Mr. Heimann added, would conduct significantly *less* regulation of banks overall. That is to say, it would act mostly as a policy center for Citibank and Chase, which seek total deregulation of U.S. banking for their own freedom of movement throughout the country to pick up deposits. He denounced the current regulatory system as "utterly pervasive" and called for regulation overall to be significantly reduced.

Streamlining the Fed

House Banking Committee chairman Henry Reuss (D-Wis.) has meanwhile called for a much more ambitious, if long-term, proposal of "streamlining" the entire Federal Reserve System—to replace it completely with a private-bank-dominated national payments system.

Congressman Reuss last month wrote a letter to the Congressional General Accounting Office requesting a prompt GAO study on "the future of the Federal

Reserve System. Is the vast Federal Reserve bureaucracy that has developed still needed to serve the essential functions of a central bank?" Reuss asks, baldly.

Reuss specifically makes the unconstitutional suggestion that the government's central bank clearing function be turned over to such private clearing systems as the New York banks' Clearing House International Payments System (CHIPS), thus shutting the nation's smaller banks out from all effective service. "Could its [the Fed's] vast clerical and check-clearing services be carried out better by the private sector, where competition would produce cost saving efficiencies?" Reuss writes.

It is the constitutional obligation of the Federal government to provide the nation's economy with central banking services, including credit creation, backed by the obligations of the U.S. government. Surrender of so large a part of this service to a cartel of private banks, such as the top 12 New York banks who own the private CHIPS system, is clearly against the national interest.

Reuss also echoes Comptroller Heimann's calls for regulatory streamlining, and supports the kind of super-regulatory agency which would be primarily responsible to the larger New York banks. He calls for the flat shutdown of some of the Federal Reserve's bank regulatory functions altogether, on the logic that the regional Federal Reserve banks are "too responsive to local bankers' needs," as a Reuss aid told *EIR*. Reuss asks the GAO to investigate whether the Fed's bank regulatory functions could not be transferred altogether to the Comptroller of the Currency or perhaps the Federal Deposit Insurance Corporation.

RIP

One of the most overlooked but far-reaching rationalizations of the U.S. bank regulatory system is now being conducted by Federal Reserve Board vice-chairman Frederick Schultz, Chairman Volcker's number-two man at the Fed, under the title "Regulatory Improvement Project." RIP, as the acronym implies, has ominous implications for the banking system. Its basic aim is to vastly accelerate banking deregulation by removing as many protective regulations as possible through internal Fed Board review without recourse to congressional authority and without banking constituency influence.

The Fed's "Report to Congress" of Sept. 30, 1980, on RIP defines the program as "a zero-based review of all existing Federal Reserve regulations under criteria embodied in the Regulation Simplification Act," Title VIII of the Deregulation Act, requiring streamlining of Federal financial regulations. Under it, every one of the Federal Reserve act's 25 regulations on monetary policy and banking are being cut to bare essentials.

This columnist is all in favor of cutting the Fed's volumes of red tape and paperwork, but not at the expense of the health of the banking system.

For example, under RIP a major loophole has been cut in the McFadden Act protection against interstate branch banking, through RIP revision of the Fed's Regulation K on International Banking. Reg K, which governs Edge Act branches, those branches authorized to do only international lending and take only international deposits, has been "simplified . . . to eliminate the requirement for separate incorporation of each Edge Act office," the Board reports, "with the result that Edge Act services should be made available in cities that never had them before."

The practical effect is that the multinational banking giants such as Bank of America can now proliferate at little expense their Edge Act branches throughout the country, competing for international business with local banks whom they can drive out of the market. This has strategic significance since the Fed's next planned "revision" of Reg K will be a "liberalization" of the *kinds* of lending done. By the end of the year, the Fed is expected to allow Edge Acts to lend not only for foreign transactions, but to all phases of purchasing, manufacturing, and other loan business of any company involved in foreign trade. This will make large segments of *domestic* banking business of local banks prey to multistate giants like Bank of America.

In addition, in the cited memo the Fed Board requests a sweeping mandate from Congress to remove itself from Fed regulation to allow the Board to change regulations at will without legislative interference. It requests that Congress, for example, "legislate by announcing regulatory goals, rather than by specifying details in the statute; give the Board greater freedom to differentiate between large and small institutions; leave the matter of reports solely to Board discretion wherever possible; [and] allow the Board to extend statutory deadlines for new laws."

In particular, the Fed requests Congress freely "*permit deregulation experiments* . . . to suspend the operation of a regulation for a limited period of time as an experiment." Given Chairman Volcker's commitment to cutting up protective interstate banking regulation, any such Congressional blank check could have enormous implications. Edge Acts, for example, as is already the Fed's clear intention, could be turned "experimentally" into full-fledged interstate branches with the right wording of Regulation K, effectively wiping local banks out of any export-related business in their areas.

Incoming Senate Banking Committee chairman Jake Garn, Republican of Utah, is expected to take a hard look at this.

Domestic Credit by Richard Freeman

High rates and a cold economy

Despite the claims of some Wall Street analysts, the economy is not really 'heated up.'

The announcement that six-month Treasury bill rates had risen to 13.269 percent on Nov. 3 confirmed in most market analysts' minds that interest rates will continue to rise. A week before, the same six-month Treasuries, dated for maturity Nov. 6, 1980, were selling at 12.28 percent. By Nov. 3 their price was marked down 6¾ points from par.

The affirmation of an interest-rate run-up continued when former Treasury Secretary William Simon, now adviser to President-elect Reagan, stated Nov. 3 that "I wouldn't be surprised to see a prime of 15 or 16 percent soon." It is an open secret that Federal Reserve Board chairman Paul Volcker will soon raise the discount rate from its current level of 11 percent to 12 or 13 percent.

But the common interpretation given to the interest-rate increase is misleading. Most market analysts are saying that the economy is "heating up" again, and such indicators as the surge in commercial bank commerce and industry loans to corporations, punctuated by the $359 million increase for the latest reporting week, are said to be pressing rates upward.

Other evidence for the "heating up" includes the 4.8 percent increase in new factory orders for September, fed by a large increase in military procurements, and the fact that auto sales for the Big Three carmakers dropped by only 7 percent during October.

Yet the economy is not "heating up." On the contrary, corporations are just exercising their need for a 10 to 15 percent credit expansion to cover debt refinancing and the rate of inflation. When the credit for inventory financing is added in, corporations are treading water, making no growth headway.

Moreover, before production levels can be significantly increased, corporations must first dispose of backed-up inventory. During the third quarter, inventories were drawn down by the annualized amount of $17.9 billion, following an $11 billion annualized buildup in the second quarter. However, when compared to sales in real terms, inventories are still heavy on the shelves.

The manufacturing inventory-to-sales ratio for the third quarter was estimated to be 1.67 in real terms, compared with 1.71 in the second quarter, and 1.60 in the fourth quarter of last year. Thus, the real ratio stands 4.5 percent higher than in the fourth quarter of 1979.

Not only are there inventories to liquidate, but the U.S. economy faces another obstacle to regaining production levels: sagging export sales (see Foreign Exchange for a trade analysis).

Indeed, far from exhibiting "heating up" or incipient recovery, GNP figures show the U.S. economy to be going nowhere in a hurry. GNP, because it measures speculative hot-air economic activities along with productive economic activity, has a tendency to shoot up if there is even a hint of economic activity. But as a recent Manufacturer's Hanover newsletter notes, whereas GNP fell by $36 billion in the second quarter, it only recovered one-tenth that amount, or $3.5 billion, in the third quarter.

Indeed, if interest rates do head into the 15 or 16 percent range, the wobbly U.S. economy will find itself in no shape to confront such a situation. No economic recovery takes place at such interest rates, nor has one ever occurred. Consumer credit makes up two-fifths of total consumer expenditures, while consumer expenditures account for two-thirds of GNP. Consumer credit will dry up entirely at such interest rates.

On the private manufacturing side, the outlook is equally grim. According to Commerce Department official figures, new plant and equipment expenditures for manufacturing were $87.25 billion in the third quarter of this year, unchanged since the first-quarter level of $87.32 billion. When inflation, inventory, and capital adjustment allowances are taken into account, the level of plant and equipment expenditures can be seen to have fallen.

With no head of steam under capital expenditures, it is impossible for corporations to rush to purchase each other's capital goods when they will have to pay 15 to 16 percent bond rates to finance such purchases. A new hike in interest rates will push the economy toward a steeper level of collapse than the second-quarter production drops of this year.

Agriculture by Susan B. Cohen

Behind the food crisis scare

It comes from Malthusians like Hunger Project members, not from productivity boosters.

A recent rash of headlines predicts food shortages for 1981. "World worry," headlines the *Wall Street Journal,* "Food shortages feared in 1981. . . globe's appetite is growing faster than its output." "Global grain shortage feared," blares the *Los Angeles Times.* Farm prices will zoom, food prices will explode, say experts ranging from Washington agriculture consultant John Schnittker to the Brookings Institution's Fred Sanderson; we will witness a bitter confrontation between producers and consumers as the world's population scrambles for grain.

The common point of reference for all the scenario-mongers is the 1972-74 crisis, when the price of wheat tripled, Americans boycotted high-priced meat, and the Sahel drought and a shortage of supplies caused famine in Africa. Are we headed for a replay?

To consumers watching steady food price rises and reading the daily papers, it seems plausible. After all, nearly 20 percent of American corn and soybean crops were destroyed by heat and drought this year.

A review of the relevant facts shows that a food-crisis hoax is being deliberately concocted, in order to launch a new, kookier and more destructive round of the Club of Rome's World Food Conference operations. This one is an international campaign based in San Francisco, called The Hunger Project.

The project was launched in 1977 by Werner Erhard, the founder of the est cult, and presently claims more than a million and a half members in 22 countries. Dr. Peter Bourne, who left his official Carter administration position after two drug scandals, is a member of the project's board. The group is dedicated to "encouraging individuals to think about hunger and to cultivate their feelings about hunger."

The cries of alarm have no statistical basis. Take wheat and rice, the basic food grains. The United States this year produced an absolute record crop—at about 64 million tons—that will readily accommodate increased domestic use and increased exports to leave year-end stocks slightly higher than last year at 25 million tons.

Wheat production outside the United States, at about 375 million tons, is higher than last year. Western Europe has a bumper crop, and, together with the U.S., will compensate for expected crop shortfalls due to drought in Australia and Canada. Year-end stocks worldwide, amounting to about a two-month supply, will be slightly lower than last year.

The picture for rice is even brighter, with record world production leaving a 24-million-ton stockpile at year-end, slightly greater than current carryover stocks despite increased consumption.

Coarse grain—feed grains like sorghum and corn—was hurt this year, especially in the United States. The U.S. production shortfall of about 40 million tons, coupled with a projected increase in consumption worldwide, will lower year-end stocks by almost 30 percent to about a one-month supply, despite increased production outside the U.S.

What we are dealing with is a relative decrease in carryover stocks, those stocks left at the point the 1981 harvest begins, and not a decrease in supplies relative to demand during this production year. In order to be in the kind of trouble the crisis-mongers are predicting, we would not only have to have another crop shortfall in the U.S. equal to this year's, but another Soviet and Chinese crop shortfall as well, combined with another year of even worse drought problems in Canada, Australia, and Argentina. Even then, we would still have a chance to make one more harvest before being forced to cut back livestock feeding, and therefore meat consumption. Only then would food grain supplies be threatened directly.

I draw this out, not to defend the status quo in regard to food production capacity, but to emphasize that our scenarists have concocted a phony argument. In fact, there is an immediate danger to global food supplies: a U.S. farm policy and Federal Reserve credit squeeze that is driving the most productive farmers in the world into bankruptcy, while preventing underdeveloped countries from building a viable farm sector. But that sort of consideration does not fit into the new hunger-crisis scenario.

Foreign Exchange by David Goldman

'Strong dollar' is really overvalued

It was rising even before Nov. 4—in disregard of the trade fundamentals.

The dollar's rise the day after Ronald Reagan's victory simply confirmed for many the perception that the dollar is the hot currency for the near term, a formula making the rounds weeks before the election as the dollar gained 7 percent against the deutschemark in little more than a month. Currency traders claim that the dollar will appreciate further in the next few months.

This view was summarized in the Nov. 1 issue of the London *Economist,* which stated that the moment the British government releases the Minimum Lending Rate from its artificially imposed level of 16 percent, the move into the dollar will be further enhanced.

"American, Arab and other foreign investors who made juicy profits by investing in sterling via British equities and gilts are said to be thirsty for more," states the *Economist,* "but can they really expect to go higher still? . . . If interest rates in America remain high when British rates eventually fall, much of the hot foreign money now coming into London could leave for Wall Street."

This thinking has helped push the dollar up against the mark, as well as to a 4.40 French franc rate and a 1.74 Swiss franc rate. However, in making these heady assessments, most of the currency traders have overlooked for the time being the fact that America's crossrates are linked to its trade performance. And the U.S. is becoming increasingly dependent on manufactured imports. No economy so dependent is viable.

America's increasing import dependence became strongly apparent during the first six months of this year.

Adjusted for inflation, U.S. imports in the first six months of 1980 actually fell by 5.9 percent on an inflation-adjusted basis. Yet two items stand out: U.S. capital-goods imports rose by 10.5 percent on a real basis, and U.S. consumer goods rose by 9.6 percent.

A relevant comparison is the behavior of American capital goods imports during the 1974-75 recession years, when under comparable economic conditions, American capital goods imports fell by 7 percent. The difference between the two periods is accounted for by a shift in the American economy.

In short, the United States, particularly in the Northeast, where much industrial plant and equipment is increasingly obsolete if not decrepit, finds that it can no longer efficiently produce capital goods and consumer durables with a high value-added component. This is the crisis dodged by those who want to phase out basic industry under the rubric of the "sunset" industries. Unable to compete with West European or Japanese imports, or to produce large enough volumes of capital goods for American consumption needs, the United States has been forced to import these capital-intensive goods.

Hence the future difficulties for the dollar. If the conditions leading to high levels of U.S. exports are removed, one cannot assume that the United States will be able to lower, as compensation, its level of imports.

The level of import dependence means that even as the U.S. enters a second-dip recession, it cannot dispense with its imports. This means a widening U.S. trade deficit.

The third-quarter improvement in the merchandise trade gap announced Nov. 6 reflected the recession and the decline in oil imports, but for the first three quarters, non-oil imports rose 12 percent, with capital goods showing the biggest increase. Led by a spectacular increase of exports to Europe of 43.4 percent for the first half of 1980, overall U.S. exports rose by 28.1 percent—17 percent on an inflation-adjusted basis. The conditions leading to this export boom included a low dollar rate, a recession that forced U.S. industries to push for export sales, and a European economic expansion that opened Europe's markets wider to American goods.

Those conditions began evaporating as Europe began to move toward recession and the dollar was artificially appreciated as of August by the Fed's rising interest rates.

In August, the U.S. export level was flat on a real basis; and in September, exports fell by 2.1 percent from last year's levels. After adjustment for inflation, not yet available from the Commerce Department, the September range of decline will be 12 percent.

Will the GOP victory boost gold?

Reagan's advisers don't like the idea, but European pressure will be substantial.

One of the most important questions Ronald Reagan will have to deal with in the first year of his administration is whether the United States should reverse its policy of opposing gold remonetization. A little-known amendment, passed by Congress last month as part of a bill authorizing funding for the International Monetary Fund, compels the White House to come to grips with the issue.

The rider, sponsored by progold senator Jesse Helms (R-N.C.), directs the Executive Branch and Congress to establish a special commission to study gold's role in the monetary system and make recommendations on U.S. policy. The new treasury secretary will chair this commission, which is required to issue a report by next October.

At first glance, the prospects for a major public shift appear slight, since Reagan has surrounded himself with many of the same people who helped engineer the delinking of gold from the dollar in the early 1970s (see article page 48). Much of Reagan's conservative constituency favors gold remonetization but one of its principal spokesmen, economist Arthur Laffer, was bounced as a Reagan adviser late in the campaign.

Moreover, Laffer's widely-publicized "blueprint" for restoring dollar-gold convertibility was incompetent, because it represented gold remonetization as something which could be undertaken by the U.S. unilaterally—regardless of the views of America's Western European and Japanese allies. The European Monetary System (EMS) did not exist as far as the Laffer proposal was concerned.

The EMS represents a major step toward remonetization of European gold reserves. Unlike the Laffer plan, the EMS does not attempt to restrict the availability of credit but to restore confidence and stability to an important segment of the world credit system.

Reagan's gold policy, as well as his international economic policy generally, may depend heavily on the outcome of his consultations with West German Chancellor Helmut Schmidt, who will visit the U.S. this month. Reagan and his advisers will probably be searching for ways to mend fences with Western Europe, following a serious deterioration of relations under Carter.

This makes it unlikely that Reagan will follow through with the extreme monetarist scenario suggested by some Wall Street analysts, who expect, on this basis, that gold will fall through the floor. James Sinclair, a founder of the New York-based precious metals firm, Sinclair and Company, is projecting an initial runup in the gold price between now and January to $700 an ounce or more, based on Soviet efforts to consolidate their geopolitical position prior to Reagan's inauguration.

After that, gold could decline sharply to around $500, or even $400 in a "worst case" scenario, because of a tight domestic monetary policy. This would be expressed in two interest rate peaks, one early in 1981 and a second "surprise" interest rate jump in the spring, causing an even more severe U.S. recession.

Although many of Reagan's present advisers would no doubt favor such a scenario, it seems an unlikely outcome for many reasons—not least, the fact that Reagan's victory rested heavily on his attack on Carter's economics and the false notion that depression is a solution to inflation.

A further runup in dollar sector interest rates would wreak havoc with European currencies and prevent West Germany from lowering its own rates, precluding an early recovery in the Western European economies.

Moreover, the EMS central banks would never stand for a drastic reduction in the international gold price, since gold has become a major component of their reserves and an important source of liquidity to the weaker European economies, such as Belgium and Italy.

During the summer, gold purchases by leading Western European central banks prevented the gold price from slipping below $600. The central banks can be expected to swing into action again if gold comes under pressure. In short, Reagan will have to listen very carefully to what Helmut Schmidt and France's Valéry Giscard d'Estaing have to say on economic policy if he is not to risk another open break on a par with the Carter administration.

Transportation by Steve Parsons

Short road to the junk heap

America's highways aren't being maintained—the Eisenhower system has broken down.

In the 1950s, the housing stock of major U.S. cities was allowed to collapse as part of a deliberate policy of urban depopulation, creating the basis for massive real-estate boondoggles in the 1970s.

America's highway system is now similarly designated for the junk heap. The state of repair of our highway system is a national disgrace. It is estimated that whole areas, already abandoned by the railroads, will become "critical service" areas by the end of this decade if the state of highway disrepair is not soon remedied. The only good highway systems left in America (or ones designated to be repaired) are the ones leading to areas targeted for low-wage synfuels development, such as in Colorado, Wyoming, and Montana.

Efforts to restore health to the highway system have been consciously sabotaged, again and again, by the federal government, which has successfully played the Highway Department off against the mass transit lobby. Both are forced to compete for the same scarce federal monies.

The scope of the mobilization needed has a precedent in the Eisenhower administration. By 1952, the nation had radically outgrown the relatively good but limited highway system on which efficient transport depended. The surge of growth of exports, and the sheer mass of goods needed to meet internal demand, placed impossible strains on the transportation network, especially the highways.

As a result, in 1956 President Eisenhower undertook a commitment to make America's highway system the "best in the world." Over a 20-year period, 40,000 miles of high speed roadways including the now famous interstate highway system were built, providing efficient links to nearly every urban center in the country.

Eisenhower's program was financed by state and federal highway taxes and the creation of a special highway trust fund.

Since 1970, however, these mechanisms have been allowed to fall into a state of severe neglect. The Highway Trust Fund is operating at barely two-thirds of previous levels of funding in constant dollar terms, experiencing a 27 percent drop since 1967.

Revenue from what was once the fund's staple source, the 4 cent federal excise tax on gasoline, has fallen to effectively one-half of its level in 1967. With gasoline prices tripling since 1973, and with more fuel efficient cars, highway traffic has stagnated and gasoline consumption has dropped—cutting deeply into the fund's revenue.

It is no exaggeration to say that if capital investment funds are not forthcoming at several times current levels, roadways across the country will soon resemble those in New York City, famous for their cavernous potholes and near flooding during even a drizzle. The U.S. highway system is not only aging—it is decaying at an accelerating rate.

Although road quality in the primary system has generally remained stable, in just three years, from 1975-1978, the amount of interstate roadway classified as poor more than doubled. The real dilemma is that there is little prospect for capital allocations to be increased anywhere near required levels.

Inflation is one major factor.

The decline is actually far greater than indicated here, because inflation for highway construction has been nearly twice as great as inflation for finished goods generally. Some circles, the National Right to Work movement, and independent, nonunion contractors blame this on labor. But the facts tell differently.

In 1978 and 1979, for example, the bid price index for highway construction rose by a compounded 42 percent, versus a finished goods inflation rate of less than 20 percent. The difference is due primarily to the heavy use of petroleum-related products in highway construction.

At current costs, funding allocated for highway maintenance and repair would pay for only about 750 miles of road restoration at best, and that assumes that states would provide 25 percent in matching funds. With about 10 percent, or 4,000 miles, of all Interstate highway and bridge surfaces in immediate need of repair, that would fund less than 20 percent of what is currently necessary, let alone depreciation. Moreover, highway maintenance in no way substitutes for major capital repair.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$150 mn.	Mexico from Japan	Port at Altamira Industrial Complex will be built by Mitsui and Co., Mitsui Real Estate Construction Co. and Mexico's Dein S.A. Port is core and first step of new city to be built around projected 5 mn. tons per year steel complex on Mexico's Gulf coast near Tampico.		Contract signed Nov. 5 with Mexican Transport Ministry.
$500 mn.	Indonesia from Japan	Japan is now ready to give Indonesia credits for expansion of Cilacap and Balikpapan oil refineries, visiting Japanese trade minister Rokosuke Tanaka announced in Jakarta.	Japan's Exim Bank	
$600 mn.	Malaysia from Japan	Japanese govt. officials are in Malaysia this week negotiating Japanese financing of $600 mn. urea fertilizer plant to be built in Sarawak by Malaysian state oil company, Petronas. This is one of 5 large industrial projects whose financing was committed by Japanese P.M. Takeo Fukuda to Association of Southeast Asian Nations in 1978.	Probably Japan's Exim Bank	
$13 mn.	France from U.S.	Joint venture to assemble in France drill pipe fitted with tool joint extensions. Hughes Tool Co. of Houston will associate with Vallourec so that Hughes "will gain added market penetration in French-speaking countries and in the Eastern hemisphere," according to Hughes.		
$80 mn.	Brazil from U.S.	Locomotives for Brazil's electrified railroad expansion to be supplied by General Electric of the U.S. and GE of Brazil in equal shares. The entire operation is being financed by a consortium led by Chase Manhattan.	$40 mn. for 4 yrs. at 1.125% over LIBOR; $40 mn. for 8 years at 1.5 percent over LIBOR.	GE's and Westinghouse's Brazilian locomotive production at 24 percent capacity.
UPDATE				
$1.78 bn.	Brazil from Japan	Entire financing package listed as "hoped for" last week was signed. This includes aluminum complex, first stage of which entirely financed by Japan with $264 mn. capital, and $616 mn. credits. Surprise addition was $500 mn. bank loan for Petrobras. Most loans are partly tied to purchases in Japan, and partly open financing. Negotiations also advancing on Japanese purchase of 13 mn. tons per year iron ore, which makes $2.8 bn. Carajas project viable.	Petrobras loan from 8 banks at "normal market terms," probably 1.5% over LIBOR for 8-10 years; Petrobras credit from Eximbank is purchaser's credit.	Japan will buy all aluminum at 94.88% of market price. Project negotiated since 1976.

Science & Technology

Carter policy challenged on breeder reactor

by Vin Berg

On the tenth of November, a special task force operating in secret under the Carter White House and the National Security Council will report to the President on how he can kill the fast breeder reactor, despite the overwhelming clamor for its development. Idaho Senator-elect Symms is credited with disclosing the existence of a secret NSC memo to that effect, and the formation of the task force to carry out the project-termination order immediately after the general presidential election.

Carter had hoped that the International Nuclear Fuel Cycle Evaluation (INFCE) study issued at the end of February in Vienna, Austria, would advise against breeder reactor development in the name of "nuclear nonproliferation." Instead, the 66 nations and five international organizations that participated in that 2½-year study—at Jimmy Carter's request—repudiated his policy by proclaiming the breeder essential to the future of nuclear power.

In response, Carter and National Security Adviser Zbigniew Brzezinski have moved stealthily against the breeder program in the United States anyway. Whether Carter's electoral loss, or "transition" activity by the incoming Reagan administration, will now deter the "lame ducky" forces in the White House remains to be seen.

The breeder's potential

The United States will not have adequate energy supplies in the near future, and cannot experience the economic benefits of growing nuclear exports, unless the nuclear fuel cycle is closed through two actions required of the President and the Congress.

• Construction of facilities for reprocessing of spent nuclear fuel, now 75 percent complete in Barnwell, South Carolina, must be completed now, while planning, siting, and construction of additional facilities are gotten under way.

• The development of a commercial plutonium fast breeder reactor at Clinch River facilities in Tennessee, delayed in the same April 1977 presidential order that halted Barnwell construction, must proceed on the basis of an upgraded timetable and quality of design.

Without the combined application of reprocessing technology and breeder reactors, the world's nuclear industry in little more than a decade will grind to a halt as it intersects the resource limitations inherent in existing nuclear technology. At present, the light water reactors in use in the United States depend on that small amount of naturally occurring uranium-235 that makes up the nuclear fuel component in world uranium ore reserves; it will be gone shortly after 1990, even if there is no significant increase in nuclear power use.

This does not mean, however, that nuclear energy is doomed to an early demise. At one time, there were other naturally occurring fissionable isotopes that could have been used as a fuel, for example, U-233 and plutonium-239 (Pu-239). Their half-lives, however, were shorter than that of U-235, and they decayed away long before mankind appeared to make use of them. But they can be *recreated* today using the neutrons generated by fission reactions.

One method for obtaining these isotopes involves reprocessing of spent fuel. In a light water reactor, fission reactions in U-235 fuel gradually produce Pu-239, so that when the spent fuel is removed from the reactor, it contains some leftover U-235, the more common U-238, and the newly produced Pu-239 which can be extracted and refabricated into new fuel.

In short, what is commonly thought of as "nuclear waste" is not waste at all. As much as 96 percent of spent fuel can be reprocessed and recycled back into reactors as new fuel. Put differently, when President Carter ordered a halt to the Barnwell, South Carolina reprocessing facility, he reduced the fuel resources available to the nuclear industry by 25 times, increased the sheer volume of what is designated "nuclear waste" by 25 times and ironically, later refused to make a decision about where this "waste" was to be buried. Over the 40-year lifetime of a single 1,000 megawatts-electric nuclear power plant, this comes to the equivalent of more than 130 million barrels of oil or 37 million tons of coal.

There is a second method of obtaining new fuel: fast breeder reactors. This new technology, now being aggressively developed in other nations, three of which, Great Britain, France and the Soviet Union, are ahead of the U.S., is even more efficient than reprocessing methods applied to light water reactor spent fuel.

The fast breeder reactor is a more advanced or "next generation" nuclear fission power reactor which operates in similar ways to current light water reactors. But the breeder has two important advantages.

First the fast breeder reactor has a much higher power density. Its use of higher-energy neutrons, called "fast" neutrons, permits a much more efficient fission process for electricity generation. Second, the breeder reactor is able to actually create or "breed" new fissionable fuel. What distinguishes the breeder from other reactors that also convert fission products back into fissionable fuel is that the breeder reactor actually "breeds" more fissionable fuel than it burns up in the course of its operations.

In the Clinch River design, the breeder's fast neutrons provide a large, high-energy neutron flux that escapes the core region and is captured in an adjacent "breeding blanket" composed of uranium-238, which makes up 99 percent of uranium ore reserves. The interaction of fast neutrons with U-238 produces Pu-239, the excellent fissionable fuel that no longer occurs naturally.

Thus, one breeder reactor, producing more fuel than it consumes, can not only keep itself going but provide enough fuel for another breeder or light water reactor. In some second or third generation designs, one breeder will produce enough fuel to fire three or even four additional reactors. On the basis of existing reserves of naturally occurring U-235, the breeder reactor will increase available nuclear fuel supplies by 70 times!

The importance of breeder technology to a world confronting limited uranium supplies could not be more obvious.

Weapons proliferation

The nonproliferation argument has been used by the National Security Council to prevent export of even light water reactors to Third World nations. Four percent of their spent fuel is Pu-239, the material used today in nuclear bombs.

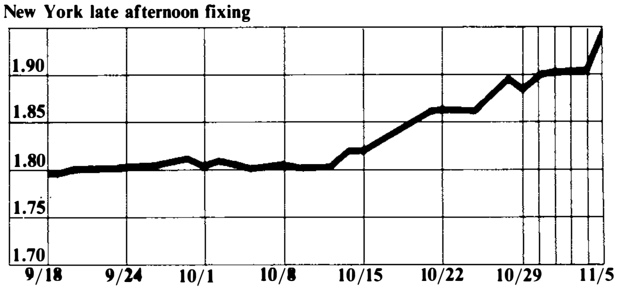
The possibility of plutonium diversion to weapons applications is very small, because such diversion is extremely uneconomical in light water or breeder reactors *that have not been designed to produce bomb material.*

An enormous outlay of funds, skilled manpower, and special equipment is required. The radioactive plutonium-bearing fuel can only be handled by remote operations in sealed and shielded cells and containers. The chemical processing operation to extract Pu-239 would require skill in the remote-operation chemical processing technique that produces a plutonium oxide or nitrate compound.

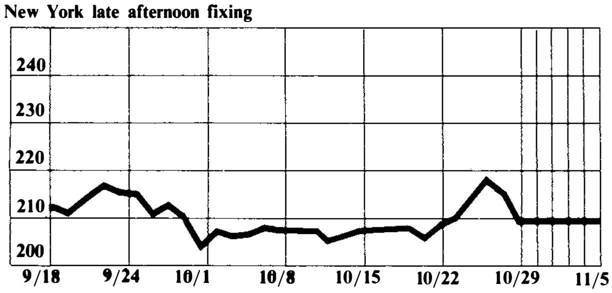
Since this is well known among specialists, the "nuclear proliferation" argument against nuclear exports and breeder development is raised principally by those who either seek to prevent underdeveloped nations from obtaining nuclear technology for peaceful economic development, or to undermine the export basis of advanced nations' nuclear industries.

Currency Rates

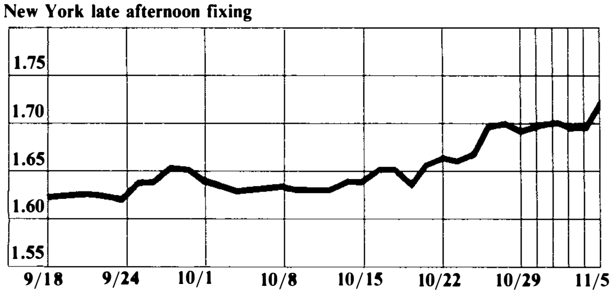
The dollar in deutschemarks
New York late afternoon fixing



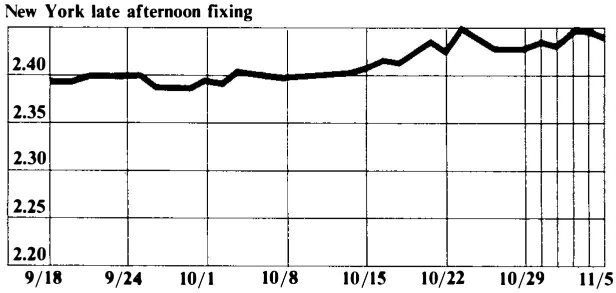
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Business Briefs

Agriculture

Yeutter hedges on Reagan embargo policy

Clayton Yeutter, president of the Chicago Mercantile Exchange and former assistant agriculture secretary in the Nixon and Ford administrations, has been chosen by Ronald Reagan to chair the President-elect's Agricultural Task Force to plan the transition to the new administration. Other task force members include former agriculture secretary Earl Butz.

Yeutter, a leading candidate for Agriculture Secretary in the Reagan administration, this week cautioned that lifting the Soviet embargo—a campaign promise made by Reagan—would have to be a presidential decision that involved an "intense evaluation" of future U.S.-Soviet relations and a careful determination of "how and when."

U.S. Economy

Industry, trucking contract as rates jump again

The U.S. Steel Corporation announced Nov. 5 that due to the collapse of steel orders, it has decided to postpone the building of a new, fully integrated steel plant in northeastern Ohio until the late 1980s. On the same day, Chrysler, despite improved sales of its new K-cars, said that it will close three plants and lay off 10,000 more workers next week.

Also on Nov. 5, the money center banks, led by Chase Manhattan Bank, raised the prime lending rate to 15.5 percent. This widely expected move was immediately precipitated by the tightening of credit by Federal Reserve Board chairman Paul Volcker. By Nov. 6, Volcker had pushed the federal funds rate—which are reserves traded overnight by banks—to an opening of 15⅛ percentage points, which would justify a 16 or 16.5 percent prime.

On top of this, the American Transportation Association predicted this week that truck tonnage would fall by 10 percent for 1980. This is attributed both to the collapse of the U.S. economy and the adverse effects of trucking deregulation. The high interest rates will hurt the heavily consumer-product oriented trucking industry.

Gold

Teheran's friends finance war effort

Since the U.S. Treasury froze Iran's assets in banks a year ago, the Iranian regime has become increasingly dependent on gold as a source of finance, London gold dealers report. According to Reuters, London dealers expect that if the freeze is lifted as part of a deal on the hostages, Iran will use much of the formerly blocked dollar deposits to purchase more gold to finance its war effort.

"Some dealers speculate that Iranian reliance on the traditional international monetary system will have been severely eroded and a significant part of the assets freed could well go towards gold purchases," Reuters states. "Given the background to the assets saga, the obvious market for future Iranian gold purchases would be London and Zürich. Dealers would expect Iran to move home most gold purchased. If at some stage, however, Iran needed to raise finance to aid its war-torn economy, it could well leave some gold in Europe to be used as loan collateral."

Meanwhile, an Oct. 31 analysis by *Financial Times* columnist David Marsh highlights the extraordinarily "cordial" relationship which has been maintained between the Bank of England and the Iranian central bank, Bank Markazi, throughout the entire hostage ordeal. Since the seizure of the hostages, Bank Markazi has transferred back to Iran 46 tons of gold that had been stored in the London and Zürich gold trading centers. About 29 tons were brought back from London, the great bulk of which, it is believed, was lodged with the Bank of England.

According to Marsh, Ali Reza Nobari, the governor of Bank Markazi, "is thought to have made at least one visit to London since the asset freeze to discuss the affair with the Bank. His remark last December that the Bank of England was on Teheran's side caused some red faces at Threadneedle Street—it was reported on the same day that Mr. Cyrus Vance, then U.S. Secretary of State, was in London seeking help with the blocking action." Mr. Nobari was also a guest at the Basel-based Bank for International Settlement's 50th anniversary lunch in June.

Marsh also reports that senior gold dealers in London and Zürich do not believe that Iran has actually sold much of its gold so far to finance arms purchases. Some sources suggest that Iran might already be using its gold holdings as collateral for loans but, Marsh notes, "This type of operation, however, would require Teheran to hold gold stocks outside the country as physical backing for any loan—and it also begs the question of whether Iran has any friends left to provide such assistance."

Banking

Eurodollar reserve rules tighten lending

New Federal Reserve requirements coming into effect Nov. 13 are having a tightening effect on international lending.

Under the Depository Institutions Deregulation and Monetary Control Act of March 1980, the Fed's Regulation D on reserve requirements asked of banks is being gradually modified. On Nov. 13, a 3 percent reserve requirement will be added. To borrowings by U.S. banks from the London Eurodollar and other offshore markets, no such reserve requirement presently exists. Gross borrowings by U.S. institutions from unaffiliated foreign banks, and net borrowings from an institution's own foreign offices, are subject to the requirement.

The expectation of this additional squeeze on their international lending has already caused U.S. banks to bring a significant amount of funds back to U.S. head offices in anticipation of the Nov. 13 deadline. London sources report that this has, in turn, reduced the availability of funds for lending to developing countries' net borrowings in the Euromarkets since the funds are earmarked not for borrowers but for sterilization at the U.S. Fed.

Second, from the Nov. 13 deadline on, U.S. banks will be forced to increasingly concentrate international lending *outside* the U.S., where the reserve requirement cost is not added to the already spiraling interest rates on international dollar loans. In a July 1980 memo on Regulation D and the deregulation act, Fed Domestic Monetary Policy staff director Stephen Axilrod wrote that many banks commented upon the ruling that "they might be forced to move international activities outside the U.S." Such "crowding" of the international markets into London will tighten credit, too.

International Credit

Bank of America chief to change World Bank policy?

A. W. "Tom" Clausen, the nominee to replace Robert McNamara when the outgoing World Bank president retires next June, may change McNamara's basic lending policy, according to sources close to Clausen. Clausen, now the chairman of the board of Bank of America, was chosen by the Carter administration to replace McNamara after consultation with the Reagan camp.

McNamara concentrated the World Bank's resources on the "basic needs" development approach, encouraging rural agriculture, so-called appropriate technologies, and population control through birth control and sterilization, at the expense of lending for large-scale capital improvements in developing countries.

However, according to friends of Clausen, the Bank of America chairman believes "you have to increase productivity to help" developing countries. "Alleviating poverty is, of course, commendable," said one Bank of America official familiar with Clausen's views. "But the real bottom line is that you have to raise productivity, which Clausen talks about here all the time." Neither is the Bank of America chief fond of lending for "import substitution," the World Bank's approach toward reducing capital imports by scaling down the technology level of development projects. "That concept should have gone out with the 1960s" a Bank of America official scoffed.

Clausen is also expected to tighten up on internal administration and budgeting, considered lax during McNamara's tenure.

Narcotics Traffic

Peru promises coca shutdown . . . slowly

In the face of growing international outcry and skyrocketing drug consumption among local youth, the Peruvian government has reiterated its pledge to gradually eliminate its vast coca bush plantations, which are the world's largest source of cocaine.

Agriculture Minister Nils Ericsson Correa declared late last month that "it would be irresponsible" to legalize the growing and trafficking of coca leaves as demanded by some congressmen. The politicians are responding to the fact that under the instructions of the International Monetary Fund for expanding "cash crops," Peru has been turned into a huge drug plantation employing 300,000 people (13 percent of the work force) in the direct production and smuggling of over 100 tons per year of coca.

Ericsson says that it will take 15 years to eradicate coca growing; a niggardly $30 million budget is being deployed against a traffic worth more than $1 billion per year. Furthermore, Peruvian president Francisco Belaunde Terry promises to resettle 800,000 unemployed Peruvians in precisely the jungle regions where coca is the only profitable crop.

Briefly

● **EXIMBANK** announced a major credit for Taiwan this week. Working jointly with a consortium of U.S. commercial banks, the U.S. Export-Import Bank is pulling together $1.8 billion to finance a public-utility-owned nuclear power plant in Taiwan.

● **EURODOLLAR** rates on 3-month money hit $16\frac{9}{16}$ on Nov. 6. This closes up the one-point differential between Eurodollar and Eurosterling for the moment, the two currencies which are keeping global interest rates locked into upward levels.

● **ALLAN GRANT,** the former American Farm Bureau president, expects U.S. lending to foreign nations for imports of U.S. agricultural goods to continue under the next administration, he told the *Wall Street Journal* Nov. 6. The Carter administration had planned to end the direct-loan program for most nations.

● **ORRIN HATCH** of Utah, the Republican who will chair the Senate Labor Committee, said to the *Washington Star* Nov. 7 that "there is no reason to be alarmed. I come from the labor movement. I believe that there should be labor unions. If the unions give me a chance, I think we can do good things together." An AFL-CIO spokesman commented, "We trust that Reagan will put a tight leash on Hatch."

● **DAVID ROCKEFELLER** told the Brazilian weekly *Veja* that he thinks it will be "difficult" for the Brazilian government to allow more political freedom while undergoing the austerity he demands as a major creditor.

● **THE EUROPEAN** Economic Community may have its $10 billion petrodollar recycling facility in place by this winter, EC sources announced this week.

A critical juncture for German growth

by Susan Welsh

West German chancellor Helmut Schmidt's overwhelming victory in the Oct. 5 federal elections may be expected to have given him a free rein for the next four years to continue and escalate the policy initiatives for which his regime has become known.

The opposition electoral alliance of the Christian Democratic Union (CDU)/Christian Social Union (CSU), led by its Bavarian standard bearer Franz Josef Strauss, made its worst showing in the entire postwar period, down 4 percentage points from 1976 (although with 44.5 percent of the vote it remains the largest party in the Bundestag, the federal parliament).

Yet, as the three weeks since the election have shown, Schmidt finds himself hemmed in by factional maneuverings which have tied West German political life in knots, and blunted the impetus of the Franco-German alliance for East-West détente and global industrial development.

Initiatives for creating a new world monetary system, made particularly urgent by the deepening world recession, which has begun to hit hard even the strong West German economy, are most pointedly absent. For the past three weeks of backroom maneuvering to shape the structure and content of a ruling coalition between Schmidt's Social Democratic Party (SPD) and its partner the Free Democratic Party (FDP), the chancellor has remained silent on crucial issues, cloistering himself at a holiday retreat to prepare the state of the nation speech he will deliver at the end of November.

The domestic factors that have prevented vigorous policy initiatives from Chancellor Schmidt are compounded by developments in Eastern Europe, the Soviet Union and the United States. The fall of Polish leader Edward Gierek was a heavy blow to Schmidt's "eastern policy," since Gierek was both a friend and a colleague whose work on behalf of East-West détente was crucial to the efforts of Schmidt and French president Valéry Giscard d'Estaing.

Gierek had been scheduled to visit Schmidt at his residence in Hamburg this summer just before the Polish leader was removed from power. The Polish crisis sent a chill through the Soviet Union and East Germany as travel restrictions to West Germany and cold war rhetoric increased, while

The FDP's Hans-Dietrich Genscher electioneering in Düsseldorf.

Photo courtesy of the German Information Center

Schmidt's scheduled visit to the German Democratic Republic was indefinitely postponed.

Looking westward, Schmidt perceived grimly that there would be no support forthcoming from the United States for Europe's war-avoidance initiatives if Jimmy Carter were reelected. A Reagan victory creates a new and more fluid situation in which European options for exerting leverage in the United States might be found, particularly if Henry Kissinger can be kept as far away as possible from the Oval Office.

Chancellor Schmidt's visit to the United States Nov. 18-19 will be an important determinant, since it will inform him of what openings exist in the U.S. postelection situation for reversing Washington's present commitment to East-West confrontation and economic collapse.

'Liberal' gains

There are three domestic factors principally shaping the current political embroglio in Bonn.

First, the fact that the FDP, Schmidt's liberal coalition partner, made surprisingly large gains, registering 10.6 percent of the vote. In the 1976 elections it received 7.6 percent, and earlier this year the FDP feared that it would receive less than the 5 percent required for membership in the Bundestag, thus disappearing from the national political scene. The FDP instead received more votes than the CSU, the party of candidate Strauss, in his Bavarian stronghold.

Second, the left wing of Schmidt's own Social Democratic Party made substantial gains, drawing votes from youth and radical environmentalists. As the *Frankfurter Allgemeine Zeitung* pointed out Oct. 9, the fact that Schmidt's SPD-FDP ruling coalition now has an increased 45-vote majority in the Bundestag will ironically make it more difficult for him to rule. The left SPD'ers will find it easier to "slip the Bundestag leash" held by parliamentary leader Herbert Wehner and vote as they wish, without bringing down the government.

This harnessing of the strengthened FDP "right," seeking greater influence over government policy, with the SPD "left," creates the conditions for virtually limitless coalition confrontation, as has already become evident in the first weeks of programmatic negotiation between the two parties.

Finally, the rousing defeat of the CDU/CSU under right-winger Strauss has generated pressures in those parties for "liberalization." The Union will adopt a more pragmatic orientation toward Eastern Europe, while pushing the slash-and-burn economic policies of the Club of Rome and Britain's Margaret Thatcher. This will make the party virtually indistinguishable from the FDP, creating the basis for an FDP-CDU-CSU coalition that would bring down the Schmidt government.

Assault by Thatcherism

Why did the FDP do so well in the elections? Is it because, as the FDP's economics minister Count Lambsdorff claims, the population has endorsed his Thatcherite "free market economy" principles? Is there a mandate for "cutting the fat" from the state budget, curtailing funds for research and development and from the nuclear industry?

The Free Democrats undermine coalition

The Free Democratic Party (FDP) is using its unexpectedly high election returns (10.6 percent of the vote in the federal parliamentary elections) to seek increased leverage over key ministries.

The Chancellor's office and the Defense Ministry are among the FDP's principal targets. The FDP seeks to install Josef Gerwald, a close friend of FDP foreign minister Hans-Dietrich Genscher, as the deputy spokesman for Chancellor Schmidt's office, replacing Armin Grünewald, a close associate of Schmidt.

"The Free Democrats intend to deprive the military people of the planning function for the Bundeswehr [army] for the next several years," reported *Der Spiegel* magazine Oct. 27. "The liberals want to remove the power-hungry generals and arms experts from making the decisions on armament and equipment in the next several years. The FDP instead wants a group of parliamentarians supported by independent experts to have the say-so. An FDP deputy said, 'Hans Apel has hard times ahead.' " Apel, the SPD defense minister, is a close associate of Chancellor Schmidt and is said to be Schmidt's choice for his successor.

Genscher wants to have an undersecretary from his party appointed to Apel's ministry, probably Jürgen Möllemann. *Der Spiegel* quoted Möllemann on the need for curtailing the power of the West German military: "The generals keep thinking in categories of materiel battles: tanks against tanks, airplanes against airplanes, ship against ship. This must cease." Said one expert from the defense ministry: "Up here everybody is fighting against everybody, and nobody knows what will come of it." Apel is said to be predicting a "dramatic debate" on the future of the Bundeswehr for early 1981.

The liberal FDP strongly favors the Atlantic Alliance and has opposed the strengthening of an independent Franco-German alliance. Any gains for the FDP over the conservative military men will surely signify a move closer to U.S. military policy, with its doctrine of limited nuclear war and "counterforce" selected nuclear targeting.

Hardly. Under West Germany's parliamentary election system, the voter does not choose the chancellor directly, but votes for party representatives, and the winning party or coalition in the Bundestag then chooses the chancellor. West Germans who wanted to vote for Schmidt but could not abide the thought of voting for the SPD, with its high percentage of environmentalists and potheads, pulled the lever for the chancellor's coalition ally, the FDP. Many voters who in the past had supported the CDU as the conservative party of German industrialists voted FDP because they could not stand the idea of the volatile Franz Josef Strauss winning the election.

The traditionalist base of the CDU has been effectively fragmented in the past year, and the party's overwhelming defeat clears the way for a total takeover by Club of Rome-linked liberals like Walter Leisler Kiep, Ernst Albrecht, and Kurt Biedenkopf. "Now that Herr Strauss has edged off the stage and returned to Bavaria, the strong Liberal Conservative faction within the CDU will clearly have its day," wrote the London *Financial Times* Oct. 27. "Should the FDP fall increasingly under the wing of Count Lambsdorff . . . then a switch of partners could become a logical possibility."

"Franz Josef Strauss as Shadow Chancellor was a last vain bid to achieve the impossible and regain power single-handedly," commented the *Stuttgarter Nachrichten* Oct. 8. "The CDU/CSU now needs a partner in any such bid. . . . The CDU/CSU has much ground to make good if it is not to be out on a limb next time around too, but a reappraisal should be possible now that Herr Strauss is out of the running as Shadow Chancellor. The Bavarian leader will have to be deliberately cut down to size by his own stablemates, however. . . ."

The adoption by every major West German party of one variant or another of zero-growth Malthusianism does not mean that the nation has accepted this philosophy. Leading industrial associations and trade unions issued urgent calls in the last few weeks to restart the nation's stalled nuclear energy program. West German steel producers are bucking the efforts of the European commission to limit steel production.

But this resistance has no institutional expression in the large political parties. Therefore the small Europäische Arbeiterpartei (EAP), which gained significantly in recognition if not in votes during this fall's election, has determined to build up its own strength in key cities during the next four years. The party is headed by Helga Zepp-LaRouche, wife of *EIR* founder Lyndon LaRouche, Jr. The EAP has vowed to expose the FDP-CDU operation, to focus the country's attention on the real alternatives to "Thatcherism" and cold war, and to replace the FDP in a ruling coalition with the SPD in 1984.

Bonn's Thatcherites assail state debt

During West Germany's federal election campaign this summer and fall, the forces opposing Chancellor Helmut Schmidt's reelection created a stormy controversy over the issue of the state debt. Inciting fears of Weimar-style inflation and state bankruptcy, candidate Franz Josef Strauss and the Roman Catholic Church joined forces to denounce the Schmidt goverment for its allegedly disastrous level of state indebtedness.

While the campaign lasted, Schmidt's coalition partners in the Free Democratic Party (FDP) kept silent on the issue. But now that the election is over, the FDP has joined the torrent of calls for drastic budget cuts, along the lines of Prime Minister Margaret Thatcher's program in Great Britain.

The opposition parties, the Christian Democratic Union and Christian Social Union, have declared that their agreement with the FDP on the debt issue will be the cornerstone of a joint policy that will lead to a shift in alliances on the part of the FDP and thus the collapse of the Schmidt government before the end of its four-year term. "The fat years are over" is the theme of the FDP and press organs close to it, like the news magazine *Der Spiegel* and the weekly newspaper *Die Zeit*. Amid predictions from West Germany's five leading economic think tanks that the economy will achieve no growth in the coming year, FDP economics minister Count Lambsdorft—a self-proclaimed advocate of Thatcherism—is demanding a restriction of state credits, particularly to research and development for nuclear energy, including the fast breeder and high temperature reactor research program. FDP parliamentarians close to Lambsdorff are demanding the dismantling of long-term basic research "hidden" in the defense budget.

Foreign Minister Hans-Dietrich Genscher, who heads the FDP, boasted in an interview to the daily *Die Welt* Oct. 24 that the campaign against the debt—and hence against the government—was really initiated by his party. The FDP spokesman in the Bundestag "was the first in a long time to draw attention to the need for limiting the expansion of the budget," Genscher declared. "Subsequently he was followed by the CDU and in the end even by the bishops' conference. But he was the one who flashed the signal in that respect. We will deal quite consistently with any realistic austerity proposal in the budget."

Genscher's mention of the bishops' conference refers to a controversial pastoral letter that was read from the pulpits of 12,000 churches in September, criticizing the Schmidt government for "sacrificing our youths' future by following a policy of inflationary public state debts." The pastoral letter was seen as an endorsement of Schmidt's opponent Franz Josef Strauss. Shortly thereafter, Archbishop Josef Höffner endorsed the policy of zero growth, denouncing in particular the development of nuclear energy as a "cancer that threatens to engulf all of God's creation."

Chancellor Schmidt responded by changing unwarranted interference by the Church in political affairs. "I don't see anything about state indebtedness in either the Old or New Testaments," he said.

In a major interview to the *Kölner Stadt-Anzeiger* Aug. 7, Chancellor Schmidt elaborated his view of the debt question:

> To begin with, it is absolutely normal that the state contracts credits for its investments. It is just as normal as if an industrial enterprise building a new, large installation obtains credits for that purpose and later services these credits. . . . The bigger the company grows, the greater become the credits the company obtains; this is absolutely normal. . . .
>
> I must draw attention to the fact that the Federal Republic of Germany in this respect is in one of the best situations in the Western world. Only Switzerland is in a similarly fortunate position. In Switzerland as well as in the Federal Republic of Germany the debt currently amounts to about 30 percent of the gross national product of just one year. In the United States it amounts to more than 50 percent of the GNP, in England and Italy, 60 percent of the GNP a year. Mind you, all these are states having higher interest rates than the Federal Republic of Germany. We are even better off than the German Imperial Reich was at the time of Wilhelm II. In the last prewar year, 1913, the total public budget debt in the German Reich came to 62 percent of the GNP of that time.

Schmidt's argument is cogent as far as it goes; but the likelihood of a severe recession in the Federal Republic next year means that the pressures for a "Thatcherite" economic policy will continue to mount. The alternative is a world economic system based on high-technology industrial development; the European Monetary System created in 1978 by France and West Germany was intended to initiate this transformation, but has not been fully implemented.

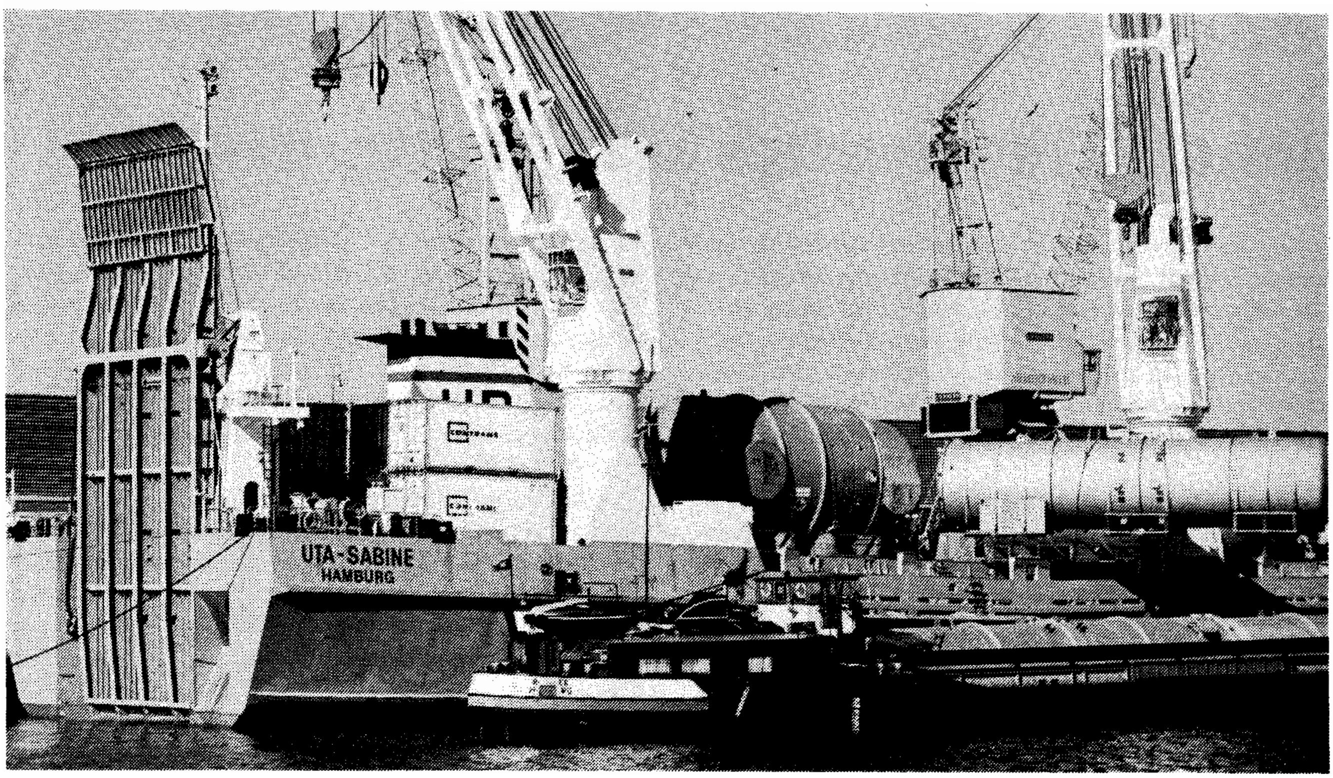


Photo courtesy of The Hamburg Group

Is the German economy losing its competitive edge?

by Alice Roth

The foreign exchange markets have become "a theater of the absurd," declared Manfred Lahnstein, West German state secretary for finance, as the deutschemark slid to new two-year lows last week against the U. S. dollar and four-year lows against the British pound sterling. It *is* absurd that the West German currency, representing an economy with five percent inflation rates and—until recently—fairly good growth rates, could be considered in worse shape than those of Britain and the United States, where output is plunging and inflation persists at rates of 13 percent and 16 percent respectively. Double-digit interest rates in the U.S. and Britain have made the dollar and pound sterling temporarily more attractive.

There is a grain of truth, however, in the currency markets' gloomy verdict on the West German economy. While the West German economy may still be showing a superior performance relative to other leading industrialized countries, it may fall short of what is required to survive the 1980s.

The success of any economy during this difficult period will depend on whether it can expand capital investment, apply new technologies, and boost productivity sufficiently to offset the higher costs of oil, while raising living standards to the levels required to properly assimilate technological advances. Historically, exports have been the chief way West German industrialists have funded high rates of capital formation.

Since the early 1970s, however, the rate of growth of West German export markets has slackened because of slower economic growth among primary trading partners—the members of the European Community—and the lack of an international financial mechanism to underwrite expanded capital goods imports by the non-oil-producing developing countries. Within this framework of relatively slower global growth, Japanese industry—characterized by a high degree of cooperation between business and government, long-term planning, and a readiness to apply off-the-shelf technologies—has gained a competitive advantage in many strategic economic sectors.

Yet in the 1980s, such competition need not be an urgent fact of life. If world markets were expanding—as

European Monetary System Phase Two credits would have achieved—rivalry with Japan and with fellow EC manufacturers would have become a marginal consideration.

Japan's success in such areas as fuel-efficient automobiles and consumer electronics is well known—Japanese imports grabbed 10.1 percent of West German domestic auto sales during the first nine months of this year compared with only 5.6 percent in 1979. This would not be a matter of concern if it were not for the fact that "Japan, Inc." is now positioning itself for a rapid expansion in technology-intensive capital goods exports, the bread and butter of West German industry.

The September issue of the *IFO Digest,* a publication of the Munich-based Institut für Wirtschaftsforschung (Economic Research Institute), declares that, among the leading industrial nations, Japan has "by far the best starting position for the 1980s." IFO cites a study comparing export shares of products with high-technology content. With the average share of all countries set at 100, the index for Japan rose from 73 in 1960 to 179 in 1979. Over the same period, the West German index actually fell from 209 to 171. The U.S. stayed constant at 145 and Britain fell from 182 to 114. (The ability of the U.S. to maintain a constant share reflected continued predominance in certain specialized areas, such as aircraft and electronics.)

Vulnerabilities not so new

West Germany's weakened international competitiveness shows up to an extent in the country's recent foreign trade and payments statistics. In August, West Germany recorded its first monthly trade deficit in 15 years. While the deficit amounted to only DM 133 million and could be attributed almost entirely to higher oil prices, the September Bundesbank report highlighted a disturbing feature of recent trade patterns: despite a drop-off in domestic economic activity during the May to July period, imports of finished goods continued to grow at a good clip. The growth in finished goods imports from the U.S. and Japan was particularly remarkable, up 35 percent and 31 percent respectively compared with May to July 1979. (In the case of the U.S., a cheaper dollar was a contributing factor).

West Germany's dependency on finished goods imports is not a wholly new phenomenon, either. According to the Bundesbank, the share of finished goods imports in total imports has gradually increased from only 25 percent in the mid-1960s to 40 percent at present. Moreover, capital goods imports have been a major component of the growth in finished goods imports in the recent period, rising *twice as fast* as the entire expenditure of the domestic economy for new capital goods.

In part, this increased demand for foreign capital goods reflects a hidden strength in the West German economy—industrialists' determination to modernize and expand their plant and equipment, in the face of an international recession and despite the fact that the resources required for this modernization effort cannot be generated entirely from within the domestic economy. The IFO estimates that West German gross national product will grow by only 2.0 percent this year in real terms (with most of the growth concentrated in the first half) and will show zero growth in 1981.

However, the institute sees capital formation continuing at a high level, with purchases of machinery and equipment expanding at a 6.5 percent rate and construction activity (including housing) growing by 5.5 percent in 1980.

Although these two categories of capital investment are expected to fall off somewhat in 1981, declining by 2.0 percent and 2.5 percent respectively for the year as a whole, the institute expects a strong revival in capital spending to begin by mid-1981.

Capital investment flows

Much of this increased investment is being directed into strategically important high-technology capital goods industries, including aerospace, electric and electronic equipment, precision instruments and optics, as well as West Germany's traditional strong point—nonelectrical machinery. As in the United States, large sums of money are also being channeled into retooling the auto industry to produce smaller, fuel-efficient cars.

The West German auto industry expects capital expenditures to jump this year to DM 9.5 billion compared with DM 7.4 billion in 1979 and DM 5.7 billion in 1978. A great deal of attention is being given to automation and the introduction of robots to curry the "energy-saving" small car trend. However, this presently wasteful form of investment (much more energy could be saved by building nuclear power plants) will have some useful side effects in the form of increased productivity.

Meanwhile, both the strengths and the limitations of West Germany's industrial strategy have come into focus in the context of the current EC steel dispute. Unlike the United States, West Germany has not treated its steel sector as a "sunset" industry. West German industrialists have understood the unviability of an "information economy" resting upon a shrinking heavy-industry base and that steel must continue to be produced cheaply and efficiently, and in growing quantities to meet the requirements of steel-consuming capital goods and consumer durables sectors.

The steel battle

During recent years, West German steel makers have devoted considerable sums to the replacement of obsolescent capacity, with the result that the average age of plant and equipment in the industry is now only 10 to 15 years. While EC industry commissioner Etienne Davignon, British industry minister Keith Joseph, and President Carter's deputy special trade representative Robert Hormats are calling for a planned shrinkage in OECD countries' "excess" steel-making capacity, West German producers have a very different perspective. In private discussions with *EIR*, they forecast a world steel *shortage* emerging in the 1980s, particularly if the developing sector is to make further strides toward industrialization.

The accompanying article by *EIR* European correspondent George Gregory, elaborates on the West German position in the EC steel dispute. The West German companies objected to Davignon's efforts to impose mandatory across-the-board production cuts in the EC industry, on the ground that they had recently invested heavily in high-value specialty steels which could not be accorded the same treatment as other types of steel. In the end, West Germany did gain some exemptions for specialty steel, but agreed to overall cutbacks amounting to some 18 percent, out of fear that waning consumption of steel in the current recession could spark cutthroat competition among EC producers.

The fact that the West German producers were forced to accept this compromise and that Hoesch is now postponing the construction of a DM 500 million plant in Dortmund reflects a larger failure in West German political diplomacy—the failure to move ahead on the creation of new monetary institutions (e.g., the EMF) that could provide the developing sectors with the wherewithal to pay for increased capital goods imports.

An associated problem is the reluctance of the Bundesbank to lower domestic interest rates, out of concern that this would spur greater speculation against the deutschemark and cause further outflow of capital to Wall Street and London. Deutsche Bank chairman Wilhelm Christians recently complained that, if rates did not drop off soon, capital investment would decline along with labor productivity—the motor of the West German "economic miracle."

A report issued by spokesmen for the five leading economic institutes last week, the so-called Five Wise Men, even went so far as to argue that the Bundesbank should tolerate a short-term deutschemark devaluation, if necessary, to reduce interest rates and get the economy moving again. But, as the West German financial daily *Handelsblatt* pointed out, devaluation is not a realistic solution because of the problems it would create for West Germany's European trading partners, and could even undermine the fixed-rate arrangements of the European Monetary System (EMS).

German steel battles the EC

by George Gregory

After seven and a half hours of bargaining into the night of Oct. 30, of German government team, sent to the European Commission of the European Community (EC) to salvage German steel producers in the "manifest crisis" of the European industry, agreed to accept secret production quotas supervised by the EC Commission for the eight months up to June 30, 1981. As far as German producers were concerned, even before the decision, the best of all possible deals, the most magnanimous concessions, were going to amount to a very miserable package. One that, at best, offered no solution to shrinking markets and price war conditions.

The Oct. 30 decision had an eerie aura of historical irony. On Sept. 30, 1926, steel industrialists from Belgium, Luxembourg, France, Germany, and the Saar, met in Brussels under chairmanship of Emile Mayrisch, president of the Dutch-Luxembourgeois Arbed firm, to work out a cartel arrangement to regulate competition and restrict "overproduction," under crisis conditions created by the Versailles Treaty, British control of international credit flows, and general contraction of world trade.

This time, the job of current Arbed president Emmanuel Tesch, as chairman of the voluntary Eurofer club for European steel makers, has been replaced by Belgian Count Etienne Davignon in an obligatory club. Even if the deal wrung out of Count Davignon did not "punish" German producers as they had feared, they still felt cheated. Fifteen years ago, German producers had charted a strategic modernization plan of all their facilities. They had indeed built after the war, but today the average age of a German steel plant is 10 to 15 years old. The modernization was predicated on the simple calculation that, in a world where industrial nations have to gear up capital investments to guarantee profitability and base their margins on high rates of productivity, and where industrialization is progressing in the developing sector, there could not fail to be a demand for high-quality steel and steel products made by state-of-the-art technologies.

German steel producers are at least willing to admit that Count Davignon and the EC Commission had a good sense of timing for their an 18 percent production cut for European steel. European exports to the United States had fallen in 1979 by 12 percent. Even without antidumping suits hanging over their heads, European exporters know that the Volcker "super interest rates" policy, the "investment/construction cold-turkey" treatment for the U.S. economy, has all but dried up that market. Then, when Iran fell into the hands of Khomeini, European exports to the OPEC countries dropped by a full one-third. Trade with East Europe began to be carried in 1980 by the Mannesmann pipeline deal for the natural gas line from western Siberia to Europe, but the future is read as uncertain.

At home, construction is dampened, not least because of the spill-over of American interest rates into Germany. The machine tool industry, after holding even this year, expects a 1.5 percent drop in production for 1981, while holding onto a decent volume overall. Auto production is down, with slipping rates of productivity in 1979; profits were already fading away in the first quarter of 1980 with 17 percent increases in ore prices and coke prices following suit. German coking coal is 25 deutschemarks higher than world market prices. And overall energy costs are increasing.

For a country like West Germany, which exports a hefty 40 percent of its steel production, such figures add up to a situation in which major efforts are being concentrated just on trying to break even. Production in the current year is down overall by 2.5 percent. Domestic consumption is down by 1.5 percent. This worries the industry far less than the fact that rates of incoming orders are far behind, which shows up in forecasts of another 3 percent drop in production in 1981 in the Federal Republic, and 6 to 7 percent in the rest of the EC. Market shifts—in part due to agreements Bonn made at the 1978 economic summit meeting to import more, resulting in additional market shares for other EC countries and non-EC countries—are estimated to account for at least 5 million tons less produced in the Federal Republic in 1979. Production last year was 46 million tons, this year 44 million tons.

The German end of the deal

A good part of the responsibility for the lower German production figures, however, had little to do with German producers' losing the competitive edge. This is especially so since the 1974 "boom year," when the Federal Republic produced 53 million tons of crude steel. Major new modern facilities have come on line, replacing outmoded plant, thus only temporarily representing a drop in capacity. In fact, the Klöckner firm broke out of the Eurofer voluntary cartel because the rates fixed for Germany did not take into account that Klöckner's modern furnace in Bremen was under construction, but not yet on line.

The Germans made a major shift toward production of specialty steels, so that, on the average, 15 to 19 percent of total German crude steel production is worked up into higher-grade steels, often accounting for as much as 39 percent of their production. For the giants, such as Krupp Steel, a mere one-fifth of production in 1970 was devoted to the specialty steels. Today it is a full one-half, representing the difference between 500 million DM in 1970 and 2.6 billion DM today, out of a total of about 5 billion DM turnover. These special steels are also the major feeder for Mannesmann's pipes. Mannesmann accounts for 60 percent of all German pipe production, one-half of which is annually sold to the Soviet Union.

This explains why the protests from German steel producers were so loud and penetrating when the British—once Count Davignon had moved to declare a "manifest crisis"—demanded that special steels not be excluded from production limit quotas. Even the most anglophile of German producers had to perceive this as a virtual stab in the back, or worse—a betrayal of the "British virtue of fair-play." It had not, after all, been the Germans who lunged into the gap in British steel production (down from 1979's 16.236 million tons to 8.299 million tons, or 48.9 percent) during Britain's steel strike. It has been, instead, estimated that a full half of the growth of EC steel production in 1980 has been due to producers filling the British markets, and only France (up by 8.7 percent) and Italy (up by 14.4 percent) have managed to book increases in production.

That the British had set their sights on the German steel throat gave rise to even more indignant reactions. As one spokesman for Krupp Steel put it: "During the same decade that we invested 3.1 billion DM, 2.5 billion DM of that out of our own resources, with a meagerly 600 million DM in credit for modernizaton, rationalization and restructuring, British Steel received 8 billion DM in subsidies for the same purposes. But they didn't *do* anything with the money. They just swallowed it. . . . The French have a much more rational national steel policy," he added. "With them we would have much less of a problem even coming to temporary voluntary agreements to restrict production for the sake of an orderly market."

The Germans they don't like having to compete against 25 billion DM worth of subsidies over the past decade in the other European countries generally, but British behavior, clearly moving the EC Commission on their behalf, was particularly irksome.

As things stand now, Bonn's Economics Minister managed to save a major part of German specialty steel capacity from coming under the quota system. All pipes, railway track, and tin plate are excluded from the system, and all companies producing less than 2,000 tons of special steel per month are excluded. In addition, German producers are to be guaranteed 32.25 percent of the European market, more or less matching the 32.6 percent they had in 1974. Then, of course, they were producing 53 million tons, whereas today they are only producing 44 million, and the overall reduction in production under the quota system is to amount to 18 percent retroactive to Oct. 1, 1980.

Even this EC Commission package, put together after one week of consultations necessitated by the British-motivated demand that special steels be included, would still be in renegotiation if Chancellor Helmut Schmidt had not gotten on the phone with Margaret Thatcher.

'A sledgehammer repair'

According to spokesmen for the German Association of Iron and Steel Producers, the commission's quota system hasn't a prayer of working. "This system is like trying to repair a precision watch with a sledgehammer," they say.

The first objection is that it will be virtually impossible for the commission to effectively monitor whether or not the various quotas for individual companies—which will be kept confidential—are being held to. Second, even if the next eight months are used to initiate modernization and rationalization programs in the rest of Europe (and the deepest doubts apply, of course, to England), such programs could not produce tangible results by June 30, 1981. Third, while a mere contraction of European production is expected to increase prices by 10 to 15 percent and thus undercut the intra-European price war, it is argued that this will exert powerful suction for cheap imports from outside Europe. Either the commission will find its own plan undermined, or it will be forced next to apply import restrictions, and risk a global protectionist chain reaction, further hindering and constricting world trade.

German strategy on the block

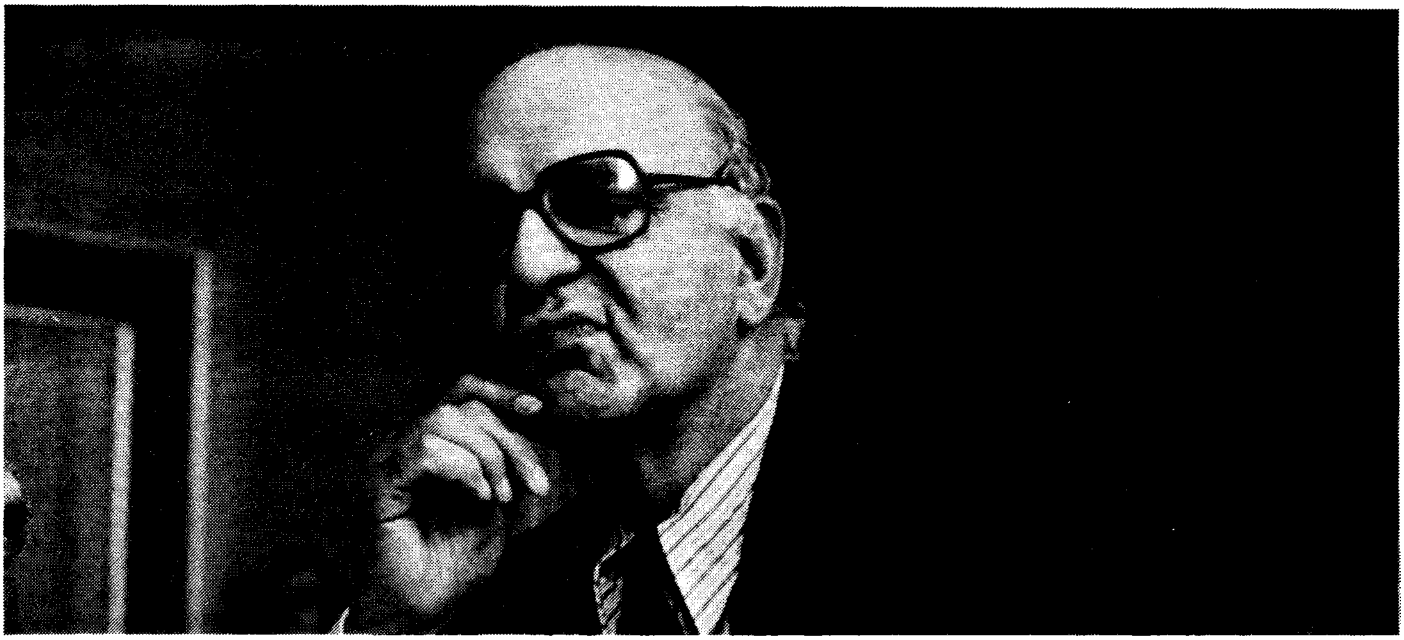
The mood in the German steel industry indicates that producers are going to dig their heels in and hold the line. Their basic problem, however, is that if they can neither find customers and financing for a forced export drive, nor access to capital to finance additional modernization investments, their productivity edge is going to dwindle, and the markets for which they designed their state-of-the-art steel technologies just will not exist. In the coming months, the issue will be whether or not the political chieftains of the steel producers step forward in support of implementing the expanded European investment credit facilities of the European Monetary System in its Phase Two. As Dr. Ruprecht Vondran, chairman of the German Association of Iron and Steel Producers stated in a speech just before the EC decision, "Standing still when you're swimming against the stream is tantamount to backsliding."

If that political challenge to move into Phase Two of the EMS is met, German steel producers are well-equipped to meet the challenges they see resulting in a net steel scarcity globally as early as 1983, even if the total highest conceivable world capacity of 900 million tons (from 1974) were utilized at 100 percent.

As noted above, German steel plant has been nearly totally replaced in the last 10 to 15 years. Between 1960 and 1976, the Thomas process which accounted for 40 percent of crude production has been totally phased out. In 15 years, the number of Siemens-Martin furnaces has been reduced from 180 to 30, and ought to be reduced to zero if modernization investments regain momentum. A full 75 percent of German crude steel is produced in oxygen blast furnaces, and in 1979, 20 percent of crude block steel was produced in electric furnaces. Major efforts have been made to introduce continuous casting, which today accounts for 40 percent of cast steel production—even more major investments will be required to catch up with Japan in this area. For a company like Krupp Steel, this means that fully two-thirds of all production facilities will have been totally replaced with the most modern plant over a decade.

Did this effort to boost productivity result in lowering the break-even point? No one can say for sure, because all this modern plant and equipment has hardly been set loose to do what it was built to do—supply steel for high-technology oriented industrial nations and steel-hungry industrializing developing nations. The investments of the past 10 to 15 years haven't had a chance to pay off.

For the time being, however, most of the additional investment in modernization are being shelved. ESTEL-Hoesch has decided not to build a new 500 million DM oxygen blast furnace to replace three old Siemens-Martin furnaces. The argument offered is that it just does not make sense to invest in expanding capacities at a time when the EC is restricting production. But in fact, since the plant would not come on line for about two years, the decision reflects a basically shaken confidence in the future. Instead, "innovation" is directed toward price-saving measures, useful in themselves, but hardly a solution to the crisis. Industry sources indicate that this tendency toward filling the "efficiency gaps" will accelerate under the EC quota system, and there is even speculation that the industry will put the Bonn government to the gun for subsidies if additional labor force or capacities threaten to be idled as a result of the quota's squeeze.



Menachem Begin driving Jews out of Israel

by Mark Burdman

During the middle of last month, the Israeli Knesset passed a resolution calling upon Jews abroad to respond to anti-Semitism by exercising the "aliyah option"—emigration to Israel.

The passage of the resolution was greeted with skepticism and wry amusement by certain circles in Israel, who pointed to one remarkable phenomenon of Israeli society after three and a half years of rule by Menachem Begin's government: for the first time in Israel's history, the rate of Jews *emigrating* from Israel per month is surpassing that of Jews emigrating *to* Israel, from the Soviet Union and other points of departure.

Ironically, Menachem Begin, the most ardent fundamentalist Zionist of them all, has become a clear and present danger to the Zionist dream of a prosperous and thriving Jewish state that would be a source of pride to Jews all over the world.

As Israel's citizens begin to prepare for the next round of national elections—formally scheduled for November 1981, but possibly to take place sooner if a government crisis intervenes between then and now—they are faced with perhaps the most distressing social and economic circumstances Israel has ever had, thanks to the policies devised by Begin and his cabinet under the tutelage of Milton Friedman.

Three and a half years of Menachem Begin have brought Israel's municipal, industrial, and farm sectors, and its skilled labor-force capabilities, to a state of disaster with potentially pernicious effects on the country's ability to maintain its usually well-oiled defense and security machine at full readiness.

At the same time, organized crime and its accomplices have come closer than ever before to finding Israel a haven for illicit activities, to the point that Menachem Begin may soon share with Fulgensio Batista the dubious distinction of being this century's best friend of organized crime.

These stark realities have led an increasing number of Israelis to assert that from both the political-military and social-moral standpoints, Menachem Begin has become the biggest security risk to the Jewish state.

The Khomeinization of Israel

Israel under Begin is becoming an eerie mirror reflection of Ayatollah Khomeini's Iran: a regime driving its own citizens into an unwanted exile.

As in Iran, this phenomenon has led to increasing talk of a "brain drain" undermining Israel's productive labor and technical capacities.

Although immigration and emigration statistics are hard to come by, one estimate, by the Jewish National Agency, which deals with immigration and emigration for Israel, is that the number of *native* Israelis who have left Israel this year has *doubled* from the number who left last year, reaching a total of nearly 6,000 for 1980.

This statistic, shocking enough for a country whose national pride rests in attracting Jews to its shores, hardly expresses the whole picture.

For one, it does not take into account approximately *80,000* more Israelis who have lived abroad for more

Israeli slumdwellers.

than a year, and whose living intentions have not yet been pinned down.

Second, it does not take into account non-natives who have had a shorter, more "experimental" attitude toward settling in Israel, and who have decided not to do so. According to one estimate by a Washington, D.C.-area source with ties to top-level Israeli intelligence circles, "four out of ten Americans who have gone to Israel to consider living there have come back."

Third, it omits the calculation of what percentage of Israelis are now considering, actively or passively, emigrating from the country. Estimates obtained by *EIR* from investigators in Israel have ranged from 5 percent—not an insignificant figure for a country whose total population is less than four million—to a whopping 30 percent.

Whatever the current emigration projections, estimates are that there are presently *800,000* ex-Israelis living permanently or semipermanently abroad. This figure, almost entirely comprising Israelis living in Europe and North Africa, contains a significant percentage of trained professionals and skilled operatives. Hence the growing fear of a "brain drain" in Israel.

Simultaneously, an increasing relative percentage of immigrants into Israel are those committed to a fundamentalist vision of Zionism similar to Ayatollah Begin's. So, while Israel's Jewish population is at best holding stable or slightly growing (taking into account birth rates internally), the *qualitative* distribution of that population is changing—a factor that is only likely to worsen the vicious cycle in which Begin's Israel is now entrapped: the government will be more and more obsessed with fulfilling its ideological objective of "settling Judea and Samaria," and will commit havoc against the developed institutions of traditional (pre-1967) Israel. Its ideological pursuits will create an economic sinkhole, and Israel will disintegrate as a result.

Triaging the real economy

Unquestionably, the main factor behind the emigration drain is Israel's economic condition, characterized by inflation rates of 125-plus percent that are only partly compensated for by a bizarre and complex linkage-and-indexing system whose overall net effect is only to contribute to the inflationary spiral. When treated with the Hjalmar Schacht-modeled policy prescriptions of Milton Friedman protégé finance minister Yigal Hurvitz, Israel's economic plight is becoming untenable for an increasing number of middle-income professional and technically trained Israelis.

Under Friedman's overall guidance, Hurvitz's team over the past year has gutted industrial production and equally vital supportive services and infrastructure—the *real* economy—while prioritizing advantages for those sectors of the economy that either are short-term speculative (for example, the overseas-oriented banking sector) or otherwise nonproductive: arms and diamond trade, illicit or otherwise; real estate; entertainment (discotheques, hotels); and so on.

As a result, Israel's capacity to produce *tangible wealth* is being undermined, leaving the country vastly more vulnerable to the shocks caused by increased prices for domestic oil and other "external" factors. The vast amounts of grants, donations, and favorable-term loans that Israel gets from international Jewish-Zionist fundraising and aid operations only partly shelter the country from the shocks that Hurvitz has delivered.

Additionally, the "outside aid" factor is today complicated by the organized crime factor. As criminal elements increasingly make Israel into a haven for laundering crime-derived income, an added inflationary trend similar to the tendencies witnessed on the New York real estate market over the past few years is beginning to take hold. The phenomenon in question was described by Israeli mobster Samuel Flatto-Sharon, in a frank statement to France's *Le Figaro* newspaper in May 1979: "Eighty percent of the funds invested in Israel are those from Jews who send abroad the currencies of their countries in an illegitimate manner." This process is bound to encourage inflation.

Hurvitz's answer has been the classic Schachtian-Friedmanite response: loot the real economy. The effects of this can be seen across the board in all sectors of the Israeli economy, as attested to in many cases by government-supplied statistics:

Employment and wages: According to a late-October report issued by a team of government economists, unemployment has been at its highest rate in years over the past months, with 11,150 unemployed officially registered in the labor exchanges, compared with only 3,968 one year earlier, with a higher percentage of those registered being out of work for an extended period of time. (The overall figure is low since it doesn't reflect women and other components of the work force who often don't register on the exchanges.)

The same team of government economists reports that there has been a 9 percent drop in real wages during the first half of 1980 as compared to the first half of 1979. A mid-October report issued by the Central Bureau of Statistics corroborated that average real wages were down by 9 to 10 percent compared to a year ago, with the figure running as high as 15 percent for salaried workers in the public sector.

Overall private consumption was down in real terms by 8 percent, with the breakdown in percentages for the following items of consumption giving a graphic picture of how living standards are collapsing: fruit and vegetables, down 12 percent; milk, 13; fish, 19; consumer durables overall, 29; cars, 60; and clothing and footwear, 25.

Industrial production: The same Central Bureau of Statistics report claimed that investment in industry declined by 11 percent over the past year, while industrial output had shrunk by 6 to 7 percent.

A report issued in the third week of October by the Israeli Manufacturers' Association found these statistics to be understating the case. The IMA reported a *15 to 20 percent drop* in real investment in industry as compared to a similar period of 1979, combined with a 7 percent drop in the number of workers employed in industry over the past 12 months (correlated with a rise in employment in the services sector).

The IMA report also claimed a continuous drop in industrial exports over six months.

Release of the IMA findings reportedly drew alarm from Israel's economic planners about the potential consequences of this trend for the future survivability of Israel's economy.

Housing construction: Figures for the third quarter of 1980 released by government economists showed approximately 600 housing starts by private concerns per month, down from over 1,100 a year ago. Government starts averaged 414 a month for the third quarter, down from almost 9,000 a month during the corresponding quarter of last year!

The pace is expected to pick up following a just-concluded agreement reached between Housing Minister David Levy and construction firms, but at the cost of the housing ministry's granting loans at 72 percent for two years for each apartment built to the firm! It is hard to fathom how that interest-rate cost will be passed onto the prospective apartment buyer.

Agriculture sector: On Oct. 19, Yehud Sa'adi, the head of the Histadrut (national labor confederation) affiliated Agriculture Centre, which speaks for some 75,000 agricultural workers, blasted "the government's disastrous agricultural policy." Sa'adi, whose charges were endorsed by the 12,000-member Farmers Federation, claimed that the costs of production (seed, fertilizer, etc.) for Israeli farmers had risen 140 percent, while income had only risen 125.

Sa'adi lambasted the government for failure to provide tax credits and cheap financing for farmers, who were forced to take short-term loans to pay for seeds and fertilizers, which was increasing costs "tremendously." This process was making exports less profitable, leading to a precipitous drop in exports of such mainstay items as vegetables, poultry, and citrus.

Municipalities: In October, the cities of Haifa and Tel Aviv were hit with strike threats and/or actual strikes by workers protesting nonpayment of *September* salaries. Haifa workers bluntly threatened; "The subway won't be running, garbage won't be collected, and no city services will be extended."

Nonetheless, the austerity pressures mount.

According to the Oct. 8 *Jerusalem Post*, the attitude of Hurvitz's pals in the treasury is that "the citizenry gets too many services—and does not pay enough for them." These austerity pressures are liable, in the coming months, to turn the municipalities' poorer quarters into tinderboxes; already, they are rife with uncontrolled crime.

Universities: All of Israel's major universities, which have been a source of pride for the country, are threatening to shut down if they don't get substantial new government aid.

The presidents of Haifa, Ben-Gurion, and other universities have warned that "without a massive injection of government funds, there is no way the university can get through the academic year."

In an Oct. 27 editorial titled "Universities in Trouble," the *Jerusalem Post* noted the "tremendous note of fear for their financial future," especially since "higher learning in this country is not a luxury but a vital necessity," a fact that should be "borne in mind before the universities are told by the treasury that there is no money."

Medical services: Israel's health care, especially as provided by the national Kupat Holim sick fund, has also been traditionally of very high quality. Yet, through much of October, Kupat Holim was crippled by a strike called by doctors who, the *Jerusalem Post* reported, "could not get the wage arrears due to them because the treasury refuses to allocate the sick fund the necessary cash." Instead, the *Post* affirmed, the treasury attacked "the average Israeli's voracious appetite for medicine." Because of this treasury attitude, the *Post* noted, Israel's hospital services in general were in danger of "grinding to a halt," and the poor and disabled veterans were forced to rely on much more inefficient forms of health care.

On Oct. 26, the head of the Disabled Veterans Organization, speaking for the wounded from Israel's wars, charged that there had been a "scandalous" breakdown in government care for veterans. "The amount of medical care and vital drugs given us has been cut by half."

It is not known at the time of this writing if the treasury responded by accusing the veterans of using too much medicine.

A national economic emergency?

The economic situation became so untenable that the Begin government was forced to undergo a mid-October no-confidence motion in the Knesset to answer for its economic policies.

By rallying all the component parts of the coalition to its side, the government survived the motion. Doubts are being raised in Israel, however, about whether Israel will survive Begin and Hurvitz.

Hurvitz's knee-jerk response to the crisis has been to seek by every possible means to pass the burden on to the middle and lower-income family, rather than to penalize the speculators and money-laundering interests. He has sought either to obtain price rises in vital commodities not subsidized by the government or to find ways to end subsidization of certain items, such as fuel consumption of all kinds.

During the month of October, Hurvitz won price rises ranging from 15 to 40 percent on items ranging from bread and other foodstuffs to public transport, plus an agreement by the cabinet to raise prices *regularly every month* on several categories of vital food and other commodities.

These decisions came on top of announced statistics that show that since Hurvitz took over as financial czar of Israel one year ago, prices for electricity and fuel have gone up respectively 235 and 190 percent, with shock-wave repercussions into many other key sectors.

On Oct. 21, at a cabinet session, Hurvitz insisted that the government not "surrender to the people's reluctance to lower its standard of living" and accused the Israeli population of having "chosen to live beyond our means."

Under the growing economic crisis conditions, Hurvitz is beginning to sound the alarm that Israel's defense apparatus, which now consumes 30 percent of budgetary allocations, will have to be streamlined, to conform to the austerity regime. Talk is beginning to surface in Israel that certain drastic measures may have to be taken to keep the country on a high level of military mobilization while imposing austerity on the population. At an Oct. 27 seminar, the head of the treasury's planning authority, Ezra Sadar, suggested that Israel needed a five year "combined defense-economic plan" that would involve "all aspects of the economy, society, and defense."

Jerusalem Post attacks Friedman-style policy

In an Oct. 20 editorial entitled "Tunnel Without End," Israel's English language Jerusalem Post *newspaper attacked Finance Minister Yigal Hurvitz's adaptation of Milton Friedman's economic policies to Israel.*

The Post *editorial attack is particularly interesting in view of the fact that Hurvitz was installed as financial czar of Israel only days after U.S. Federal Reserve head Paul Volcker began his credit squeeze and international interest-rate warfare policies. The* Post*'s concern over the "socially intolerable" consequences of Hurvitz's Friedmanite policies sheds some additional light on the international consequences of Volcker's Friedman-modeled policies.*

Excerpts from the Oct. 20 editorial follow.

As far as inflation is concerned, Hurvitz's policy has been a patent failure. . . .

With real wages down by 9 percent in the first half of the year, with private consumption down by 8 percent per capita (including food), it must be asked where is the excess demand that Mr. Hurvitz is seeking to mop up?

It is certainly not in the pockets that he seeks to hit by slashing the remaining subsidies. Moreover, investments have fallen by 11 percent, industrial output has shrunk by 6 to 7 percent, and even exports in real terms have just held their own.

The adulterated Milton Friedman-type policy that Mr. Hurvitz has sought to pursue for a year could never have worked in Israel's economy, even if its social implications were ignored. . . .

His policy can so far claim the dubious achievement of lower wages and higher unemployment. This, however, can neither last nor can it go much further without becoming socially intolerable and politically intolerable.

At the Knesset no-confidence debate one week earlier, a member of the ultrafundamentalist Tehiya (Renaissance) Party, Moshe Shami, was more blunt in his message to the government: "Tell the people the truth. We are under siege and in an emergency situation. A national economic emergency must be proclaimed and inflaton fought by ending the gallop of taxes, prices, and wages."

The crime epidemic

As Israel's economic crisis sharpens and Hurvitz makes life easier for speculators and related illicit laundering activities, Israel's mafia is having a field day. As budget cuts hit the country's police forces, the capabilities for combating this phenomenon within Israel itself is eroding, especially as the mafia increasingly implants its own agents inside the police force.

By late October, the treasury was warning of "severe budget cutbacks" in police and prison allotment. Simultaneous with this warning, the commander of a police district in Jaffa municipality, who has responsibility for 430,000 residents, was warning that if "needed funds" were not forthcoming for his area, "the underworld will take over."

Jaffa commander Avraham Musafia reported a near epidemic of criminal activity in the area, including a rise in trafficking and in use of heroin, LSD, and amphetamines. Because of the "poor means at my disposal," he stated, the situation could soon become "very bad—awful, in fact."

Jaffa has been the scene, prior to these pessimistic appraisals, of repeated episodes of car bombings and gangland murders, which have spread terror in the municipality's population. But it is not unique in this respect: last month, a gang was uncovered in Tel Aviv that had been plotting out a series of murders so extensive that it was called "unprecedented in the history of the state."

The Begin regime's top-down friendliness to organized crime makes this problem much harder to handle. Since coming into power, Begin has, to cite a few examples: appointed a "counterterror" adviser, Rafael ("Dirty Rafi") Eytan, who has been involved in real-estate swindles on the West Bank and who is tightly associated with friends in Israel of mobster Meyer Lansky; smoothed the way for Lansky's entrance into Israel, despite warnings that this will reinforce international organized crime in Israel (in October, the Israeli supreme court officially okayed Lansky's visa for entry into Israel); and harbored and sheltered the fugitive from French justice Samuel Flatto-Sharon, a man who has been indicted by French courts for real-estate fraud.

Mobster Flatto-Sharon is one prominent Israeli (another is industrialist Shaul Eisenberg, whose star has risen substantially during the "Begin years") whose business interests are reportedly used for the laundering of tens of millions of dollars skimmed off drug trafficking and other organized crime activities.

Begin's friendship with crime has unquestionably perverted Israel's police/intelligence anticrime monitoring capabilities. According to the Paris-based publication *Israel and Palestine*, the police "have had to undergo repeated reorganization and have often been charged with penetration by Israel's Mafia. . . . The role of MATAM [the police force's Department for Special Tasks, which deals with the political implications of criminal activity—ed.] has acquired a new, and ambiguous importance: on one hand, it may become the body fighting the Mafia, in spite of high-level police passivity elsewhere; on the other, it may be taken over, too, by negative elements."

Israel and Palestine locates this process in the general context of Begin's usurpation of intelligence coordination functions, much to the dismay of the professionals in Israel's Mossad (foreign), Shin Beth (internal security), and Aman (military intelligence) bureaus.

A glaring example of the kind of process *Israel and Palestine* is mooting in respect to Israel's police forces is the role of retired general Rehavam Ze'evi. Ze'evi was earlier this year appointed to be a special adviser to the Interior Ministry's police liaison division, which coordinates relations between the police force and Interior Ministry. This appointment was made despite the fact (or, some might argue, because of the fact) that Ze'evi was widely identified in the Israeli press from 1976-77 as a linchpin of Israeli mafia operations. Since that period, Ze'evi had served as a security affairs and arms-purchasing adviser to several Latin American governments, and had been frequently linked to illicit arms trafficking and the international drug trade.

During the month of October 1980, Ze'evi's name suddenly made its way back into the headlines of Israel's Hebrew language press, when he was identified as a friend of a top Israeli mafia figure who has recently been implicated in the murder of two other mafia figures. Ze'evi hastily denied that he is involved in the whole affair, and has spent most of October in London on unidentified business interests.

It would not be easy for Interior Minister Yosef Burg, who appointed Ze'evi (and who first granted Lansky his visa), to dismiss or investigate him. Burg himself is now under investigation by a Knesset team for having used Interior Ministry funds to establish, in the words of the *Jerusalem Post* "a vast politico-religious spoils system" for his National Religious Party.

If Menachem Begin remains in power much longer, organized crime at least might find Israel an attractive country to immigrate to. Israel's younger and better citizens, however, will increasingly take the opposite route.

The marijuana lobby wins Jamaica's election

The new prime minister, Edward Seaga, is a protégé of cultists and the IMF, reports Gretchen Small.

Amid mounting political violence which has left over 600 dead in the course of this year, a deeply polarized Jamaican population went to the polls on Oct. 30. When the dust had settled, Edward Seaga of the Jamaican Labour Party (JLP) had swept left-leaning prime minister Michael Manley from power, with over 53 percent of the popular vote.

Before, during and after the election the international press had edified its readers with tale after tale about how a Seaga win meant a victory for "free enterprise capitalism" in the Caribbean. Dozens of Washington "Caribbean experts" philosophized about new "trends" and "tendencies" for democracy in the region, about how the pro-Castro tide is turning, and so on. Both Carter and Reagan have hailed the Seaga victory a triumph for America's interests in the region.

Yet, outside of this magazine, no one has yet printed the single most important fact of the Jamaican elections: that the man who won last week's general election, Mr. Edward Seaga, is a practicing voodoo cultist who is planning to legalize that island's already booming marijuana trade. If Seaga's victory is a victory for "free enterprise," it is so only for Milton Friedman's variety, which would have every nation legalize not only marijuana production and consumption but also cocaine and heroin as well.

In fact, the ouster of Michael Manley as Jamaica's prime minister is a four-year-old project jointly executed by narcotics-linked financial interests centered in the City of London, the prodrug Carter administration, and the notorious International Monetary Fund (IMF). It is the IMF which pulled the plug on the Jamaican economy, and which since 1976 has been pushing it to legalize its more than $1 billion yearly drug trade.

All three institutions are now expressing restrained elation over the electoral results. A rather dazed Michael Manley has only been able to report: "What we did, was challenge the power of the Western economic structure. This is one country that tried to challenge hegemony, and was not successful."

As a result, Jamaica will now effectively return to the British colonial status that it abandoned only in 1962, and will follow the International Monetary Fund's dictates to pay off its foreign debt through dope exports.

Seaga's 'recovery' program

Seaga ran his campaign around the slogan of guaranteeing "deliverance" from the economic devastation Jamaica is now suffering. He pledged to come to terms with the IMF, and to open up the island's economy to as much foreign investment as can be enticed in.

But the real way that Seaga plans to put Jamaica's financial house in order is by legalizing the drug trade. The new prime minister and his major backers have been explicit about this policy for months:

- In April 1980, Bruce Golding, Seaga's second-in-command in the JLP, told the Chicago *Daily Defender* that marijuana has "become a way of life here," and that "there is a resolution before parliament which was moved by one of our deputy leaders, seeking to decriminalize marijuana." Since the JLP also just won a clear majority in the parliament, the law can be expected to be approved shortly.
- In July 1980, Winston Mahfood, Seaga's cousin and principal economic adviser, who also heads the Jamaican Manufacturing Association, called for using the country's drug earnings to buy "legitimate imports of needed raw materials."
- And earlier in the year, Kingston's *Daily Gleaner,* the most violently partisan press backer of the Seaga campaign, was particularly blatant: "The salvation of this country lies in ganja [the local term for marijuana]. . . . We should stop producing so much sugarcane and produce more ganja instead. We wouldn't have any strikes because smokers would be glad to help with production."

The victory for the international drug lobby goes beyond Jamaica itself, however. If Jamaica can be induced to crawl back to the IMF and publicly legalize its marijuana production and trade, then it will serve as an example and precedent for other countries.

As a top U.S. narcotics control officer confided to *EIR* upon learning the results of the Jamaican election: "Colombia has prestige as a democratic country; it must protect its reputation. But there are other smaller countries like Jamaica which would have nothing to lose if they violated the 1961 Single Convention Against Psychotropic Substances, and of course that would set a precedent for countries like Colombia."

Jamaica today sells more than $1 billion of marijuana per year, primarily to the United States. Colombia sells the United States nearly 10 times that amount.

Manley's blunders

Manley and his PNP party were not merely beaten in the elections—they were trounced. Although the popular vote was 53 to 47 percent, of the 60 parliamentary seats up for election, 51 will reportedly go to Seaga's JLP.

Ten PNP candidates who were ministers in Manley's cabinet were voted out of parliament—including Finance Minister Hugh Small and Deputy Prime Minister and Foreign Minister P. J. Patterson. Manley himself was reelected from his local district by a slim margin.

The reasons are not hard to find.

Although Manley did stand up to the IMF and rejected their "conditionalities," he was the first leading political figure from the Third World to argue that the alternative to the IMF was the proposals of the Brandt Commission. The Brandt proposals are in fact nothing but a version of the same IMF monetarist policies, sugar-coated with anti-imperialist rhetoric designed for the Third World.

In endorsing the Brandt proposals, Michael Manley demonstrated that he was one of the Third World's leading suckers.

One of the ways that Manley and Co. blinded themselves was by availing themselves of the counsel of the Institute for Policy Studies (IPS) on all matters of economic and foreign policy. IPS, a leftist Washington think tank, is one of the controllers of the international terrorist movement, and has played a major role in conduiting suicidal policy recommendations into credulous Third World governments and "revolutionary movements."

Equally significant is the fact that Manley and his followers never really attacked Seaga for what he is—a puppet of the international drug lobby. In fact, large chunks of Manley's own party favor legalizing marijuana.

One example is the PNP's director of overseas affairs, Paul Miller, who told *EIR* before the election that he was not interested in stopping Jamaica's drug trade, since "the majority of Jamaicans support the ganja trade, you know."

The majority of Jamaicans have now also supported Edward Seaga, a cultist drug-runner, as their new prime minister. In so doing, they have handed the IMF a dramatic victory in their drive to make narcotics the Third World's leading export crop.

The IMF record in Jamaica

Jamaica was targeted as a key production center for marijuana by the international drug trade several years ago. Long-standing British and Canadian families well embedded in the political structure of the former British colony, the existence of significant if mainly small-scale marijuana production, and the island's proximity to the U.S. made Jamaica an ideal place to scale up marijuana production.

A two-sided operation was carried out to turn Jamaica into the third major supplier of marijuana to the U.S. in a period of about four years. On the one hand, international traffickers moved in, following the heavy crackdown on marijuana production in Mexico in 1975-76. Equally important was the role of the International Monetary Fund in forcing through an economic program that systematically destroyed the real economy and *forced* many to turn to the booming illegal economy to survive.

Jamaica turned to the IMF for loans in April 1977, when the combination of zooming oil prices and collapsing agricultural export prices had driven down their reserves. As in all cases, the IMF demanded that the Jamaican government draw up an economic package

Edward Seaga: portrait of a 'voodoo economist'

Jamaica's new prime minister Edward Seaga has been widely praised in the eastern liberal media as a "quiet and thoughtful man," a "champion of capitalism," a "virulent anticommunist," and a "technocrat." At various times, he has represented Jamaica as governor before the World Bank, the International Monetary Fund, and the Interamerican Bank. Seaga's last Jamaican government post was as minister of finance in the late 1960s, when he instituted a national lottery as the first step toward legalized gambling in Jamaica.

His supporters in the Jamaican Labour Party, however, call him both "financial wizard" and "culture leader," a reference to a less well-known expertise of Edward Seaga: his sponsorship of voodoo and the cult of Rastafarianism as the "real culture" of the Jamaican population.

that met with their approval before granting any more credits. The core of the IMF program was to channel all available monies out of both production and consumption and into debt repayment.

Between the spring of 1977 and the beginning of 1980, Jamaica implemented a series of IMF-designed programs. For the first year, Jamaica had to undergo quarterly reviews of its economic performance. When Jamaica failed to "pass" even one of the agreed-on requirements, a new program had to be renegotiated, each time demanding more austerity.

From January to March 1978, while bitter negotiations took place over the degree of austerity to be implemented, an international credit embargo was imposed on Jamaica. By March, only essential food was being imported, and the government faced a $34 million income shortfall.

In the new agreement, the IMF required "on-site surveillance" of the Jamaican economy: IMF officials controlled day-to-day decisions on the economy from new offices in the Kingston central bank.

Throughout the period, a series of devaluations drastically raised the cost of all imports, including food, fuels, and raw materials for industry. Government expenditures were limited, cutting services, and taxes increased to marshal more of the economy's surplus into debt payments. Wages were limited to a 15 percent ceiling while inflation ran at 78 percent. The IMF acknowledged in an official press release that its program had forced the government to significantly "reduce consumption" by the population.

IMF officials demanded that the government "drastically limit," as one official put it, internal credit, even though business screamed for money for vital imports simply to keep their plants running.

The result was predictable: industry turned to marijuana dollars to stay in business. The London *Economist*, commenting last June on the well-known practice, said that the ganja trade, as it is locally called, is good business: "Industry thus manages to pay its foreign suppliers just before they cancel the next shipment, while the ganja money has taken the edge off some of the hardship in the hills."

The IMF is now proposing the legalization of this black market in marijuana dollars, according to a Washington-based IMF official. As the official explained it, the idea is to allow commercial banks to accept dollars earned abroad—no questions asked—for local currency, thus tapping what are now huge economic transactions taking place in "parallel" to the "real" economy.

Today, marijuana is the focal point of economic activity in the country, earning $1 billion annually, an amount equal to all legal export income combined. The standard of living has dropped by 25 percent over the period, the *Economist* estimates, and unemployment is officially acknowledged to run over 30 percent. An estimated one-fifth of the population now relies on marijuana for some significant portion of their income.

Even the London *Observer* commented a few months ago: "In the complicated and topsy-turvy world of international finance, the International Monetary Fund is now effectively helping those who want to legalize pot."

Seaga personally epitomizes the connections between International Monetary Fund economics, cultism, and the drug trade. Seaga began his career studying sociology at Harvard University in the early 1950s, specializing in spiritualist cults and "faith healing." He continued his studies in Jamaica, then went to Haiti to study voodoo. Seaga then worked under the direction of one of Jamaica's top social profilers, M. A. G. Smith, and became a leading figure in a group of Jamaican sociologists and anthropologists who applied Smith's theory that the mass of Jamaica's poorest people should be treated as a virtually distinct species.

According to the theory, this "bottom class" has its own "evolved indigenous culture," totally different from the "Western imitative culture" of the middle classes. Seaga has specialized in using religious cults as the central organizing element for that bottom class. Since the Boston-born Seaga is white, and 99 percent of Jamaica's population is black, the racist nature of this social theory is blatant.

Seaga achieved prominence in the 1960s when he was minister of culture and welfare. During his tenure, Seaga established a National Festival of Folk Arts as an institution which largely created "reggae," the barbaric music used to promote the Rastafarian drug cult worldwide. Seaga's festival culled the future stars of reggae from local groups, who were raised to international prominence.

Seaga continued his cult studies as a central activity when the Jamaican Labour Party was voted out in 1972. Seaga then dropped out of politics altogether for a year, emerging after his studies to write a brief treatise in praise of the Rastafarian cult.

Faced now with the task of imposing another ratchet of IMF-dictated austerity, which Seaga has promised will be at the top of his agenda, he will need his cult background to "organize" the population to accept even more poverty.

What's next for the Caribbean?

In the final weeks of the Jamaican electoral campaign, full-scale civil war was increasingly discussed as one potential outcome of the voting. Jamaica's bishop, the Right Reverend Neville Desouza, explicitly warned just days before the elections that the threats from both sides to not respect the election's results could lead to a direct confrontation between Cuba and the U.S. "If uncontrollable violence follows the election," the bishop declared in a plea for calm, "then either the Americans or the Cubans might send in forces to 'impose' peace."

The scenarios were not far-fetched. Well-armed forces from both sides of Jamaica's parties had threatened to contest the results of a close election by force. On election eve, for instance, Jamaican Labour Party candidate Edward Seaga called a press conference to announce his intentions of calling his supporters out into the streets in riots and disturbances should his contender Michael Manley take the election for prime ministry through "fraud."

Throughout the campaign, the Jamaican elections increasingly took on the character of a surrogate war between the ideologies of East and West, communism and capitalism. The more radical wing of Manley's People's National Party (PNP), which has close ties to Cuba, was repeatedly charged in the opposition press with receiving Cuban arms and training.

On the other hand, Seaga and the Jamaican Labour Party were accused of being financed by the CIA. Seaga has his own "Florida connection" as a source for weapons and armed support.

Seaga's unexpected landslide victory, however, has forestalled these extreme scenarios—for the moment. Unable even to entertain hopes of overturning the overall outcome of the elections, the defeated People's National Party will contest the results of only three seats. Both sides, for the moment, have stepped back to assess the situation—and regroup.

The results of the election, however, had "locked in" confrontationist policies adopted both in Washington and Havana, and by strengthening the hands of the extremists in both "right" and "left" camps, could well lead to a bigger crisis when the next round explodes.

Seaga's first moves as prime minister—expelling the Cuban ambassador and promising a base in Jamaica for Cuban exiles—has increased a desperate sense of isolation in Havana. Viewing Michael Manley's failure as proof that attempts at peaceful transition to development in Third World nations are hopeless, Cuban ultraradicals see violent revolution as the order of the day.

That was the policy bluntly stated by Cuban Central Committee member Jesus Montane at a recent East Berlin conference: "The revolutionary triumph in Nicaragua verified the effectiveness of the armed struggle as a decisive means of taking power."

With the brief electoral "deal" between Carter and Castro now swept away, a step-up of "revolutionary" activity by Cubans in the Caribbean-Central American region is now likely.

In Washington, a new round of confrontation with Cuba is being prepared by Anglophile "conservatives." A recent policy statement by Reagan Latin American advisers promised that the "embargo will be maintained, dissidents encouraged, and defection of Cuban military units promoted"—unless Cuba breaks all ties with the Soviet Union. The provocative policy announced by Reagan's chief Latin America adviser, Roger Fontaine, is to organize a revolt inside Cuba à la Poland to produce "the socialist camp's first true deserter."

As in Poland, the chief result of such strategies is to egg on a direct Warsaw Pact military response.

Inside Jamaica, the election served to consolidate the grip of the terrorist-oriented factions in both main parties.

In the wake of Manley's defeat, the radical wing of the People's National Party is quickly moving to seize control, led by dentist D. K. Duncan. The party's unprecedented loss is being blamed on Manley's failure to move "left" hard enough, and new tactics are being demanded.

"We have accepted the bourgeois democratic process up to now," Duncan announced following the election, but "we now move into the final stage of revolutionary politics." While close to the Cubans, Duncan's wing of the party also cooperates very closely with the Washington-based terrorist center, the Institute for Policy Studies.

Manley's expected retirement from a leading role in Jamaica's politics will leave moderates in the country with little leverage against the increasingly drastic polarization.

'Damage control': the Arden House meeting on U.S.-Mexico relations

by Tim Rush

It used to be that no matter how bad U.S.-Mexican relations got, opinion makers on both sides of the border invoked a good neighbor spirit and at least went through the motions of making suggestions to improve relations in the future.

Not any longer. At a time when relations are at their worst level since at least the 1938 oil-nationalization period, the influentials who gathered at Columbia University's Arden House estate Oct. 30 to Nov. 2 concurred that their most important message was that the current problems are intractable. No improvement in relations will be possible for a number of years to come.

The name of the new concept is "damage control," and it appeared in many guises at the American Assembly meeting held at this retreat 50 miles north of New York City last week.

Former U.S. ambassador to Mexico Robert McBride, director of the meeting, explained the term in his lead-off contribution to the gathering's background volume of studies: "Perhaps the best prospects are to retreat from current issues, prevent further deterioration, eschew harmful and unnecessary verbiage . . . and wait for another day." A fellow senior U.S. diplomat phrased it this way in one of the discussion groups: "What will unite us is a commonality of problems, not a commonality of interests."

Entirely absent from the procedings was even token recognition of the persisting, guiding conception of this publication regarding U.S.-Mexico affairs: Mexico, wishing to industrialize with high technology, and America, requiring vast markets for high-technology exports if it wishes to break loose from its current economic decay, have one of the most powerful "commonality of interests" imaginable, and excellent prospects for improving relations.

Liberal crisis brokers

The 65 participants, from high levels of government, academia, business and the press on both sides of the border (see partial list below) saw themselves, in the main, as representatives of "liberal" policy establishments, in the mode of the Council on Foreign Relations in New York.

This accounted for the tenor of the principal conclusions:

Energy: Mexico should go slow on oil development, to avoid becoming an "oil country" with uncontrollable inflationary pressures. For its part, the U.S. must not "consider Mexico as an energy reserve."

Trade: Though each government should "endeavor to minimize frictions," continuing trade conflict is unavoidable.

Immigration: "It would be premature to make a definitive policy choice" regarding the flow of undocumented Mexican workers to the United States. Whatever approach emerges, it should accept "U.S. needs for foreign labor and Mexican needs for jobs abroad . . ."

Delete the word 'growth'

But the insidious quality of the soft-line consensus was summed up in one small incident the final morning of deliberations. The draft final report called for each government to "facilitate rather than impede the growth" of the U.S.-Mexico border region, in an addendum to the trade section.

This was too much for a U.S. State Department and Council on Foreign Relations representative, who insisted that the word "growth" be deleted and "economic exchanges" substituted. A senior U.S. diplomat jumped to support the change, saying approvingly, "you mean quality of life, don't you?" in a stage whisper that could be heard across the room. The change was accepted without a murmur of dissent.

The same pervasive Club of Rome ideology dominated consideration of the issue of labor-intensive versus capital-intensive growth to aid the proposed "economic exchanges." This was the astounding language used in the draft version of the final report:

"Trade might be fostered in new directions if each country took advantage of its comparative strengths

Who was at Arden House

The 65 participants in the "Binational American Assembly on Mexican-American Relations" Oct. 30 to Nov. 2 fell into three broad groups.

On the top were a select group setting the atmosphere and steering the agenda. These included from the U.S. side two former U.S. ambassadors to Mexico, Robert McBride and Joseph John Jova, and the former assistant secretary of state for Inter-American Affairs, Viron Vaky. On the Mexican side: Adrian Lajous, director of the Banco Nacional de Comercio Exterior, Andres Rozental, North American director of the Mexican foreign ministry, and Javier Baz, chief-of-staff for Mexico's former president and tourism czar, Miguel Aleman.

Below them was a second group of "ideologues" who served as foils for those shaping the "consensus." The leftist "hardliners" on the Mexican side were headed by Olga Pellicer de Brody of the Colegio de Mexico, Samuel del Villar, also of the Colegio, and Adolfo Aguilar Zinzer of Luis Echeverría's Third World Center (Ceestem) in Mexico City.

The chief spokesman for anti-Mexican hardliner sentiment on the U.S. side was Guy Erb, formerly national security staffer on Mexico under Brzezinski and currently deputy director of the International Development Cooperation Agency in Washington.

The "target population" of these manipulations, selected prominent government, labor, business, and academic representatives, made up the bulk of the rest. Among these from the Mexican side were three advisers to the Mexican president's office; a high official in Mexico's labor ministry; the private secretary to Monterrey governor Martinez Dominguez; Mexican businessmen from the border area; and on the U.S. side, an official of the League of United Latin American Citizens; a prospective adviser to a Reagan administration on border policy; top-level executives from General Motors and General Electric; and the top Hispanic executive in the Communications Workers of America.

Almost inseparable throughout the proceedings—earning them the nickname of the "Three Musketeers"—were Andres Rozental of Mexico's foreign ministry; Alan Riding, the British correspondent working for the *New York Times* in Mexico, and Adolfo Aguilar of the Ceestem.

under a new and dynamic system of the international division of labor developing some labor-intensive activities in Mexico and some capital-intensive ones in the U.S."

According to several sources, the author of the passage was former U.S. ambassador to Mexico Joseph John Jova. It was allowed to stand in the original drafting session by Mexico's Andres Rozental, director of North American Affairs for the Foreign Ministry.

When it reached the final editing plenary, however, the odor of traditional British imperialist policy was just too strong. Several outraged participants tacked on the phrase, "as well as selected intensive capital goods industries in Mexico." But symptomatically, the focus on "labor-intensive activities" as the basic mode of Mexican development remained intact. The mention of U.S. capital-intensive development was deleted entirely. No voice was raised in defense of a partnership of high-technology development, though several participants privately expressed agreement with such a program.

Ultimate goals

It was a meeting designed to "shape the opinions of the opinion makers."

In some cases the soft "brainwashing" operations were focused on creating consensus around specific policy proposals. An example was the call, appearing in the final report, for extending border assembly plant operations to full-scale integrated "production-sharing" facilities. Though it slipped through quietly, the concept is sure to run into difficulties with higher-level Mexican officials concerned about the security implications of the arrangement.

But the key manipulation involved the implications of "damage control" itself. As former U.S. undersecretary of state and current director of the Georgetown Foreign Service School, Viron "Pete" Vaky, confided to an *EIR* correspondent, "We can't use the words 'common market' here, but, yes, that's definitely the direction things are going in."

Mexico has firmly shut the door on integrating its economy into a U.S.-dominated North American entity; but will it be able to hold out after current problems are allowed to sufficiently fester under a "damage control" regime?

Prominent Stanford economist Clark Reynolds, posturing as the great "social reform" critic of allegedly elitist Mexican development policy, added the final touch to the threatening overtones of the "damage control" doctrine. He let drop the *realpolitik* observation that Mexico's oil, particularly its Campeche Gulf installations, were indefensible and there for the taking by a stronger power. His comment almost caused heart failure in several State Department officers present—not for its content but for its baldness.

Africa Report by Mary Brannan

Carter rejects famine aid petition

Nevertheless, it is in America's self-interest to rescue the continent's jeopardized millions.

In October 1980, the Committee for a New Africa Policy presented President Carter with a nationally circulated petition demanding that the President use his emergency powers to take action to alleviate the conditions of famine and drought now threatening the continent of Africa.

Carter's effective answer was to declare a death sentence against 100 million Africans who face starvation in the next months, and the more than 20 million Africans who are likely to starve to death in the next weeks. Despite his stated concerns for black Africans and black Americans, the President replied only with a State Department form letter to the Committee request for emergency shipments of U.S. grains to famine-hit areas to lay the basis for reversing the continent's famine conditions.

There is no doubt that Carter is aware of the mass death confronting millions in Africa. Former Manhattan borough president Hulan E. Jack, a member of the Committee, went before national television to mobilize American aid to Africa.

At the end of October, Carter instructed the State Department to reply to the petitioners organized by the Committee in the name of William J. Dyess, Assistant Secretary of State for Public Affairs.

Dyess replied as follows:

"Thank you for your letter to President Carter regarding your concern for the refugees of Africa. We share your deep concern about these unfortunate people. I have enclosed some material that briefly describes U.S. relief efforts throughout Africa, and especially in Somalia. I hope that this information will be useful to you and your association."

With these words the Carter administration formally washed its hands of the responsibility to act in the present emergency. Never before in recent history have holocaust conditions threatening human life on such an extended scale been tolerated so passively for so long.

It is notable in this regard that Carter's reply ignored the fact that a petition had been submitted, and that the petition was concerned not only with refugees, but with providing the 18 million tons of grain from U.S. surpluses that could buy the time to enable medium-range and long-range programs to be put into effect to end the causes of the holocaust once and for all.

Africa is not starving to death for any natural or inevitable reason. Africa is starving because industrialized nations such as the United States—which could provide the investment credit, capital goods, and manpower training, for extended scale development of food and energy production—are themselves being strangled under the tight credit policies of the Federal Reserve Board.

Unnecessary depression, plant closings, and austerity in the United States, for example, translate directly into genocide in black Africa. Africa has been systematically deprived of necessary outside inputs under the barbaric conditionalities policies of the International Monetary Fund and the other London, Canada, and New York-centered institutions.

The refugees to which the Carter spokesman referred are the outcome of the imposition of such conditionalities policies. The basis for subsistence agriculture has been eroded across the continent, in a belt extending from the Atlantic coast to the Horn and down the east coast into Mozambique. As a result, populations have been displaced and forced into a life of nomadic brigandage or a concentration-camp existence.

The same petition signed by leaders of business, labor, minority, religious, and farm organizations from around the country presented to Carter was also sent to the relevant committees in the Senate and the House of Representatives. Specifically addressed were the Committees for Foreign and International Relations, and the Agricultural Committees.

Thus far only Congresswoman Millicent Fenwick of the Foreign and International Relations Committee has seen fit to reply. Fenwick, a liberal Republican, reported that she "shares the concern," but "does not want to join any more organizations."

Middle East Report by Robert Dreyfuss

Power struggle in Iran

Will Khomeini and his mullarchy survive if the hostage question is settled?

In the wake of Iran's parliamentary decision to move toward the release of the 52 American hostages, a full-scale power struggle has erupted in Iran that could topple the Khomeini government.

For the past 12 months, the continuing crisis around the hostages has been the glue that has kept Iran together and Khomeini and his clerics, or mullahs, in power. Once the hostages are released, the chief political weapon of the mullahs will have been removed, and a minimum of five different factions are expected to make simultaneous bids for power. Among those jockeying for position in the power struggle are the Iranian left; the old Iranian National Front of former prime minister Mehdi Bazargan; the monarchists, who support the return of the late shah's son, Reza Shah II, to Iran; the Iranian military; and the mullahs themselves.

The biggest challenge to the mullah-dominated Khomeini government comes from the Iranian left, which is composed of several factions including the communist Tudeh Party, the Mujahedin, and the Fedayin. Despite their ideological differences, they all oppose the release of the hostages and have organized extensive support throughout Iran for their position.

That faction of the mullahs, led by Ayatollahs Khalkhali and Beheshti, who are eager to make an arms-for-hostages deal with the United States, is moving fast to squash the left. On Nov. 1, Iranian radio broadcast reports about the existence of a "fifth column" in the central city of Shiraz. According to the broadcast, Iranian dissidents backed by Iraq and some leftist parties such as the Tudeh and Fedayin have caused disturbances in Shiraz in recent days.

"The Baathist Party's fifth column has been mobilized in the cities and is creating an artificial state of unrest," the broadcast stated, adding that Khomeini's Revolutionary Guards "immediately found and arrested the heads of . . . this fifth column."

Further signs of a crackdown on the left were evidenced by the banning of the Tudeh Party newspaper two weeks ago at the start of the parliamentary debate on the hostage question. In addition, the trial of Mujahedin leader Saadati has been resumed following its postponement at the start of the Iran-Iraq war. Saadati is being accused of spying for the Soviet Union.

According to a source close to the Iranian left, "Unless the left, and in particular the Mujahedin, is smashed, Khalkhali and Beheshti will not be able to get away with speaking, they are going to be overthrown."
speaking, they will be overthrown."

The monarchists are also beginning to flex their muscle. According to Iranian sources, following Reza Pahlavi's Oct. 31 announcement in Cairo that he is the new shah, pro-shah demonstrations occurred in Teheran, Tabriz, and the holy city of Qom, Khomeini's base of operations. Supporting these demonstrations were followers of the anti-Khomeini ayatollah Shareatmadari, presently under house arrest in Qom.

According to insiders, Iranian president Abolhassan Bani-Sadr, who has carefully kept himself out of the limelight during the current hostage negotiations, is quietly working with Khalkhali and Beheshti around a deal with the United States. However, at the same time, Bani-Sadr, through his newspaper *Inqilab,* is attacking Prime Minister Mohammed Ali Rajai and the more extremist of the religious layers and is taking steps to secure a new power base in the military. Dressed in full military uniform, Bani-Sadr has been spending virtually all his time in recent weeks in the war zone, meeting with the armed forces command in an effort to win over their support.

According to reports from the front, the military is ready to bolt from Khomeini. They are already bolting from the front.

To prevent both regular and noncommissioned officers from fleeing from the front lines, Revolutionary Guards have reportedly been positioned behind the armed forces to lock them in.

Pushing Bani-Sadr to become an alternate power center to the clergy are members of the Iranian National Front of former prime minister Bazargan. In a series of articles in his paper *Mizan,* Bazargan has attacked the "savagery" of the current regime and compared its "brutality" with that of the shah.

 by Josefina Menendez

Behind the business-government spat

A faction of business seems to have wanted to polarize the political atmosphere.

Charges of excessive government interference in the economy, whenever sharply voiced by business leaders here, cause tremors of a very particular nature to run through the political circuits. Such charges almost inevitably raise the specter of the bitter feuding between business and President Luis Echeverría at the close of his term in 1976.

So, observers here perked up their ears in early October, when a volley of criticism of the government's planning programs and role in the economy issued forth from several business leaders. The most deliberately evocative of the 1976 period came from Pablo Gerber, the head of the Mexican Employers Confederation (Coparmex) in Jalisco. Gerber told a blue-ribbon government and private-sector audience Oct. 13 that "the socializing tendency of the previous presidential term has come to the fore once again. . . . Black clouds are gathering which foretell a stormy period."

EIR looked into the case, and soon traced the boomlet of attacks back to the offices of the Center for Economic Studies of the Private Sector (CEESP), which recently issued a study recommending the "Chilean Model" of Milton Friedman as a cure-all.

Working back a little further, we discovered that the most recent marching orders for the CEESP had come from a September closed door meeting of the Mont Pelerin Society. The meeting was held in Palo Alto, California.

Mont Pelerin is the premier private intelligence network of the alliance between London monetarists and the European oligarchy, formed around Vienna School economics at the end of World War II.

The stars at the September gathering reputedly included Milton Friedman, British industries minister Sir Keith Joseph, Bill Simon, and Fritz Machlup of the IMF's "Group of 30." Several countries—including Mexico—were singled out as special targets for campaigns to reduce economic growth with policies sold under the "anti-inflationary" label. The direct transmission belt for the order to Dr. Ibañez, director of the CEESP, was via his close friend, Mont Pelerin member and participant in the Palo Alto meeting, Agustín Navarro Vázquez.

The boomlet was soon brought under control by other members of the business community. One of the most forceful statements came from José Pintado Rivero, director of the number-three banking conglomerate in the country, Comermex. In a rare public call, Pintado Rivero declared that there was more than enough for both business and government to do. "We must not distract ourselves in concepts or positions or hints of conflict. These supposed conflicts are nothing but small feelers to awaken political questions."

The phrasing was an unmistakable allusion to the intensifying jockeying around Mexico's presidential succession, to be decided next year.

Observers see the attacks on the government as part of efforts by particular factions to polarize the political spectrum between labor and the state on one side, and the business community on the other. Translated into the presidential sweepstakes: between Labor Minister Pedro Ojeda Paullada, and Budget and Planning Minister Miguel de la Madrid.

In probably the most significant follow-up effort on the part of the "polarizing" crew, the wily chameleon of the *Excelsior* stable of columnists, José Luis Mejías, suddenly opened fire in late October on state-sector steel boss Jorge Leipen Garay. Mejías accused Leipen of taking a whopping $12 million bribe from the Monterrey Group steel giant, HYLSA, in exchange for giving HYLSA the contract for direct reduction technology to be installed in Stage II of the government's Pacific Coast Sicartsa plant.

By attacking this contract, Mejías was taking aim at one major advance in the government-business "Alliance for Production" program to be chalked up in the last years.

Mejías, however, failed to back up his charges with more than the observation that Mexico would do better to export all its natural gas—the basic input for direct reduction—to the United States and import coking coal for the alternative blast furnace technology in Mexico. With Mexico's nationalism particularly aroused around the gas issue after the famous Schlesinger debacle, it was hardly an argument to find many followers.

International Intelligence

Europe welcomes Reagan victory

French president Giscard has sent Ronald Reagan a telegram in which he said he would be delighted to meet with the candidate who was elected president in such difficult times. Giscard stressed that France wants a dialogue with the new President. French radio, which is run by a government monopoly, reported that Reagan was elected because the American people were sick and tired of Jimmy Carter's economic policy. Reagan, French radio said, will revive the "frontier spirit" in America. Reagan is more pro-European than his predecessor, the radio broadcast added.

The contents of West German chancellor Schmidt's telegram to the President-elect have not been made public. However, the Chancellor's spokesman, Klaus Bölling, told reporters that the West German government welcomes the fact that Reagan has emphasized his wish to have good relations with the Soviet Union. and hopes for the continuation of good American-German relations.

Iraq offers Khomeini an end to the war

In a speech before Iraq's National Assembly Nov. 4, Iraqi president Saddam Hussein asserted that if Iran's ayatollah Khomeini accepts "just demands" for control over the disputed Shatt al-Arab waterway area, the Iraq-Iran war could be ended "tomorrow."

"If Khomeini wants to continue the war," Hussein stated, "he can continue it until eternity. But he must know that war imposes its own claims which are greater than those that existed before the war. . . . We never wanted a war, and we gave Iran chance after chance to avoid one. They refused and thus we are now locked in battle."

Hussein said that "those who feel the Iraqi army will get tired from the war are wrong. What we are giving them now is measured doses."

As he spoke, Iraq was consolidating its control over major supply centers and urban regions in the southwestern oil-producing province of Khuzestan in Iran.

Iraq has been aided in its war effort by the French government. According to France's *L'Express* magazine, the French government has sent a directive to the Dassault aircraft company to speed up the date of delivery of Mirage jets to Iraq so they will arrive in December, rather than in February of next year.

Iraq is also being helped by Saudi Arabia. According to Defense Department sources, Saudi Arabia is threatening to hold up oil shipments to the U.S. if Jimmy Carter, in his last weeks in office, sends arms to Iran.

Arab diplomatic sources at the United Nations report satisfaction with the results of the American elections. They estimated that Carter's defeat will speed the collapse of the Khomeini regime in Iran.

Africa refugee deaths continue to rise

A large increase of refugees now totaling 3,000 new arrivals a day has started to flood Somalia's overburdened facilities and strain its battered economy, reports the London *Guardian.* It is estimated that at least 1 million refugees from the Ogaden area between Ethiopia and Somalia have died since August.

The Committee for a New Africa Policy, a U.S.-based organization fighting for U.S. aid to Africa, estimated earlier this year that 10 million African people would die of famine by December from drought. "That 10 million figure did not take into account the deaths resulting from famine conditions now existing in rural and bantustan areas of South Africa. Thirty percent of the rural population of South Africa may die from malnutrition," said a spokesman for the Committee Nov. 5. "We can also add to this total the worsening conditions in the Hiran and East Africa, where a do-nothing policy of the Carter administration and others has compounded the problems of refugees."

According to the London *Guardian* of Nov. 4, the field director for Oxfam in Somalia, Stephen Green, claimed that 2,000 refugees, mostly ethnic Somalis, were arriving daily in the northwest portion of the country which lies closest to the Ogaden, a desert area bordering Ethiopia and Somalia, and 500 a day were arriving at Hiran in the south. Another 400 to 500 appeared daily at refugee reception points in southwestern Gedo province which was the scene of riots by starving refugees demanding food.

Green claimed that the figures were corroborated by the U.N. High Commission for Refugees, which is coordinating Western relief efforts in Somalia, and the Somali Government's National Refugee Commission which is operating the country's 26 camps.

Official figures for Somali refugees are placed at 848,000, before the recent arrivals. It is also revealed that at least an equal number of refugees are settling with Somali relatives, bringing the total of refugees to 1.8 million. In August the total number of refugees was 1.5 million. Even accounting for miscalculation and other difficulties, at least a million people have died since August.

Throughout the continent millions more are confronting death by starvation. The latest World Health Organization report states that sub-Saharan Africa has the highest mortality rates in the world "and has made least progress in lowering mortality during recent years."

In the Sudan, the southern regional economy has collapsed, after development projects for irrigation from the Nile River were forced to be scrapped by the International Monetary Fund. And, in South Africa, an estimated 50,000 children will die this winter, with another 100,000 at risk.

Briefly

• **PRESIDENT TURBAY** of Colombia said in an interview with the *New York Times* published Nov. 2 that "The leading power in the Western world with its millions has confiscated less [drugs] in its territory than Colombia with its limited resources has in its. If the United States would only make a substantial investment in Colombia to match the contribution made by the Colombian government, drug traffic would be reduced in a very big way."

• **EDWARD HEATH,** former British prime minister, attacked fellow Conservative Margaret Thatcher's economic policies as "catastrophic" in a BBC interview Nov. 5. Heath accused Thatcher adviser Milton Friedman of wishing to eliminate the U.S. industrial base British-style. "If you [Friedman] persuade Mr. Reagan to accept that," he said, "then the future of the American people is really bleak."

• **DIE WELT,** West Germany's leading conservative daily, recalls that "It was Nixon who introduced a 10 percent import tax and decoupled the dollar from gold—a disastrous decision."

• **ERICH HONECKER,** the East German party chief, said in an interview with the Austrian press Nov. 2 that he is still interested in a summit meeting with West German chancellor Helmut Schmidt. The two were to have met in East Germany in September, but the Polish crisis supervened. Honecker stated that the summit was delayed at Schmidt's initiative, which in Honecker's opinion ran counter to Schmidt's general policy that such meetings are all the more necessary during crisis situations.

New Lebanese government jeopardized

Recent attempts to form a new government in Lebanon have been upset by an outbreak of fighting in Beirut on Oct. 31.

The fighting occurred when the Lebanese national armed forces tried to assert its control over areas claimed by the Lebanese Falangist Party. In response to the army actions, the Falange opened up fighting on the army, forcing it into retreat. This retreat discredited the central authority in the eyes of many Lebanese, exactly at the moment when the newly named Wazzan government was trying to put together a cabinet.

The Wazzan team's consolidation was further undermined when two parties in Lebanon, the pro-Iran Shiite Al-Amal organization and the pro-Syrian Baath Party, publicly announced their opposition to the new government.

Lebanon's anarchy has otherwise been blamed on the Carter administration and the Begin regime in Israel by leading Lebanese spokesmen.

In an Oct. 30 statement, Foreign Minister Fuad Butros stated that it was "hard to detect" beneficial aspects of Carter's Lebanon policy, since "for the Carter administration, Lebanon was above all a pawn on the Middle East chessboard."

On Nov. 5, leading Lebanese politician Raymond Edde, now living in exile, stated "It is incumbent on the superpowers . . . to prevent Israel from annexing southern Lebanon." Edde's statement followed reports of stepped up Israeli military activity within the southern Lebanese area.

Polish politician back on the scene

Miecaslaw Moczar, a Polish "nationalist" leader who was demoted from power during the 1970s by then party chief Edward Gierek, is now making a comeback, according to press reports. Moczar was reelected chairman of the largest Polish veterans' association, "Zbowid," a position he held from 1964 to 1969, when he was replaced by an associate of Gierek. Gierek had him removed from the ruling Politburo in 1971.

Moczar was never trusted by the Soviets, reported the French daily *Le Figaro* Nov. 5. During World War II he fought in the resistance inside Poland, and never went to Moscow. He was said to have been anti-Semitic and to have collaborated with the Nazis.

Since the fall of Gierek during this summer's Polish strikes, Moczar has been coming back into prominence, leading a crackdown against "corruption" in the Polish United Workers Party. *Le Figaro* predicts that he will be reinstated to the Politburo at the next congress of the party.

Moczar delivered a speech Nov. 3 upon his election to the veterans' association, expressing full support to party leader Stanislaw Kania as well as "warm support" for the Solidarity trade union.

French security deal with Saudi Arabia

French interior minister Christian Bonnet and his Saudi Arabian counterpart, Prince Abdul Aziz, signed a security cooperation agreement in Riyadh, on Nov. 2. The agreement covers training and equipping of Saudi internal security forces by the French, and came at the end of four days of consultations between the two ministers.

Last year the French were called in by the Saudi government to root out a group of Islamic fundamentalist rebels who took over the Grand Mosque at Mecca. Since then, the Saudis have been increasingly reliant on France in security and military matters, a role previously ascribed to the United States.

The French-Saudi agreement is part of increasing French involvement in the Persian Gulf generally, where France is also closely cooperating with Iraq.

The mandate was against Volcker: will Reagan put America back to work?

by Konstantin George

The landslide victory of Ronald Reagan represents a total repudiation of the economic and foreign policies of the Carter administration. The voters' overwhelming vote against Carter policies can best be summarized as mainstream America's rejection of Carter's slavish submission to the dictates of Ayatollah Khomeini and rejection of Carter's economic depression brought on by the policies of Paul "Ayatollah" Volcker, the mad mullah at the helm of the Fed.

The vote, with Reagan carrying 44 states for a total of 489 electoral votes, represents a greater repudiation of an incumbent President than even the historic 1932 trouncing accorded Herbert Hoover. Both drubbings were administered by a huge bipartisan cross section of American voters, cutting across all regional, ethnic, and occupational lines. Both were administered for the same reason—repudiation of a President whose avowed policies were plunging the United States into a great depression.

Reagan's vote is a mandate to completely reverse the Carter-Volcker depression policies. Fifty percent of the normally Democratic blue-collar Americans who went to the polls voted for Reagan—that is, in most cases, against Carter.

The Reagan vote among these constituencies, the components of the old "Roosevelt coalition," are record-shattering totals for a Republican candidate. For the first time in modern history, a GOP presidential aspirant won a solid majority—at least 52 percent—of the trade union membership's vote.

In this section

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by Konstantin George

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by Kathleen Murphy

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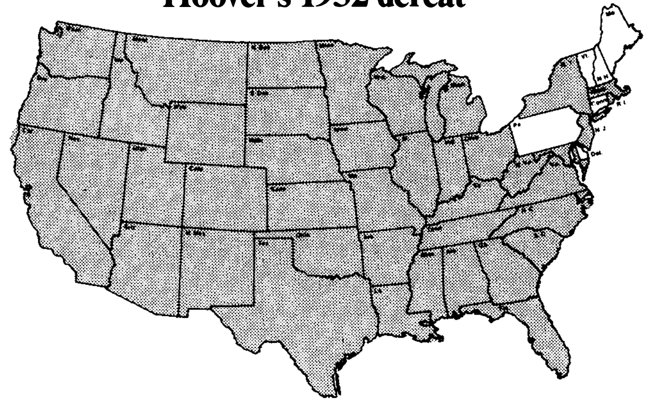
Hoover's 1932 defeat



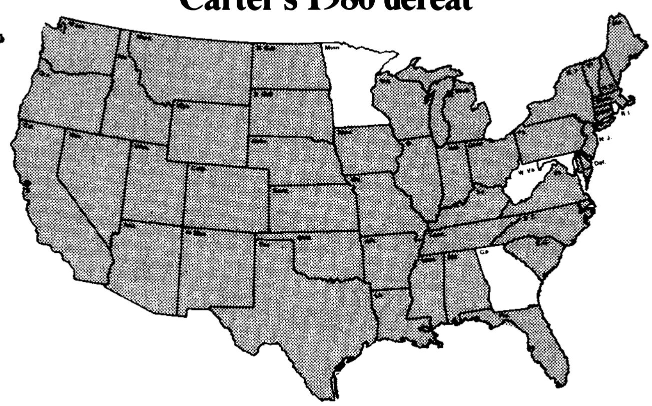
Loser's electoral vote

Pennsylvania	36	New Hampshire	4
Connecticut	8	Vermont	3
Maine	5	Delaware	3

Total electoral vote

Herbert Hoover	59
Franklin Roosevelt	472

Carter's 1980 defeat



Loser's electoral vote

Georgia	12	Hawaii	4
Minnesota	10	Rhode Island	4
Maryland	10	District of Columbia	3
West Virginia	6		

Total electoral vote

James Earl Carter	49
Ronald Reagan	489

vote.

The 52 percent figure is for all blue collar, white and black, averaged out. This puts the Reagan white ethnic/blue-collar vote in the range of 70 percent, meaning a complete mirror-reversal of the standard 70-30 vote breakdown in the Democratic candidate's favor.

To complete the picture, one must add the millions of registered Democrats, including many among minorities, who added their weight to the anti-Carter referendum by staying home.

Whether by voting against him, or by expressing hatred of Carter policies by not voting, every component of the old winning Democratic coalition—blue collar/ethnic, minorities, Southerners—first put together by FDR in 1932, broke with Carter.

Carter became the first Democratic incumbent in history to be decisively turned out of office by each of the components that have made up the historic "Roosevelt coalition" that has made the Democratic Party the majority party, except for a brief interlude, since 1932. Carter became the first Democratic candidate, let alone President, since Roosevelt not to take even one major industrial state. Southern Democratic rejection was on the same scale. Of the ten Deep South states, the old Confederacy minus Texas, Carter carried only one, his home state of Georgia.

The American electorate also broke the near-dictatorial hold on the Democratic Party that has been exercised from 1972 on by the ultraliberal, antigrowth faction known as the "McGovernites." Along with Carter, every recognized McGovernite senator up for reelection fell, starting with McGovern himself. Getting the ax with McGovern were Bayh of Indiana, Culver of Iowa, Church of Idaho, and Durkin of New Hampshire.

Like Carter, these McGovernites completely miscalculated the antidepression revolt psychology dominant in the population. Underneath all their rhetoric about "concern for the poor," the McGovernites' refusal to fight Volcker's policies showed these hypocrites in their true colors.

With the McGovernites now largely swept out of office, and with remaining ultraliberals on full notice concerning 1982 primaries as to what can modestly be termed their vulnerability, both urban and rural Democratic constituency machines will begin using this mandate to restaff and restructure local and state Democratic Party leaderships in preparation for a showdown fight at the national level against the Robert Strauss/John White DNC leadership, and the other national staff DNC strategists who were responsible for the August convention armtwisting of delegates that produced the Carter candidacy.

The media role

The thunderous "No" to Carter economic and foreign policies was delivered in the face of the most persevering and most vicious media "plugs for Carter" operation, with national television going through every

Ronald Reagan on the Philadelphia docks in August.

contortion and distortion to render a Carter reelection scenario seemingly "credible."

Why did the U.S. media attempt to drum into the population's head that the race was, to quote the most commonly used phrase of the past month, "too close to call"?

The failed media exercise itself yields some useful insights into what are the political reality principles in 1980. Reality principle number one was that there was no way to mobilize a Carter vote. Carter was doomed to massive defeat because of his policies, unless—through a pre-election hoax orchestrated by the media—an anti-Reagan, or anti-bogeyman, vote could be generated.

The media totally miscalculated. The coming voter tidal wave was neither pro- nor anti-Reagan per se. It was anti-Carter and antidepression, and the new Reagan administration it has swept into office had better take heed.

The "bogeyman" option backfiring, the media and the Carter administration tried one last desperate gamble: a pre-election hostage release. What was conceived of as a last-minute "political miracle" that would save Carter.

This was to be the last miscalculation. The public perceives Carter correctly as devious, corrupt, a liar and hypocrite, capable of attempting anything to get reelected. Carter's pre-election hostage gambit exploded in his face; American voters saw the move for what it was.

The Trilateral question

The outcome of the 1980 election forms an object lesson to the financial interests behind the Trilateral Commission who put the Carter into the White House. A previous mood of "what can I do about it," or "what's the use?" as the response to such policy outrages, has been replaced by a moral resurgence.

The new Reagan administration will be inaugurated amid this mandate for a return to policies promoting industrial, technological, economic growth. It can choose to accept this mandate, or to pretend that it is a mere "backlash against big government," and proceed with austerity policies. That is essentially what the intense in-fighting between the Trilateral Commission and anti-Trilateral nationalist current is all about during this transition period.

Should the new administration, under Kissinger-Trilateral manipulation, tend to violate this voter mandate, it will not be without paying very steep—and for certain sections of the GOP, unacceptable—political penalties.

The fight for policy control

by Kathleen Murphy

There are three principal groupings now bitterly contending for power over the Reagan government:

• **The Eastern Establishment** wing of the Republican Party. This faction is represented by Henry Kissinger; former Treasury and Labor Secretary George Schultz, now at the Bechtel Corporation; ex-HEW head Caspar Weinberger, who also served in Reagan's California administration; former NATO Supreme Commander Alexander Haig, a protégé of both Kissinger and ex-Secretary of State Cyrus Vance; Bill Simon, another former Treasury Secretary; Alan Greenspan, one-time chairman of the Council on Economic Advisers; and former Federal Reserve chairman Arthur Burns. Members of the New York Council on Foreign Relations and/or the Trilateral Commission, this group's overall policy orientation is summarized in the CFR's mammoth "Project 1980s," which identified the world economic situation as a fight against liberalism and dirigism, and called for "the controlled disintegration of the world economy" as the only alternative to Western European and Japanese ascendancy.

When it became obvious early last spring that none of Reagan's opponents for the Republican nomination had a stab at winning, this faction heaved a sigh, resigned itself that the former California Governor would become the GOP candidate, and then moved to ensure top-down control over the Reagan camp. Although they were unable to consolidate full control, they did force Reagan—over the objections of his conservative advisers—to name George Bush as his vice-presidential running mate. Nominally a Texas oil entrepreneur, Bush hails from an old patrician New England family and belongs both to the CFR and the Trilateral Commission.

This Eastern Establishment faction is heavily represented on Reagan's foreign policy transition team, whose members include Alexander Haig, Henry Kissinger, Howard Baker, Gerald Ford, and John J. McCloy, as well as Democrats Eugene Rostow, Jeanne Kirkpatrick, and Henry Jackson. The vice-chairman of the overall transition team, Anne Armstrong, is a former ambassador to the Court of St. James, a member of the Council on Foreign Relations, and a member of the ultra-Anglophile Ditchley Foundation. Transition team chairman Bill Casey is also a Council on Foreign Relations activist.

• **The nationalist faction** that includes old-line supporters of Barry Goldwater, Eastern Democrats fed up with the failures of their party, and Western populists. One of the power centers of this faction is the so-called "California Mafia," consisting of long-time Reagan operatives. They include Edward Meese, who will direct Reagan's transition team and will probably become his White House chief of staff; Lyn Nofziger, in line for White House press spokesman; and the public relations team of Michael Deaver and Peter Hannaford. There is also a group of California businessmen who formed the "Friends of Ronald Reagan" in 1965 to back Reagan's successful bid for the governorship of California.

Many of these individuals built financial empires from scratch. They favor a political climate encouraging industrial growth. In foreign policy, they are generally hard-liners, but tend to make practical judgments beyond right/left categorizations.

• **The right-wing ideologues** headed by Reagan foreign-policy coordinator Richard V. Allen. This group includes Reagan Mideast advisers Joseph Churba, retired generals Daniel Graham and George Keegan and University of Southern California professor William van Cleave. Stanford University's Hoover Institution on War, Revolution and Peace is one of their major academic bases. They generally take a studiedly extreme pro-Israel position, coupled with an anti-Communism that the Eastern Establishment faction finds objectionable because it leaves no room for temporary policy modifications such as a new arms control initiative toward the Soviet Union.

Which of these factions controls the composition of the cabinet is a particularly important issue because of Reagan's well-known tendency to leave many important decisions to his advisers. Reagan announced in a last-minute pre-election national television advertisement Nov. 2 that he plans to change the way the executive branch works, and enhance the power of the cabinet. The Kissinger faction is pushing for such an "Executive Cabinet" concept. Reagan will soon announce a detailed proposal for reorganizing the executive branch.

Such liberal political commentators as the *Washington Post*'s Joseph Kraft and James Reston of the *New York Times* have consistently pressed the theme that Reagan might be acceptable to the Council on Foreign Relations and Trilateral Commission if he peopled his cabinet with "responsible middle-of-the-roaders." Typical of this bent was the pseudoconservative New York *Daily News*. The nation's largest-circulation regional paper finally endorsed Reagan, not because of his own qualities, however, but because "despite his limitations" Reagan "promises to rely on the advice of formidably experienced men like former Treasury Secretary George Shultz and, directly or indirectly, Henry Kissinger. . . ."

The major U.S. media say that a large contingent of Nixon-Ford administration holdovers will take the key positions in the new cabinet. The British wire service Reuters reported Nov. 5 that according to members of Reagan's staff, the President-elect will seek "to broaden his base of support by recalling officials of past Republican administrations and dipping into moderate ranks to fill top-level posts." The cabinet front-runners are said to be:

Secretary of State or Defense Secretary: George Shultz, former NATO Supreme Commander Alexander Haig, former Treasury Secretary William Simon, former deputy defense secretary David Packard, or a conservative Democrat like Paul Nitze or Scoop Jackson. There is little chance that Kissinger will get a cabinet position; but these individuals generally reflect his views.

Secretary of the Treasury, Director of the Office of Management and Budget, and chairman of the Council of Economic Advisers: former budget directors James Lynn and Caspar Weinberger; ex-Treasury undersecretary Charles Walker; William Simon; one-time CEA head Alan Greenspan; Walter Wriston of Citicorp; and Chase Manhattan's David Rockefeller.

Should Reagan decide to choose most of his cabinet members from among this group, a battle will continue. In the crucial arena of economic policy, the Shultz-Greenspan-Simon crew represent a direct continuation of the high-interest-rate, deflationary gameplan pursued by President Carter's Federal Reserve chairman Paul "Ayatollah" Volcker.

A significant faction among Reagan's conservative backers are organizing active opposition to the Shultz-Kissinger grouping. "We don't like a repeat of the Ford administration, of the bureaucrats like Simon and Greenspan," confided one Reagan conservative on Capitol Hill. "Simon and Garfunkel, we call them [referring

George Shultz's curriculum vitae

One of the candidates for a top economic spot in the new Reagan administration is George Shultz. The former secretary of the Treasury and the Labor Department typifies the outlook held by the economists who will run U.S. economic policy if the Eastern Establishment secures control over the Reagan cabinet.

Shultz is a personal protégé of Milton Friedman and a close friend of Henry Kissinger, whom he is touting for secretary of state. Shultz vigorously defended Fed chairman Paul Volcker's high-interest rate policy when President Carter, in a last-ditch bid for political support, criticized it three weeks ago.

George Pratt Shultz, the president of San Francisco's Bechtel Corporation, is widely believed to currently dominate economic thinking in the shadow Reagan cabinet. Shultz bears significant responsibility for the Nixon administration's economic record.

Mr. Shultz comes from a line of Princeton University-trained liberal economists. His father, Birl Shultz, was a Princeton economics professor who coauthored a history of the progressive Republican movement with liberal historian Charles Beard.

After graduation from Connecticut's exclusive Loomis School, George Shultz received his B.A. in Economics from Princeton. He went on to a Ph.D. in Industrial Economics and Labor Relations at MIT during the 1942-49 period when psychologist Kurt Lewin dominated MIT's labor relations school. Shultz's specialty was the retraining and relocation of displaced workers. He coauthored two books entitled *Management Organization and the Computer* and *Strategies for the Displaced Worker.*

In 1957, Mr. Shultz became a professor of labor relations at the University of Chicago, where he worked closely with economist Milton Friedman and Friedman's teacher, Arthur Burns. In 1962 Mr. Shultz was appointed dean of the Chicago Business School.

to a folk-rock duet of the 1960s]. . ... We need new ideas, not this Simonesque bureaucrat managing of the situation, but someone who can get the economy moving. Shultz is one of them, too. He's bright, but his economics isn't in the growth mode. This is a crucial watershed for this administration. . . . Reagan is having an inner debate right now in his head. He's torn. He may lean toward the supply side group around [Congressman Jack] Kemp and [economist] Laffer. But they don't have the stature of the older men."

The 'congressional cabinet'

In addition to his formal cabinet, and his informal "kitchen cabinet" of advisers, the incoming President Reagan is likely to continue to turn to a block of conservative senators for substantial policy inputs. Led by long-time Reagan intimate Senator Paul Laxalt of Nevada, this "congressional kitchen cabinet" has the potential to be a clear, conservative outside influence in a White House which will undoubtedly be subjected to continued influences by the Henry Kissinger-Milton Friedman wing of the party. While this Senate bloc reflects all the ideological pitfalls of the hard-line, conservative wing of the party, for example on social issues and on relations with the Soviet Union, it is also the closest approximation that the Reagan administration will have to the nationalist mood of the country. Reagan's appointment of Laxalt to head a transitional congressional advisory committee indicates how this group will function as a unique transmission belt into Reagan. Probable active participants in the "congressional cabinet" include:

- Senator Paul Laxalt: As governor of Nevada in 1966, Laxalt became very close to fellow governor Reagan, sharing most of his conservative views. Two years earlier, Laxalt had been an early supporter of Barry Goldwater's presidential bid. Since his election to the Senate in 1974, Laxalt has been a low-key legislator, following the lead of other western conservatives on various policies, and maintaining his close ties with Reagan, as campaign manager for both of Reagan's 1976 and 1980 bids.
- Senator John Tower: Elected in 1972, straight out of a college history professorship, Tower has gained a reputation as a savvy supporter of strengthening American military forces. Campaigning for Reagan in Texas this year, Tower (who will be the new Armed Services Committee chairman) stressed the fact that four more years of Jimmy Carter could spell the virtual demise of American military and technological capabilities.
- Senator Jesse Helms: North Carolina's Helms is one of the few longstanding Eastern conservatives in the Senate, and has access to Reagan. Helms enjoys his own independent political base, built up since his election in 1972, and is outspoken in his opposition to the "Trilateral Commission influence" in American politics. Helms is slated to head the Senate Agriculture Committee.
- Senator Jake Garn: The new chairman of the Senate Banking Committee is also a heavy-weight on military policy. A popular former mayor of Salt Lake City, Garn was elected to the Senate in 1974. He is currently stressing that he will use the banking committee to strengthen the Export-Import Bank and develop an aggressive U.S. export policy.

The international tug-of-war

Finally, during the transition period America's allies will be angling for influence over Reagan administration policy. Prime Minister Margaret Thatcher of Britain is emphasizing an apparent convergence of views between herself and Reagan, although Conservative Party leader Edward Heath has already warned against a Friedman-style economic policy that, he says, would do to U.S. industry what Thatcher has done to Britain's. West German chancellor Helmut Schmidt will visit the U.S. this month as the first foreign head of state to consult with Reagan. Schmidt's visit will be preceded by a Franco-German summit.

While a fellow at the Palo Alto Center for the Advanced Study of Behavioral Science, Mr. Shultz was tapped by Richard Nixon's confidant Arthur Burns for the post of secretary of labor in the incoming Nixon administration in 1969.

In July 1970, President Nixon granted Mr. Shultz sweeping powers to reorganize the cabinet, appointing him the first director of the Office of Management and the Budget (OMB). Mr. Shultz's administrative reforms, hailed as a "victory for the liberals" by the *New York Times,* included centralizing control over economic policy in the OMB, overshadowing Treasury Secretary David Kennedy. The *Times* characterized Mr. Shultz's reforms as the counterpart to Henry Kissinger's centralization of foreign policy in the new National Security Council.

Following the removal of the dollar from the gold standard on Aug. 15, 1971, Mr. Shultz became secretary of the Treasury in April of 1972 and continued John Connally's tough bargaining stance toward Europe.

Mr. Shultz resigned from the Treasury in May 1974 to accept a top financial post at Bechtel. He is director of Stanford University in Palo Alto.

A fix that wouldn't work

by Lonnie Wolfe

When Americans overwhelmingly rejected Jimmy Carter and his policies last week, they also beat an effort by the media and the national opinion pollsters to rig the election.

For the last month, the media, including the national radio and television networks, have pumped out a consistent line that the election was neck and neck. The percentage difference between Reagan and Carter never showed more than a 4 to 5 percent Reagan lead. More significantly, each of the key states—Illinois, Michigan, New Jersey, Florida, Ohio, Pennsylvania, and Texas—was identified as too close to call. This was specifically designed to negate the idea that Reagan had an overwhelmingly decisive majority in the electoral college—far more than the 270 needed to win.

As *EIR* pointed out in a Nov. 4 report, since his nomination in August, Jimmy Carter's only chance for reelection depended on maintaining a narrow base in the South and Northeast and deploying enormous vote-fraud capabilities in key urban and labor precincts. Political insiders informed *EIR* that the vote-fraud capabilities could shift only between 3 and 5 percent of the vote under maximum conditions. For this to have a chance of success, the talk of potential Reagan landslide had to be dampened. More importantly, the public perception that the race was extremely close had to be maintained.

Calls to the various polling services on the morning after the elections elicited confused apologies. Gallup said that they had failed to continue their polls to the "last minute," and since many voters made up their minds at the last minute, such an effort would have produced more accurate results. Spokesmen for Lou Harris claimed that their poll wasn't that really far off. Spokesmen for the *New York Times*/CBS refused to comment at all.

Regardless of the pollsters' excuses, the polls were totally wrong—so much so as to suggest deliberate rigging. While *EIR* continues to investigate this serious charge, our preliminary reports reveal ample available information to suggest that the media deliberately lied to obscure an impending Reagan landslide. As *EIR* reported, Reagan was marginally but decisively ahead in every key state that the polls identified as a toss-up. The only reason that such states could be considered close was because of vote-fraud capabilities. Spokesmen for the polling agencies refused to comment on whether such capabilities were included in their findings.

Other information points to the polls being deliberately rigged through selective editing of information. For example, well-placed sources in the AFL-CIO report that their own private polling revealed an incredible softness in labor support for Carter. In addition, they showed that Reagan was doing far better among unionized voters than anyone expected, pointing toward the actual outcome of the election. The private polling information showed Carter's support eroding as Election Day drew nearer. Carter had to win a decisive plurality from labor in order to have any chance to win key Midwest states. The AFL-CIO strategists realized that even with a huge vote-fraud capability, they could not deliver the needed vote. These results were confirmed by early morning polls on Election Day. By noon, AFL-CIO headquarters confirmed estimates made a week earlier—Reagan was headed for a landslide.

It is impossible to imagine that the major polling services, who crisscrossed the nation with phone calls

The polls and the election

On Nov. 3, one day before the national election, the three major networks released their last, definitive, preelection polls. All showed a tight race. All were completely wrong. The chart at right shows the predictions of the four media polls and, by way of contrast, the actual election result.

	Reagan	Carter	Reagan lead	Anderson	poll's maximum error
CBS-NY Times	46%	45%	1%	8%	2%
NBC-Gallup	47%	44%	3%	8%	3%
ABC-Harris	47%	42%	5%	10%	3%
Washington Post ..	44%	47%	−3%	8%	4%
Actual election	51.6%	41.6%	10%	6.6%	—

and in-person pollsters, did not reach a similar conclusion long before Election Day, regardless of incompetence in polling methods. We can only state that no major polling service reported the possibility of a Reagan landslide.

On July 18, the *EIR*, drawing on interviews with national and regional Democrats, reported: "If the 1980 presidential election were held today with Jimmy Carter heading the Democratic ticket and with Ronald Reagan the GOP standard-bearer, the Democratic Party would receive its worst trouncing in more than two generations." The trend line remained constant throughout the entire campaign. Nonetheless, the polls showed "Carter gaining, Reagan strength eroding."

EIR's Nov. 4 issue identified a handful of key states and key urban areas that would determine the outcome of the election. Should the rigged polls' effect on the population in holding down a Reagan vote, coupled with principally black and labor vote-fraud capabilities, roll up large pluralities for Carter, the President might squeak by; if not, there would be a rout.

Throughout the week before the election, *EIR* received reports of Carter-Mondale efforts to mobilize its vote-fraud capability in such places as Philadelphia, Chicago, Newark, Detroit, and in the Mexican-American areas of south Texas. Money was being tossed around to buy votes, while reluctant Carter supporters were being threatened by campaign officials with reprisals should they fail to deliver votes. Other information revealed that such efforts would not be enough.

By Election Day, key field operatives of the Carter-Mondale campaign recognized that an unstoppable Reagan landslide was under way, and this contributed to aborting much of the big vote-fraud capability. This is not to say that significant vote fraud did not take place during the day in several places, such as Chicago, where Carter people were reportedly buying votes for a $2 apiece in the black wards. What it cut down on is the normal last-minute "ring up the votes"—which includes voting phantom registrations. It was these operations that gave Jimmy Carter his margins in places like Ohio in 1976. But in 1980, with Reagan running far ahead everywhere, there was no percentage in pulling out the stops and risking possible arrest by GOP anti-vote-fraud squads. As one Democrat put it, "A lot of people just pocketed the money and sat on their hands. With Carter being thrown out, they had little to fear."

The final insult to the American people occurred during the Nov. 4 election coverage. All their armies of "exit pollsters" who interrogated voters as they left the booths turned in reports of the developing anti-Carter vote. As the election night programs droned on, the report of the landslide was held back. "It looks bad for the President," said CBS's Walter Cronkite, over and over again. At three o'clock, sources report, CBS had briefed its staff that Carter had lost.

The Senate

GOP takeover

by Susan Kokinda

The sweep that delivered Ronald Reagan to the White House also gave the Republican Party control of the U.S. Senate for the first time since 1954. Led by George McGovern himself, no less than nine incumbent Democrats went down to defeat on Election Day, including *five* committee chairmen. Coupled with the unexpected pick-up of three other open, but formerly Democratic seats, and the self-transformation of Virginia's Harry Byrd from Indpendent to Republican, the Republicans now command a 54 to 46 majority.

As they received each report of another liberal Democratic defeat, even the Republican Senate staffers partying at the Reagan victory celebration in the Washington Hilton were stunned at the magnitude of the Senate upset. They had not reckoned with the depth of nationwide disgust at the policies of depression, environmentalism, and destruction of American industrial and military capabilities, which came to be associated with the likes of Jimmy Carter, George McGovern, Frank Church, Birch Bayh, and John Culver.

But while the American population was delivering a clear mandate against a U.S. Senate run by Foreign Relations Committee chairman Church, Intelligence chairman Bayh, and now-deposed chairmen such as Banking's William Proxmire and Judiciary's Edward Kennedy, it was also delivering a mandate against the libertarian flip side of those policies. The next two years of the Republican-controlled Senate promise to yield an unending battle between the policies of the progrowth, American conservative majority and the depression and confrontation policies of Milton Friedman and Henry Kissinger—typical of the GOP faction that would wish to continue Carter's policies.

Democratic debacle

In the final tally, the GOP picked up 12 seats, as follows:

• *Democratic incumbants:* Leading his minions into defeat was George McGovern, targeted by the conservative political action committees and written off early in the game. Also successfully singled out by the PACs were Church, Culver, Bayh, John Durkin, Gaylord Nelson, and Patrick Leahy. The only liberal who survived from the conservative hit list was Gary Hart of Colorado. But other non-McGovernite Democrats went down with the ship as well.

President pro tem and powerful Appropriations Committee chairman Warren Magnuson, fighting charges that he was too old for the job, was swept away in the landslide. So, too, was Agriculture Committee chairman Herman Talmadge, who had scrambled through two hard-fought primaries in the wake of an "ethics" investigation, and then succumbed to a narrow defeat. One other moderate Democrat was dragged down on Carter's coattails—North Carolina's Bob Morgan, a strong defender of small and regional banking interests in the U.S.

• *Open seats (formerly Democratic):* Republicans swept the three seats which had been left open by earlier primary defeats of the Democratic incumbents—Senators Dick Stone (Fla.), Don Stewart (Ala.), and Mike Gravel (Ark.). All three incumbents were beaten by Democrats more liberal than themselves in the primaries. Each primary victor then went down to defeat to the Republican on Election Day.

• *Open Seats (formerly Republican):* The seats of retiring Oklahoma and Pennsylvania Republican senators and New York's Jake Javits, defeated in his primary, were projected to go Democratic by most analysts. All three went Republican.

The Republican Senate

The first Republican Senate since the Eisenhower administration will find Tennessee's Howard Baker as its new Majority Leader and Alaska's Ted Stevens as its Majority Whip. While conservative Republicans now outnumber moderate and liberal Republicans, and while Howard Baker has never been a favorite of theirs, there is little chance of an attempt to dump Baker materializing. Equally certain is that Baker won't try to buck the conservative Senate base.

The new committee chairmen will define the tenor of the Senate. And it is here that the progrowth, nationalist tendencies of the Reagan mandate will continually clash with the antilabor and pro-austerity tendencies which exist more often than not within the same conservative senator.

Idaho's Jim McClure, heading the Senate Energy and Natural Resources Committee is about the only thing that offsets the devastating defeat suffered by the Congress and the nation of Mike McCormack, pronuclear spokesman and author of the historic fusion bill. McClure is easily the Senate's most ardent spokesman for nuclear energy and nuclear exports, commenting often that environmentalist, zero-growth policies are one of the greatest threats to world peace.

McClure led the fight for nuclear exports to India, despite the neanderthal "anti-Soviet/anti-India" position adopted by his own party.

The new Senate Banking Committee chairman, Jake Garn of Utah is already sending the word out that his goal is to expand the Export-Import Bank to at least double the current administration request. Garn staffer Paul Freedenburg said in an interview with *EIR* on Nov. 5 that "the minimum we would find acceptable for Ex-Im total direct loan authorization for fiscal year 1981 would be $8 billion, twice the Carter administration request." Freedenburg stressed the need to lower interest rates on export loans, and to expand nuclear exports and exports to the Third World. (See National News.) On the other hand, Garn has actively promoted the creation of an Office of Strategic Trade to, in essence, conduct trade war against the Soviet Union.

In a television interview on Nov. 5, the new Senate Judiciary Committee chairman, Strom Thurmond, noted that there is a big difference between himself and former chairman Ted Kennedy—probably the understatement of the new decade. Thurmond cited fighting drugs and rebuilding American law enforcement as two key areas of committee activity. On the negative side, Thurmond and his allies may use the committee to push a budget-balancing amendment to the Constitution.

Orrin Hatch of Utah could ideologically step into the shoes of any of the above and fulfill the same mandate. And on the other hand, any of the above would be equally as antilabor as Chairman of the Senate Labor and Human Resources Committee as Orrin Hatch may be. While Hatch is honestly committed to the "progrowth economics" often articulated by Rep. Jack Kemp (R-N.Y.), he is opposed to many of the laws and infrastructural safeguards which are necessary to protect the organized labor movement.

Profiles of other committee chairmen are as follows:

• *Foreign Relations:* A flurry of rumors surfaced the day after the election that conservative Jesse Helms (N.C.) might challenge liberal Charles Percy for the committee chairmanship. But it appears that Helms will opt out of the fight, preferring the Agriculture Committee chairmanship.

• *Agriculture:* Helms chairing Agriculture could begin to reverse some of the pro-environmentalist, and proconsumer legislative thrusts which have crippled American agriculture. But Republican control will not ensure support for 100 percent parity without a vigorous fight against the "free market" ideologues in the party.

• *Appropriations:* One of the most powerful positions in the Senate goes to moderate-liberal Mark Hatfield (Ore.), who may try to hold the line against some of the more rabid budget-cutters.

• *Budget:* On the other hand, Pete Dominici (N.M.), the new Budget chairman, personifies those budget-cutting tendencies.

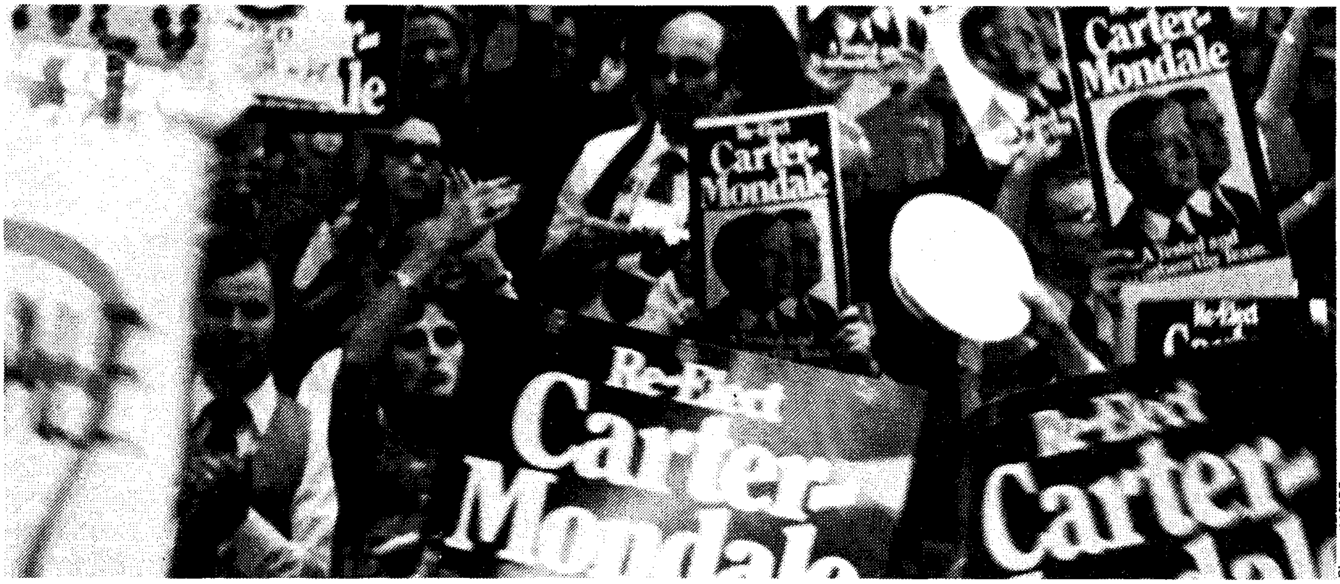
John Tower heading Armed Services, Bob Dole of Kansas at Finance and Arizona's Barry Goldwater at Intelligence will reflect, for better or worse, the overall direction of the Reagan administration.

Photo: Philip Ulanowsky/NSIPS

The Senate committee switch

Committee	Probable GOP chairman	Present Democratic chairman
Appropriations	Mark Hatfield (Ore.)	Warren Magnusen (Wash.)*
Agriculture	Jesse Helms (N.C.)	Herman Talmadge (Ga.)*
Armed Services	John Tower (Tex.)	John Stennis (Miss.)
Banking	Jake Garn (Utah)	William Proxmire (Wis.)
Commerce	Bob Packwood (Ore.)	Howard Cannon (Nev.)
Energy	James McClure (Idaho)	Henry Jackson (Wash.)
Finance	Robert Dole (Kans.)	Russell Long (La.)
Foreign Relations	Charles Percy (Ill.)	Frank Church (Idaho)*
Governmental Affairs	William Roth (Del.)	Abraham Ribicoff (Conn.)**
Judiciary	Strom Thurmond (S.C.)	Edward Kennedy (Mass.)
Labor	Orrin Hatch (Utah)	Harrison Williams (N.J.)
Intelligence	Barry Goldwater (Ariz.)	Birch Bayh (Ind.)*
Small Business	Lowell Weicker (Conn.)	Gaylord Nelson (Wis.)*

*Defeated
**Retired



Photo/NSIPS

The House

Shakeup for the Democrats

by Barbara Dreyfuss

The landslide victory of Ronald Reagan brought with it significant losses for the Democrats in the House of Representatives. Although the Democrats will stay in control of the House, unlike the Senate, fully 39 Democratic seats were lost. This included 28 Democratic incumbents trying for another term and 10 seats vacated by Democratic incumbents not running for reelection. In 1978 only 11 seats were lost.

The 1980 rout of congressional Dems was in large measure another reflection of the population's rage against Jimmy Carter. Many Republicans rode to victory on Reagan's coattails when in another year the same races would have been close, or Democratic victories.

The Republicans also targeted a number of liberal administration-allied Democratic leaders for defeat, banking on the nation's dissatisfaction with Carter. By blaming Democratic committee chairmen and House leaders for passage of Carter's disastrous economic programs, the Republicans hoped to defeat these Democrats. "We are using the Carter syndrome," declared an aide on the Republican National Campaign Committee. "The leaders have been visible with Carter."

The defeat of many Democrats who have the same outlook as the Senate "McGovernite liberals," including two House leaders, could mean a major fight for control of key committees and leadership posts. Conservative Democrats, holding up the defeat of the many liberals as a warning, can now make claims for important posts such as Democratic caucus leader and Budget Committee chairman, though it is unclear whether they will take this opportunity.

The Republicans succeeded in ousting the third-ranking Democrat, Majority Whip John Brademas (D-Ind.). Brademas is a member of the Trilateral Commission, the Eastern Establishment group founded by David Rockefeller and Zbigniew Brzezinski.

Also defeated was House Campaign Committee chairman James Corman (D-Calif.), and the chairman of the powerful Ways and Means Committee, Al Ullman (D-Ore.). In all, more than a dozen liberal Democrats, allied with the administration on anti-growth policies including energy conservation and the windfall profits tax, were defeated.

However, some important pro-industrial-growth conservative Democrats were also swept out in the Republican tide. The defeat of Cong. Mike McCormack (D-Wash.) was a very significant blow to America's industrial development.

McCormack, a scientist by profession, was the major congressional floor leader for nuclear energy development programs, viewing nuclear energy as vital for industrial expansion. As chairman of the subcommittee on Energy, Research and Development, he fought for increased nuclear funding. This year the congressman sponsored and saw passed into law the historic Magnetic Fusion Engineering Act of 1980. The law establishes programs to ensure a working commercial fusion reactor by the turn of the century. If reelected, McCormack would have led the fight to ensure adequate yearly appropriations to meet that goal.

Another important defeat for this economic outlook was the unseating of Congressman Gunn McKay (D-Utah). McKay headed the United Democrats, a grouping of close to 100 conservative Democrats that sought policy alternatives to that of environmentalist-oriented liberal leaders.

Several spokesmen for labor were also defeated on Nov. 4. Edward Beard (D-R.I.) chairman of the House Labor Standards subcommittee, was retired. Beard had promised to focus all his effort next session on increasing the minimum wage to a more adequate level than the current $3.10.

Cong. Frank Thompson (D-N.J.), an extremely important labor supporter, was also defeated. Thompson had been a target of the Carter administration's Abscam entrapment scheme. As second-ranking member of the House Education and Labor Committee, Thompson had backed decent minimum wage levels, the Davis-Bacon Act, labor law reform and other important labor-backed legislation.

Four Democrats and one Republican (who lost his primary) lost their seats because of involvement in the Abscam affair. Only one Democrat survived his connections to Abscam. Congressmen tied to local political networks and labor were primarily targeted in the Abscam case.

Republican strategy

The Republicans did not anticipate taking control of the House in 1980, but hoped to set the stage for its takeover in 1982-84. They have succeeded. The Democrats have only a 50 seat majority now, where before the election they held 117 seats more than the Republicans. Sources at the Republican campaign committee declared before Election Day that a lot of Political Action Committee money would flow to Republican challengers in 1982 if the Republicans showed in 1980 that they could defeat leading Democrats.

The Republicans also hoped, by targeting many liberal Democrats for defeat, to force the remaining Democrats into a more conservative stance. In announcing the decision to target the leadership, Congressman Guy Vander Jagt, chairman of the Republican National Campaign Committee declared, "We made a conscious decision to recruit outstanding candidates to confront Democratic leaders and committee chairmen. Even if they are not all defeated, the survivors will be frightened enough so that they will become more conservative once they return." Vander Jagt ran a "school" for the Repbulican challengers, grooming them to challenge the Democrats as big spenders and allies of Jimmy Carter.

Over the past year, as Carter's popularity dropped dramatically in the polls, congressmen increasingly panicked that with Carter heading the ticket in November, they would lose their seats in a Republican sweep. "Most congressmen will keep their distance from him," declared a staff member on the House Democratic Campaign Committee. "They will hope their constituents remember their congressmen and take out their frustrations on the top of the ticket, against Carter."

Not convinced this would work, over 30 congressmen joined the effort to open up the Democratic convention last August, in an effort to elect someone other than Carter as the Democratic nominee.

The new Congress

The remaining liberal Democratic congressmen will find it very difficult to determine policy now. With Reagan elected on a promise of strong executive leadership, and the Senate in the hands of conservative Republicans, legislation will not get far if it continues the anti-growth programs of Jimmy Carter and some of his key collaborators, such as Cong. Henry Reuss (D-Wis.), chairman of the House Banking Committee.

Reuss has been responsible for bills such as the Depository Institutions Deregulation Act, aimed at wiping out much of the regional banking system and putting the remainder under the tight control of the Federal Reserve Board. "Reuss won't be able to get anything done now," declared an aide to Republican Senator Jake Garn of Utah, who will now head the Senate Banking Committee.

An opportunity now exists for a bipartisan coalition of conservative Democrats and Republicans in the House, working with a Republican-run Senate to implement such necessary measures as expansion of industrial credit, 100 percent parity for farmers and rapid increase in the number of nuclear power plants.

Who lost

The Republicans had targeted four Democratic leaders for defeat—House Majority Leader Jim Wright (D-Tex.), Majority Whip John Brademas (D-Ind.), Democratic Caucus head Tom Foley (D-Wash.), and House Democratic Campaign Committee chairman James Corman (D-Calif.). Brademas and Corman lost.

Majority Leader Jim Wright was accused by his opponent, Jim Bradshaw, of becoming a pawn of the Washington establishment and the Carter administration. As majority leader, Wright steered many administration bills through the House. Despite this, Wright, a moderate Democrat, has close ties with his district, which has more military-related firms than any other, and a very large number of independent oilmen.

An influential number of Texas businessmen formed a group called Responsible Conservatives, sending out 25,000 letters to Republicans urging them to vote for both Reagan and Jim Wright. They warned that if Wright were defeated, Phil Burton of California would become majority leader. Wright only beat Burton by one vote for the post in 1976.

Burton, a supporter of the "alternative lifestyles" of his native San Francisco, has been a floor leader for the "McGovernite" House liberals for many years. Wright won reelection with almost 62 percent of the vote.

Another leader who managed to save his seat was Tom Foley (D-Wash.), head of the Democratic caucus as well as the House Agriculture Committee. Foley is a staunch liberal who has run the committee from an anti-producer standpoint. He was crucial in the passage of the Federal Insecticide, Fungicide and Rodenticide bill, which has hampered farm production.

Although Foley kept his seat, the Democratic caucus will change hands in December under House rules. Two men very different in outlook are vying for the spot—Cong. Gillis Long of Louisiana and Cong. Charles Rose of North Carolina. Rose, who managed Phil Burton's try for House Majority Leader in 1976, has already said he wants the caucus meetings to be used to force congressmen behind the policies of the House leadership. Rose is also the founder of the Congressional Clearinghouse, a group run by the Club of Rome, the people who coined the phrase "limits to growth." The Clearinghouse, through seminars and policy papers, hopes to determine congressional activities.

Long is vehemently opposed to using the caucus as a means of disciplining members. And he wants to decrease the number of committees in the House to facilitate the legislative process.

Two defeats

The Republicans succeeded in defeating majority whip John Brademas. Brademas is a leading member of the Eastern Establishment, having been trained at Harvard, sent as a Rhodes scholar to Oxford and then made a member of the Trilateral Commission.

As the third-ranking Democratic leader, with 22 years in Congress, Brademas was attacked as "part of the problem" in Washington. His opponent, John Hiler, a marketing director of his family's foundry, received a lot of funding from independent oilmen, many builders associations, contractors and tool companies.

Brademas' defeat opens up the whip position, which is expected to go to Dan Rostenkowski (D-Ill.), a member of the old conservative, labor-allied machine of Chicago's late mayor Richard Daley. Rostenkowski is also eligible for the chairmanship of the prestigious Ways and Means Committee, and may take that post instead.

The fourth targeted member of the leadership was James Corman, a 20-year House veteran. Corman, a leading liberal, was termed a "puppet of Carter" by his opponent, Bobbi Fiedler, a vocal opponent of school busing. Corman was the chief House sponsor of Ted Kennedy's national health insurance program. He was also chief sponsor of Carter's welfare programs.

Committee chairmen ousted

Five major committee chairmen were ousted this election, two as a result of Abscam:

Al Ullman (D-Ore.), Lester Wolff (D-N.Y.), Harold T. Johnson (D-Calif.), Frank Thompson (D-N.J.), and John Murphy (D-N.Y.).

• *Al Ullman (D-Ore.), chairman of the Ways and Means Committee:* Ullman is the committee chairman most closely allied with the Carter administration who was targeted and ousted this election. Ullman, chairman of the tax-writing committee, refused to allow any consideration of a tax-cut legislation before the election. With the Republicans pledging major tax cuts, many Democrats felt their reelection depended on showing their support for such policies. But Ullman felt that consideration of a tax cut would embarrass the Carter administration, which had publicly rejected a tax-cut bill in 1980.

Ullman was also unpopular for his proposal last year of a value-added tax, an indiscriminate, highly regressive tax. He was forced to withdraw this proposal due to massive opposition.

If Congressman Rostenkowski refuses the chairmanship of Ways and Means, Cong. Sam Gibbons (D-Fla.), a 20-year veteran of the Hill, has wanted the post for a long time. Gibbons's tax record has swung from being a staunch supporter of increasing the tax bite for wealthier families, to backing lower capital-gains taxes.

• *Lester Wolff, chairman of the Select Committee on Narcotics:* Wolff's defeat may effect the continued existence of the Select Committee on Narcotics, a committee that with the right chairman could be used as a base for a strong attack on the international drug mafia. The Select Committee was established by Wolff, and its mandate runs out this year. Wolff's seniority and his role in creating the committee gave him a strong position from which to fight for its continuation. It is unclear whether congressmen such as Billy Evans (D-Ga.), who are campaigning for keeping the committee, will have the clout to do so.

• *Harold T. Johnson, chairman of the Public Works Committee:* Johnson was defeated by Eugene Chappie, a longtime state assemblyman. Johnson has been considered a strong supporter of federal public works projects in opposition to the environmentalists, and he worked hard for water projects for the Central Valley in California. The man who will probably replace him as head of the committee, James Howard (D-N.J.), is also a strong proponent of federal water programs.

Another committee chairman heavily targeted by the Republicans, Morris Udall (D-Ariz.), head of the Interior Committee, managed to keep his seat. Udall is a leading environmentalist and has been the sponsor and floor manager of such bills as the Alaska Lands measure, which would keep millions of acres from development.

Abscam effects

Four congressmen, including two important committee chairmen, lost their seats in large measure because they were targets of the Justice Department's Abscam entrapment scheme. Six congressmen had been implicated in Abscam. One Republican, Richard Kelley of Florida, lost his primary, and Cong. Raymond Lederer (D-Pa.) won reelection.

Frank Thompson (D-N.J.), who had been indicted in the Abscam probe, was a power in the House for 26 years before he lost his seat on Nov. 4. Thompson was chairman of the House Administration Committee, which deals with the internal workings of the House. Even more important was the role he played as the number two man on the Education and Labor Committee, staunchly backing minimum wage bills and other measures important to labor.

The other committee chairman ousted by Abscam was John Murphy (D-N.Y.), chairman of the House Merchant Marine and Fisheries Committee. Murphy was indicted in the Abscam affair and his trial begins only six days after the election. Murphy had tried to have the Abscam video tapes of his actions made public to show his innocence, but a court refused. Representing the port of New York, Murphy was a strong supporter of expanding and upgrading the nation's maritime industries, and an important defender of labor unions involved with maritime trade. The three leading possibilities to take over the chairmanship of the committee are Walter Jones (D-N.C.), Mario Biaggi (D-N.Y.), and John Breaux (D-La.). Biaggi is a likely successor and would follow in Murphy's direction.

Also defeated was Michael Myers (D-Pa.), who had been expelled from the House several weeks ago because of his conviction in the Abscam case. Myers, who served on both the Education and Labor Committee and the Merchant Marine and Fisheries Committee, was part of the old-line Democratic machine of Philadelphia. He was defeated by an independent, Thomas Foglietta, put up by the Democrats associated with the liberal Philadelphia mayor, William Green.

Cong. John Jenrette (D-S.C.) was also a victim of Abscam. Convicted of accepting a bribe, Jenrette was appealing the verdict when he ran for reelection and lost. He had been a strong supporter of federal aid to farming from his position on the appropriations subcommittee on agriculture.

National policy

LaRouche on Reagan's landslide victory

by Lyndon H. LaRouche, Jr., Contributing Editor

The economic and foreign policies of the Carter administration have been repudiated by the landslide victory of President-elect Ronald Reagan. The Democratic Party, licking its wounds, has the occasion to reflect on the monstrous error it tolerated in permitting itself to be blackmailed and armtwisted into nominating Jimmy Carter at the August convention.

Although the patterns of results in elections of congressman and key state officials are not entirely consistent, it is the general trend that what has been called sometimes the "McGovernite liberal" faction of the Democratic Party has lost the almost dictatorial power it acquired in the Democratic Party during the aftermath of "Watergate."

These developments must now be echoed by appropriate reforms in Democratic Party organizations at the state and national levels. These changes in the state and national organizations' composition of leadership must be congruent with the indicated changes in leadership and policies of the Democratic Party congressional caucus.

The Democratic Party's central tasks at this moment are twofold. First, and above all other considerations, those who represent what I have described as the Whig currents of the party must define a clear perspective for the decisive, positive role our forces will contribute during the coming four years of President Reagan's administration. Second, that perspective must govern the internal reorganization of the party in preparation for the elections of 1982 and 1984.

The resurgence of Whig political power

To understand President-elect Reagan's victory most effectively, we must stand for a moment above the formal lines of division between the two major parties. We of the Whig currents within the Democratic Party, together with the Whig currents of the Republican

The post-McGovern era

After 12 years of purges by the McGovernite liberals against old-line Democratic constituency leaders, at one blow the constituency leaders and the voters at large have revolted against both Carter and the McGovern faction.

It was the 1968-80 "McGovern reforms" that tipped the party's national leadership and procedures away from broad constituency representation, toward spokesmanship for antigrowth, antitechnology Eastern Establishmentarianism. The McGovernites' funders shaped the liberalism of this period away from the mere fondness for détente and government social programs represented by an Adlai Stevenson, Jr., or even the noisy but restricted populism of an Estes Kefauver, toward all-out environmentalism and sponsorship of "alternative life-styles" including drug legalization and homosexuality.

Who will pick up the pieces? If the Democrats are to maintain their edge in the House and recapture their Senate majority in 1982, much less win the White House in 1984, clearly they will have to restore the party's constituency links and its policy credibility.

Voices within the party warned repeatedly that renominating Carter and holding the party hostage to the McGovernites would bring an electoral disaster. Among the most insistent was former Democratic presidential candidate and *EIR* founder Lyndon H. LaRouche, Jr.; one of the factors in the changing topography of the party is the two-month-old National Democratic Policy Committee, whose advisory board he chairs. A second factor is the future activity of the two politicians most identified with McGovernism and currently maintained by the national media as the party's leaders, Ted Kennedy and Fritz Mondale.

Among Democrats, unable to believe that a dose of Reagan will take care of their devastating problems, the time for choosing candidates and legislative policies for the post-McGovern era has arrived.The initial test falls in the coming weeks when Democratic committee chairmen in the House will be selected, and the Democratic National Committee executive office will be reviewed.

After George McGovern's crashing presidential defeat in 1972, heads rolled on the DNC, followed by the advent of Robert Strauss—who with DNC current chairman John White was most responsible for the Carter renomination and the Nov. 4 results.

Party, represent in total the strongest single political force in the United States.

This defines the proper immediate perspectives for Democratic Party Whig forces. We represent the political balance of power for getting things done during the coming period of the Reagan administration. That is our political power; that is the key to our moral responsibilities of leadership during the coming period. That is key to the kind of reorganization that must now occur not only in the Democratic Party congressional caucus, but in the state and national party organizations.

We, the Whig Democrats, are based in fact on a harmony of interests among farmers, labor, scientists and related professionals, and entrepreneurially minded business forces. That harmony of interests is also based on the consciously and implicitly Whig forces of the so-called minorities, those currents struggling for full assimilation of minority groups into the realization of their potential for contributing to our nation's life and policy making. It is our Whig commitment to that principal conception of a harmony of interests that is the key shading of difference between ourselves and many among Republican Whigs.

If Whig Republicans will understand us clearly on this issue of principle, a bipartisan cooperation on policy and legislation can be developed rapidly between the Whig currents of the two parties. With such a bipartisan force every other political current of either party must reckon.

The implicit promise of the election

The implicit promise of the Reagan landslide victory includes a commitment to the following leading items of immediate action. Whig Democrats must use their leverage to cause these implied promises to be fulfilled quickly.

The slide into a new depression must be stopped. The "Volcker measures," in particular, must be repudiated and repealed.

We require a selective credit policy which provides ample credit at reasonable borrowing costs for production and commerce. Let credit otherwise be relatively restricted, except for short-term consumer credit and first mortgages on new construction, and let borrowing costs rise on inflationary categories of investments.

We require immediate tax reforms.

There must be selective tax relief in the form of increases in the federal per capita income-tax exemption, to move a large section of the households presently taxed into poverty out of the poverty category.

There must be substantial increases in rates of tax credits for depreciation, amortization, and depletion of investments in capital goods of agriculture, industry, and commerce. There must be investment-tax credits, in addition to increases in these categories of depreciation, amortization, and depletion allowances.

Tax credits to owners of paid-in equity and savings deposits used for productive investment loans must be introduced, to give tax incentives to savers for investment in industrial and agricultural capital.

Let taxes on incomes not productively invested rise.

This pattern of tax incentives will force income from real estate and other sources into investment and savings in industry, agriculture, and technological improvements of administration and commerce. This will channel private capital and savings into putting the unemployed back to work productively.

We must solve the energy crisis. We must give tax incentives, in the form of depletion allowance increases for development of petroleum and natural gas resources. We must clear away the tangle of harassing legislation and related court decisions from rapid development of high-technology fossil fuel and nuclear energy production. We must junk the use of the wasteful synfuel technology copied directly from the Nazi Auschwitz concentration camp, and use the high-temperature gas-cooled reactor to convert coal into methane and water into hydrogen.

We should proceed immediately to accept the proposal of Mexico's president Lopez Portillo. We should offer Mexico, immediately, the exchange of the capital-goods exports Mexico wishes to buy from us, for the increased petroleum production they have offered in payment of such capital-goods purchases. That, by itself, will put many of our citizens back to work while helping to overcome energy problems.

These new agreements with Mexico should be a first step toward vastly increasing the role of the Export-Import Bank. It must be the policy of the U.S.A. over the next immediate period to aid in the reorganization of the indebtedness of developing nations, so that we, together with our partners in Europe and Japan, can restore world trade prosperity, and thus increase productive employment in our respective nations.

We must restore 100 percent parity for agriculture. We must establish tariff agreements establishing a world parity price for agriculture products, thus promoting the high-technology investment in agriculture worldwide needed to maintain an adequate food supply and to control food prices through benefits of rising productivity of technologically progressive agriculture in all categories.

By reorganizing international monetary arrangements to promote expansion of world trade, we must enable the State Department, Agriculture Department, and Export-Import Bank to generate exports of U.S. agricultural products—especially grains, beef, and dairy products. This will aid the Agriculture Department to intervene into markets for farmers' sales of products to keep those markets orderly in the vicinity of 100 percent parity. Those purchases will be either for strategic reserves or will be made against export resale of the purchased product according to trade and credit agreements negotiated through the State and Agriculture Departments, with participation of the Export-Import Bank.

The United States must support and cooperate with the European Monetary System. Such cooperation is indispensable to stop world inflation, and to reorganize international debt and credit for promotion of substantial increases in total volumes of world trade.

Those are minimal measures required to turn away from the present slide toward a depression and into the direction of rapid economic recovery and full employment.

The situation of the NDPC

The defeat of both the "McGovernite liberals" and of Jimmy Carter clears away immediately the largest obstacles to expression of the will and influence of the majority of Democratic Party constituencies within the party's organizations.

The majority among Democrats are relatively "conservative" in the sense that Whig and Whig-leaning currents among farmers, labor, hispanics, and blacks are "conservative." Such conservatives desire productive employment and the conditions of investment and commerce which foster productive employment. They wish education of a quality which fosters skills for productive employment. They wish a containment of the rock-drug counterculture that has been destroying our youth, our families, and our nation's morals and culture.

The National Democratic Policy Committee has emerged out of the August Democratic Party Convention, and the preceding campaign for the presidential nomination, as the leading "tactical reconnaissance" force on behalf of those "conservative" constituencies of the Democratic Party. The NDPC has been funtioning during the past two months as the "tip of the iceberg" for various Democratic Party constituencies.

Now, the NDPC will serve as the catalyst and one of several key rallying points for open alliance among those constituencies. This shift is already occurring in the immediate aftermath of yesterday's election. The NDPC will act to accelerate that spontaneous development.

The transition period of the incoming Reagan administration is also the transition period for the newly defined leading combinations in the Democratic Party. The NDPC must accelerate its work, to play its proper part in helping the Democratic Party to put its house into proper order for the responsibilities immediately confronting us all now.

The essence of statecraft

by Paul Gallagher

How Credit Can Be Greatly Expanded Without Adding to Inflation
by Lyndon H. LaRouche, Jr.
New Democratic Policy Committee
New York, 64 pages.
Suggested donation $1.00.

This informational pamphlet is Lyndon LaRouche's first book-length published work explaining in detail his "LaRouche-Riemann economic model"—the computer-based analysis and forecasting tool which has made the *Executive Intelligence Review* the only source of reliable economic analysis for the U.S. and Europe over the past 12 months.

The Riemannian physical-science method behind LaRouche's model, developed since his initial breakthroughs in 1952, is the subject of the author's forthcoming textbook *Mathematical Economics,* to be published by New Benjamin Franklin House in 1981.

The LaRouche model's results, published since mid-1979 in this magazine, have made LaRouche—as he notes—the world's acknowledged leading adversary of the recent succession of public disasters known as "Volckerism." In economics circles per se, LaRouche's opponents associate themselves with that Alfred E. Newman of economists, the monetarist Milton Friedman.

LaRouche writes the current economic outline after a two-month tour of Europe as spokesman for a growing progrowth conservative wing of the Democratic Party, and "as an economist dedicated to halting the present slide toward a probable 1981-1982 depression."

Beginning in November 1979, with a computer-based general forecast for 1980 of the *combined* results of the "Iran round" of oil price increases and the Volcker credit measures, repeated empirical tests of the LaRouche-Riemann model have shown it to be the only econometric model in existence that corresponds with economic reality. As a scientific method of analyzing the crucial *causal* factor—technological advance or decline—within economic processes, his model has fundamentally recast the theory of economics. It has successfully built on the groundwork of previous giants of scientific national economy like Gottfried Wilhelm Leibniz, Benjamin Franklin, Alexander Hamilton, and Friedrich List.

LaRouche's accomplishment has begun to destroy the false, pervasive division, entrenched since the late 17th century, between the study of the laws of the physical universe (*Naturwissenschaft*) and the study of the human mind and society (*Geisteswissenschaft*). LaRouche's reunification of these disciplines has been in economics, the precise study of the process of human societies' increasing dominion over the physical universe and its laws. Of competing, linear input-output concoctions, he notes that "methods which would fail to describe the lawful ordering of the physical universe are inadequate to describe the economy," which is a physical process.

These results have additionally made a scientific duncecap out of the Nobel Prize for Economics. Comparison of recent winners' forecasts with the reality of the past 12 months has even been more embarrassing than usual.

Policy questions

LaRouche notes that today's economists, like the 18th-century house economists of the British East India Company, who invented monetarist economics, are employed and paid to defend rent spirals and other "speculative debt bubbles" against the productive economy. In the United States and Britain today these "bubbles" have grown larger than the entire national productive economies they feed upon. Today's economists, says LaRouche, consistently propose remedies which worsen the disease, while denouncing the creation of real productive credit for healthy growth as "inflationary."

Thus the 1980 "Volcker" crisis has brought the first conclusive empirical verification of a scientific economic model. However, LaRouche's concern in writing this explanation of his model *as a tool of economic growth policy* is to use the model to halt the depression slide, to halt the resulting drift toward nuclear war, and to restore respect for individual creative accomplishment, for scientific and technological progress, as the object of modern statecraft, before it is too late for such statecraft to intervene.

The most urgent problem, from the standpoint of LaRouche's canvassing among European and American leading circles, is the lack of policy *institutions* prepared to combine and make the concentrated effort to halt the depression slide.

Since the death of de Gaulle's economic adviser Jacques Rueff, of German banker Jürgen Ponto, with whom LaRouche was discussing a gold-based world monetary system in 1976, and of Pope Paul VI, who applied his extraordinary morality to international economic development efforts, the burden has fallen on French president Giscard and West German chancellor Schmidt. The political party institutions available to these leaders are albatross-like weights corrupted with "single-issue" incompetence. In Italy, the situation is far worse. Consequently, leading scientists and industrial planners have not been engaged to solve the problem of rapid recovery, and their competence is not made available to constituency institutions.

Having created such a policy institution in America, LaRouche is now organizing a "transatlantic policy-formulating discussion" to link this to progrowth elites in Europe.

These were LaRouche's intellectual collaborators in the founding of the European Monetary System (EMS) in 1978. With considerable precision he dissects the cause for the "stalling" of the European leaderships in starting the essential "Phase II" of the EMS. This is the channeling of petrodollar and other reserves through the EMS into large-scale, gold-based capital credits for industrial and agricultural development purposes worldwide. LaRouche reports broad agreement that this antidepression move would, technically, work—and work in the short term. This credit generation would unleash *deflationary* high rates of capital-intensive investment.

Why have competent European leaders tolerated the smearing of urgently needed capital-formation measures with the brand "reflationary"? The reasons for the "stalling" of the EMS, says LaRouche, are political failures of courage.

Under the last year's *political* conditions of "Islamic fundamentalist" rampages in OPEC nations, Brzezinski's "China card," and Polish destabilizations, the EMS forces have accepted a mode of semipermanent "controlled confrontation" between the superpowers, a world situation too dangerously unstable to allow bold monetary reforms—reforms that would stabilize it! Precisely as the Thatcherites desire, continental Europe is accommodating the delusion that several years of savage, Volcker-like austerity against production in the name of "stopping inflation" are necessary, to be followed only later by gold-based credit expansion!

LaRouche focuses his sharpest attack on the Gross Domestic Product method of national income accounting. By ignoring the distinction between tangible production and administrative-service overhead (even necessary overhead), the GDP measure effectively ignores the real physical-thermodynamic economy—which can collapse into rubble without perturbing the GDP for some time.

The most devastating U.S. economic problem today is the collapsed proportion of the American workforce employed in tangible production, from two-thirds in 1946 to one-third in 1979. As the effects of such devolution begin to dominate manifest economic phenomena, "the econometric approach to forecasting produces almost meaningless results."

Knowledge of real "thermodynamic" processes of economics is the subject of LaRouche's description of the "minimum necessary path" of an economy from one range of productive technologies to the next higher-order technological level. That path is defined by the rate at which "ordinary" rates of production and population growth exhaust resources defined by the technologies in use, necessitating periods of extraordinary growth associated with breakthroughs into new technologies which define new resources.

Productive economies, to exist for any sustained period, can only move *upward, at an accelerating rate,* through a "phase space" defined by measures of energy throughput per capita, and free-energy ratios available for technological transformations. The "long waves" of "ordinary" growth and "short waves" of breakthrough expansion combine in a necessary upward path taking an economy from the introduction of one broad range of technologies to the breakthrough to the next range, before the resources defined by the lower range run out. "Equilibrium economy" in LaRouche's words is "murderous folly in the policymaking of nations."

The goal of pursuit of necessary rates of economic growth, LaRouche points out, is not growth itself but the development of individual creative accomplishments, the maturing of "average" adults of higher creative abilities and culture. The penalty for abandoning or "postponing" the necessities of such rates of growth is massive reductions in human population potentials. LaRouche calls the moral acknowledgement of this dual necessity the essence of leadership, or "statecraft."

National News

Mixed results on nuclear referenda

Out of six environmentalist-initiated referenda in five states, two were passed into law on Nov. 4.

In Oregon, Initiative 7, which requires statewide voter approval for a siting certificate on any nuclear power plant, passed 56 percent to 44 percent. The law will prevent future construction, since no company will go through the expense of a site certification if it might be rejected by the electorate. Overwhelmingly defeated, however, were proposals in 12 counties to create a "People's Utility District" to take over the electrical distribution grid from the state's utility companies.

In Washington, Initiative 383 passed 75 percent to 25 percent, preventing the transport of nuclear waste into the state for disposal facilities until a regionwide committee is formed to approve the "dumping."

In Montana, Initiative 84 lost by only 2,000 votes. The proposal would have closed uranium mining in the state by forbidding the disposal of any nuclear waste, including "tailings" from the state's mines. A similar initiative aimed at South Dakota's uranium mining lost by 7,500.

Pronuclear forces won 61 percent to 39 percent in Missouri, which will allow the continued construction of the Calloway power plant, now three-quarters built.

Daley, Jr. wins fight against Jane Byrne

State Sen. Richard Daley, Jr., son of the late mayor of Chicago, dealt a double-barreled defeat to Mayor Jane Byrne and Cook County state's attorney Bernard Carey in a hotly contested race for Carey's office.

Daley won by about 21,000 votes, or 51 to 48 percent. Media polls had predicted a victory for Carey, the two-term Republican incumbent.

The real loser, however, Chicagoans say, was Jane Byrne, who was determined that Daley be defeated. Byrne's staff distributed "palm cards" to precinct workers with instructions to Democratic voters to split their ballots to vote for Carey. But Cook County residents, instead, voted Republican tickets—except for Daley.

Daley's campaign television commercials lashed out at Carey, a crony of Sen. Charles Percy, for his failure to prosecute criminals for drug pushing, gang wars, and the destruction of the city of Chicago. Daley organizers distributed antidrug leaflets and decals all over the city. Daley has also issued a seven-point program to fight the drug epidemic, emphasizing law enforcement.

Byrne's support for Carey, charged Daley, was based on a deal that, despite evidence of corruption in her administration, no prosecutions would take place.

What Carter would have done on hostages

The Carter administration was planning to nationalize American claims against Iran in order to force its deal with the Khomeini regime of Iran for the release of 52 American hostages, the columnists Evans and Novak reported Nov. 5. The measure would block American firms or individuals from suing the Iranian government directly for their claims.

According to Evans and Novak, a team of U.S. Treasury officials under Deputy Secretary Carswell had devised an elaborate plan to facilitate the unfreezing of blocked Iranian assets in the United States. Handing over the assets is one of the Khomeini regime's conditions for release of the hostages.

Carswell and his team "dropped hints in the highest banking and financing levels: Carter would give Iran what it wanted on asset freezing, with the U.S. government underwriting private claims against the Iranian government. "Israel's clandestine shipments to Iran from its own F-4 stockpiles were not hindered by Washington," reported Evans & Novak. "In the U.S., warehoused and newly produced spare parts were moved to embarkation points ready for airfreight to Teheran."

Iran's central bank governor Nobari was in Washington last month for secret negotiations with the Carter administration on the hostage release. Nobari said that Iran was "willing" to pay the claims made against it, but Washington sources are questioning his authority to make such guarantees.

'Prop 13' ballot referenda generally fail

Five of the six Proposition 13-style ballot referenda were voted down on Nov, 4. The measures failed in Michigan, where voters also rejected two other property-tax constitutional amendments, as well as in Nevada, Oregon, Arizona, and South Dakota. In addition, fOhio voters rejected the so-called Ohio Fair Tax measure, which would have forced a steep increase in business taxes.

In Massachusetts, however, Proposition 2½ passed by a margin of 3 to 2, after the legislature's recent enactment of property tax increases that would have tripled local taxes over three years. The measure will cut property taxes in every locality 15 percent each year until they reach a level of only 2½ percent of market value. This would mean a 40 to 75 percent cut in local property tax revenues throughout the state and massive budget curtailments. In Boston alone, $87 million, or more than 10 percent of the budget, would have to be pared.

Since in Massachusetts, Proposition 2½ is not a constitutional amendment but only a law, the legislature has the power to revise or even reject it. The measure takes effect as it stands in 30 days, unless the legislature takes action. It is expected that a tremendous fight will break out on every level of government to decide on everything from new compensatory taxes to letting cities cut whole areas of their budgets.

Prop $2\frac{1}{2}$ also includes a provision striking down binding arbitration in state and city negotiations with labor unions, and also rescinds the autonomy of local school committees in making their budgets.

In Montana, a tax indexation initiative was passed, which will immediately slash state tax receipts by 30 percent. These severe consequences were never spelled out to voters by either the media or elected officials prior to the balloting.

Senator vows expansion of export bank

Senator Edwin "Jake" Garn (R-Utah), the incoming chairman of the Senate Banking Committee, plans to "aggressively expand" international trade lending by the U.S. Export-Import Bank, Republican minority staff counsel Paul Freedenberg said Nov. 5.

"The minimum we would find acceptable for Ex-Im total Direct Loan authorization for fiscal year 1981 would be $8 billion, which is twice the Carter administration's request for $4.3 billion," the aide stated. "And we would like to do a great deal more."

The new Reagan Senate intends to aggressively expand the U.S. world export share by being "tough on Europe and Japan, not by strongarming them, which is counterproductive, but by matching their credit terms and making credit a given," Mr. Freedenberg continued.

"We are not protectionist," he said. "U.S. corporations, if properly financed, can compete with the best. We need more credit, and on lower terms; instead of the 9 percent range we lend at now, we should go down to the bottom of the OECD's agreed range of 7.75 percent to 8.25 percent for the Third World.

"We have to show Europe and Japan that we're serious on credit. Then we can sit down and negotiate general agreements on broader trade issues.

"We should expand our nuclear exports, for example, to Taiwan, which wants to order two plants. We must support our nuclear industry instead of attacking it constantly," he added. "Otherwise we're just subsidizing the German and French nuclear industries at our own expense."

"In general, we need to expand exports to the Third World of technology; one of our initiatives will be Senate Bill 2339, which would create a facility within Ex-Im to promote high-risk loans in the Third World. For example, we lost a $1 billion contract for Western Electric in Egypt this year to Siemens because Ex-Im wouldn't take the risk.

Hazardous waste: EPA numbers game

Estimating the number of hazardous waste disposal sites has become a numbers game for the Environmental Protection Agency. The figure most commonly used, 35,000 to 50,000, is allegedly based on an Environmental Protection Agency study. Yet the EPA's own Steffen Plehn admitted before Congress that there are probably only 1,000 to 2,000 sites that require remedial action.

EPA spokesmen, however, continue to cite the figure of 35,000 to 50,000.

EPA deputy administrator Barbara Blum sent out a memorandum to regional administrators: "All potentially hazardous waste sites or incidents must be listed on the regional logs. This is true regardless of whether the initial identification of a *potential* site or incident comes from government sources, the media, or technically unsophisticated citizens' complaints," her memo read.

"Some regions have adopted a policy of adding sites to their logs only after a determination has been made that a hazardous waste problem actually exists," said the Blum memorandum. "This policy must be changed."

Briefly

- **AN AFL-CIO** spokesman says the labor federation's headquarters is in a state of shock about the election. "We told people to go out and vote the lunch bucket on the gut economic issues," the source added. "They did, and a lot of them voted for Reagan. We really didn't understand how much people hate Jimmy Carter."

- **EDWARD HEATH,** former British prime minister, attacked fellow Conservative Margaret Thatcher's economic policies as "catastrophic" in a BBC interview Nov. 5. Heath accused Thatcher adviser Milton Friedman of wishing to eliminate the U.S. industrial base British-style. "If you [Friedman] persuade Mr. Reagan to accept that, he said, then the future of the American people is really bleak."

- **DIE WELT,** West Germany's leading conservative daily, recalls that "it was Nixon who introduced a 10 percent import tax and decoupled the dollar from gold—a disastrous decision."

- **LIBYAN** intervention into the civil war in Chad is supported by both the U.S.S.R. and Britain against pro-French elements, intelligence specialists say.

- **NEW YORK CITY'S** 6,409 subway cars are out of service by almost one-third every day, a memorandum by the city's Metropolitan Transportation Authority says. One reason is energy conservation; in 1978 the authority reduced voltage on the system to save fuel. But the reduced energy burned out many train motors.

- **WILLIAM CAREY,** publisher of *Science* magazine, writes in the Oct. 24 issue that the American Association for the Advancement of Science policy of boycotting contacts with Soviet scientists is not producing results.

A victory for mineral development

A Wyoming court slaps Ag and Interior on illegal RARE II procedures.

Two weeks ago, federal district court judge Clarence Brimmer in Wyoming ruled that the Interior and Agriculture departments had violated the express intent of Congress in withholding oil and gas lease applications on so-called RARE II (Roadless Area Review and Evaluation) lands.

For the first time since 1977 when Ruppert Cutler, former top official of the antidevelopment Wilderness Society, was made Assistant Secretary of Agriculture, that agency's blatantly illegal seizure of some 62 million acres of federal forest land, has been set back.

The case in question was brought over two years ago by the nonprofit Mountain States Legal Foundation. I spoke with Kea Bardeen, the attorney for Mountain States Legal Foundation about the circumstances leading to the suit. This foundation spent months in the early days of RARE II speaking with mineral, timber and cattle interests in the Western states most drastically hit by Mr. Cutler's new administrative sleight of hand. What they and the federal judge who heard their argument concluded was that Secretary Cecil Andrus at Interior and his crony, Bob Bergland, at the Department of Agriculture, had brazenly violated explicit intent of Congress.

Contrary to years of established federal procedure, Agriculture and Interior have been completely halting development and processing of oil and gas exploration leases on more than 10 million acres of National Forest lands. They claimed the lands were under "further planning" study to determine their suitability for designation as a wilderness area under terms of the Wilderness Act of 1964. Once designated, such lands become off-limits for any activity beyond that of bison-curious environmentalists.

Ruling on the case of more than one million acres of land, where oil and gas companies have had leases pending as far back as 1971, the judge ordered Andrus's Interior Department, the agency charged with responsibility for issuing federal land leases, to report their "withdrawal" of more than one million acres in the oil-rich Overthrust Belt of the Wyoming-Idaho border to Congress within 20 days. Judge Brimmer was blunt: "To allow the Secretary of Agriculture in combination with the Secretary of Interior to establish their own system of wilderness priorities through failure to act on oil and gas lease applications within lands self-designated as meriting study for wilderness potential, negates the system of wilderness designation established by Congress."

According to the Mountain States Legal Foundation, the new ruling confirms the law in that "leasing should not be delayed simply because an area is being considered for wilderness." Kea Bardeen told me further that they documented an effective "catch-22" process of collusion between Interior, which is the agency responsible for determining leasing, and Agriculture, which is in charge of RARE II. Interior is held responsible for reporting to Congress on leasing, but Agriculture is not. It was confirmed in trial both testimony and subpoenaed documents from the two agencies that they had a *modus vivendi* whereby Interior would not act until it got approval from Agriculture. "Interior has waited for Agriculture recommendations on leasing that have never come. . . . Consequently, Interior never acted."

The judge ordered the two agencies to issue written rules spelling out their exact procedures.

Interior and Agriculture, the codefendants in the case, promptly filed an appeal in the Tenth Circuit Court of Appeals in Denver. In addition, the two agencies are still conducting an "environmental assessment" of the areas at issue. And, of course, the Sierra Club, that bastion of primitivism, funded by "environmentalists" such as Robert O. Anderson of Atlantic Richfield and the Rockefeller Brothers Fund, joined the appeal process in their attempt to block leasing. But already, according to informed sources, Interior has quietly begun processing some leases, with applications on the Wyoming lands being processed first, "because of the pressure of the lawsuit."

Now, if we can assure a healthy response from Congress, perhaps the nation can begin development of the estimated 15 *billion* barrels of oil and 75 *trillion* cubic feet of natural gas estimated to be locked in this portion of the Overthrust Belt.