

# EIR

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Trilateralists defend Volcker policy  
Alexander Haig's Middle East fiasco  
Mexican 'greenies' in antinuclear drive

**The solution to the Polish crisis**



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# EIR

## From the Editor

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**T**his week's Special Report lays out the only possible medium-term solution to the crisis in Poland: generating industrial credit—not just for Poland itself, but for European-wide energy-grid and related economic development. In recent weeks, our detailed profile shows, European leaders have taken numerous financial and political steps to get that kind of economic program going, a policy which in coming months could mean open implementation of "Phase Two" of the European Monetary System.

Assembled under the direction of Editors David Goldman and Vivian Zoakos, with International Credit columnist Renée Sigerson, our Special Report this week details European diplomacy since March—the height of the Soviet military maneuvers around Poland—in the financial and political spheres. France and Germany are joining with the Soviet pro-growth faction to rescue Poland from the decentralizers' low-technology wreckage, and also to pull the U.S. administration into the benefits that programs for economic stabilization can entail. Simultaneously, Britain, whose intelligence operatives have contributed so much to Poland's political instability, is now under unprecedented fire within the European Community.

Our International and National coverage goes beyond the gossip to trace the precarious fortunes of Alexander Haig, like earlier Secretaries of State a stubborn foe of the Saudi-Europe-Soviet alignment. In our Economics section, I'd like to point out the report from New Delhi on India's new Five-Year Plan, and the U.S. housing survey. *EIR's* ongoing Global 2000 coverage focuses this week on Office of Management and Budget Director David Stockman, who turns out to be a longtime associate of the hard core of population exterminators in the United States.



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Photo: Sygma

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## Treasury spokesman out-Feds the Fed

by David Goldman

Treasury Department Undersecretary for Monetary Affairs Beryl Sprinkel, the administration's senior monetary policy official, dropped a bombshell during his first major public appearance April 8, in testimony before the Joint Economic Committee. For the first time, an administration official urged the Federal Reserve to adopt a *floating discount rate* as a principal instrument of monetary control. A week previously New York Federal Reserve President Anthony Solomon made the same proposal, to the immediate consternation of European leaders. The administration endorsement is ominous.

Initially raised by Heritage Foundation board member Lewis Lehrman, a member of the supply-side mafia, the proposal says that the Fed should not create any new money *except* through the discount window, and then only at a penalty interest rate of 2 to 3 percent above market rates. Fed chairman Paul Volcker, no monetary dove, attacked the plan in January congressional testimony on the grounds that it would push interest rates up "like a dog chasing its tail." In other words, if banks can only borrow money by borrowing at a higher interest rate, every increase in credit demand automatically translates into higher interest rates. The present discount rate acts to a limited extent as a stabilizing factor in interest-rate movements, although it permits large banks to obtain relatively low-cost money for relending whenever market rates rise significantly above the discount rate.

The "floating discount rate" plan is, in effect, a prescription for zero growth of credit. It appears at a moment when the Federal Reserve has taken the tough-

est line on the interest-rate issue since October 1979, when Volcker first started the monetary process that led to the present depression. The release last week of the February minutes of the Federal Open Market Committee proposing a 15 to 20 percent trading range for federal funds, after this key interbank lending rate had already fallen to about 13 percent, produced an immediate panic on the bond markets. Although no major bank has moved the prime rate yet, it has become clear to market participants—as we emphasized last week—that long-term interest rates *will not fall* in the course of the present renewed economic downturn.

Otherwise, Sprinkel said that he and others in the administration "back the Federal Reserve to the hilt in its efforts to control money supply," and that "we will squeeze, squeeze, and squeeze again" to get money supply under control.

### End of the phony debate

Exorbitant amounts of financial press column space have been devoted this year to a debate between Friedmanite monetarists (including Beryl Sprinkel), the supply-siders (who support the Lehrman approach), and the "Federal Reserve pragmatists." The first two criticize the Fed for the past year's wild swings in money supply, but the supply-siders argue that Friedman-style conventional methods of monetary control don't work as well as the more drastic formulation they propose to introduce.

In fact, there was never much disagreement. Milton



*Now that Volcker has wiped out mortgage demand and other consumer credit, the Treasury proposes an even wilder regime.*

Friedman endorsed the "floating discount rate" plan in January. The *Wall Street Journal* attacked Friedman for arguing that the Fed should have created more money supply after its growth rate went negative in the second quarter of 1980, leading to (in Friedman's words) "a more severe recession than we need have suffered." Friedman wrote to the *Journal* that he was only concerned about "an inflationary overreaction in an attempt to counter the recession—leading to yet another inflationary surge."

The great reconciliation occurred when Sprinkel publicly embraced the Lehrman plan, putting the administration and Federal Reserve jointly on course for the most brutal credit crunch possible. Belatedly, the commercial banks are publishing rationalizations, e.g., this from Manufacturers Hanover on April 6:

"The sagging of mortgage credit demands has, in turn, heightened speculation that the financial markets may be better able to accommodate this year's massive federal government borrowing requirements, without significant upward pressure on interest rates. The facts, however, indicate otherwise. . . . If current trends persist, the red ink total in the current fiscal year could reach almost \$87 billion, just about equal to the total deficit of the two preceding fiscal years combined. . . . As a result, slack in the mortgage market will be offset by a rising tide of federal debt, still ensuring that a renewed interest rate upturn later this year remains a distinct possibility."

However, the only reason that the deficit looms so

large is that the combined lost tax revenue and additional interest and transfer payments *resulting from* the Volcker interest rate policy cost about \$35 billion a year. The deficit is the result, not the instigator, of the Federal Reserve's policy profile.

What is most dangerous in the present context is the instability of the administration itself. Before the assassination attempt against President Reagan, he and close associates in the cabinet were discussing how to best get rid of the Fed chairman, noting that Volcker had pretty well destroyed the prospects for avoiding a deeper recession during 1981. The illusion that the budget cuts would automatically bring interest rates down was starting to wear thin, although Reagan and his closest aides were not yet prepared to take Paul Volcker on directly.

A major indication of presidential concern, as we wrote April 14, was the fact that the negotiations for the April 10 Group of Five meeting to discuss the interest-rate problem among the top industrial countries came not out of Treasury, but out of the National Security Council, on White House initiative.

With the President temporarily disabled, the Treasury monetarists are much more sure of themselves. Reagan managed to surround himself with subcabinet aides like Stockman, Sprinkel, Ture, Roberts, and Kudlow, who are more than willing to throw the country into a major recession, and who agree with the President in nothing but rhetoric. This poor selection reflects the President's own inexperience and ignorance of basic economics. But the ability of the Mont Pelerin Society loyalists inside the administration to make events is substantially greater with the President out of the picture, at least for the moment.

### **The budget issue**

An additional deflationary factor to be considered is the probable discrepancy between the timing of the budget and the tax cuts. There seems to be little question that the House and Senate will pass a package of budget cuts somewhere in the range of the \$40 billion the administration requested, but little prospect that the administration's tax package will come through. That implies a sharp cut in the rate of government spending increase while taxes are actually rising (due to inflationary bracket creep) in real terms.

Under different conditions this might have meant that the private sector would borrow and use the funds that the federal government will not borrow. However, the difference between the credit rating of the government and the private sector is enormous in this case. Most of the private sector, as shown in the disastrous state of affairs in the mortgage market, cannot now afford to borrow (see page 6). Therefore the budget cuts without tax cuts will have an almost entirely deflationary effect.



## Beryl Sprinkel talks to Congress

*The following exchange took place April 8 between Undersecretary of the Treasury Beryl Sprinkel and members of the Subcommittee on Monetary Policy of the Joint Economic Committee:*

**Subcommittee Chairman Roger Jepsen (R-Iowa):** I take it from your testimony that your intent is to cut the monetary base rate of growth by one-half by 1984. That factors out to about 1 percent per year [growth rate reduction]. I don't think that is fast enough.

**Sprinkel:** I think that that would be a too drastic reduction of the money supply. There would be adverse effects on employment and production. I am more of a gradualist and I think that the adverse effects on the real sector can be made minimal.

**Rep. Jepsen:** Do you think that slowing the rate of growth of the money supply has contributed to high interest rates?

**Sprinkel:** Only in the short term. But that isn't the way markets work in the long term. Markets react in just the opposite way. If you slow the growth of the money supply in the very short run, you might see a slight increase in inflation. But in the longer run, such a policy will be income-creating and will result in less pressure on credit markets and lower interest rates.

**Rep. Henry Reuss (D.-Wisc.):** Are you satisfied with the Fed's activity to date?

**Sprinkel:** Yes.

**Rep. Reuss:** What is your view of the Fed's policy with respect to the federal funds rate?

**Sprinkel:** I think that there should be further relaxation of fed funds restraint. Let's say for example that credit demand is receding, interest rates are going down, and that you are at the low end of the band on federal funds [the Fed's intervention target for federal funds]. The only way for the Fed to buck that is by selling securities through open market operations. I think that what we have to do is concentrate more on controlling the quan-

tity of money in the system and not so much trying to control the price of credit.

**Rep. Reuss:** The Fed's activities of late last week caused several billions of dollars worth of distress in the bond markets.

**Sprinkel:** I wouldn't blame that on the Fed. But I would say that trying to peg the fed funds rate interferes with achieving a steady growth in the money supply.

**Rep. Reuss:** But isn't it logical that if the central bank starts bidding up interest rates that the bond market will go down?

**Sprinkel:** No, not if we understand that in the long run, expansion of the money supply will mean higher interest rates.

**Rep. Reuss:** [I]n general what will your policy be [on foreign exchange intervention]?

**Sprinkel:** I believe that large competitive markets are highly efficient, and that the foreign exchange market is such a market. I find it difficult to believe that central banks or treasuries can consistently know better than the market what a particular exchange rate should be.

**Rep. Reuss:** Do you think that U.S. banks are overexposed with respect to the less developed countries?

**Sprinkel:** The regulators are better informed on that than I, but as a whole I think U.S. lending has been sensible and, barring a catastrophe, I see no serious jeopardies.

**Rep. Reuss:** The Congressional Export Caucus has stated that cuts in the Export-Import Bank are not in the national interest.

**Sprinkel:** I disagree. In my judgment, we have had a series of subsidies which have resulted in a misallocation of resources. It will be our policy to remove or reduce those subsidies in many areas including the Eximbank. But we are not talking about unilateral disarmament. We are not eliminating subsidies. This administration will work vigorously to reduce the export subsidies of other nations and then we will be able to continue to reduce ours accordingly.

**Rep. Reuss:** What do you think about the economic policies of Margaret Thatcher?

**Sprinkel:** Earlier, we had been examining the effects of British monetary policy in terms of sterling M3, the measure of money supply used by the Bank of England, and the results were incomprehensible. . . . But in examining the behavior of Britain's monetary base, we find a coherent picture of a nation in which there has been a massive improvement in inflation. Hopefully the recession associated with this monetary policy will soon be over.



# OMB wrecks the housing dream

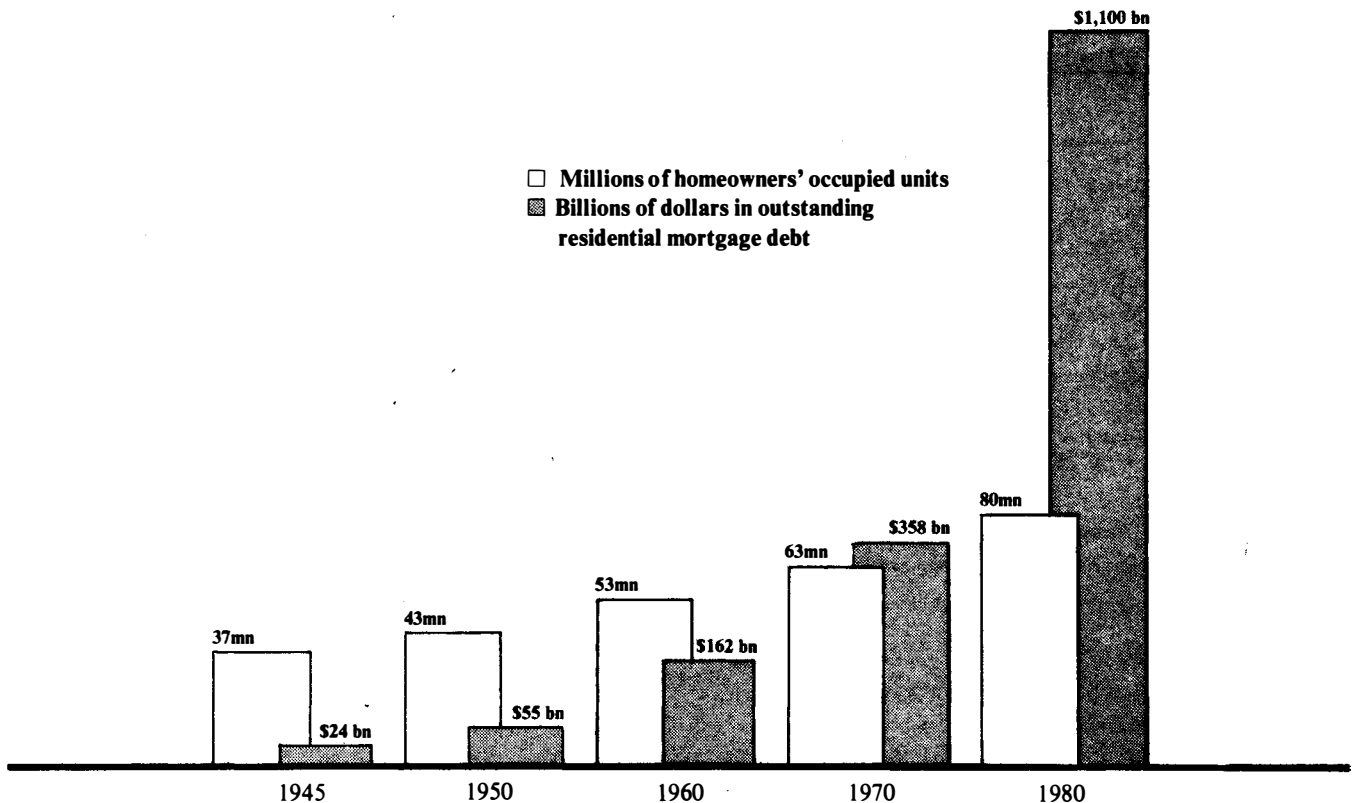
*Richard Freeman on the implications of the proposed new mortgage financing structure, and its purpose.*

With the U.S. housing industry in its worst downward spiral since the disastrous year 1966—when only 1,165,000 starts were made—Office of Management and Budget Director David Stockman has come up with a radical approach to the housing market. Stockman, the apostle of so-called supply-side economics, has proposed that, to “cut away the bloated bureaucracy” and stir up “free enterprise,” the government role in the U.S. housing market should be greatly diminished. The U.S. government is hogging the credit markets with government-backed housing mortgage paper, so Stockman’s argument goes, and therefore cutting back the government’s housing financing will leave more money for important

things like credit for industrial capital spending. But, if carried through, Stockman’s strategy will permanently plunge annual housing starts to 1 million units.

His strategy has two parts. The first is to cut back the level of either direct housing lending or the purchase of mortgages in the secondary market by government agencies. This will open the door for both the government and the savings and loan institutions to be driven from the housing mortgage market in favor of the large life insurance companies like Prudential or Aetna, the private pension funds, and the Eurodollar market. The second is to drive the U.S. government out of the role of insuring mortgages and turn almost all of this market

Figure 1  
**Relationship of homeowners to residential mortgage debt, 1945-80**



over to private insurers, led by the likes of the unsavory Mortgage Guarantee Insurance Corporation (MGIC).

While Stockman professes to be "privatizing" the housing market to make the overall economy more productive, his motives point in a different direction. This can be adduced from the fact that in March 1979, Stockman cochaired the congressional subcommittee Task Force on Domestic Consequences of U.S. Population Change of the Committee on Population. In the report, Stockman asserted that the need for housing would diminish—provided the U.S. population shrank. Although "he keeps the issue of population at arm's length now," Stockman's slashing of government expenditures is "only putting into practice the work that he did on U.S. population patterns" during the 1970s, said Michael Teitelbaum, director of the Ford Foundation population office, on March 31.

Stockman is adding the second blow to a one-two punch first delivered by Federal Reserve Board Chairman Paul Volcker. Housing starts, with their dependence on credit on two levels—both the construction and the purchase of the home—cannot withstand home mortgage rates, now above 15¼ percent.

Housing starts averaged nearly 2 million per year in 1977 and 1978. In late 1979, Volcker's usurious interest-rate policy was administered; by May 1980, the annualized rate of home starts was down to 0.9 million, more than 50 percent down from the peak. Housing starts finished the year at a rate of 1.29 million. According to the National Association of Homebuilders, if housing starts average 1.4 million this year, homebuilders will be lucky.

The traditional standard 30-year home mortgage at

5 to 7 percent interest also went out the window, along with the balance sheets of the savings and loan associations and the savings banks. In 1976, nearly 100 percent of all thrifts' new mortgages were fixed-interest, long-term mortgages. This figure has dwindled to just 60 percent as of 1980. The savings and loan institutions, nearly 35 percent of which lost money last year, were locked into portfolios of low-interest mortgages, while Volcker pushed their cost of money through the roof.

As Volcker's policy fed inflation—along with the \$1.3 trillion unregulated Eurodollar market and the highly speculative U.S. real-estate bubble—the mean price of a house and therefore the total growth of mortgage commitments grew far faster than the rate of growth of construction in the U.S. housing stock (see Figure 1). The credit crunch forced the thrifts to withdraw heavily from making home mortgage loans and the government-owned or sponsored agencies, ranging from the Government National Mortgage Association to the Federal Housing Administration stepped in, as they were conceived to do, to avert even greater disaster. It was the U.S. government housing programs that saved the U.S. home market from falling to pre-1945 levels! The percentage of U.S. government-owned or sponsored agencies' share of the gross acquisition of home mortgages for one-to-four family homes—either through issuance of new mortgage loans or purchase of mortgage pools on the secondary market—went from an average 17.9 percent for the last three quarters of 1979, to an average 22.8 percent for 1980 (see Figure 2).

Now Stockman is out to stop that help. For the fiscal year 1982 budget, Stockman has already proposed reducing the planned number of subsidized housing

Figure 2

## Gross acquisition of long-term mortgage loans for one- to four-family homes

(in billions of dollars)

Quarter	Lending institutions		Total	Govt. agencies as % of total
	S&Ls	Government* agencies		
<b>1979</b>				
1 .....	\$18.8	\$11.5	\$52.0	22.1
2 .....	27.4	11.3	66.6	16.9
3 .....	26.4	12.5	72.2	17.4
4 .....	21.9	12.9	66.0	19.5
<b>1980</b>				
1 .....	14.4	12.6	48.4	26.2
2 .....	13.0	8.9	39.5	22.5
3 .....	23.5	12.0	58.0	20.7
4 .....	22.6	11.9	54.7	21.8

Source: Financial Analysis Division, U.S. Department of Housing and Urban Development.

\*Government-owned or sponsored agencies.

units from 260,000 to 175,000 units. He has floated the idea of disbanding the FHA, Ginnie Mae, and their sister agencies or reducing their lending to "socially necessary and beneficial" areas—home loans or insurance to lower-income people to whom private home lenders and insurers would not lend.

By the same "free enterprise" logic, Stockman also plans to privatize the insurance of mortgage loans and to take this area out of the hands of government agencies. Not only will it saddle home purchasers with higher per unit mortgage loan insurance rates, but also ensures the deterioration of housing. Whoever insures the loan has greater say-so over the type of housing that insurance will go for. And some private home-insurers intend to put an end to the well-built standard single-family homes, in favor of something more akin to cave dwellings.

The private insurers' market is run by the Mortgage Guarantee Insurance Corporation, better known by its initials MGIC (pronounced magic) which has one-third of the private home mortgage insurance market.

In 1957, Max Karl, now MGIC's chairman, founded MGIC by dishing out free shares of stock in his company to gain the legalization of private insurance of home mortgages. This practice had been outlawed in the 1930s because of private insurers' reputation for fly-by-night pillaging. Karl gave free shares of stock to Bobby Baker, the personal aide to Senate Majority Leader Lyndon Johnson. While Baker went to the slammer for this offense, Karl turned song-bird and stayed out of jail.

Now Karl's home loan insurance empire stands at more than \$50 billion in insurance. To build it he leaned heavily on his close acquaintances Detroit real estate speculator Max Fisher and Sen. Henry Jackson of Washington state. Karl's idea was simple. Instead of offering to insure home mortgages for 100 percent of their value, as FHA does, he would insure only the top "20 percent" of the home mortgage, leaving the remaining 80 percent uninsured. Karl's monthly premium charges, on an 100 percent equivalent basis, are much higher than the government's.

What Stockman's privatization of the home mortgage insurance market will mean was spelled out by one of MGIC's chief financial officers, John O'Chotneky, in an interview with *EIR* last week.

"The family that wants four bedrooms in a two-story colonial home is dreaming. That home won't exist much more," he explained. "The average house will soon cost \$100,000 because of the rising costs struction and financing. We will need 2 million new housing units over the decade of the eighties. But there is no way 2.2 million people will afford \$100,000 each for a home, so there will have to be alternatives."

So MGIC's O'Chotneky proposes that "we have to develop more efficient land and materials use. This

means the existing housing zoning restrictions that say only a certain minimum number of homes can be built on an acre of land have to be scrapped. We have to use land better and, in the case of cluster development, houses can share front and back yards."

O'Chotneky went on, "You don't need struts every 13 to 17 inches apart in the support for a house; they can be spaced 18 or 24 inches away. We can also use wood instead of concrete foundations for houses." Then, "We can build a lot of earth-shelter housing. That's where you build a house into the side of a hill or mountain." To conserve energy, he said, "Houses and rooms can be smaller, and we can use insulation, solar energy, or passive heating to provide energy for the houses." And, he added, "More people will live in condominiums." The commitment of such agencies as FNMA to finance condominiums, though still on a small scale, is indicative of this trend (see Figure 3).

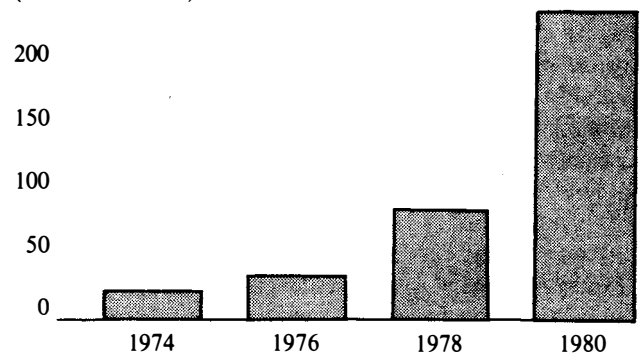
As for financing, O'Chotneky predicted that "the S&Ls will play less and less of a role. The insurance companies will play a big role. So will the pension funds and the Eurodollar market."

According to O'Chotneky, "someone in the U.S. will put together a group of mortgages and sell them on the Eurodollar market where the money is. This is a huge source of funds. Perhaps some Saudis will buy the mortgages."

Does this mean a Saudi would have to earn on a U.S. mortgage a return on funds comparable to what he could earn by investing in certificates of deposit or other high-yielding money market instruments in the Eurodollar market? "Yes," confirmed O'Chotneky. "That just means that mortgages will have to pay a lot more and that will cost homeowners a lot more. The era of the 30 year, 9 $\frac{3}{4}$  percent mortgage is dead." And that means the end of the family home.

Figure 3  
**FNMA condominium loan purchases**

(in millions of dollars)



Source: Federal National Mortgage Association

# Why the fight over the Trident missile?

by Leif Johnson

When Navy Secretary John F. Lehman, Jr. wrote to General Dynamics Corporation (GD) Chairman David S. Lewis in mid-March to announce that "it may be necessary to consider alternatives to the Trident-class submarine," the debate over the mammoth subs accelerated full steam.

The outlines of this debate first emerged in the mid-seventies with the Zumwalt-Rickover row over diesel versus nuclear-powered subs, and more recently there has been debate over the MX missile versus the Trident-II missile. The question of whether to have the Trident itself surfaced in a *New York Times* story last November. Author Richard Burt, now director of the Bureau of Politico-Military Affairs at the State Department was provided information from a Pentagon source on the cost and time overrun problems of the Trident. The unnamed Pentagon leaker was said to have been an advocate of the MX missile. Eighty-year-old Admiral Hyman Rickover has entered the fray, blaming GD for its failures, although still pro-Trident.

Then, on April 4, the *New York Times* charged that GD had a total of 127 sizes and shapes of steel which were inferior to the grade specified in the contract. The result, according to the *Times*, was that this steel could have found itself in 61,500 locations in the Trident.

General Dynamics spokesmen responded to the *Times* attack that only 50 pounds of nonconforming steel, of a total 23 million pounds of steel in the vessel, was found to have been installed in nonsensitive areas of the Ohio submarine, the first Trident to undergo trials. Further, the audit of steel stock at the Groton shipyards was made by General Dynamics, not by the Navy as claimed by the *Times*.

Sources close to GD also claimed that Admiral Rickover had been gunning for the company since the cost overrun settlement in 1978. Rickover had demanded the company bear the entire \$700 million overrun.

Subsequent stories that the Trident would be given to other shipyards were in fact arguments for its demise. It would take any other contractor two years and \$1 billion to tool up for Trident production.

While the small-wars-are-beautiful proponents are championing Rapid Deployment Forces, diesel subma-

rines, missile-carrying destroyers, and the defeat of the Soviets through psychological warfare, the strategic weaknesses of U.S. defense are no better addressed by Rickover's faction. The one fact that probably has the admiral upset is that while the United States can produce one and a half Tridents a year, the Soviets can churn out 13 of the comparable Oscar-class subs a year. The Soviets have a combined nuclear and diesel submarine force of 243 to the U.S.'s 75, and an economic infrastructure and defense capital equipment capacity considerably superior to that of the United States.

In the past five years, two technological developments have taken some of the sting out of the Mutually Assured Destruction (MAD) theory and have shifted the strategic debate even further.

Early satellite warning of launches and mid-course missile guidance makes early detection much easier and missile accuracy to a predetermined target much greater. Although it is still debated whether satellite detection can completely screen the oceans, satellites do undeniably simplify detection.

The second technology is particle and laser beams which provide an antiballistic missile defense cover. If urban, industry, and military targets can be protected from incoming warheads, the strategic MAD doctrine is made obsolete—at least from the Soviet viewpoint.

The combination of satellite surveillance and guidance and beam weaponry gives rise to satellite weapons such as the Lawrence Livermore Laboratory's directed X-ray weapon. This device creates a directed X-ray from the power of a contained nuclear explosion which can be detonated far more rapidly than conventionally powered beam devices. Senator Malcolm Wallop (R-Wyo.) is currently demanding that the LLL Dauphin X-ray lasers be given unlimited funding to convert what is now disparate work on various technological problems into a coherent weapons program, probably under the Defense Advanced Research Projects Agency.

According to congressional sources, the Senate Armed Services Committee has held closed hearings on the X-ray weapon system, but they report that, while "there is no one blocking the development of the system, the committee has decided to await further information from the Department of Defense."

In the strategic context of the X-ray weapons, which make defense and nuclear war-winning feasible, the Trident-II missile, and its submarine carrier have an important role. The X-ray laser is a worthwhile defensive weapon, but no substitute for basic artillery. Trident-II's are far more accurate, more powerful with a more flexible range than the present Trident-I's and ought to be built.

Malcolm Wallop, who is a leading member of the Armed Services Committee, agrees with this assessment. So too, from their side, do the Russians.

## S&Ls don't stand a chance with MMFs

*The Treasury is using MMFs to rationalize the savings and loans institutions—*

**T**he savings and loans are now very disturbed about money market funds, and that is fine with us," said a high-level source at the Regan Treasury this week. "The more they complain about money market funds, the more easily we can turn the argument on its head. The whole point of the debate about money market funds is not to restrain the interest rates that the funds can pay, [but] force them to pay higher rates to depositors if they want to compete with the funds. This is the year of deregulation."

I told you so. As I warned in this space last week, Federal Reserve Chairman Paul Volcker and Treasury Secretary Donald Regan are out to rationalize the nation's 4,500 savings and loan institutions by forcing the S&Ls, which now pay an average 9 percent to their depositors, to pay the market rates of 16 percent and over now paid by the unregulated money market funds (MMFs). This will mean that hundreds of smaller S&Ls, only earning 5-8 percent on their mortgage portfolios, will not be able to afford the price of taking deposits and will go under within a year.

Money market funds are the short term (usually one month) high-yield mutual funds whose shares are sold to the public like savings certificates. Because these funds, typically managed by brokerages and other non-bank financial institutions, invest only in short

term, high-yield speculative instruments like commercial paper and Eurodollar certificates of deposit, they can afford to pay market rates of 14-19 percent to shareholders.

The U.S. League of Savings Associations has complained vigorously that MMFs have stolen over \$63 billion in deposits that would have gone to S&Ls since MMFs were authorized by Congress in 1978. Indeed, MMFs have doubled in size since the beginning of this year, from \$70 billion to over \$115 billion this week and rising fast.

The U.S. League is demanding that Congress cap the rates money funds can pay, and have heavily lobbied Senate Banking Committee Chairman Jake Garn (R-Utah) to regulate the funds, to give the S&Ls a fighting chance to bid for deposits. Senator Garn will hold hearings May 13 and 14 on MMFs.

But "this is fine with us," say the Treasury deregulators. "The poor dumb S&Ls are playing right into our hands. They have all of their attention focused on this debate," said the Treasury official, "while the fact is, there is not the ghost of a chance of MMFs being regulated by Congress. First, there is no support whatsoever from the administration—the Treasury is totally for deregulation. And the MMFs are mobilizing their 6 million shareholders to write Congress—and that will be felt. Fed Chairman Volcker is against it, too.

"The bottom line is that the pol-

icy is to deregulate the S&Ls, let them pay higher rates if they want deposits. And that's what is going to happen."

Even Senator Garn himself admits that his free-market bias may allow just this. In the press release announcing the hearings, Senator Garn said, "I am not opposed in principle to money market funds since they afford small investors with an opportunity to earn higher interest. *It is not my purpose to impose new regulations.*" Although Garn honestly has the well-being of the S&Ls at heart, Treasury believes they can manipulate his free-market bias into deregulating the S&Ls instead.

Richard Pratt, the new Federal Home Loan Bank Board head supported by the U.S. League and other S&Ls the board regulates, has the same ideological flaw. Pratt, a financial consultant from Garn's home state of Utah, recently called for "temporary federal restraints" on MMFs, due to S&Ls' loss of deposits, and then turned around to say that "in the long run, one solution will be to lift government restraints on interest rates that financial institutions can pay."

The real problem facing the S&Ls is the Volcker Fed's interest-rate squeeze, which is destroying the home mortgage market S&Ls exist to serve, and jacking up their deposit rates. "But luckily, the S&Ls don't recognize their enemy, and have chosen to attack the MMFs instead," laughed my Treasury source. "Volcker's main interest is to get rid of deposit ceilings so we can index all rates to inflation. That will mean higher mortgage rates, fewer homebuyers, and fewer S&Ls. The S&Ls are going to have to be rationalized."

## Boxing Haig in on the embargo

*The secretary of state can no longer claim to be 'in control' in this aspect of foreign policy.*

**G**iven a mighty assist in recent weeks from Europe, domestic opponents of Secretary of State Alexander Haig's continued embargo on grain sales to the Soviet Union are preparing what may be the final blow for the discredited policy. The "Agri-vine" in Washington is rife with happy rumors, but reliable sources caution that while administration and congressional forces are "poised to make the right decision," State Department signals are still unclear. Many are looking toward Haig's return from the Middle East.

Following Senate passage of a nonbinding resolution sponsored by Sen. Robert Dole (R-Kan.) demanding an end to the embargo, with prominent Senate Republicans jumping aboard, Sen. Edward Zorinsky (D-Neb.) last week reintroduced his bill ordering the administration to "show cause" or terminate the trade ban within 30 days. Producer groups view the Zorinsky bill as the most meaningful of the anti-embargo bills forwarded over the past year, one that is "practical" and "plausible."

During the last week of March, many people judged that the embargo didn't have more than a week. These projections flowed almost directly from the public blows Secretary of State Haig had received in the crisis management flap. Even when tension heightened in Poland over the April 4 weekend, neither the rumors nor the political pressure on the embargo subsided.

On April 3 Secretary of Agriculture John Block blasted Haig for failing to report or discuss with him the content of a meeting Haig had with French embassy officials, who had informed the secretary of state that a 600,000 ton wheat sale to the Soviet Union was under consideration. "I am furious about not being informed and kept up to date on it," Block told the press.

At the April 1 Senate Agriculture Committee hearings where Secretary Block presented the long-awaited administration farm bill, discussion centered on control of farm policy. Senator after senator asked the question: "Does the USDA control farm policy, or is it OMB and State?" Block was careful to emphasize that the White House wants to lift the embargo, and that the situation is extremely fluid from day to day.

Concern over farm exports is uppermost in many of the senators' minds, and they expressed dismay not only on the embargo, but also over the fact that the programs for export market development were getting the short end of the stick in the USDA legislation.

On April 8, Senator Rudolph Boschwitz (R-Minn.) set hearings in his Foreign Agricultural Policy subcommittee on the farm export situation. Boschwitz wants an "overview" in terms of trade prospects and policy problems, according to an aide. The hearings will certainly provide that, as well as momentum for a decision on the embargo. Wit-

nesses include leaders in the Agriculture Council of America's (ACA) Farm Export Education Project, such as AGRI Industries President Jerry O'Dowd, Texas A&M economist Michael Cook, who wrote the comprehensive ACA report on farm export expansion, and National Association of Wheatgrowers President Jim Billington.

Meanwhile, there is considerable evidence that the Agriculture Department itself is acting to keep up the many-sided pressure for its rapid resolution. Deputy Secretary Richard Lyng told a visiting group of Minnesota grain exchange managers on March 16 that the grain embargo was hurting U.S. agriculture more than the Soviets and ought to be ended.

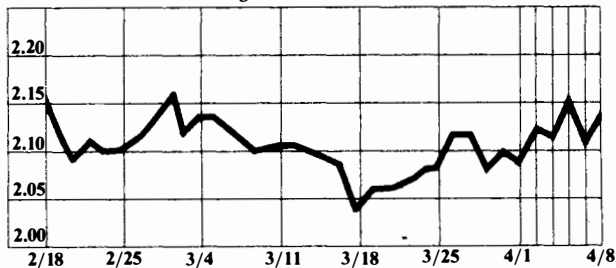
"I don't think the real disaster of the embargo has yet been felt," Assistant Secretary for Economics Bill Leshner is reported to have said recently. Leshner said that lifting the embargo would help "build a market" for farm exports, and that retaining it much longer threatens to severely curtail export prospects.

The Soviets too have stepped up their activity on the embargo in the United States. At an unprecedented March 22 dinner conference, hosted for members of the American Agricultural Editors Association by the Soviet trade mission, Soviet representatives reviewed the facts proving the embargo was a failure, and diplomatically but firmly proposed that the U.S. stop holding world trade hostage to politics. The existing bilateral trade pact with the Soviet Union, which kept a not inconsequential 8 million tons of grain exports per year flowing East despite the embargo, expires on Sept. 30.

# Currency Rates

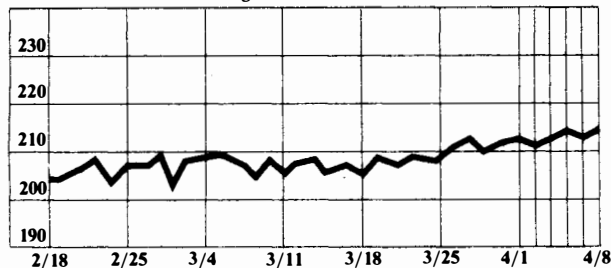
## The dollar in deutschemarks

New York late afternoon fixing



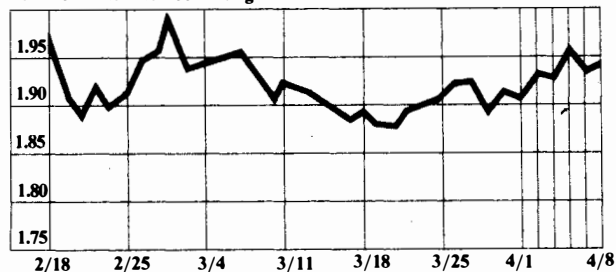
## The dollar in yen

New York late afternoon fixing



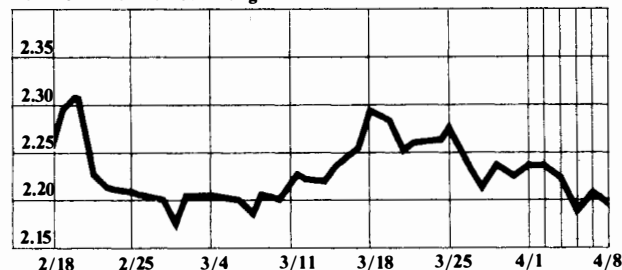
## The dollar in Swiss francs

New York late afternoon fixing



## The British pound in dollars

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# India's new Five-Year Plan: pursuit of industrial growth

by Paul Zykofsky, New Delhi correspondent

The government of Prime Minister Indira Gandhi unveiled a new Five-Year Plan for 1980-85 last month which envisages a broad revitalization of the industrial economy. Severe economic constraints persist, including continuing high inflation and the burden of petroleum imports which take up more than 80 percent of India's current export earnings. The new plan nevertheless reflects confidence in India's economic potential.

The Gandhi government plan was worked up in record time to replace the previous regime's plan covering 1978-83. The Gandhi plan targets large investments in basic infrastructure, especially energy and transport. The aim is to break through chronic bottlenecks that have slowed growth for agriculture and industry by choking off the supply of electricity and other essential inputs.

These government commitments are a clear shift in orientation away from the previous regime, whose planning policy emphasized "rural development" over industry, redistributionism over growth, and labor-intensive "employment creation" over real increases in productivity. The Gandhi government plan reflects the commitment of the prime minister to a science and technology-based policy in which agriculture will benefit from overall improvements in the productivity of the economy.

The optimistic view for the Indian economy is based in part on the excellent performance of the agricultural sector, which this year, following severe drought and a significant drop in grain production in 1979-80, will produce a record yield of grains. The government is clearly counting on this, along with increased domestic petroleum production, to cut inflation and encourage overall investment in the economy. The plan projects a

healthy average overall annual growth rate of 5.2 percent (see Figure 1).

Mrs. Gandhi knows full well that the political stability of the country depends on turning around the economic decay of the past few years, a decay inherited from the previous regime. The new Five-Year Plan reflects that understanding. But in the view of some critics who support Gandhi's aims, it still falls far short of the kind of bold, imaginative planning needed to break through the tendency toward stagnation and lack of real long-term development strategy characteristic of Indian planning over the past 15 years or so.

A key to the success of plans for large-scale growth will be the availability of external capital input. One sign of fresh thinking in the Gandhi government is the relatively unprecedented willingness to go to the private capital markets for large credit, rather than the previous exclusive dependence on official government and multinational institutional loans. This year, India already secured excellent credit terms on the Eurodollar market, reflecting its status as a prime borrower. The new plan projects further borrowing of this nature (see box).

## **The energy crisis**

The highest priority of Indian planning is currently the energy crisis the country faces. On one level, this is reflected in the vast expenditures of foreign exchange for the purchase of petroleum imports, money that could otherwise be invested in infrastructure.

The crisis is even more evident in the power blackouts that have regularly afflicted major industrial and urban centers over the past two years, especially during the dry summer months, when hydroelectric power

generation dips. Some cities, like Calcutta, have been afflicted all year round. According to recent estimates, the deficit in availability of power as a percentage of requirements rose from 10.3 percent in 1978-79 to 18 percent in 1980-81.

This shortfall in energy production is directly responsible for low-capacity utilization and low production levels in industries like aluminum, steel, and fertilizers. In 1979-80, India experienced a *negative* growth rate of 1.4 percent in industrial production. This also means that precious foreign exchange has been expended to import industrial goods.

It is not surprising to find that the new plan allocates a huge 27 percent of total public sector spending to the energy sector—the single largest allocation in the plan (see Figure 2). The energy sources include nuclear (completing several units during the plan period), hydro, and coal-based thermal power stations.

This will go for adding about 20,000 MW of new generating capacity—primarily through several super-thermal power stations—and also to strengthen the regional electrical grid system for improved utilization of generating capacity. Though exact figures are not as yet available, investment will also be made in improvement maintenance at thermal plants, running at as low as 33 percent capacity utilization during 1980.

The success of the power sector will also depend on improvement in coal production and transportation, two of the major constraints over recent years. In the past few months, coal production has improved somewhat. But inadequate supply of railway cars caused unusually high pithead stocks. To correct this situation, the new plan provides for relatively large expenditures in these two areas, with transportation receiving almost 13 percent of public sector outlay and coal production

expected to rise from 104 to 165 million tons.

In view of the heavy burden imposed by oil imports—which, as noted above, in 1980-81 will account for almost 85 percent of total export revenues—the new plan also proposes rapid increase in domestic oil production from 12 million tons (approximately 90 million barrels) to 21.6 million tons. Most of this increase will be achieved through stepping up exploitation of existing formations, and particularly the Bombay High offshore area on the west coast. India also hopes to accelerate oil development by inviting foreign companies to explore potential oil-bearing areas on the east coast with operations for production-sharing. Over 30 small and large foreign oil companies have put in bids for this plan.

### Irrigation and fertilizers

The Five-Year Plan combines these positive measures on the industrial front with strong emphasis on developing India's enormous agricultural potential. In the past years India has defied the doomsday predictions about the inevitability of famine. It has not only been able to meet its domestic food requirements, but has also begun to export foodgrains.

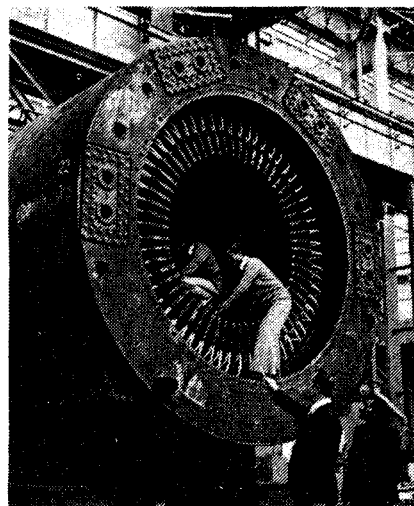
In the 1980-81 fiscal year, foodgrain production is expected to match the record level of 132 million tons achieved in 1978-79. The new plan envisages a 4 percent annual rate of growth in agriculture. Despite the fact that for the past 30 years annual growth has averaged around 2.7 percent, the new target should be feasible. The growing resilience of Indian agriculture, due to increased utilization of capital inputs such as irrigation and fertilizers, has made it less susceptible to weather conditions. This was clearly demonstrated last year when, despite one of the worst droughts in decades, foodgrain production reached 109 million tons, while

Figure 1  
**Sixth Plan targets**

(selected items)

	1979-80	1984-85	Average annual growth*
Foodgrains (million tons) .....	109.0	154.0	7.2%
Steel (million tons) .....	7.4	11.5	8.6
Petroleum (million tons) .....	11.8	21.6	13.1
Coal (million tons) .....	103.4	165.0	9.7
Cement (million tons) .....	17.7	34.0	14.0
Sugar (million tons) .....	3.9	7.6	13.3
Fertilizers (million tons) .....	2.2	4.2	13.1
Electricity (billion kwh) .....	112.0	191.0	11.4
Cloth (billion meters) .....	10.4	13.0	4.5

\*For the five years of the plan.



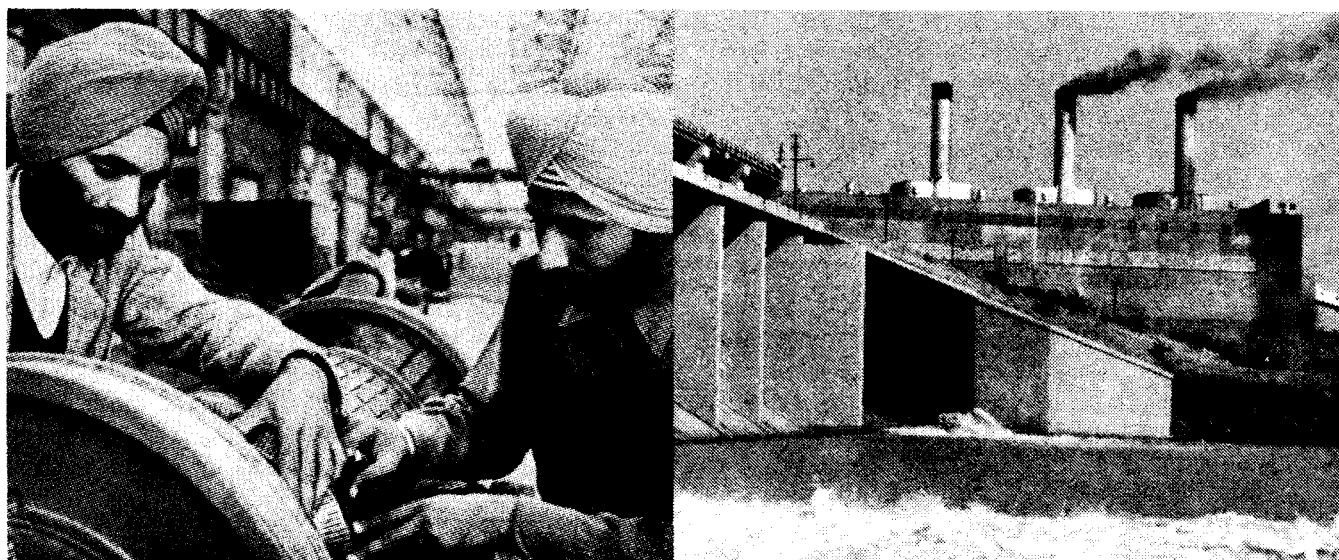


Figure 2  
**Sixth Plan public sector outlays**

(billions of U.S. dollars)

	Outlays by government	Outlays by states	Total	Percent of total
<b>Agriculture</b> .....	\$ 3.06	\$ 3.89	\$ 7.11	5.8%
<b>Rural development</b> .....	2.89	3.77	6.70	5.5
<b>Special area programs</b> .....	—	1.85	1.85	1.5
<b>Irrigation &amp; flood control</b> .....	0.79	14.24	15.20	12.5
<b>Energy</b> .....	14.99	17.86	33.17	27.2
Power .....	5.90	17.86	24.08	19.7
New & renewable sources .....	0.13	—	0.13	0.1
Petroleum .....	5.38	—	3.58	4.4
Coal .....	3.58	—	3.58	2.9
<b>Industry &amp; minerals</b> .....	15.96	2.73	18.77	15.4
Village & small-scale .....	1.15	1.02	2.22	1.8
Large & medium .....	14.81	1.71	16.54	13.6
<b>Transport</b> .....	10.52	4.63	15.51	12.7
Railways .....	6.38	—	6.38	5.2
Roads .....	1.04	2.99	4.29	3.5
Road transport .....	0.08	1.38	1.49	1.2
Other transport .....	3.02	0.24	3.34	2.7
<b>Communications &amp; information &amp; broadcasting</b> .....	3.88	0.04	3.91	3.2
<b>Science &amp; technology</b> .....	1.06	0.02	1.08	0.8
<b>Social services</b> .....	5.56	11.04	17.54	14.4
Education .....	0.92	2.03	3.15	2.6
Health & family welfare .....	2.01	1.36	3.54	2.9
Housing & urban development .....	0.51	2.30	3.11	2.5
Water supply & sanitation .....	0.76	3.90	4.90	4.0
<b>Total</b> .....	\$59.06	\$60.75	\$121.88	100%

Figure 2 presents a sector-by-sector breakdown of the public sector outlays for the Sixth Five-Year Plan. The emphasis on infrastructure, such as energy and transport, as well as on agriculture and irrigation is reflected in the large amounts allocated for these sectors.

The importance given to project implementation by the

states in certain areas—such as power and irrigation—is also evident in the central government/state breakdown.

Expenditures by “Union Territories”—areas under central government control like New Delhi and a few other cities and islands—account for less than 2 percent of total public sector outlay and have thus been omitted.

food stocks were maintained at over 15 million tons.

With this in mind, the new plan proposes large investments in irrigation—12.5 percent of total public sector spending—and in fertilizer production. During the course of the new plan, the first phase of a massive long-term water management scheme interlinking a number of rivers will also be initiated.

Despite the general positive thrust of the new plan, it has met with skeptical response in some quarters. Clearly, one of the major reasons for this has been that, despite the many advances made by India since independence, its rate of economic growth has remained erratic and fairly low. Furthermore, since planning was first initiated with the launching of the first Five-Year Plan almost exactly 30 years ago, each plan has successively fallen short of its targets.

Critics often argue that planning, as it is carried out today, has ceased to have such meaning. When planning was first initiated after independence from the British, Prime Minister Jawaharlal Nehru outlined a clearcut strategy for development based on building up heavy industry and the capital goods sector. This strategy was viewed as essential if India were to emerge out of centuries of imposed backwardness through rapid economic development. Planning at that time was used to marshal the country's resources for this task. The population was mobilized around the need to meet these development goals, and the plans were widely discussed and debated.

However, the combined effect of droughts, the wars with China and Pakistan in the mid-sixties and early seventies, and the IMF-imposed devaluation of the rupee in 1966 pushed India off the planning strategy pursued by Nehru and onto a "crisis management" track. This, together with the international propaganda campaigns for "limits to growth," "appropriate technologies," "minimum basic needs," and so on have made Indian planners overcautious and afraid to "think big."

### **A linear outlook?**

Although the plans have continued to pose the need for high growth rates, they have tended to become glorified five-year budgets, with little attention given to the need for evolving a clear *strategy* for development, as was the case during the Nehru years. The recent plans—especially the short-lived plan evolved under the Janata government for 1978-83—have given more attention to detailed discussion of allocation and targets for all sectors, while reducing economic development strategy to slogans of "ending poverty and unemployment."

In doing so, the plans have succumbed to the drawbacks of all economic forecasting based on linear projections and input/output models. Resources are

allocated arbitrarily, in the best of cases, to achieve certain specified targets, rather than on the basis of where they can have the most impact for ensuring rapid and thermodynamically efficient growth of the economy. For example, instead of taking advantage of one of India's greatest assets—its large scientific and technological manpower—to carry out key projects for energy and water development, resources are diffused into many unproductive sectors, such as cottage industries and other rural employment schemes.

This weakness is also evident in the new plan. While it poses the need for higher growth rates, and even singles out some of the key sectors for investment, it still lacks a clearcut economic strategy which can ensure that high growth rates can, in fact, be achieved. This is especially evident from the continued emphasis on labor-intensive, rural employment projects, and the absence of a deliberate policy of planned urbanization to reduce the large proportion of the population still employed in low-productivity work in the rural areas.

Planning Commission member Dr. M. S. Swaminathan revealed some of these shortcomings during a recent conversation with foreign journalists when he minimized the differences between the new plan and that of the ruralist Janata by stating that there is "continuity since the first plan, because, after all, in a country where so many people are poor, where many villages have no drinking water, where unemployment is the most important challenge, whoever has to plan for development obviously will have to provide employment, will have to provide basic minimum needs."

While no one can dispute these goals, the Indian planners appear to retain the simplistic approach that the best way to create jobs is through labor-intensive schemes. On the contrary, while this may be a necessary expedient in the short term, no country has been able to solve the problem of underdevelopment, or even unemployment, in this way. This was clearly understood by the Planning Commission during Nehru's days, when the development strategy was based on building up heavy industries like steel or capital goods, along with the power sector. While these did not employ a large number of people directly, indirectly they created the conditions for rapid growth and employment and higher productivity levels.

### **Planning problems**

The planning process in India also suffers in the implementation stage. For example, one of the major impediments is the conflict between the central and state governments. Although the states can play a positive role in many projects, their jurisdiction over such key sectors as irrigation, education, and power has often become an obstacle to implementing development schemes on a *national* scale.

Even in the central government, the powers of the Planning Commission have been eroded since its early days, when it played an important role in coordinating the activities of the various ministries and monitoring implementation. Although the prime minister still acts as chairman of the commission, the commission no longer plays much of a role in supervising the implementation side of things.

Another factor which has added to the complexities of planing in India is the existence of a mixed economy whose large private sector has grown to the point where it now accounts for approximately 60 percent of the economy's output. Aside from forecasting an aggregate amount of investment by the private sector, the plans do not incorporate it in any great detail.

In the new plan, the private sector receives only

passing mention with general estimates that its outlay will account for approximately 43 percent of total expenditure during the plan period. Nevertheless, since all the major banks are nationalized, the government does exert control over private sector investment decisions through its control over credit. If anything, over the years, the government has been criticized for trying to deal with the existence of a large private sector by imposing numerous regulations and restrictions which have stunted real economic growth.

In light of this, the new plan poses the need for streamlining the cumbersome licensing and capital market regulations and taking appropriate fiscal and monetary measures to allow the private sector to function with "greater competitive ability, reduced cost and greater mobility and flexibility."

## India's future borrowing plans

One aspect of planning during the Nehru era that the Planning Commission has incorporated into the latest plan concerns the question of foreign borrowing. While economic analysts often mistakenly view as "autarkic" Nehru's emphasis on self-reliance and the need to build up domestic industrial capabilities, the second plan carried out under his direction relied on foreign capital for as much as 20 percent of its financial resources. This percentage has diminished over the years, and the new plan projects a foreign-resource component of about 10 percent, although it may well go beyond that level.

Indian planners are being careful to ensure that the new commercial credits go into productive ventures capable of generating sufficient surplus to comfortably pay back the loans. The projects chosen so far for commercial credits include a new steel plant to be built in Paradeep, Orissa; an aluminum complex, also in Orissa; and a number of petrochemical complexes.

Although only token allocations were made for these projects in the plan, India's success in obtaining its first commercial credits during 1980 has made Planning Commission officials optimistic about the outlook in the coming years.

In fact, in its first venture into the capital markets in 1980, India obtained the largest-ever syndicated Eurodollar loans in Asia for \$680 million for the aluminum project in Orissa. Its high credit rating was demonstrated recently when it obtained a \$200 million

commercial loan for oil development at an interest rate of only 3/8 over LIBOR—the same rate available to borrowers in industrialized countries.

This creditor confidence is due not only to the excellent potential of the Indian economy, but also to the fact that India's total foreign debt of approximately \$14 billion remains low for a country of its size, especially in comparison with other developing countries.

In addition, despite an estimated foreign trade deficit of \$5.6 billion in 1980-81—largely due to the high cost of oil imports—India's foreign reserves remain above the \$5 billion level.

At present, the Five-Year Plan proposes to get approximately \$12 billion in foreign credits. Of these, net aid is expected to provide approximately \$7 billion with commercial borrowing bringing in about \$5 billion—which means that India expects to borrow approximately \$1 billion on the capital markets each year of the plan. However, since this still does not include allocation for some of the major industrial projects—which will be included after a mid-term review of the plan in 1983—the foreign component may well rise beyond this.

A debate is currently taking place within the Planning Commission and Finance Ministry as to whether India should go in for the more expensive commercial credits, or draw on its enhanced quota of 6 to 7 billion in Special Drawing Rights from the IMF. The response India gets from the U.S. and Europe in obtaining these capital resources on favorable terms and in reasonably large amounts may very well determine whether it will plan more aggressively in the years ahead.

# World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$3 bn. (estimate)	Japan from Brazil	Nippon Steel and 6 other Japanese steelmakers signed contract to buy 10 mn. tpy of iron ore from Brazil from 1985 to 2000. <i>Folha de São Paulo</i> cites Tokyo sources expecting Germany and other Europeans soon to sign similar deal, which means preconstruction placement of 2/3 of the high-quality ore from mammoth Carajas pit.	<i>Folha</i> says largest Japanese iron purchase ever. Sales will aid financing \$2.6 bn. iron ore part of Carajas.
	Japan from Indonesia	Tohoku and Tokyo electric have agreed to buy 3.3 mn. tpy of liquefied natural gas from Pertamina during 20 years, starting 1984. Price expected to start at \$5.49 per thousand cubic ft.	Japanese had agreed to finance \$1 bn. LNG plant expansion in Sumatra.
\$1.08 bn. (approx.)	Iraq from West German companies	Hermes, German govt. export credit entity, has resumed coverage for Iraq following war-time suspension. Many new deals coming through.	
	<b>Including:</b>		
\$425 mn.	Dyckerhoff and Widmann	120 km. superhighway near Basra, including bridges.	ordered
approx. \$425 mn.	Strabag-led consortium	Road near Jordanian border.	not confirmed
\$235 mn.	Klockner subsidiary	2 mn. tpy cement plant.	ordered
\$125 mn.	Argentina from Japan	Argentina and a Japanese consortium have reached agreement on the sticking point in a package which could bring Japan \$500 mn. in orders for steel plant, railroad modernization and Yaciretá Dam turbines. Conflict over \$50 mn. Japanese financing and turnkey conditions for hot rolling mill for Somisa state steel company was so sharp <i>Japan Economic Journal</i> reported talks were broken. <i>El Economista</i> of Argentina estimates investment in new Somisa lamination plant at \$1.1 bn.	Somisa promised to buy \$125 mn. steel equipment from the Mitsubishi consortium, which finally agreed to provide plant on turnkey basis.
\$58 mn.	Peru from World Bank	World Bank is aiding Peru's \$128 mn. project to build new airport in Tingo María and upgrade 3 others in central jungle region which has Peru's most rapid growth. Region is main producer of Peru's leading export: raw cocaine. World Bank says region currently has "inadequate transport links with the rest of the country."	Loan for 17 years 4 yrs. grace, at 9.6%.
\$333 mn.	Libya from West Germany/Austria	Libya has ordered 2 direct reduction iron ore processing plants from Korf Engineering, a joint venture of Korf and Voest. Plants use Korf's Midrex process, Libyan gas, to turn out 550,000 tpy sponge iron each. Part of Misuratu steel works, where Korf also building electro-steel furnace.	Libya signed letter of intent with Marubeni-Kawasaki consortium for plants in 1979, but let it lapse.
<b>CANCELLED DEALS</b>			
\$1.2-\$1.4 bn.	Soviet Union from Japan	Soviets notified Japanese consortium that 2 paper mills under negotiation since 1973 were not included in 1981-85 Five-Year Plan.	Japanese would have bartered technology for pulp.

# Business Briefs

## *Fiscal Policy*

### Senate panel rejects Reagan budget

In a surprise rebuff to President Reagan, the Senate Budget Committee voted 12-8 on April 9 to reject the Reagan administration budget proposals for 1982-84. Three conservative Republicans joined with all nine Democrats on the Committee in the vote.

The Democrats, led by Ernest Hollings (D-S.C.), voted against the budget on the grounds that the large tax cuts in 1983 and 1984 were fiscally irresponsible, and that the economic assumptions were fraudulent.

Republicans William Armstrong of Colorado, Charles Grassley of Iowa, and Steve Symms of Idaho voted against the budget claiming the deficits were much too large, and that much deeper cuts would be needed. An aide to Sen. Symms told *EIR* that "The stronger and deeper the cuts the Senate makes, the stronger bargaining position we will have with the House." When asked where he would make further cuts, he said "There are only two areas, defense and the entitlements, and we can't cut defense."

## *Industrial Strategy*

### Zone proposal in new trouble

Representative Jack Kemp of Buffalo has once again ordered a delay in the introduction of legislation establishing urban enterprise zones modeled on the Hong Kong low-wage economy.

His office reports that despite "very positive feeling" about the bill, Kemp and his co-sponsor Rep. Robert Garcia of the South Bronx have decided to wait until after the Congressional recess to bring the legislation before Congress.

But sources say that the delay—the bill was originally expected to be introduced in January—has "political overtones." One aide to Kemp reported that

the much-hoped-for "official administration" endorsement of the bill is running into snags. The endorsement will require full cabinet approval, and despite President Reagan's tentative support, the measure is "not too popular with some of the people from the West."

In addition, Kemp's office says it is troubled by reports circulating around Washington that the legislation has a "hidden agenda. People are saying that the bill has a second phase," said an aide. "They say that down the line we want to create sweatshop economies, that we are out to set up 'slave labor zones.'" Other backers of the concept, including the Washington-based Heritage Foundation and former British Fabian Society chairman Peter Hall, have reported that the Kemp-Garcia bill will only be a foot in the door for just such schemes.

"We can't seem to shake this hidden agenda thing," said the aide. "The more we deny it, the more people think we are hiding something."

## *Conference Report*

### Latin American capital markets are debated

The Venezuelan stock market and the International Institute of Capital Markets sponsored a joint conference in Caracas, Venezuela early this month to promote programs for turning Latin American countries into large-scale replicas of the Hong Kong "free market."

In opening remarks, Bernardo Paül, head of the Venezuela stock market, criticized credit-control policies in the developing sector, and urged instead that "greater free-market mechanisms" be employed to encourage capital inflows. His remarks were endorsed by Victor Urquidi, a delegate from a leading Mexican think tank, Colegio de Mexico, who plugged for "free-market" financial policies on the grounds that "inflation is a phenomenon which in several centuries of human experience we have not learned to control."

Among others at the Venezuelan con-

ference were Yves Maroni of the U.S. Federal Reserve, Richard Ewbank of the Bank of England, and Mahmoud Fahmy of the central bank committee in Egypt.

## *Auto Industry*

### Bush committee calls for rationalization

The Reagan administration has released the report of the Auto Industrial Committee, now chaired by Vice-President Bush. The Auto Industrial Committee was first set up by President Jimmy Carter in September 1980. Members include Secretary of Commerce Baldrige, Secretary of Transport Lewis, GM chairman Thomas Murphy, and United Auto-workers President Douglas Fraser.

The AIC report grants the auto industry some relief from regulatory restraints, environmental and safety-standard regulations, and taxes. The administration estimates that these measures will save the industry some \$1.3 billion over the next five years.

On the question of foreign auto imports, which now dominate 25 percent of the U.S. auto market, the Bush committee refrained from asking Japan and other exporters for even minimal "voluntary restraints" on exports to the U.S.

"We are committed to free trade and believe free trade benefits all nations concerned," Mr. Bush told the press in presenting the plan. Bush has sent a delegation of Commerce and other U.S. officials to Japan to explain this. "They are not there to negotiate import restrictions," he said.

"The whole point of this program is to use trade to force the U.S. auto industry to retool, rationalize, and produce more fuel-efficient cars with less labor," said a high-level Commerce Department source. This will mean a much smaller auto workforce, he said.

The Bush committee report states formally that, out of the 500,000 auto workers now unemployed, fully 200,000 are expected never to be re-employed by the "rationalized" industry.



# Briefly

## International Banking

### Swiss, South Africa on new monetary track

Swiss bankers are publicly optimistic that a proposed program for lifting the traditionally stringent exchange-control system of South Africa could open a wide door for Western capital investment. In Johannesburg this week, South Africa's Bankorp commercial banking group announced that it was founding the International Bank of Johannesburg in a joint venture with a leading Swiss bank whose name is withheld for political reasons.

A lengthy feature in the April 8 Swiss financial newspaper *Neue Zürcher Zeitung* gives detailed background on the benefits South Africa could gain by lifting its tight exchange-control system. Moves to get this job done are being coordinated by the "De Kock Commission," an advisory body headed by the Central Bank Governor and former South African representative at the IMF.

The commission, which will be issuing a report on its findings this summer, notes that the controls have always aimed to ward off foreign-exchange outflows in the event of political instability.

De Kock argues that economic development would be a more effective way to bring South Africa long-term political stability.

NZZ describes his standpoint as follows: "If South Africa is to be able to solve its political problems . . . the country needs economic development; it needs investments . . . which are directed toward regional development priorities. Thus, the tasks of the central bank are to shape the monetary conditions that development . . . is optimal. . . . This means reducing currency restrictions, lifting the split currency market, and a swing into a heavy-handed monetarist monetary policy. . . . 'It is highly questionable,' De Kock thinks, 'that you can invite someone into a house, when the exit doors are barred shut.' He is committed to opening those doors."

NZZ adds that Pretoria also favors founding a multinational regional development bank, and that plans for the fi-

nancing institution are already worked out in detail, although the specifics have not yet been revealed.

## Labor

### Rail negotiations may be rough

Unlike the United Mine Workers, the railroad craft unions do not maintain the tradition of "no contract no work," and the nation's half million rail workers have been on the job since April 1 without a contract.

Officials of the United Transportation Union, the largest of the rail unions, expect talks to begin by the end of the month, and claim that the railroads want to settle as much as they do. But the going could be difficult.

Although the railroads, particularly the coal hauling roads, reaped healthy profits in the last quarter of 1980 and contemplate handsome revenue growth under Staggers Act deregulation, the railroads continue to claim poverty.

The focus is on the "bankrupt" roads. The Delaware & Hudson, a subsidiary of the highly profitable Norfolk & Western, lost \$5.6 million last year and now owes the U.S. Railway Association some \$45 million. It has demanded a 5 percent pay cut from its employees.

The Boston & Maine Railroad is demanding extensive work rule changes. So is Conrail, which has thrown the labor situation out of kilter by recommending in its April 1 report to the Congress that it be allowed to sell its profitable routes and abandon the rest—between 2,350 and 3,800 miles of its 17,000 mile track-age.

As an alternative to sale, which would abrogate the 1976 guarantees to laid-off Conrail workers, Conrail has demanded a \$200 million give back package from the employees.

The next stumbling block is the pension system, which is said to be \$300 million below adequate funding. The railroads want to take \$1.37 an hour from the paychecks, a demand that will be strongly resisted by the unions.

● **NIGERIA, ECUADOR,** and several Persian Gulf oil producers, along with Mexico, have either reduced prices by about \$2.00 a barrel or will do so in the near future. The price drop follows a decision by Saudi Arabia, currently producing 40 percent of OPEC exports, to maintain its production at a high 10.3 million barrels a day. The Saudis and their Iraqi allies may be on the verge of defeating OPEC's radicals. Should the Iran-Iraq war come to an end, it will mean even greater oil supplies. This is the first time in 10 years that the price of oil has begun to fall on the international market.

● **SPECIALTY STEEL** imports to the U.S. from France, Japan, and South Korea are reportedly on a big upswing. On average, for example, imports of stainless steel were 17 percent of consumption over the last decade—and are now 21 percent. The Commerce Department has called for a study on the surge.

● **U.K. AND GERMAN** politicians and industrialists met for the annual meeting of the "Königswinter" conference the first weekend in April. The elite body has 150 members, who this year discussed the 1980s as the "Decade of Danger." Their proposals for economic recovery emphasized "appropriate technologies" for the Third World.

● **SEAGRAM** has dropped its bid offer to purchase St. Joe Minerals. Press reports assert Seagram did not want to match California-based Fluor Corporation's higher bid. In fact, St. Joe's resistance to the tender bid got too politically hot for the Bronfman brothers: St. Joe was ready to rake up Seagram's seamy political/financial history, as well as use the bid as a test case for getting Congress to halt any Canadian purchases of U.S. mining firms.

## The solution to the Polish crisis

by David Goldman

Soviet leader Leonid Brezhnev's April 7 reassurances concerning the ability of the Polish communist party to maintain internal stability reduced the short-term likelihood of a Soviet invasion, but left most of the international community unsettled. Between April 3 and April 6 a bewildering series of contradictions emerged from official U.S. pronouncements about the possibility of a Soviet move into Poland, until Brezhnev settled the issue himself.

On Friday, the State Department warned of an "imminent invasion," an evaluation refuted the following day (April 4) by the White House press spokesman. By Sunday Defense Secretary Weinberger spoke of an "invasion by osmosis" and intimidation rather than a "conventional invasion," and on Monday the State Department reversed its previous evaluation.

Granted that the danger was not contrived by Secretary of State Haig, why didn't the Soviets march in, and what will stop them from doing so in the near future? It is not sufficient to say that the crude but clever Soviet campaign of mass intimidation has worked, at least for the moment. Without the prospect of finding a means to stabilize that nation in the long term, the Soviets would have already sent Warsaw Pact troops into that city.

### Crisis is economic

What is usually ignored about the Polish crisis is that *crises of national existence* of similar form are endemic throughout the semi-developed and developing sector. The combination of higher oil prices and, more importantly, much higher interest rates that appeared in the second and third quarters of 1979 wrecked the basis for economic existence of about half the national economies in the world. Poland deserves special attention because it is a member of the Warsaw Pact, and because the political ramifications of that crisis could turn the world on its head.

But the long-term consequences of the parallel crisis in the developing sector are not materially different. *EIR* has argued since our founding that the principal danger of global nuclear confrontation begins with the economic destabilization of large areas of the globe of strategic interest to



*Modern combines in Poland: many more are needed to salvage the debt.*

both East and West. This understanding has also been the fundamental concern of French and West German diplomacy since 1978, as well as the principal stated concern of developing sector leaders such as Mexican President José López Portillo and Indian Prime Minister Indira Gandhi.

Poland's Solidarity movement would not exist without the bread-and-butter problems occasioned by the miserable state of the Polish economy. Although the last six months of strikes have damaged Polish output, the principal cause of the economic downturn is foreign debt service. The pressures of raising the \$7.5 billion Poland is due to repay this year (but cannot repay in full) have forced reductions in raw materials purchases and consequent production declines.

This short-term crisis occurs in the context of long-term undercapitalization of the Polish economy, especially agriculture. The heritage of the "Marxist Keynesians" Michel Kalecki and Oscar Lange, who steered Poland in this direction starting in the 1950s, suppressed Polish living standards. What led, however, to the dangerous drop in consumption levels over the past two years is the effect of international market conditions on Poland's foreign debt. More than any other East bloc economy, Poland is susceptible to adverse changes in the international credit market. That is the origin of Poland's susceptibility to internal destabilization, if not the cause of the immediate destabilization itself.

Western Europe's combination of political and monetary diplomacy are first directed towards the underlying causes of the "Polish problem," actually a much

broader problem, and only secondarily toward the short-run contingency of dissuading the Russians from hasty action. Up front, of course, is Europe's leading rôle in reorganizing the Polish debt and providing essential food aid, as detailed in this special report. On April 9 the governmental creditors will meet in Paris. According to well-informed U.S. sources, the likelihood is that a French plan (with West German backing) for a 2½ year moratorium on principal and interest, a further 2½ year moratorium on principal, and a still further five-year stretch-out of principal payments will be adopted, despite U.S. objections since the U.S. is only a junior creditor. In conjunction with \$600 million in food aid from the EC and additional large aid from France, these debt proposals are sufficient to avert a short-term economic catastrophe.

### **Restabilizing Poland**

However, the issue is *not* the short-run economic restabilization of Poland as such, and the Europeans are not buying time by paying tribute to the Soviet beast (as the State Department sometimes suggests). As the Swiss daily *Neue Zürcher Zeitung* explained with embarrassing frankness April 6, "Even if it involved a bit of martyrdom, Poland would be economically restabilized following a Moscow intervention. Would Western complaints about the rape of a nominally independent country intermingle, then, with sighs of relief about the salvation of Poland's ability to repay?" By far, the simplest solution from the purely economic standpoint

is to have the Soviets assume hands-on management of the place. Nothing could be more inimical to Poland's chances of economic recovery than the decentralizing program offered by the Solidarity union.

### Generating credit

What makes the European debt moratorium plan significant in Russian eyes is the included prospect for revived economic growth in Poland. The big issue is not whether Poland will repay its foreign debts. The question is, who will put in the new money the country requires for the re-starting of production? The Eurocurrency markets, virtually swamped by debt renegotiations in a dozen locations, will not.

But the French and Germans have created the mechanisms for the provision of such credit in general, and therefore to Poland in particular. That is the only way it could possibly work. The behavior of the German cabinet over the weekend of the crisis is exemplary. While American commentators spent their time on the "will they-won't they" of the Soviet attack, the Germans deliberated on the \$7 billion credit which they are now raising jointly with the French.

What is extraordinary about the Franco-German deal with the Saudis is that, unlike last year, the motivation for the credit is not to patch the holes in their current account payments positions. The Saudi funds will be used for long-term, low-interest investment in the French and West German economies.

In effect, the West Germans have instituted a two-tier credit system in their own country favoring a rapid increase in industrial productivity. The Schmidt government is attempting to create the economic conditions under which the Polish economy, as an aspect of the European economy, can thrive.

Although the form of the Franco-German "community loan" specifically avoids a bilateral agreement with Saudi Arabia—largely for domestic electoral considerations in France—the loan nonetheless created international shock waves. According to State Department sources, Secretary Haig did not miss the coincidence of timing in the loan: President Giscard and German Economics Minister Lambsdorff made simultaneous announcements the same day Haig left Saudi Arabia with nothing in his pocket but his airfare home.

The form of lending begins to answer the problem of stagnating West German industrial productivity. As *EIR* has emphasized, the reason for the weakness of the West German mark in the past six months is not only the discrepancy between U.S. and West German interest rates, but the creeping expectation that West Germany's industrial miracle has finished. The Germans, still the largest exporter in the world, need a general renewal of their capital stock, and the "community loan" is an important if still symbolic move in this direction.

In turn, the monetary cooperation the Europeans elicited from Saudi Arabia depends on Europe's assumption of additional strategic responsibilities in the Persian Gulf. The importance of the security issue is all the greater after the miserable collapse of U.S. Secretary of State Haig's efforts in the Persian Gulf last week. From the Saudis, Haig drew only an unqualified rebuff to his suggestion that the East-West conflict should overarch regional issues in the policy of area governments. The European role in the Gulf is now central.

In an April 7 interview with the *Süddeutsche Zeitung*, Chancellor Schmidt predicted with some confidence that the expansion of economic relations with the Gulf would revive the capital-goods sector of German industry. It already appears that an improvement in the foreign order books of West German companies may lead to an economic recovery during the second quarter of modest proportions, at the precise moment that the U.S. economy is gathering downward momentum.

### East-West relations

This is the indispensable background to the sudden improvement in Soviet-West German understanding. In one form or another, this is what West German foreign minister Genscher brought to Moscow in his trip April 2-3, and what Soviet leader Brezhnev responded to with his proposal to visit Bonn soon. That is what gives the Europeans the necessary confidence to take charge of the Polish debt negotiations, and the ability to provide new credits for Poland's economic recovery.

It is still important to emphasize the tenuousness of Poland's and the world's situation. Should the Europeans fail to persuade the United States to abandon its current meat-axe monetary program, and the global damage it inflicts, the international monetary situation will take a turn for the extreme worse, no matter what sort of directed credits the Saudis provide. The Polish situation, the Persian Gulf situation, the Lebanon situation and other potential flashpoints are still delicate in themselves. But what makes the overall European stabilization program hang together is the Franco-German promise of a solution to the world monetary crisis. The Federal Reserve can still do a huge amount of damage to the world economy. In the worst case, it could throw Europe's efforts back to a defensive program to defend a regional currency bloc after a general shakeout on the international markets.

Under those circumstances, the stability of any of the weaker regimes in Europe and elsewhere would be questionable, and the Polish situation itself would be dangerous and unpredictable. Europe's finance ministers will "ask some tough questions" of the Federal Reserve at the April 10 meeting, as the Swiss newspaper puts it. That is important for world security in a way U.S. policymakers have not yet seemed to grasp.

## Brezhnev heads for Western Europe

by Rachel Douglas

Soviet President Leonid Brezhnev surprised Poland-watchers from the U.S. State Department to the communist party headquarters of East Germany by flying to Prague April 5 to deliver, not a final, pre-invasion indictment of the Polish leadership, but a qualified vote of confidence.

Said Brezhnev, "The Polish communists, one must suppose, will—with the support of all Polish patriots—prove able in adequate measure to oppose the designs of the enemies of the socialist system." Followed several hours later by an official announcement that the Warsaw Pact's "Soyuz-81" maneuvers in and around Poland were ending, Brezhnev's words to the Czechoslovak party congress meant that the Polish communist party was still, for the time being, in charge in Poland.

While Brezhnev was in Prague, the West German government announced a step by the Soviet president of overriding strategic importance: he will visit Bonn as early as this summer. According to rumor, he may go to France as well.

The Soviet president's last trip to Bonn was in May 1978. It resulted in the unique 25-year cooperation framework known as the "Schmidt-Brezhnev deal," which aimed to ground East-West relations in a joint commitment to industrial expansion and was one stepping stone to the creation of the European Monetary System by Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing a month later.

This year, Brezhnev would be meeting the Western European leaders when they are again on the verge of initiatives in international monetary policy, including a possible advancement of the EMS into a credit-generating phase, for the revitalization of trade.

Brezhnev and Schmidt both also want to talk about arms negotiations, and the West German Chancellor has intervened personally to push this issue.

If Soviet-American talks on limiting medium-range nuclear missiles in Europe do not reopen by the end of this summer, Schmidt told the *Süddeutsche Zeitung* in an interview published April 7, the consequences will include the deterioration of *West German-American* relations. Schmidt's comment was directed, particularly, to

the NATO defense ministers' meeting, for which American Secretary of Defense Caspar Weinberger arrived in Bonn on April 6.

Schmidt himself attended the opening of that meeting, to urge progress on the missile talks. It is an issue that has hung over East-West European relations since a December 1970 NATO decision to build and deploy nearly 600 modern American medium-range rockets in Europe by the mid-1980s. These weapons are of special significance because they are associated with the strategic concept of "limited" or "theater" nuclear war, which the U.S.S.R. rejects.

The NATO decision paired the missile development plan with a proposal to open talks on limiting all missiles of this range stationed in Europe. For months, Moscow insisted that NATO reverse its choice before such talks began. In February, Brezhnev rephrased that policy by calling for a "freeze" on medium-range missile deployment in Europe.

Reports filtering out of West German Foreign Minister Hans-Dietrich Genscher's April 2-4 talks in Moscow, where Brezhnev's future trip was broached, indicated serious Soviet interest in discussing European nuclear arms ceilings and even cuts. In the course of five hours with Genscher, Soviet Foreign Minister Gromyko reportedly moved from merely repeating Brezhnev's "freeze" requirement to asserting Moscow's readiness to start comparing missile figures with the United States.

In his Prague speech, Brezhnev expanded this impression by saying, "Naturally, our proposal for the moratorium is not an end in itself. It has been made with the intention of creating a more favorable atmosphere for talks."

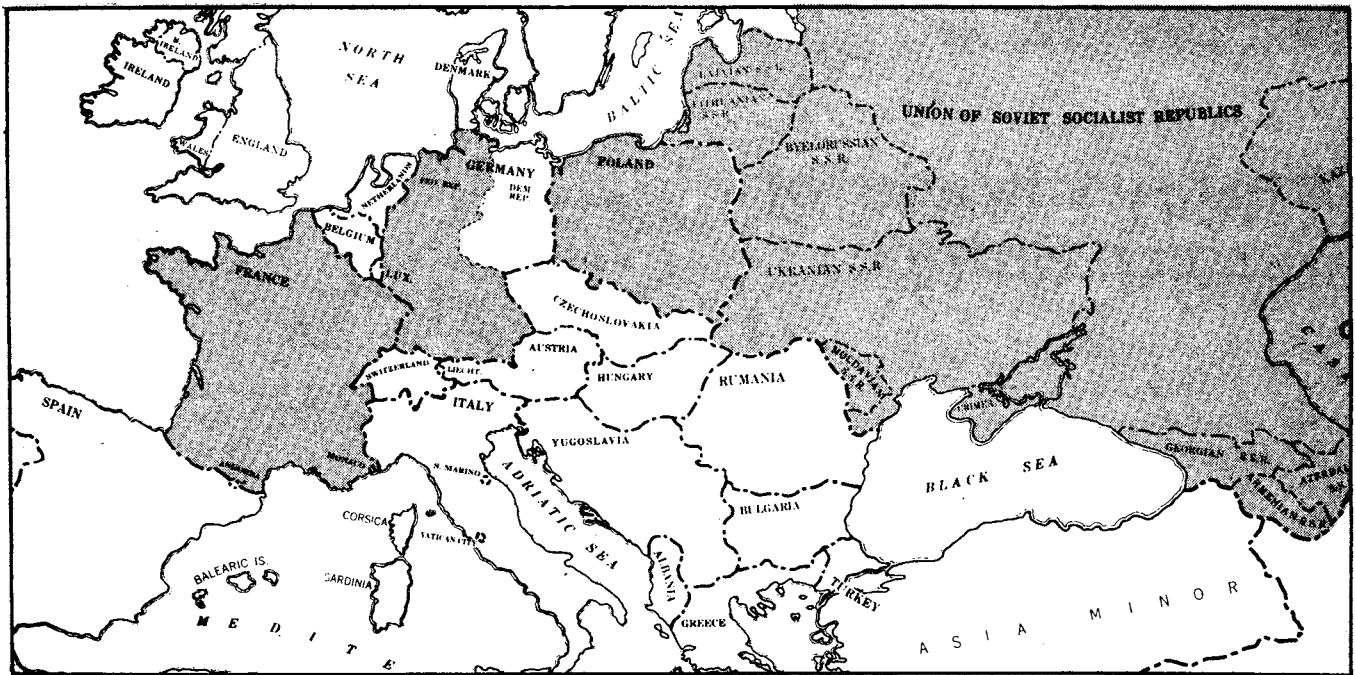
After April 7 talks with Soviet Prime Minister Tikhonov, Austrian Chancellor Bruno Kreisky suggested that Vienna host a Reagan-Brezhnev summit.

### Polish uncertainty

In Poland, the leadership and the population await both Soviet and Western decisions on economic assistance and debt relief. In the meantime, the government of Prime Minister Gen. Wojciech Jaruzelski is preparing medium-term stabilization measures and long-term reform in time for a party congress now slated for July.

Before that congress is held, there will be secret ballot elections to determine congress delegate status and party posts. If the present leaders are seriously challenged during these preparations, or if the Solidarity unions stage large new strikes, the Soviets will re-evaluate their confidence in the Polish party.

The Soviet bloc forces typified by the East Germans and the Czech party, whose leader Gustav Husak was much more strident in condemning the Polish developments than was his guest Brezhnev, certainly will press for that.



## The sequence of consultations

**March 15:** French President Giscard and West German Chancellor Helmut Schmidt meet near Strasbourg, France to coordinate their actions and policies on all crucial international issues: lowering of interest rates, the Polish crisis, East-West tensions.

**March 23-24:** European Council meeting in Maastricht, Holland, where heads of state of all EC countries call on U.S. to lower interest rates.

**March 25:** West German Defense Minister Hans Apel in the U.S. for talks with Vice-President Bush and Secretary of State Haig.

**April 1:** Polish Deputy Prime Minister Jagielski in Paris for talks with Giscard and Foreign Minister François-Poncet. France agrees to provide \$800 million aid package this year. Jagielski then comes to U.S.

**April 2-3:** EC economics and agriculture ministers meet, and wrench an agreement to support European agricultural production from British Prime Minister Thatcher.

**April 2-4:** West German Foreign Minister Genscher in Moscow for talks with President Brezhnev and Foreign Minister Gromyko; the Polish situation and disarmament negotiations are among topics discussed.

**April 2:** French Prime Minister Barre arrives in Bonn for talks with Schmidt and other cabinet officials on economic policy; need to lower interest rates in the West is affirmed, and discussion takes place on French and West German loan from OPEC of about \$4 billion.

**April 3:** French Foreign Trade Minister Cointat in Saudi Arabia for talks on economic cooperation.

**April 4:** Finance Ministers of the EC countries meet in Breda, Holland and affirm that interest rates are too high throughout the world.

**April 4:** Brezhnev arrives in Prague for Czechoslovak Communist Party Congress, where he states that Polish communists can defend the state against the enemies of socialism.

**April 6:** French Defense Minister Galley in Saudi Arabia for talks with Saudi counterpart Prince Aziz who lauds "continuous concord between the two countries in all areas."

**April 7:** Meeting of NATO defense ministers begins in Bonn. Previously U.S. Defense Secretary Weinberger has visited London, Paris, and Rome.

**April 12:** Finance ministers and central bank directors arrives in Paris and Bonn for talks with government officials.

**April 10:** Finance ministers and central bank directors of the U.S., West Germany, France, Great Britain, and Japan meet in London for an interest-rate "disarmament" conference.

**May 20:** Helmut Schmidt to arrive in U.S. for talks with President Reagan, to be followed by Brezhnev's trip to Bonn.

# The future of Poland's debt: productivity or default?

by Renée Sigerson

If Poland is ever to pay back the nearly \$27 billion it owes to Western government agencies and commercial banks, then productivity and an ensuing capacity to generate foreign exchange earnings will have to be restored to the Polish economy. The strange twist this simple fact has produced is that Poland's Western creditors—if they ever want to see their funds again—are now politically dependent on the success of the Brezhnev faction in the Soviet Union in defusing the economic program demands of the Solidarity/KOR movement, and in reintegrating Poland into Comecon programs for economic development.

Sometime around March 15, at the height of the Warsaw Pact military maneuvers on Poland's borders, Poland halted payments on its debt to Western commercial banks. On March 31, commercial bank representatives from the four leading creditor countries had an emergency session on the cessation of payments in London. On April 9, Western government representatives convened in Paris to discuss "rescheduling" for the \$4.4 billion in Poland's official debt. The commercial bankers meet again in London on April 15.

What overshadows these meetings is that a certain myth which had been generally granted by Western financial officials for the past eight years has been rudely dispelled. The myth is that the Soviet Union extends an "umbrella" over all Comecon country debt, in order to protect its own "credit rating."

In mid-March, what the Soviet Union communicated by refusing to bail out Poland was that its umbrella is not its willingness to unconditionally perform as a lender of last resort, but is a political umbrella defined by its commitment to solve Comecon economic problems in a rational way.

Highly contradictory and incomplete reports are currently circulating in most of the Western press about the circumstances that forced Poland to cease payment at the height of the Soviet maneuvers.

Review of the available facts on how Poland evolved from a crisis-ridden country into a flat-broke bankruptcy case has led *EIR* to the conclusion that the highest-level

Soviet leadership included in its calculations of how the U.S.S.R. could respond to the Polish crisis the fact that the Soviets had the power to determine the *timing* of a major international debt default.

## Chronology of bankruptcy

Naive U.S. government officials are circulating the line that it was "obvious" Poland would run out of money due to political instability. In interviews with informed sources this week, it emerged that bankers and strategic think-tank advisers disagree.

Until September 1980, Poland—which ranks third among indebted countries internationally in size of total debt—was far from bankruptcy. Financially, what it suffered from was an ingrained cash-flow problem.

Poland's cash-flow squeeze dates back to a 1977 top-level meeting held by the Bank for International Settlements in Basel, Switzerland, where oligarchical financial circles outlined a credit policy for Poland deliberately aimed at fostering economic conditions which would aid the emergence of the radical Solidarity/KOR currents. Poland's debt at that time was somewhat over \$13 billion.

This level of indebtedness had spiraled in a three-year period, coinciding with the 1975-76 Western European recession induced by the first oil shock. Prior to 1975, Poland had one of the fastest growing economies in the world. From 1973-75, industrial output was rising at over 10 percent annually, as the Gierek government used foreign exchange earned from coal and food exports to import new generations of industrial technology. Increasing levels of indebtedness to Western banks were used to finance these capital imports when Western recession put a ceiling on earnings generated from exports.

Polish chief Edward Gierek allowed indebtedness to rise by \$10 billion between 1973 and 1977—\$6 billion of that arising after 1975.

At the 1977 BIS meeting, it was decided to use the rapid increase of Poland's foreign debt to drastically lower Poland's credit rating. Interest margins were set



at the same rates paid by the "poorest risk" Third World countries (like Egypt), and Poland was denied any loans for debt consolidation. Combined with historically low agricultural productivity, the lending constraints began to slice away at industrial growth. In 1978, industrial output grew only 4.9 percent, in 1979 only 2.1 percent.

It was precisely at this time that international financial circles began publicly circulating the myth that the Soviets would have to guarantee East bloc debt to the bitter end to protect their own credit rating.

As Poland began to suffer from cash-flow problems, in January 1980, the French government gave Warsaw a generous loan guarantee to alleviate the temporary cash-flow strain. In September 1980, German banks lent Poland \$500 million, just before Gierek was toppled.

Since Gierek's fall, Poland's economy has gone through an extremely rapid devolution. Industrial output in the first quarter of 1981 was 10 percent below last year. Exports to the West fell 27 percent in January/February, and 29.3 percent in March. Hard currency imports of oil fell 80 percent during the same months. Recently, Polish consumers found nothing but bottles of vinegar and cans of peas on the shelves of grocery stores when they tried to purchase food.

The rapidity of the economic downturn, observers have emphasized, is due not so much to loss of work days in the strikes, but rather to the extreme effect which shortages in Poland induce in the Comecon as an economic unit—forcing the rest of the East bloc to impose selective "embargoes" against Poland. A late March Radio Warsaw broadcast explained with precision the chain-effect which goods bottlenecks in Poland produced throughout Comecon:

Inflation is beginning to get out of control. . . . We cannot count on offsetting . . . scarcities through imports. . . . We can count on the fraternal help of the countries of our community, but we must realize that our failure to meet export obligations causes very serious troubles for our partners. . . . The lack of deliveries from Poland forces them to make purchases on hard currency markets. . . . Our neighbors must therefore obtain hard currency assets by selling the capitalist countries, sometimes on unfavorable terms, those goods which were earmarked for Poland.

It is now known that during the last months of 1980 into mid-March 1981, the Soviet Union was financing Poland's debt payments. With the exception of some loan guarantees from the U.S. Commodity Credit Corporation, specifically linked to agricultural imports and therefore not free to finance general account payments, by January, Poland was bankrupt. In mid-March, the Soviets then snapped the "umbrella" shut.

Astonishment—quickly hushed up by the press—passed through Western financial circles. A specialist at the Council on Foreign Relations in New York admitted the Soviets were "putting pressure on Western governments by not bailing the Poles out." The *Neue Zürcher Zeitung*, Switzerland's leading financial daily, suggested that maybe the Soviets would start paying again—after a successful invasion of Warsaw. Germany's commercial daily *Handelsblatt* warned that saving Solidarity/KOR might necessitate a full-scale debt moratorium.

### Financial miscalculation

The banking circles that set out to undermine the Gierek industrial program beginning in 1975-77 acted upon what has turned out to be a strategic miscalculation. As a result, at the present moment, the Soviets have an upper hand on the debt rescheduling talks underway.

First, the BIS et al. misestimated the *rate* at which economic devolution in Poland would affect foreign-exchange reserves throughout the Comecon. The mis-evaluation is revealed by a recent series of simplistic items in the British media about how the Soviets have "gotten rich" from gold, diamonds, raw materials and oil sales rigged in collusion with South Africa. British "wishful thinking" about the Soviets' "hidden" ability to bail out the Comecon has gone so far that this week, BBC television had a special feature broadcast on secret Soviet-South African financial ties.

Second, the oligarchical financial networks underestimated the commitment across Europe—especially by the Soviets, West Germany, and France—to push into implementation phase a program for continent-wide industrial capitalization based on energy cooperation. With \$7.5 billion in outstanding commercial loans, German and French banks are Poland's largest creditors. The same banks are currently negotiating over \$5 billion in loans to the Soviets to begin purchases of Western technology for construction of a gas pipeline from Siberia to Western Europe. German industrialists report that the loan talks are "going very well."

Two basic proposals are reportedly on the table for rescheduling Poland's debt. One would give Poland a 6-month grace period, subject to "ad hoc" renegotiation every 6 to 12 months following. The other would extend the grace on interest payments to at least 2 years, and rework maturities for 10 years. The latter, rumored to be backed by France, would obviously be more "generous" in giving Poland a chance to return to 1970s peak rates of growth. More important, though, than the terms of repayment is recognition by all parties concerned that if Solidarity's program of economic devolution continues, the West can write off its loans for good.

# Interest rates and national security

by David Goldman

Although only finance ministers and central bankers will convene to represent the big five Western industrial nations in London Sunday, April 12, the theme of the Western European assault on British and American monetary policies was stated in February by a West German defense official, Lothar Ruehl: "High U.S. interest rates have become a national security problem."

This view, which is shared by most of the German banking and industrial community at large, is motivated by more than just the NATO defense budget. The expansion of NATO's defenses and the additional contributions the American White House wants to solicit from the European allies will be in jeopardy if the West's leading economies remain depressed. But the dangers to the Western monetary system contingent on continued high interest rates also prevent Europe from initiating peace-preserving actions, including refinancing the Polish debt.

The most significant thing about the American response to Europe is the key role of the national security issue. After European leaders met at Maastricht, Holland on March 23 and issued a common demand for global lowering of interest rates, the U.S. agreed to attend a conference to discuss "interest-rate disarmament," as first proposed by the West German Chancellery at the beginning of February. The issue was not handled through Treasury, but referred from the White House to the National Security Council, as a matter of urgent priority for the NATO alliance itself.

The agenda for the April 12 meeting, at which the U.S. will be represented by Treasury Secretary Regan and Federal Reserve Chairman Volcker, is threefold. The Europeans will first ask for interest-rate reduction, and the U.S. delegation will presumably argue that this is impossible in the present inflationary climate.

The second agenda item will focus on the upcoming meeting of the International Monetary Fund's steering group. Although the IMF has just obtained a special credit of \$4.9 billion from Saudi Arabia, and has on line smaller contributions from other oil-producing states and a commitment for somewhat less than \$2 billion from the Europeans, its resources are still dwarfed by the expected \$100 billion 1981 balance-of-payments deficit of the non-oil-producing developing countries. The Lon-

don meeting will put the U.S. Treasury on the line by "examining" possible means of American financing for the IMF, none of which will be adopted.

The irony in this discussion is that the IMF has always been an instrument for enforcing on Third World and industrial governments the same monetarist policy that the U.S. is now inflicting on itself. But the Treasury's monetarism makes big U.S. contributions to the IMF politically unacceptable. "Back-door" methods of U.S. financing for the IMF will come up, including Federal Reserve "swap lines," with little chance of adoption.

To the extent that the IMF cannot function, the Europeans have full freedom of action to take charge of Third World economies in trouble—*provided they can find the financial resources on their own*. When the European Monetary System (the fixed-parity alliance of eight European currencies backed by a common gold pool) first appeared two years ago, European leaders planned a second phase, a European Monetary Fund, which could replace the IMF. The April 12 discussions, showing the impotence of the International Monetary Fund, indirectly advances the Phase Two project. Europe's prospects of raising the money to make the EMF work are, as reported elsewhere in this section, also advanced by the new bond issue and other arrangements.

The final and most important agenda item will be a series of detailed reports by attending finance ministers on their domestic economic programs. Treasury Secretary Regan will, from preliminary reports, argue that the Europeans should wait six months and give the administration time to make its program work, through tax and budget cuts. The Treasury itself does not expect this to happen according to the rosy predictions of the "Claremont Model," of the Council of Economic Advisers (see interview with CEA Chairman Weidenbaum, *EIR*, April 7). Regan is gambling that a "mild recession" will bring down rates without bringing down everything else. As *EIR* reported April 14, most of the big institutions expect a severe recession with high inflation and high interest rates, a prescription for real disaster.

The Europeans are not blind to this, and will ask Regan "some pretty tough questions," according to one European newspaper account. They will demand to know whether the Federal Reserve or the Treasury is in charge, pointing to recent statements by Fed Chairman Paul Volcker and New York Federal Bank President Anthony Solomon warning that the main burden of the inflation fight still falls on the policies of the Fed.

In effect, the Europeans will attempt to use the April 12 meeting to drive a wedge into the cracks that have already appeared between the White House and the Federal Reserve. The meeting cannot produce an agreement in and of itself, but it can nail the Federal Reserve's policy to the wall as far as the ultimate decision-maker in the administration is concerned.



Saudi Arabia's Prince Saud (second from right) with West German Foreign Minister Genscher in Bonn. The little-noted June 1980 visit, EIR reported at the time, laid the groundwork for major deals.

## France, Germany set Arab loan

by Renée Sigerson

Following discussions with Saudi Arabian officials over recent weeks, West Germany and France announced April 9 that they will issue \$6.10 billion of fixed-interest bonds on the Euromarkets, to enable them to stimulate domestic industrial orders. The Saudis and other Arab oil-producer countries paved the way for the jumbo bond issue by guaranteeing that they will purchase the bulk of the unusual venture.

French press reports earlier this month that the bonds would be a groundbreaking government-to-government loan fully financed by Saudi Arabia signal that the deal is partly being used to test the waters internationally on what can be expected to emerge as a far-reaching set of financial and industrial cooperation agreements between France, Germany, and moderate Arab countries.

French commentators revealed that there was serious consideration given to issuing the loan in European Currency Units (ECUs), the numeraire used for transactions within the European Monetary System (EMS). By capitalizing EMS funds, such loans would become a stepping-stone to "Phase Two" of the EMS, a program for formation of a large Franco-German-controlled cap-

ital investment pool for financing capital equipment exports, particularly to the Third World.

On April 8, the West German cabinet deliberated on the proposal and decided not to go with ECU-denomination. It was further decided that rather than borrow funds directly from the Saudi central bank, France and Germany would issue conventional Eurobonds over an 18-month period, denominated in their own currencies.

Political pressure from U.S. officials, and apparently from European Zionists, contributed to the decision to design the loan more cautiously, and thereby allay any misinterpretation that France and Germany are trying to create a monetary bloc with the Arabs that excludes the United States.

European sources report that U.S. officials were "irritated" that the German cabinet decision was announced just as U.S. Secretary of State Alexander Haig arrived in Riyadh.

Haig apparently sees current Franco-German diplomacy in the Mideast, which is premised on global economic cooperation for industrial and advanced energy development, as a threat to his "geopolitical" approach

of incorporating all Mideast diplomacy into an "East-West framework" (see International).

Well-placed sources underline, however, that in fact French President Giscard and German Chancellor Schmidt now hope to draw President Reagan in as an active participant in their efforts. One investment banker representing a German bank in the United States asserts that when Schmidt goes to Saudi Arabia on April 23, he will be "in constant touch with Reagan" on the controversial issue of whether Germany should sell Leopard tanks to Saudi Arabia. Riyadh has reportedly made purchase of the tanks a condition for economic cooperation on the energy front. The source added that the "personal chemistry" between Schmidt and Reagan could pave the way for a resolution of the arms sales, which have been heavily attacked by Zionist and leftist groupings in Europe.

On April 9, New York's *Wall Street Journal* insisted that pressure within France also influenced the German cabinet decision to make the borrowing a Euromarket issue, rather than a direct loan from Saudi Arabia. The *Journal* asserts that during the April-May national elections, Giscard wants to avoid accusations from Zionist groups of uncritical sympathy for the Arabs.

The other political test the loan announcement has set up is how the United States, in particular, will react to possible German moves to use the funds to put Germany's much-delayed nuclear power program on line.

The \$3.55 billion German half of the funds, the cabinet announced, will be pooled at the semipublic Kreditanstalt für Wiederaufbau, the country's old post-war reconstruction bank. From there it will be re-lent to German companies at interest rates lower than the rates the government will pay to bondholders. The 60 million deutschemark interest-rate subsidy, which the government will finance, is aimed at encouraging firms to increase energy-related orders.

Recently, German companies have publicly stated on several occasions that generation of orders around a nuclear program would solve the country's precarious foreign-exchange situation—triggered by high U.S. dollar rates—in a matter of months.

Thus it appears that Franco-German diplomacy in areas that directly affect U.S. diplomacy will remain "cautious" for at least the time being. Simultaneously, some European banks appear to favor such "cautious" policies for reasons still to be determined. German Deutsche Bank Chairman Wilfried Guth on April 8 praised the Saudi agreement as a "demonstration of community action between" France and Germany, and "as a manifestation of their common will to provide investment in the energy field," adding, however, that "spectacular transactions" might not prove the best means for providing energy investment loans.



*Another side of the deal: Saudi Arabia needs Western capital goods.*

Courtesy of Aramco

## Bonn and Paris put Britain on the ropes

by Vivian Zoakos

The Franco-German "superpower for peace" has taken an important step toward putting its house in order by restricting Britain's disruptive voice within the European Community (EC).

The final week of March and first week of April saw the British receive some serious setbacks in their standing and credibility within the EC. For the first time, the West Germans refused to play the role of arbiter between the warring French and British. West German Chancellor Helmut Schmidt and his ministers not only dropped their earlier compromise posture, but Schmidt went so far as to attack the British and Prime Minister Margaret Thatcher particularly as unreliable, "ungentlemanly" cheats.

The British, to their chagrin, were forced to swallow the "parity" system for European agricultural production embedded in the vote for new subsidies to the Common Agricultural Policy (CAP). Instead of reducing agricultural production, the new CAP subsidies are expected to substantially increase the production of agricultural products and "emasculate [British] . . . proposals for the curtailment of persistent surpluses," to quote the *London Times*.

In a statement on April 2, Chancellor Schmidt castigated the "triumph of national egotism over European solidarity" embodied by London. Saying he was "profoundly disappointed" by British tactics, he added that Germany "cannot allow a situation to continue whereby we pay the highest net amount [to the EC budget] while others treat us so unfairly."

On the same day, Schmidt's ally French President Valéry Giscard d'Estaing issued a serious warning to the British, questioning their chances for remaining within the EC. Giscard began by noting that his predecessor, Georges Pompidou, had only allowed the United Kingdom entry into the EC under "a great deal of pressure." Perhaps the EC should again be the "Community of the Six," he said. In any case, "1981 will be the year of truth. . . . Community rules must be accepted."

The latest round of EC meetings began amid increasingly bitter policy disputes within Europe, as the French and Germans faced off against the British and their oligarchical cothinkers on the continent. Differences

included the question of subsidies to Poland, desired by France and West Germany, and the issue of high international interest rates.

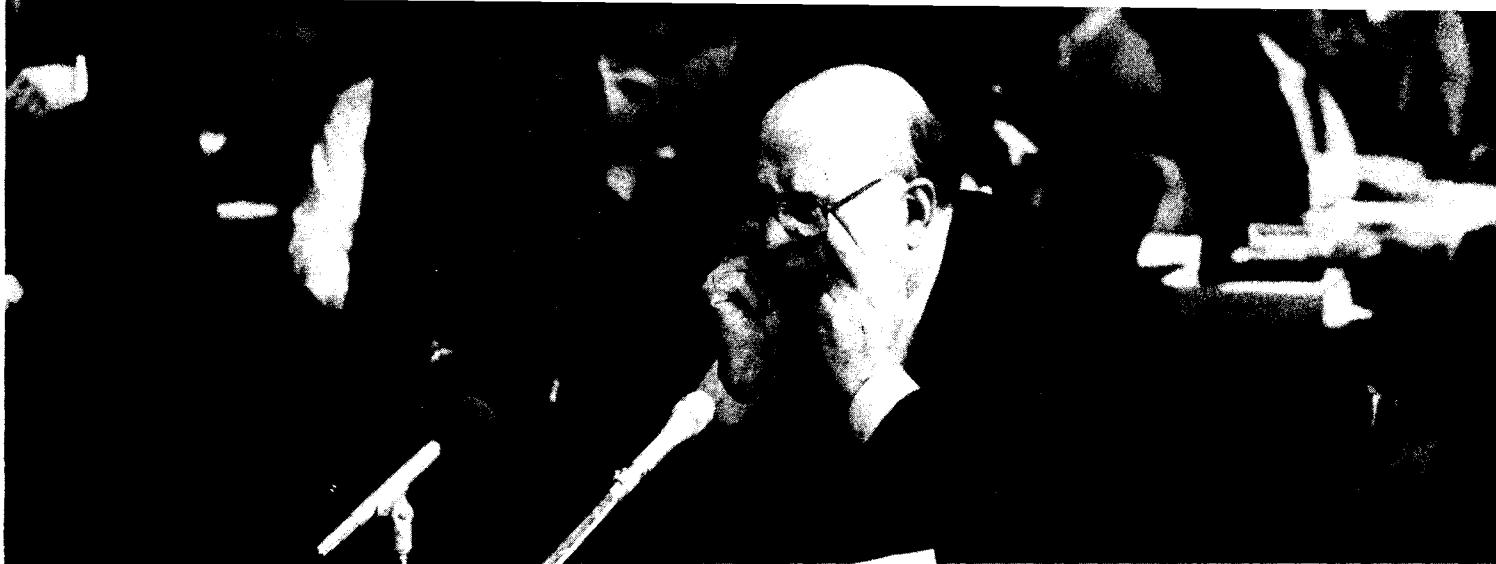
The same oligarchical grouping had just inaugurated a fresh assault against the European Monetary System created by Schmidt and Giscard. The Italian lira came under assault in March, forcing a heavy devaluation. Then on April 1, the Belgian central bank forced a collapse of the government, immediately putting pressure on the Belgian franc. The Belgian central bank is controlled by the jesuitical University of Louvain through the same Siena Group network which had managed the lira devaluation.

The bank raised the discount rate by 3 percent to 16 percent and the lombard rate to 18 percent, and put a strict limit on bank credit expansion: a Thatcher policy. The government responded with a call to eliminate the indexing of wages to inflation, and promptly collapsed.

The German financial daily *Handelsblatt* noted correctly at the time that the specific issue had little to do with succeeding events. The only real issue was to accelerate Belgian economic collapse through an accelerated implementation of "Thatcherite" monetarism, thereby undermining the economy, weakening the currency, and hence exerting pressure against the European Monetary System. It is noteworthy, as the Swiss *Neue Zürcher Zeitung* noted April 2, that the Belgian monarchy played an unusually central role in the crisis. King Baudoin, then in consultation with the visiting Dutch monarch, intervened to swiftly create a new government.

These events form the background of the firmness shown by France and West Germany in thwarting British policy in the course of the March 23 to April 4 EC meetings. In terms of internal EC policy, the core of the fight revolved around the Common Agricultural Policy, which consumes over 70 percent of the EC budget. The Brussels meeting of agricultural ministers, with West Germany refusing to bend to British pressure, concluded with an agreement to increase farm prices by 9.5 percent. The British were forced to capitulate, since the Germans had offered them no alternative compromise formula. The response in the British Parliament, when the agreement was made known, was an outcry against Agricultural Minister Walker. The London press wailed that this would inevitably mean increased food surpluses at a time when Britain's Malthusian policy calls for reduced consumption in Europe and abroad.

Schmidt noted that the British always break their "gentlemen's agreements," citing the compromise made last May. At that time the British had received a budget settlement that lowered their EC budget contribution from DM 5.37 billion to DM 1.69 billion in exchange for allowing German fishermen access to Canadian coastal waters. The Germans picked up the tab; the British still kept the German fishermen out of Canada.



**“The Volcker Fed banking reforms may be the single greatest threat facing the American economy at this time.”**

—David Goldman,  
Economics Editor, *EIR*

Federal Reserve chairman Paul Volcker and influential members of Congress are spearheading a drive to restructure the American banking system, which threatens to give the Fed and the money center banks top-down control over the deposits of regional financial institutions. Together with the Fed policy of high-interest rates, these “reforms” threaten to deprive the agricultural, consumer, and medium-size business sectors of vitally needed credits.

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## Secretary of State Haig's fiasco in the Middle East

by Nancy Coker

Secretary of State Alexander M. Haig's just-completed Middle East trip is being assessed both here and abroad as an unmitigated disaster that could cost him his job. What may do Haig in, according to reliable Washington sources, is the Arab world's public across-the-board rejection of his call for an anti-Soviet "strategic consensus" centered around a NATO-linked military buildup in the region.

Already a political cripple before his arrival in the Middle East as a result of his clumsy bids for power both before and immediately after last month's attempted assassination of President Reagan, Haig staked his hopes on pulling off a Middle East miracle: convincing the Arabs to go along with his cold-war strategy and anti-Soviet crusade.

By all accounts Haig failed. Both Saudi Arabia and Jordan completely rejected Haig's "strategic consensus" designs. Even Egypt, long known for its willingness to accommodate U.S. strategy in the region, balked at Haig's policies and even managed to deal him some unexpected tactical blows by forcing the secretary of state to drop, at least for the moment, a number of key demands for base rights and the stationing of U.S. troops in Egypt.

A humiliated and desperate Haig is now setting his sights on Lebanon to further his strategic goals. Working in close coordination with the Begin government in Israel, Haig is deliberately inflaming the crisis in Lebanon to create a climate for, and to break Arab resistance to, a regional anti-Soviet military buildup.

While the rest of the world—France, the Vatican, Saudi Arabia, and the Soviet Union—is trying to prevent Israel and Syria from escalating the crisis in Lebanon, Haig is doing his utmost to egg the adversaries on into a full-scale regional war. While in Israel, the second stop of his four-country Middle East tour, Haig immediately took sides in the conflict by provocatively denouncing as "unacceptable" Syria's "brutality" against the Christians in Lebanon and charging the Soviet Union with backing Syria's actions in Lebanon. When asked to clarify his anti-Soviet charges, Haig discredited himself by admitting, "I have no concrete information to support this theory." He added, "By nature I suspect the Soviet Union."

Haig went on to praise Israel as a "strategic asset," "an ally of the United States whose essential role is in protecting our mutual strategic concerns against threats from the Soviet Union and from its surrogates"—i.e., Syria. This line was enthusiastically echoed by several Israeli political leaders, including Moshe Dayan. Haig met privately with Dayan to discuss, among other things, Dayan's efforts to prevent a more moderate government under Labour Party leader Shimon Peres from coming to power in the June elections.

### **Cold shoulder from the Arabs**

Wherever Haig went in the Arab world, he was given a hard time—even from Egypt's Anwar Sadat, known as the most pliable of the Arab leaders. Sadat's resistance to Haig's politically costly demands for base



and U.S. troop rights in the Sinai was such that Haig, in his meetings with Sadat and other Egyptian officials, backed off from even raising these demands. Much to Haig's chagrin, it was decided that the U.S. military role in Egypt "should be limited to logistics," and should not operate per Israel's request and Haig's plan as a "spearhead" for a "disguised" equivalent of the controversial Rapid Deployment Force.

"The Americans know we cannot give them a base or a base disguised as facilities," Egyptian sources said in reference to Haig's desire to have the United States use Egypt's Ras Banas base on the Red Sea and the two Israeli-built bases in Sinai, scheduled to be turned over to Egypt in 1982. Haig's intended use of Egypt as a staging ground for military operations in the Persian Gulf is a politically touchy issue for Sadat, who was reportedly "delighted" by Haig's backing down.

In Jordan, and later in Saudi Arabia, Haig was rebuffed outright. King Hussein, after meeting with Haig for two hours, pointedly stated that Jordan rejects efforts to "polarize" the Middle East. Hussein effectively charged Haig with responsibility for the problems in the area by saying that Israel was causing "turbulence, instability, and other problems," including the crisis in Lebanon.

Speaking even more bluntly, Jordanian Foreign Minister Marwan Kassem stated, with Haig at his side, that Jordan will have nothing to do with the Camp David peace process because it is "incapable of achieving a peace." In a toughly worded statement, he denounced Israel for its "intransigent policies and daily aggression against the Palestinian people and systematic confiscation of Arab land."

Haig received the same treatment in Saudi Arabia, where he was granted a mere five minutes alone with his counterpart, Foreign Minister Prince Saud.

The purpose of Haig's Saudi trip was to attempt to bully the Saudis into breaking their longstanding opposition to the Camp David accords and to the militarization of the Middle East. On April 7, the lead editorial of the *New York Times* bluntly spelled out Haig's policy to blackmail the Saudis into submission. "It is time to insist that the Saudis end their scornful treatment of Camp David as part of a wider diplomatic bargain that justifies their purchase of ever more sophisticated American weapons." At present, a major arms deal involving the sale of four AWAC planes to Saudi Arabia plus a number of F-15 fighter jets and other hardware is pending congressional approval before delivery.

The Saudis, it appears, were not cowed. Immediately after Haig left Saudi Arabia, an official Saudi statement was issued rejecting Haig's call for a strategic consensus, insisting that the Palestinian issue—not Haig's anti-Soviet crusade—is the key to securing the region. In addition, Saudi National Guard commander Prince

Abdullah, prior to Haig's arrival, stated that Saudi Arabia is prepared to seek weapons "away from any pressures of influence"—which means that Haig's efforts to blackmail Saudi Arabia with the weapons issue had effectively collapsed even before Haig arrived in the region.

Haig was also rebuffed by Iraq which he has been attempting to cajole into joining his anti-Soviet "strategic consensus." Although Haig was not scheduled to visit Iraq, Iraqi Foreign Minister Saadoun Hammadi pre-empted Haig by touring Jordan, Saudi Arabia, and Kuwait just hours ahead of him, meeting with every leader who later met with Haig. Without referring to Haig's strategic consensus proposals, Hammadi responded coolly to Haig's offer of closer Iraqi-U.S. ties, stating that they should "remain at their present state" for the time being.

### **France pulls the rug out**

Haig's isolation is increased by the fact that he is at odds with the majority of his fellow Anglo-American Middle East strategists. Defense Secretary Caspar Weinberger, British Foreign Minister Lord Carrington, and even, reluctantly, Prime Minister Margaret Thatcher oppose Haig's push for a U.S. military presence in the region as ultimately impractical. While agreeing with Haig's overall strategic goals, the British-Weinberger configuration believes that the path of least resistance to pulling the region beneath an Anglo-American strategic umbrella entails consolidating a strategic alliance between Egypt and a Peres-led Israel, and then breaking the region off from its growing financial-military alliance with Western Europe.

The French, however, do not intend to sit idly by. French President Valéry Giscard d'Estaing sent the second special envoy in two days to the Lebanon-Syria war zone to calm the situation down and to undercut Haig's regional war scenario. In a speech before parliament, French Gaullist leader Michel Debré called on France to do whatever is in its power to prevent a Lebanon blowup.

At the same time, French Defense Minister Robert Galley arrived in Saudi Arabia while Haig was there, effectively pulling the rug out from under him.

In concert with France, the West German government has issued an appeal for the maintenance of Lebanon's "territorial integrity," while other mediation efforts are being made by the Vatican. According to Washington sources, it appears that attempts are being made in Washington to take the Lebanon issue out of Haig's hands and put it under the aegis of a special "crisis management" apparatus set up not by Haig's State Department but by the White House, now increasingly intent on curbing the power-hungry secretary of state.

# The plan to force a new partition

by Judith Wyer

*Executive Intelligence Review* has uncovered a plot involving the Society of Jesus, factions of Israeli intelligence, Secretary of State Alexander Haig, and National Security Adviser Richard Allen to partition Lebanon into sectarian mini-states, ending the sovereignty of that war-torn nation.

Allen recently commissioned the Center for Strategic and International Studies (CSIS) of Georgetown University, a Jesuit institution, to produce a study weighing the strategic implications of dismembering Lebanon.

Shortly thereafter the worst fighting since the 1976 civil war rocked Lebanon, timed with Haig's arrival in the Middle East. The current violence involving Syrian and Palestinian forces on one side, and Israeli-backed Christian militias on the other, threatens to pull Israel into the conflict. An Israeli invasion on the side of the Lebanese Christians would probably trigger the break of Lebanon into permanent sectarian entities.

Only a week before the eruption of fighting, Allen publicly endorsed Israeli intervention in Lebanon in "hot pursuit" of what he called Soviet-backed Palestinian terrorists. This was the first time that any administration official had openly given Israel the green light to move against Lebanon.

## The CSIS connection

A week later, United Nations Ambassador from the United States Jeane Kirkpatrick, herself from Georgetown University and a close collaborator of Haig, warned in a nationwide interview that the "very political fabric" of the Lebanese state is threatening to come apart.

Allen, also a product of Jesuit education, helped found the Center for Strategic and International Studies in the mid-sixties, and has maintained close ties with Georgetown ever since. Haig, who was also Jesuit-trained, is reported to have conferred with various Israeli officials this week on contingencies for a move into Lebanon to counter what Haig called "Syrian brutality" against the Maronite Christians.

Washington sources report that Professor Edward Luttwak of CSIS has been charged with writing the study, which will be entitled "Advantages and Disad-

vantages of Partitioning Lebanon."

Luttwak, widely regarded by the Washington intelligence and military community as "an unstable right-wing Zionist ideologue," was the author of the scenario for a U.S. invasion and occupation of the Persian Gulf oilfields. Both the partition of Lebanon and the infamous invade-the-oilfields scenario share the common policy outlook that national sovereignty—particularly in the developing sector—is a nicety that should be done away with.

During his tour of the Middle East, Haig went out of his way to vocally back up the Lebanese Christians, who are dominated by the Phalangist sect. Phalangist strongman Bashir Gemayal, another product of Jesuit schooling, has been vigorously lobbying for the Reagan administration to back the Phalangist design of carving its own independent mini-state out of a fragmented Lebanon.

## Invasion scenario

According to Professor Thomas Ricks of Georgetown University, "there is a strong likelihood now of an Israeli invasion into southern Lebanon." Ricks told colleagues that he foresees an Israeli-allied Christian enclave being carved out of the territory south of the Latani River. In turn, the Phalange would gain control over the northern areas.

The partition scenario for Lebanon would mean a bloody "final solution" to the Palestinian refugee problem, the major obstacle to a lasting overall peace in the Mideast. Lebanon, the last country in the Mideast where the Palestinians have any political freedom, is the headquarters for the leadership of the Palestine Liberation Organization. A blowup of Lebanon would create mayhem for the 500,000 Palestinian refugees in Lebanon who do not figure into Georgetown's sectarian blueprint for dividing the country.

Arab sources report that Israel and Syria may have a tacit pact to partition Lebanon. Part of the scenario would be an Israel-backed Christian takeover of the Eastern Bekaa Valley in return for an Israeli evacuation of the Golan Heights, taken from Syria in the 1967 Mideast war. This would be conducted within the framework of the Camp David accords, agreements which bypass the Palestinian problem.

European diplomatic sources report that France and the Vatican have gone on a diplomatic mobilization to prevent this scenario from coming to pass, recognizing that it would trigger a wave of Palestinian terror which could jeopardize the flow of Mideast oil. In the last five days, France has deployed two envoys to Syria and Lebanon, urging "restraint and moderation." Lebanese sources report that the Vatican has made a massive intervention through Christian church networks in Lebanon.

# Japan under rearmament pressure

*Washington wants both a broad military role for Tokyo, and U.S. strategic arms for Peking, writes Richard Katz.*

Air flights multiplied between Washington, Peking, London, and Tokyo in recent weeks as a host of China Card factioneers tried to engineer a Japan-China-Washington military alliance they could dump into President Reagan's lap as a fait accompli. The busy travelers included two foreign ministers, a former U.S. President, a former Japanese prime minister, a CIA director, and scores of government officials, think tankers, and military officers.

Though there are differences within the China Card group, they agree on two main immediate objectives:

1) **Initiate U.S. arms sales to China**, as called for in a high-level March 19-22 Arden House seminar of present and past government officials and think tankers sponsored by the Council on Foreign Relations (see *EIR*, April 14), and bring China into a multilateral anti-Soviet security link including Japan as well as the U.S., as called for March 26 by former President Gerald Ford during his discussions in Peking.

2) **Dramatically change Japan's military role** from the traditional one of self-defense to *regional* military activities as part of security arrangements revolving around the China Card. Haig has reportedly urged Japan to make a major economic commitment to shore up Deng Xiaoping's increasingly fragile regime. Weinberger privately told visiting Foreign Minister Masayoshi Ito March 24 that Japan should take on sea-lane responsibilities for the "entire Northwestern Pacific region" extending as far as Guam and the northern Philippines.

These policies are far from accepted within the White House. Asked by *U.S. News & World Report* in January whether he would sell arms to China, Reagan responded, "We don't ever again want to find the weapons we've provided being used against us." Similarly, in an interview with Japan's *Asahi Evening News* March 9, National Security Adviser Richard Allen downplayed a direct regional military role by Japan, proposing that Tokyo use foreign aid and economic policy to contribute to regional stability. On the issue of arms sales to China, Allen remarked that this issue had been raised by the Carter administration and that the new administration would have to study it.

As a result, the pro-China Card faction has tried to pressure Reagan to continue Carter's policy. On "Face the Nation" March 27, Senate Foreign Relations Com-

mittee Chairman Charles Percy said that the response to any Soviet intervention in Poland should be "realigning ourselves with China," including approval of the arms-sale policy drawn up by the Carter administration. When the press tried to get Weinberger to echo Percy's call he said only, "there is no such linkage yet."

Most of the attendees at the Arden House China seminar, which called for "expanded security cooperation" with China, with sales of "defense-related technology" and possibly "lethal but defensive weapons," said they were referring to a long-term conventional buildup. But one dissenting attendee indicated that a "limited nuclear warfare" role for China is in fact being considered. "It is ridiculous to think China can project any conventional military power," he said. "Their economy cannot support it. [They] don't talk about conventional capacity but stress building up strategic nuclear capacity. So when we say we are supplying dual-use technology, like computers and such, what we are really doing is giving them a delivery system for nuclear weaponry."

He warned, "The Soviets will feel a lot more threatened by this than by some tanks. People don't know how close we came to war with the Chinese invasion of Vietnam in 1979. If we help China get a nuclear delivery system we could get a Cuban missile crisis in reverse. If any Japanese had been in attendance, they would have pointed that out."

Many Japanese are concerned about any arms sales to China, not just nuclear. Indeed, a study commissioned by the U.S. government's International Communication Agency showed that short of a general global war, the top Japanese defense experts believed that the most likely cause of a Soviet attack on Japan would be the formation of a Japan-U.S.-China military alliance.

Yet, the China Card proponents seek to give Peking an "umbrella" of protection by embroiling it in multilateral defense arrangements including the U.S. and its allies, like Japan. This was the focus of the trips to China and Japan by former President Gerry Ford and Lord Carrington.

Carrington, the British foreign minister, praised the "close accord between China and Britain on strategic questions" in toasting his Peking hosts March 31. Ford made the message even more explicit, saying that an anti-

Soviet front "requires that we, China and the U.S., not only work together bilaterally, but seek to work with other non-Soviet nations to thwart the territorial ambitions of the Soviet Union."

### **A regional military role for Japan**

There is a great deal of resistance in Japan to playing any multilateral military role, much less adopting Ford's proposal. Japan's bilateral security treaty with the U.S. only calls for Japan to take self-defense measures to repel enemy attack while the U.S. retaliates against the aggressor. Japan has nothing but "defensive" weapons such as fighters; it has no long-range bombers, aircraft carriers, or long-range ballistic missiles.

Thus outrage hit Tokyo when Kyodo News Service, the *Asahi Evening News*, and others reported that Weinberger had urged Foreign Minister Ito to go beyond Japan's self-defense concept to take sea-lane responsibility on a regional basis extending to the waters of Guam and the northern Philippines. Pentagon sources confirmed to *EIR* that Weinberger had taken this position. Moreover, a *Mainichi* report of March 19 that Assistant Secretary of State John Holdridge also brought up the idea with a visiting Komeito party delegation indicates that the Weinberger request was no trial balloon or misstatement; it is being seriously pushed. Carrington, too, "intended to discuss Japan's role in safeguarding the security of Northeast Asia" in an early April meeting with Japanese Defense Agency Director Joji Omura, according to the April 6 London *Times*.

Ito told questioners in Japan's parliament that Weinberger had been less explicit than reported. In any case, the foreign minister said, he had replied to Weinberger that it was impossible for Japan to play such a regional role. Japanese sources told *EIR* that in fact the Japan Defense Agency and foreign ministry had conducted contingency studies along the lines of Weinberger's policy. They added that Ito supports the idea privately but doubts its present acceptability in Japan.

The above-cited Arden House attendee commented, "Weinberger knows this is not going to happen this year, but what he is putting on the table is simple reality. The U.S. is going to have to continue diverting forces from the Western Pacific to the Indian Ocean. This will protect oil supply lines that are a lot more important to Japan than to the U.S. The Soviets have so far filled that vacuum, particularly since the U.S.-China treaty. Japan has to help fill in that gap. They have to play a regional role."

The attendee added: "Japan has to understand if it doesn't fill in the vacuum, the U.S. has no choice but the arming of China." Asked whether Washington has presented this alternative so starkly to Tokyo, he re-

plied, "No. But they should have. The reason they haven't is that they want both, the regional military role for Japan and the arming of China."

### **Ito: anti-Soviet sanctions indefinite**

Significant antagonism has arisen between Japan and the U.S.S.R. specifically because Japanese rearmament and an emerging Japanese regional military role are posed as part of the China Card. Two years ago, the Ohira government abandoned Japan's traditional "equidistant" diplomacy of good ties with both the Soviet Union and China in favor of good ties with China *instead* of the Soviet Union. Now, while directing Japanese business to a chimerical China-market boom, Ito has told the Diet that the post-Afghanistan economic sanctions against the Soviet Union would be enforced indefinitely. Using an unprecedented formulation, Ito claimed the sanctions had been imposed not only because of Afghanistan, but because of a growing Soviet military presence on "the northern islands," four small islands occupied by the U.S.S.R. after World War II and claimed by both countries.

In a February interview with Kyodo News Service, Soviet General Kiriyan had said that the target of Soviet military installations on the islands is not Japan but China. Although the Soviets have held the islands since 1945, the military presence was built up only after Carter's normalization with Peking.

All previous Japanese governments have demanded the return of the islands, but the Suzuki administration's actions are unique. It has sponsored anti-Soviet commercials on television regarding the islands, and obstructed economic cooperation with Moscow, citing the islands as a justification. Japanese industrialists, having lost billions of dollars in deals, are particularly unhappy about the sanctions, and often publicly urge imitation of the much looser French and West German attitude toward the sanctions. Japan's steel firms now stand to lose a \$3 billion steel pipeline deal that was part of the Soviet natural gas deal with those two European countries, due to the Suzuki government's obstruction of Export-Import Bank credits. Tokyo has virtually refused to discuss economic cooperation at the state-to-state level until the islands are returned.

The Haig and Carrington strategists have urged Ito to maintain this stance against the wishes of Japanese business. Carrington told the foreign ministers to maintain the sanctions, according to the London *Times*, while Ford told a Tokyo audience that "certain Europeans," a reference to Paris and Bonn, were "swallowing the Soviet line," a comment intimidating to Japanese suggesting policy coordination with Europe. At the same time, Tokyo is being urged to favorably consider Peking's request for a \$2 billion 30-year loan at 3 percent to bail out the Deng regime.

# The coup attempt had regional target

by Ramtanu Maitra

On April 1, Thai Deputy Chief of Staff Gen. Sant Chitpatima and a group of younger army officers tried to oust the Premier Prem Tinsulanond. The attempted coup failed but it helped further immerse Thailand in chaos and instability. Since early March, when the Thai cabinet was reshuffled following an oil-related scandal, the political situation in Thailand had remained volatile. While no one in Thailand was certain that the new cabinet had the parliamentary majority in order to function, U.S. State Department Acting Assistant Secretary of State Michael Armacost appeared before the House Foreign Affairs Committee on March 23 requesting \$80 million in foreign military sales to Thailand—an increase of \$30 million over fiscal 1980. Armacost presented the case as the “U.S. willingness to provide tangible evidence of the U.S. concern for the security and stability of Thailand, ASEAN’s ‘frontline state.’ ”

On the same day, a Thai expert, Princeton Professor David Morell, repeatedly pointed out before the committee the unstable condition that exists in Thailand. Morell requested the committee to rule out any more military assistance to the Thais because “the Thai army is fundamentally not a military institution; no wonder it is so weak militarily.” He added, “The Thai army leaders—indeed, its officers at all ranks from lieutenants to generals—are enmeshed in an incredibly complex web of political corruption.” Morell’s realistic characterization of the Thai situation proved to be quite different from the situation depicted by the State Department.

## Diplomatic moves

While the U.S. House of Representatives was deliberating on rearming Thailand, Indonesian President Suharto arrived in Bangkok on March 25 to meet with Premier Prem. Suharto and Prem talked in private for two hours; neither foreign ministry officials nor senior diplomats were allowed to sit in. On apparent request from Suharto, no notes were taken of the meeting.

What became evident from the recent developments, however, was that Indonesia was getting increasingly concerned at the recent turn of events concerning Kampuchea, including Thai enthusiasm over a Sihanouk-led united front against Kampuchea. Foreign Min-

ister Mochtar of Indonesia met twice with the U.N. Secretary General in New York in March before persuading Waldheim to send his envoy to Hanoi while he was in Southeast Asia. According to the March 27 issue of the *Far Eastern Economic Review*, one U.S. official maintained that “Vietnamese efforts to play off Indonesia and Malaysia against the other ASEAN members should be resisted, and Thailand should be given a chance to negotiate a solution with Vietnam that best protects its own security.”

Prior to President Suharto’s trip to Bangkok, U.S. Deputy Assistant Secretary of State for East Asia and the Pacific John Negroponte, an old friend of Henry Kissinger, was in Jakarta talking to Indonesian officials. Negroponte openly expressed his dismay at the “signs of Indonesian impatience with Thailand” and tried to impress upon them that on the Kampuchean issue, “it is Thailand’s head that is on the chopping block.”

## The putsches

After President Suharto left Bangkok, a destabilization of his government took place when an Indonesian plane was hijacked on March 29 with 52 passengers aboard. As the hijacked plane landed at Bangkok, the Thai army was put on alert while Prem and Suharto started working out a way to free the hostages. The hijackers belonged to a group of fanatic Muslims called Kommando Jihad who were previously involved in anti-government activities in Indonesia. Finally, on March 31, Indonesian commandos raided the plane and freed the hostages. Indonesian officials hailed the event as a “triumph for ASEAN cooperation.”

Then, in the early morning hours of April 1, Thai General Sant, an active leader in the CIA-backed Navapol—a right-wing military group created in the 1960s—directed the Thai coup attempt. Prem called his bluff, gathered support around the Thai king, and overthrew the coup leaders on April 2.

The exact relationship of these events and the forces behind the attempted coup are not clear. But those forces who favor a more moderate political solution to the conflicts in the region were clearly upset at the first news of the coup. Both Indonesian President Suharto and Malaysian Premier Hussein Onn expressed their “shock” and “disbelief” at the coup news.

On the other hand, backers of a hardline Thai policy toward Indochina responded differently. Within hours, Japanese Foreign Minister Ito stated before parliament that Japan would quickly establish contact with the “new government.” French press reports noted that Peking printed news of the coup in the *People’s Daily* without the usual cautious wait. Sources in the U.S. Defense Intelligence Agency with ties to anti-coup Thai army circles complained that General Sant had assurances of “quick recognition” from the United States.

# Mexican 'greenies' surface in a drive against nuclear energy

by Elsa Ennis

French, Spanish, Swedish, Canadian, and U.S. companies are reported to be ready to bid on a Mexican contract, which, although it only covers a part of the government's plans to build a 20,000 MWe nuclear capacity by the year 2000, would give the winner not only a hefty piece of business, but also an inside track for the rest of the Mexican nuclear program.

Mexican Industry Minister José Andrés de Oteyza announced earlier this year that the government plans to open international bidding for the construction of Mexico's next 2,000-3,000 MWe generation of nuclear reactors in the middle of 1981.

Although American companies are eager to get into the Mexican nuclear market, most will admit that they are at a relative disadvantage to European companies, given the disruption their channels into Mexico suffered thanks to the Carter administration's known opposition to nuclear technology transfer. Mexico is still waiting for firm guarantees from the Reagan administration that it is going to reverse this position.

Mexican officials also announced plans to open international bidding for the construction of a nuclear fuel treatment plant in the state of Nuevo León, while the state oil company, Pemex, and the National Institute of Nuclear Research, ININ, have signed a program to share technological and scientific experience. The union of nuclear workers (SUTIN) has also proposed the construction of a second research center probably to be built on the Patzcuaro Lake in the southern state of Michoacán, which would have two small test reactors and other training facilities.

## Preparing for growth

In a March 31 visit to the country's only nuclear research center of Salazar, outside Mexico City, Jorge Díaz Serrano, the head of Pemex, told journalists that the idea behind this joint program is to use in the nuclear area the technological breakthroughs Mexico has achieved in oil, and to take the advantage nuclear

technologies offer to further develop the country's oil industry. All this has the aim of "preparing the country in its transition from the era of hydrocarbons to the era of nuclear energy."

Everything is not on track with Mexico's nuclear plans, however. High-ranking Mexican officials have told *EIR* that the López Portillo government has still not made a final decision on the specifics of carrying out its nuclear program. The government is plagued by debates over heavy water reactors versus light water reactors, debates that by and large have been used to postpone the construction of new nuclear plants.

There is reportedly even some second thinking going on as to whether Mexico will actually open up the field to international bidding. Mexico's first nuclear plant in Laguna Verde on the Veracruz coast is due for completion in 1983.

An indication of the uncertainties in the Mexican nuclear industry was given by Dalmau Costa, the head of ININ, who, in statements to the press March 29, surprisingly asserted that the problems start with the fact that Mexico lacks an energy program. Although the López Portillo government's National Energy Plan (PNE) does not detail the type of reactors and other nuclear facilities the country should build, it clearly calls for the installation of a 20,000 MWe nuclear capacity by the year 2000.

## Enter the 'greenies'

But if Mexico's nuclear program suffers from a certain amount of official wavering, far more serious is the threat now being posed by the sudden rise to prominence of Mexico's version of the same environmentalist movement that has hindered America's high-technology industries over the past years.

Mexico's domestic "greenie" movement suddenly jumped into public visibility last month with a series of paid ads in the antidevelopment press of the country, and with meetings to protest the construction of the

Patzcuaro research center proposed by SUTIN. Their main argument: the center's test reactors will raise the temperature of the adjoining lake, thus endangering the whitefish inhabiting the lake.

Such progress-wrecking rationalizations ought to be painfully familiar to American businessmen. As we document below, this is no accident: the "Mexican" ecology movement is, in fact, a child of the same antitechnology, proterrorist ideology spread in the United States by such institutions as the Aspen Institute for Humanistic Studies, the Council on Foreign Relations, the Club of Rome, and the groups who put together the State Department Global 2000 report—the environmentalist opus on natural resources scarcity and depopulation elaborated under the Carter administration and now being promoted by operatives within the Reagan administration.

As in the United States and other advanced sector nations, the ecology movement in Mexico acts on several distinct levels.

On the top, it has high-ranking sponsors situated in various government ministries such as Foreign Relations, Health and Social Welfare, and Public Works and Housing—the last two being longtime centers for zero population growth ideologues.

These circles maintain close links to their cothinkers abroad. This is the case with Gerald Barney, for example, a high-ranking Rockefeller Foundation executive who led the team that put together Global 2000. Barney in fact flew down to Mexico last October to personally coordinate the promotion of Global 2000 environmentalist and depopulation proposals with these circles. The genocidal document is now being circulated there by the U.S. embassy and the Ministry of Health and Social Welfare.

On a second, middle level, there are the "ideological centers," exemplified by the Center for Economic and Social Studies of the Third World (Ceestem), an institute closely tied to the Club of Rome and to agencies such as U.N. Institute for Training and Research and Unesco.

On the street-level, "action" side, we have fanatic Maoists and assorted dupes collected into such groups as the Mexican branch of the London-based, anti-nuclear Friends of the Earth and the Association for Appropriate Technologies, a group formed directly by Ceestem officials.

These groups have concentrated their attacks not only on Mexico's nascent nuclear industry, but also on any kind of high-technology project aimed at implementing the López Portillo government's commitment to make Mexico into an industrialized country by the year 2000. A major target of this campaign has been Pemex, the fastest growing sector of the economy and the one that is providing the greatest impetus for the

country's full development.

On March 19, for example, the same organizations which protested against the Patzcuaro center published a paid advertisement in the Mexico City leftist daily *Uno mas Uno* to denounce the "irrational exploitation and export of oil and gas, the destruction of the environment, and the looting of our resources," by Pemex. Joining forces with Association for Appropriate Technologies, the Friends of the Earth, and other signers of the ad was the recently formed Mexican Social Democratic Party, which is now seeking affiliation with Willy Brandt's pro-zero growth and proterrorist Socialist International.

The environmentalists have even found some support in Mexico's Congress, as exemplified by the introduction of a bill that calls for elevating environmentalism to a constitutional level—a move which would mark an unprecedented shift away from the explicit protechnology stand of the Mexican Constitution.

### **Labor, government counterattack**

The aggressiveness of the new greenie movement has not gone unanswered, however, in particular by the labor movement and the government. Although in the past some nuclear workers' leaders had maintained alliances with leftist groups, this time, the SUTIN has taken the lead in denouncing the environmentalists as enemies of Mexico. In a paid ad published in several Mexico City dailies on March 24, the SUTIN, the original proponent of the Patzcuaro research center, asserted that the environmentalists' "save the whitefish" arguments "not only misinform, but lie and create alarm. In their extreme thesis—the 'return to nature'—they propose to stop technological and industrial development, and the right of the nation to access and to master the most advanced technologies." The union then called for a "pro-Patzcuaro center" demonstration to take place at the end of April.

Similarly, some government officials have clearly drawn a line on the environmentalists' moves. In hearings called by the congressional Commission on Ecology, Jorge Díaz Serrano, the head of Pemex, ridiculed the greenies' complaints against Pemex's "polluting activities," asserting, "I don't remember ever seeing a dead fish floating with its white belly up as a result of the oil industry's activities." He went on to warn that the battle for Mexico's future will be a long and hard one, asserting that "Mexico is in a process of industrialization that cannot be stopped. We must witness the disappearance of the peace of the village . . . and this means urbanization. We must accustom ourselves to oil and to other industries, such as petrochemicals, steel, capital goods, and the port and tourist industries, as well as to high and sophisticated scientific and technological developments."

# New environmentalists in Mexico: their foreign and domestic sponsors

by Timothy Rush

The two-month-old political action group known as the Committee for the Ecological Defense of Michoacán (Codemich) announced in a press conference the second week of March that it is heading up a Mexico-wide fight to stop the planned Pátzcuaro nuclear training reactor complex in central Michoacán state.

Speaking for Codemich were two individuals, Adip Sebag and José Arias Chávez. Backup was provided by the Mexican branch of Friends of the Earth. Facilities for the press conference were provided by the Center for Social Communication (Cencos).

These are the elements that have artificially implanted and nurtured Mexico's "greenie" movement, under the auspices of the United Nations, Club of Rome, and international environmentalist movement.

## The ATA

José Arias Chávez is director of a group called the Association for Appropriate Technologies (ATA), founded in early 1980. The ATA was building on sustained but quiet cadre development begun in the early 1970s, when a major office of the United Nations Environmental Program (UNEP) was located in Mexico City.

In this early work, Ricardo and Francisco Mier Ayala founded a group called Bioconservacion, whose major project was constructing an "ecologically self-sufficient house" at Xochicali, in the mountains west of Mexico City, where they proceeded to live with their mother. Funding came from the Inter-American Foundation in Washington, D.C.

Bioconservacion's journal, *Survival*, received significant advertising revenue from liquor magnate and Canadian Bronfman associate Pedro Domecq. The group's international tie was to Union Internationale pour la Conservation de la Nature et de ses Ressources, based in Switzerland. José and Jesús Arias Chávez, popularized the Xochicali house in a book, *The Ecologically Self-Sufficient House*. This book was edited by Jesús Quiróz, a leading professor of the Jesuit university of Mexico, the Iberoamericana.

During the same years the Mexican left-Jesuit media and international liberal media such as the *New York Times* built up the leader of the Mexican Workers Party (Partido Mexicano de los Trabajadores—PMT), Heberto Castillo, as the country's great fighter against the Mexican oil expansion for small-scale growth linked to "preservation of the environment."

Also, during the same years, the Center for Third World Studies (Ceestem), founded by former president Luis Echeverría at the end of his term in 1975-76, cemented the close organizational ties to the international zero-growth directorate known as the Club of Rome, and the Club of Rome's think-tank unit within the United Nations structure, the U.N. Institute for Training and Research (Unitar). The three institutions jointly sponsored major Third World planning sessions in New York and Mexico City in the spring of 1980.

The ATA pulled all these strands together. Its founders included the Arias Chávez and Mier Ayala brothers. Jesús Quiróz of the Iberoamericana moved in to head the ATA's Community Promotion activities. Rodolfo Rosas of the PMT and the U.N.'s Economic Commission for Latin America (ECLA) took charge of "Projects and Technical Assistance." Yves Cabannes, a French "appropriate-technology" ideologue attached to the Ceestem, joined the fiscal oversight committee, as did Gilberto Valenzuela, a leader of a neo-Zapatista "Plan de Ayala Movement." This movement's goal is the reversion of Mexican agriculture to the wooden-plough techniques of 50 years ago. Seed money for the venture came from Ceestem and the Colegio de Mexico.

The crystallizing event for these networks was a cadre-building two-day workshop in Palmira, Morelos, just south of Mexico City, in mid-May of 1980. The conference was sponsored jointly by ATA, Ceestem, and Bioconservacion, which at that time was completing its merger with ATA. Speakers and guests included Ivan Illich, the famed Jesuit-trained "deschooler"; Mauricio Schoijet, a rabid Argentinian environmentalist connected to the Socialist International; Victor Urquidi, head of the Colegio de Mexico and Mexico's only member of



the Club of Rome; and Iván Restrepo of Conacyt Ecodevelopment center.

With ATA's Arias Chávez at the Codemich press conference was Jean Robert of the Mexican Friends of the Earth organization. Swiss by nationality, Robert was standing in for Friends of the Earth director Arturo Aldama, who travels frequently to Geneva for translating duties at U.N. conferences. The third speaker at the press conference, Adip Sibag, is the head of a front group called the Mexican Public Opinion Institute (IMOP), a subsidiary of the newly formed Mexican Social Democratic Party (PSD). The PSD is seeking official recognition from Willy Brandt's Socialist International.

### Cencos

The Codemich press conference took place at the most important clearinghouse for the different facets of nation-wrecking movements afoot in Mexico today, Cencos. Jesuit social activists have controlled it from the start, and until recently its funding came openly from "liberationist" Church sources. In addition to its support work for Codemich and other greenie causes, Cencos anchors the network of human-rights protest groups in Mexico and the growing drive to "preserve" backward Indian communities from economic development. This places it in a command center position to interlink the various movements. The director of Cencos, José Alvarez Icaza, wrote a basic study of "human-rights violations" among the Indians of the Huasteca area in April 1980, in collaboration with the PMT. This

set the sage for PMT leader Heberto Castillo's current crusade to stop Pemex oil development in the adjacent Chicontepec area.

In recent months Cencos has garnered particular attention for providing a base of operations to a series of terrorist embassy takeovers and church occupations.

The current "breakout" of the greenie movement into national prominence—if not yet into real national strength—was facilitated by dissident officials in government opposed to President López Portillo's high-technology development focus. Most prominent is the Housing and Public Works Ministry (SAHOP), under Pedro Ramirez Vázquez. A hotbed of U.N.-linked planning since the Echeverría period, SAHOP put the Arias Chávez brothers on its payroll in the late 1970s and published a series of eight booklets popularizing "Ecotechniques for Self-Sufficient Housing," among other greenie support efforts.

The Education Ministry, under Fernando Solana, has similarly aided the greenies, particularly through the work of the director of the free textbook program, Enrique González Pedrero. Pedrero recently published a bible of "small is beautiful" thinking, called *The Wealth of Poverty*, which has been cited by Codemich organizers as a sourcebook for antinuclear propaganda.

The mayor of Mexico City, Carlos Hank González, has shown sympathy for the greenie movement on a number of occasions. And Foreign Minister Jorge Castañeda, a product of U.N.-centered diplomatic work, is a leading advocate of the Brandt Commission's "appropriate technologies" world blueprint.

## Rudolf Bahro drops in on Mexico

The Mexican greenie movement, hardly "out of the closet" last month, got an ideological injection from one of the leading European figures guiding environmentalism toward political violence.

This was Rudolf Bahro, who arrived the first week in April for a series of private meetings with radical ecologists and antitechnology gurus, and a public presentation in a seminar on "New Social Perspectives" hosted by the Social Research Institute of the National Autonomous University (UNAM).

Bahro achieved notoriety in Europe last year when he was deported from East Germany. Bahro worked closely with operatives of England's Sussex University, which houses a major component of British intelligence's psychological warfare apparatus. Environ-

mentalism and terrorism are specialties of Sussex studies.

Once loose in the West, Bahro joined the circles of the Socialistische Büro, a radical conglomeration of environmentalist and terrorist support networks. He is currently working with a group soliciting money to buy arms for the Jesuit-directed "left" side of the terrorist war in El Salvador, and contributed personal funds to the arms-running.

In Mexico, he railed against industrialism in both the East and the West as a form of "exterminism," "the most hostile threat to life today." Science "is the principal enemy of the human species." To save ourselves, "all classes must unify themselves religiously to transform themselves and thus save humanity. . . . Marxists and Christians must unite in the defense of the old civilization by forming a falange against the common enemy." Bahro affirms that his ideas are based on those of Teilhard de Chardin, the Jesuit thinker who urged an end to any forward motion in society.

# Monetarism pulverizes Colombia

*Businessmen there are up in arms about the wreckage of tremendous potential prosperity, report Carlos Cota Meza and Valerie Rush.*

Colombia's vast natural wealth, rich land, and skilled labor force has proven an irresistible magnet for foreign investors. During 1980, according to official statistics, foreign investment—focused heavily on mining and infrastructural projects—was up more than 550 percent over 1979! Colombian President Turbay has proudly pointed to his four-year development program, the National Integration Plan (PIN), as an ongoing success story, and his new finance minister, Eduardo Wiesner Durán, claims an inflation rate of below 30 percent as his personal triumph.

Yet all is not well in Colombia. Urban collapse and social decay have begun to overtake Colombia's major cities, such as Medellín, where mafia gang wars and assassinations, bankruptcies, and massive unemployment dominate this once technology-proud industrial center. The drug trade is considered the largest "industry" and mainstay of the Colombian economy (see article below), and the majority of Colombia's political and economic elite has either taken a stand of benign neglect or active support for a policy of "socialization" of drug dollars into the economy's legitimate financial flows.

Agricultural production, according to the Society of Agricultural Producers (SAC), shrank by 2.5 percent during 1980, and, according to Adimagro, the association of agricultural machinery importers, the rural sector—due to lack of mechanization—is no longer able to satisfy even domestic food consumption needs.

The most revealing crisis, however, is to be found in the industrial sector, which has undergone a rapid degeneration due to the combined assault of 40 to 50 percent interest rates and an overt anti-industrialization strategy on the part of government policy planners. Textiles, one of the most technologically advanced industries in the country, has undergone forced shrinkage. Lack of access to credit and a deliberate policy of asset stripping by certain drug-tainted interests in the trade have forced extensive plant shutdowns, layoffs, and a devastating decline in output. According to the president of the Medellín stock exchange (where 75 percent of all industrial investment is in textiles), "The crisis of the Colombian textile industry is so acute that the ratio of indebtedness to capital has risen from 0.38 to 1 in 1968 to 1.99

to 1 today, and in some companies is 4 to 1."

The metallurgical industries, including auto production, have faced a zero-growth situation for over a year, and the stagnation of the construction industry is reflected in the fact that there currently exist fewer square feet of construction-improved land today than in 1963.

The government's statistical agency, DANE, reports industrial production fell by a whopping 50 percent between the last quarters of 1979 and 1980. The economy's overall growth rate for last year, according to nongovernment sources, was a miserable 1.4 percent.

## Private sector awakens

The private sector, traditionally a satisfied partner of the government's monetarist campaigns against inflation, has suddenly awakened to the fact that its own foundations have begun to crumble under Wiesner Durán's Friedmanite assault on the economy. On Feb. 19, five leading producer and business associations called a press conference to issue a critique of government economic policies. Said Carlos del Castillo, president of the Federation of Metallurgical Industries (Fedemetal), "The government may be doing well, but the nation is going badly. It is a no-growth situation."

The businessmen singled out for attack the stratospheric interest rates, the drastic energy rationing that has wracked the country's major industrial/urban centers, and the PIN program itself for its blind emphasis on public works and energy boondoggles to the exclusion of the country's vital industrial and agricultural sectors. The business groups that called the press conference, made up of the chambers of commerce of the construction industry (Camacol), the National Industrialists Association (ANDI), the National Association of Financial Institutes (ANIF), Fedemetal, and the national merchants association (Fenalco), described the economy as a sick man, and warned that the government's cure—"tablets labeled PIN"—was "proving worse than the disease."

The document released by the business groups read in part:

"The economy has lost its dynamic. We are concerned with the slow growth, stagnation, and even

regression of the real sectors of the economy. The agricultural sector has structural problems. Industrial production has fallen. . . . The policy of raising interest rates above the cost of inflation . . . has driven up the cost of production which Colombians must pay for, while investments in agriculture and industry have been dismantled to allow refuge in more attractive financial profits. There are a growing number of bankruptcies, especially in medium-sized companies asphyxiated by financial costs. All this is forming a dangerously speculative development model in which idle capital yields more profit than invested capital."

President Turbay's response to the criticisms thus far has been to demand "more solutions and less criticism," and to defend the Friedmanite thesis that the only way to fight inflation is by cutting growth. He accused the businessmen of seeking government subsidization by demanding cheap available credit and reiterated his unshakable commitment to the investment policies of the PIN.

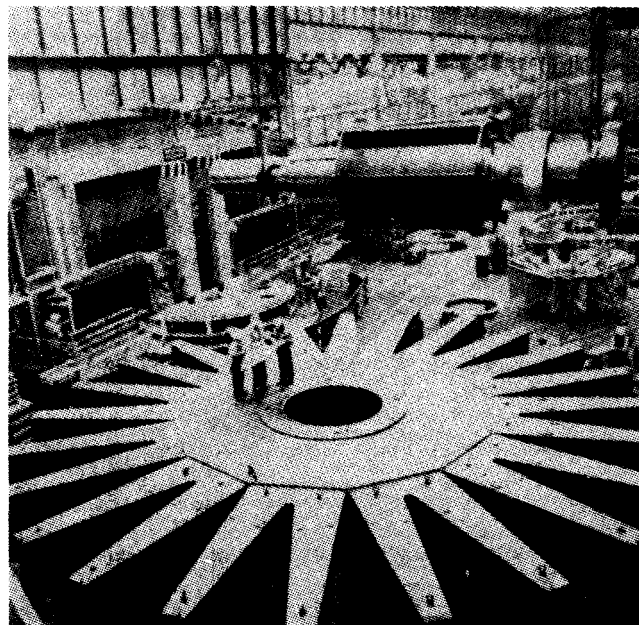
### **Dangerous alternatives**

While the panic of the business community is a genuine enough reflection of the depth of economic crisis in Colombia, the alternative policies proposed by some of the groups involved would also "prove worse than the disease."

The ANIF, for example, headed by economist Ernesto Samper Pizano, is the most outspoken institution in Colombia for the legalization of drug production and export as the "solution" to Colombia's development needs. Samper's ANIF has been the think tank of the powerful Grancolombiano financial grouping since its creation in 1973. Grancolombiano has been implicated in Colombia's vast illegal drug trade and is currently facing congressional investigation for asset stripping, bear raids against other financial groups, and outright financial fraud. Although ANIF's Samper parades as a David Stockman-type liberal, the Grancolombiano group has consistently advocated precisely the sort of Chilean-style Friedmanism the ANIF is now so righteously protesting.

ANDI president Fabio Echeverri Correa, like Samper, has also been outspoken in his advocacy of drug legalization and only last year publicly praised the PIN which he is now attacking. Camacol, representing the nation's construction companies, has long been dependent upon a real-estate structure born of financial speculation and dirty-money laundering.

In view of the options these gentlemen represent, their criticisms of the administration's economic policies hardly inspire confidence. As the progovernment newspaper *El Tiempo* was quick to point out in an editorial on the business group's protests, Samper, Echeverri et al. "have gone from promoting the legalization of drugs



*Energy output is now throttled.*

to [promoting] the total replacement of all the systems and procedures of the economy." However, not all those attacking the government's austerity policies advocate a free drug economy in its place.

### **Trade union protests**

On Feb. 20, 50,000 trade unionists gathered in the streets of Bogotá to protest government austerity policies and to demand a policy of industrialization based on cheap credit and an end to the drug-linked black market which is sucking the real economy dry. The protesters burned an effigy of the hated finance minister and carried banners reading, "No to Marijuana!" and "Lower Interest Rates/Credit to Industry!"

In March, respected industrialist Fernando Sanz Manrique issued a series of calls for a return to nation-building policies of industrialization. Appealing to the ruling Liberal Party to abandon its British-style austerity strategy or face defeat at the polls, Sanz Manrique warned, "It would be dangerous for the Liberal Party to campaign without a government program with content. . . . The Liberal Party must begin to think again of industry as an important component of its political platform. Our situation is far from England under the conservative Thatcher. Basically, industrial structures in Colombia are not to be corrected, but to be created. And the Liberal Party would be taking up a stupendous banner by proposing to the country a new impulse toward industrialization."

With Colombia's 1982 presidential elections in view, the strategy of industrialization versus a Friedmanite "free market" economy based on drugs is expected to be in the forefront.

## Another brawl in the economic cabinet

*De Oteyza rejects a Volcker-style high interest-rate policy for Mexico in favor of industrial growth.*

**T**he big question this week in the offices handling Mexican finances was why Industrial Minister José Andrés de Oteyza publicly criticized Mexico's central bank director and finance minister.

Speaking before the nation's industrialists gathered in the Chamber of Industry (Concamin), de Oteyza challenged the statistics issued by the Banco de México and released his own more optimistic evaluation of the economy. On the statistical question, he said: "When programming economic activities or seeking to give a true picture of the facts, it is best to use the most up to date evaluation base and avoid those distortions caused by the mere passage of time." Thus, de Oteyza announced that Mexico's GNP had really grown by 8.2 percent in 1980, and not the 7.5 percent claimed by the Banco de México.

More significantly, de Oteyza joined President José López Portillo in denouncing the theory—commonplace in Mexico, and repeated in the Banco de México's 1980 annual report—that Mexico must reduce its growth rate to control inflation. Inflation, de Oteyza argued, is not caused by growth, but by high interest rates.

And in a stunning rejection of Volcker-style policies for Mexico, he added: "There's no reason for Mexico to adopt interest rates that other countries follow, nor to embrace the thesis that inflation induces increases in interest rates . . .

since [interest rate hikes] feed back into and perpetuate inflation."

De Oteyza also noted that Mexico had achieved its growth within an "artificial and illegitimate inflationary environment which does not belong to us, and in the midst of a deep recession of the world's economy," adding that "an excessively liberal foreign trade policy is particularly dangerous."

The speech put the country's economic analysts into motion. One of the best informed of these discovered in his probings that the Banco de México's annual report will reportedly disappear if de Oteyza gets his way, and the economic cabinet itself would take charge of national accounts. Then, it is easy to imagine the formation of an economic superministry, which would combine all the present economic cabinet's powers.

In its role as central bank, the Banco de México has for years been charged with publishing official statistics on Mexican finances by means of its annual report. Up to de Oteyza's speech, this report enjoyed at least the public confidence of bankers and public enterprises.

Other analysts, such as the monetarist Luis Pazos, the director of the Institute for Ibero-American Integration, reported that the Banco de México's latest report took the government to task for "excessive budget spending, which is the cause of inflation." In one section of its 1980 report, the Banco de

México says that public spending is expansionary, and that although it helped the country grow it did so at the expense of causing "chronic and growing inflation." This analysis, say the commentators, outraged the top of the government.

A few days later, in Madrid, Interamerican Development Bank President Antonio Ortiz Mena entered the fray by condemning the thesis propounded by the Mexican president that it is possible to grow with inflation. A better policy, Ortiz Mena opined, is what he called "stabilizing development." Ortiz Mena was finance minister during the presidency of Miguel Alemán (1948-1954). With his "stabilizing development" policies, Mexico's industrial sector was dangerously skewed toward consumer goods and away from heavy industry:

*EIR* has found out from a private bank executive that the polemic begun by de Oteyza also has a political cast involving a rumor that de Oteyza is on his way out of the cabinet to a distant embassy, with Pemex director Díaz Serrano filling his shoes as industry minister. This rumor has spread through gossip circles over recent weeks, and even went public during the famous "castling" of the heads of the governing PRI party and the agrarian reform ministry.

But aside from rumors, veiled attacks, and verbal confrontations, one thing is sure: in Mexico today, the big fight is over what kind of economic policy will reign during the coming years. Who controls the presidency and the economic cabinet will determine whether Mexico industrializes while bearing some inflation or stagnates while seeking to wipe out inflation with monetarist strictures.

## Strategic debate surfaces in Israel

*The future for Israel—to be a regional gendarme or a sovereign national state—is at stake.*

An April 5 comment on Israeli television by former Israeli Chief of Staff Mordechai Gur that “no one made Israel the policeman of the Middle East” may signal the opening of a long-overdue debate on future Israeli political-military strategy within that nation’s higher echelon military and intelligence community.

Gur’s comments were made specifically in reaction to the Begin government’s crisis mongering around the Lebanon situation, with Gur charging that the Begin team was “overreacting” by defining a “red line” for Syrian military actions in Lebanon.

Instead of such reactive approaches, Gur insisted, the Israelis should develop a “long-term strategic plan” to enunciate their interests in the region.

Aside from the Lebanon focus of his comments, Gur’s critique is thought to have potential significance as a polemic in the national electoral campaign, since, according to Israeli sources, Gur is an “activist” in the prime ministerial campaign of Begin’s main opponent and probable successor, Labour Party chairman Shimon Peres. Gur is reportedly a possible choice for a cabinet post in a Peres government.

But beyond the narrower considerations of Lebanon and the elections, Gur’s call for adoption of a “long-term strategic plan” and for avoidance of a regional Israeli

gendarme role is designed as an intervention against the evolving strategies not only of Begin, but of retired general and former Foreign Minister Moshe Dayan who is now the point-man for the “utopian” geopolitical school of Israeli strategic thinking.

Gur’s comments were made on the same day as an interview given by Dayan to the ABC-TV “Issues and Answers” program.

During that interview, Dayan extolled the virtues of a U.S.-Israel military treaty that would have, as a component aspect, the deployment of at least 2,000 American troops to form the backbone of a multinational force to be situated in the Sinai area now being evacuated by Israel, as provided for in the Camp David Egypt-Israel treaty. Then, Dayan made the glib commitment that “even without” a bilateral military treaty, “we shall play our role. We are ready to put our forces at U.S. disposal. If the Russians move in, Israel will fight. I think you can take Israel into account as an American base.”

Both American and Israeli military planners would do well to regard Dayan’s offer with extreme caution. In the past, his strategic exploits, for example, in the 1956 Suez war or in the 1973 Arab-Israeli war, have hardly ever been to the benefit of either Israel or the United States.

A further dimension is added to this caution now by a report in the

April 3 *Jerusalem Post* that Dayan is a leading spokesman for the Israeli adoption of a “nuclear option” as the bulwark of its defense strategy.

*Post* military correspondent Hirsh Goodman noted that this Dayan-endorsed option is a “non-conventional, albeit destabilizing strategic alternative” that is being viewed as possibly the only path open to Israel, given Israel’s “immigration-emigration situation” and “economic and social problems.”

But many Israeli strategists, noting Israel’s lack of territorial depth and realizing that nuclear war could never be restricted within the Middle East region, think that such an option is a path to national suicide.

From their standpoint, Dayan’s endorsement of the nuclear option will only further necessitate the immediate opening of a strategic debate in Israel.

The last impetus to this immediacy is that Dayan is in active electoral collusion with Begin. On April 4, he announced the formation of a party, TELEM, a Hebrew acronym for “Movement for National Renewal,” to run in the elections.

Repeatedly, Dayan has indicated that his sole purpose in running will be to prevent the Labour Party from winning a majority in the elections.

But this might only encourage Begin’s adventurism. According to a front-page editorial in France’s *Le Figaro* April 6, Begin is “finally resolving to permanently implant in Lebanon the military forces of his country,” which would be the “ultimate and vigorous electoral argument” for his party.

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# International Intelligence

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## **Polish daily praises France, Germany**

The Polish daily paper *Warsaw Life* wrote April 8 that it was largely thanks to France and West Germany that the Soviets eased the threat of invading Poland, according to the Warsaw correspondent of *Le Figaro*. The visit of West German Foreign Minister Hans-Dietrich Genscher to Moscow was particularly important.

*Le Figaro's* Bernard Margueritte reported from Warsaw under the headline "Détente in Poland." He also cited a new interview by Solidarity head Lech Walesa with a Catholic paper, in which Walesa bids Solidarity's militant agitators to make way for people who are willing to "work" under the new conditions existing in Poland.

In Vienna, Soviet Prime Minister Tikhonov reportedly told Austrian officials that "fears" of a Soviet invasion of Poland were "unwarranted."

Further developments are expected to come from the April 10 meeting of Poland's Western creditors and from the first Polish parliamentary session since the strike wave was narrowly averted.

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## **Terrorism mounts in West Germany**

Three bomb explosions in Cologne and Frankfurt subway stations on April 8 caused extensive damage and injured seven people. A group called the Revolutionary Cell claimed responsibility. The bombings followed a recent extended visit to West Germany by U.S. Institute for Policy Studies director Richard Barnet, where he stated that the violent squatters' movement, the disarmament movement, and other upsurges will bring down the Schmidt government.

The Kommunistische Bund announced April 4 that if their imprisoned members are given 15-year sentences, one of the authorities should disappear

for 15 years. Imprisoned members of the Baader-Meinhof gang are on hunger strike; the April 8 bombing is said to have been in sympathy with the hunger strike.

In the U.S., a round of terrorism following the Reagan assassination attempt was predicted by British specialist Robert Moss in the London *Telegraph*, who wrote that U.S. authorities will be caught unprepared.

According to Moss, PLO special operations executive Abu Walid, who was in Teheran before the seizure of the U.S. embassy, is planning to build a network of terrorist cells throughout the U.S., drawing on members of the American Indian Movement, and targeting energy plants.

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## **Tensions fueled in southern Asia**

Reports of an inflow of 20,000 additional Soviet troops to Afghanistan have been contradicted by U.S. intelligence analysts, who say it is a rotation of existing forces.

The reports are part of an effort to stage an arms buildup in Pakistan, whose foreign minister, Aga Shahi, arrives in Washington on April 20.

Further propaganda has emerged alleging Soviet backing for terrorism in Pakistan, linked in turn to the Bhutto family. The April 7 London *Daily Telegraph* claimed that the Soviet KGB is training "hundreds" of Pakistani terrorists led by Murtaza Bhutto, son of the assassinated prime minister, in a camp in Afghanistan. The terrorists are alleged to be deployed against the Zia dictatorship. The *Telegraph* predicts "an escalation of cross-border conflict" between Afghanistan and Pakistan.

In turn, the London *Guardian* predicts heightened tension between Pakistan and India resulting from the latter's objections to proposed large-scale U.S. arms sales to Pakistan.

Indian Prime Minister Indira Gandhi has spoken out in tours around the country against such a buildup, terming it a

destabilizing effort. Arms provided to an unstable Pakistani regime, she cautions, could end up being used against India, as has happened several times before.

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## **PCF is swing factor in French election**

French Communist Party votes will be a crucial factor in the second round of the French presidential election on May 10. No candidate ever wins a decisive plurality in the first round, to be held this year on April 26, due to the abundance of political parties.

The Soviet Union has publicly signaled that it wants to see the defeat of President Giscard's Socialist opponent, François Mitterrand. Several weeks ago in a *Pravda* article, and again in a January Novosti press statement released in France on April 8, the U.S.S.R. sent a message to the Communist rank and file. The Novosti press release states that the Soviet Union cannot change its long-term goal of peace [through cooperation with Giscard] for the short-term electoral goals of the PCF.

The Communists are now expected to draw between 15 and 18 percent in the first round of the election. Mitterrand could win in the second round only if every Communist returned to the polls to vote for him.

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## **Greek socialists in antinuclear movement**

Greece's Panhellenic Socialist Party (PASOK) has seized upon last February's earthquake as "proof" that nuclear energy is dangerous and must not be acquired by Greece. "Given the present facts, everyone's position should be no to nuclear reactors," a PASOK spokesman told the Greek parliament.

PASOK's stand is a reversal of its earlier support of nuclear power and marks the beginning of an antinuclear movement in Greece.

This month, the newly formed Panhellenic Organization for Ecological Research will hold a conference on the "dangers of nuclear energy." Another environmentalist group, the Panhellenic Ecological Movement, is organizing antinuclear protests.

PASOK intends to use its antinuclear movement to catapult itself into power in the general election slated for next fall.

The Greek government has been cooperating with both the United States and the Soviet Union in the field of acquiring nuclear power. Last month, Soviet First Deputy Minister of Power and Electrification Falaleyev visited Greece and informed the Greek government of the Soviet capability to produce nuclear reactors designed to withstand an earthquake measuring up to 9 on the Richter scale.

The earthquake that struck Greece in February measured 6.6. Falaleyev also stressed the Soviet Union's close exchange of information with France on nuclear technology.

## ***El Salvador's youth undergo destruction***

At least 50,000 children under the age of 12 are now starving in refugee camps, according to an April 9 report in the *Baltimore Sun*. Older children are suspected of being guerrillas and are not allowed into some camps, according to one refugee worker. Another says the surviving children have become "little zombies."

El Salvador was cited as the "national liberation model" at last month's Socialist International meeting in Paris, where the Club of Rome's Aurelio Peccei called for recruiting youth as shock troops for an anti-industrial future.

Meanwhile, the U.S. State Department Central American specialist James Cheek warned April 8 that a "new phase" of the civil war is on the agenda. First, the infrastructure of the country was destroyed, he enumerated; then the food supply; next, Americans were targeted

for violence. Now a wave of assassinations against moderates will be launched by the left and right as peace negotiations approach, he said.

## ***Apel, Weinberger clash at NPG meeting***

The Nuclear Planning Group meeting in Bonn on April 8 went overtime due to several policy clashes among the allies. According to West German press sources, West German Defense Minister Hans Apel angrily told U.S. Secretary of Defense Caspar Weinberger—not for the first time—that West Germany could not go along with his demand for the allies to slash more domestic programs for the sake of defense.

The fights resulted in compromises in the final communiqué. The West Germans wanted the NPG to resolve that the controversial medium-range "Euromissiles" be included in SALT III negotiations, a commitment Weinberger declined to make. But the communiqué did affirm the two levels of NATO's December 1979 decision on the Euromissiles, both their development as well as the promise to seek talks on them: Chancellor Helmut Schmidt had personally stressed the importance of this to the meeting. The Soviets object that the Euromissiles would transform NATO's offensive capabilities.

The NPG endorsed linkage of arms talks to the Polish situation, going out of its formal domain to release an opinion on Poland via a verbal statement of NATO Secretary General Joseph Luns. According to the German reports, Weinberger had wanted to include even the *threat* of a Soviet invasion, but the eventual statement limited the linkage to Soviet intervention "in the internal affairs of Poland," which would "gravely undermine the basis for effective arms control negotiations."

The Luns statement also asserted that "actual intervention, including the use or threat of use of military forces, is incompatible with the Helsinki agreement on European security."

## ***Briefly***

● **SAMUEL FLATTO-SHARON**, a fugitive from French justice who is a member of the Israeli parliament, has financed a team of mercenary "volunteers" to aid the Falangist militias in the Lebanese town of Zahle, France's *Le Matin* newspaper reported April 7. The head of this team, Daniel Pierre Walthener, has just arrived in Israel after a trip to the United States, and will now go to Zahle, the French paper reported.

● **LUIS CAMACHO LEYVA**, the defense minister of Colombia, this month issued a thinly veiled threat of military takeover if Colombian President Turbay made a long-planned trip to the Soviet Union. Turbay has now indefinitely postponed the trip, which was to have consolidated new trade and technical accords. Camacho met with Al Haig, Caspar Weinberger, James Buckley, and Thomas Enders during a sudden trip to Washington on March 29-31.

● **MARIO MORETTI**, believed to have ordered the murder of kidnapped former Italian Prime Minister Aldo Moro in 1978, was arrested April 4. The capture of Italy's most wanted criminal is expected to lead to the exposure of higher-level terrorist controllers. Picked up in Moretti's company was former professor Enrico Fenzi, previously freed despite charges of Red Brigades activity following pressure by the Italian Socialists.

● **THE FALN**, the major Puerto Rican terrorist group, has reportedly formed an alliance in Canada with the Front for the Liberation of Quebec.

● **IAN GILMOUR**, the number-two man in the British Foreign Office, has publicly protested French President Giscard's threat to review British membership in the EC. Prime Minister Thatcher has also lashed out against French and West German "intransigence" in the EC.

## Haig's future on the line, foreign policy in flux

by Kathleen Murphy

Secretary of State Alexander Haig, already on shaky ground as a result of his remarkably inept performance of last month, has come under a new round of attacks that could signal his early departure from the Reagan administration. Some of the country's most important allies have joined in the latest outburst of criticism—not a very happy omen for a man who claimed to be qualified to act as the “vicar” of U.S. foreign policy because he was admired and respected by America's partners.

Whether that contention was ever true is doubtful. What is clear at the present time is that Haig, far from being a link between the Reagan administration and European heads of state, has become a definite liability whose continued presence in the administration could well lead to a breakdown in U.S. relations with Europe and many key developing-sector nations, including Mexico.

Although it has been known for some time in diplomatic circles that America's allies and friends have taken a dim view of Haig's antics, their criticisms have been expressed behind closed doors or in private communications. It is known, for instance, that Western European leaders were incensed by Haig's heavy-handed campaign to whip them into line behind his El Salvador provocations, and that they conveyed their anger to the White House. But this month, after Haig tried to seize control of the U.S. government the day President Reagan was shot, Haig's critics dropped diplomatic niceties and went

public, giving him a drubbing that few American secretaries of state have been subjected to.

One of the most important blasts came from French Foreign Minister Jean François-Poncet. Summing up the feeling now prevalent in Europe, François-Poncet bluntly warned in an interview that “there must be an end to Alexander Haig's pressure on Europeans.” The French foreign minister, who had met with Haig at length in Washington in late February, explained that Haig's efforts to prevent Europe from exporting capital goods to the Third World are in fact aiding the Soviet Union. If the industrialized West refuses to aid the developing sector nations, François-Poncet said, then the latter will be drawn inevitably into the Soviet orbit.

In Mexico, President José López Portillo, while skirt-ing mention of the secretary of state's name, cuttingly scored policies clearly associated with Haig in a welcoming speech April 7 for visiting Venezuelan President Herrera Campins, a Haig admirer and ally. Said the Mexican president, with whom Ronald Reagan will meet later this month if his recovery permits, “The policy of confrontation between the great powers is forcing the partisans of détente into retreat, in the face of accusations of disloyalty, confusion, or flagrant foolishness.” In an apparent allusion to the documents released by Haig which purport to prove Cuban-Soviet control of terrorism, López Portillo remarked, “The acceptance of notorious untruths or half-truths is the result of fear, or



weakness, or opportunism.”

A striking aspect of both the European and Mexican attacks on Haig is that the leaders on both sides of the Atlantic have expressed confidence in the Reagan administration, while singling out the secretary of state as an irresponsible war-monger who threatens to undermine détente and destroy world peace.

Although the official White House line is that Haig performed appropriately following the attempted assassination, there is every reason to believe that this was part of the White House effort to calm what could otherwise be an hysterical, paralyzing situation. In fact, Haig's March 30 actions deeply disturbed the President and his top aides. White House Chief of Staff James Baker has ordered a study of how key administration officials functioned during the crisis. Edwin Meese, counselor to the President, took some thinly veiled jabs at Haig's power-grabbing in an April 6 interview with the *Christian Science Monitor*. While avoiding direct criticism of Haig, Meese made it quite clear that there was no need or justification for Haig's "I am in control" announcement.

### Cooling Haig's hot spots

At the same time, the administration is moving to cool down some of the areas Haig has attempted to inflame, suggesting that the White House takes quite seriously Western Europe's alarm at Haig's maneuvers.

The White House is moving to cool the El Salvador issue, on which Haig's policies have alienated both Europe and much of Latin America. Last month, Reagan appointed his long-time associate William Clark, now Deputy Secretary of State, to head a task force on El Salvador policy, a move observers conclude was meant to rein in Haig. Last week, Vice-President Bush met with the archbishop of El Salvador, Rivera Damas, for consultations focused on achieving a political rather than military solution to the civil war there.

On Poland, Haig had taken an openly crisis-mongering line. As of April 3, his State Department spokesmen were saying that a Soviet invasion of Poland was imminent. But as soon as Haig departed for the Middle East and Europe, the White House issued its own statement that an invasion was "not inevitable and not imminent." By April 6, the State Department had reversed itself and termed an invasion "unlikely in the immediate future," adding that the purpose of Soviet/Warsaw Pact military maneuvers had thus far been to influence events in Poland.

Defense Secretary Weinberger, arriving in London enroute to a Nuclear Planning Group (NPG) meeting in Bonn, also stopped short of announcing an imminent invasion when he characterized Soviet military moves as aimed at exerting "an intimidating effect on the Poles," and asserted that the Soviets were trying to

move into Poland through "osmosis" rather than making a direct military intervention.

At the NPG meeting, Weinberger proved adaptable to European pressures when he announced that he backed their desire to pursue talks with the Soviet Union aimed at limiting the Euromissile buildup in Europe.

### Who will replace Haig?

In the midst of Weinberger's new-found public prominence, his name is being circulated by Washington insiders as a possible replacement for Haig. Not only did the two secretaries clash bitterly during the assassination-attempt crisis, as has been widely reported, but they have been at odds over the administration's proposed arms sale to Saudi Arabia, with Weinberger lobbying hard for transfer of both the AWACs and the F-15 equipment as soon as possible.

To what extent Weinberger is "playing the European game," as one acquaintance put it, or is reflecting a major policy shift dictated by Reagan and his closest advisers has yet to be determined. One good indication will be how the administration deals with the high-interest rate policy of Federal Reserve Chairman Paul Volcker, which has come under attack from Western Europe for its destructive effects on the world economy.

As for Haig, there seems to be little question that his days in the administration are numbered. Some observers believe that Haig's last chance was his Middle East trip. But the trip turned into a disaster (see International) and the major U.S. media coverage has juxtaposed the hostile reception Haig was accorded every place but Israel to the "respect" Weinberger was accorded in Europe.

Furthermore, a group of senators, headed by Majority Leader Howard Baker, is about to leave for Saudi Arabia, a trip some Capitol Hill sources report is designed to undo the damage Haig inflicted. Senator Baker consulted with President Reagan and Chief of Staff James Baker on the Saudi visit before leaving.

As one source close to Haig reported ruefully: "Al thought that if he came up smelling like a rose from the Mideast trip, he'd be set. But I'm afraid he looks more like a wilted pansy." Another insider compared Haig to "a peacock strutting off a cliff."

Meanwhile, rumors are circulating widely that if Weinberger doesn't replace Haig, maybe John Connally or George Shultz will. Shultz, a close friend of Weinberger's who worked with him at Bechtel, is a "European handler" who has taken great pains to maintain close relations with European leaders, especially Helmut Schmidt. Connally, who had sought a key cabinet post during the transition period, held a private meeting with President Reagan at George Washington Hospital on April 6.

# 'Manchurian Candidate' pattern behind assassination potential

by Scott Thompson

In the week following the March 30 arrest of John W. Hinckley, Jr. for attempting to assassinate President Ronald Reagan, a trail of leads has emerged which suggest strongly that Hinckley is a programmed assassin—a “Manchurian Candidate”—created and deployed by a broader network. This profile was almost conclusively confirmed by the April 7 arrest of Edward Richardson, who was arrested en route to Washington, D.C. carrying a .32 caliber pistol. Richardson had sworn “to bring to completion Hinckley’s reality.”

Richardson’s life “eerily parallels” that of Hinckley’s, according to federal investigators. And, it makes very concrete the statement of an intelligence source last week that “the arrest of Hinckley will touch off a wave of copycat assassins.” Other sources close to the intelligence community believe an unknown number of programmed assassins may still be at large.

On April 8, two new individuals—Harry Thomas Smith of Raleigh, North Carolina and Steven A. Seach of Philadelphia—were arrested for threatening President Reagan’s life. Smith had been sentenced twice earlier to prison terms for making threats against a President.

Richardson’s trail was initially picked up in New Haven where he was stalking Jodie Foster, the actress in a movie about assassinating a U.S. senator titled *Taxi Driver*, whom Hinckley had also been obsessed with. FBI investigators have stated that Hinckley’s motive was his rejection by Foster, who is now a Yale student.

However, Hinckley’s obsession with Foster may provide clinical evidence as to the nature of his brainwashing. It has been reported that Hinckley’s mother’s nickname was Jodie and that 20 years ago she bore “an astonishing resemblance” to the actress.

While in New Haven, Richardson stayed in the same Park Plaza Hotel as Hinckley had earlier. When he left Monday, without paying his bill, a maid discovered a photograph of President Reagan with an X drawn on his forehead and the inscription, “Targeted for Death”; three .32 caliber bullets; and two notes written during his four-day stay in the city, one of which threatened the President’s life (see above).

A third letter had been hand-delivered to Jodie Foster’s dormitory; it read: “I will finish what Hinckley

started. RR must die. He (JWH) has told me so in a prophetic dream. Sadly though your death is also required. You will suffer the same fate as Reagan and others in his fascist regime. You cannot escape. *We are a wave of assassins throughout the world* [emphasis added].”

The letter was signed: “International Peoples Court”—a possible reference to the Symbionese Liberation Army, which Richardson had been fixated on, according to friends. Manson family member Lynette (Squeaky) Fromme, who attempted to assassinate President Ford, was also fixated on the SLA.

Richardson’s obsession with Jodie Foster was not the only parallel between the two would-be assassins. Richardson, whose parents today live in Drexel Hill, Pennsylvania, was raised in Lakewood, Colorado. From December 1980 until mid-March 1981 he lived with his two sisters, who still reside there. Hinckley was in Lakewood on March 8-23, 1981, staying at the Golden Hour Motel in Lakewood, Colorado.

According to some intelligence community sources, Hinckley had a routine schedule during his Lakewood stay of getting up at 9:00 a.m. and going to bed at 9:00 p.m. At regular intervals Hinckley would receive a telephone call ordering him to a predesignated phone booth where his apparent “controller” would issue coded instructions. The motel manager, Ginger Ancourt, confirmed this schedule, and when Hinckley was questioned by her as to his activity, he would only state that he was “going to work.”

While no direct connection has been made between Hinckley and Richardson in Lakewood, their overlapping presence may pinpoint the location of a behavior modification center used for final programming. Both Richardson and Hinckley have profiles of instability that would make them susceptible to “brainwashing.” Both had a history of drug use, including “experimentation” with tranquilizers.

In 1976 Richardson joined the Air Force and was stationed in Texas. He was discharged within six months after an incident in which he was stabbed. Hinckley had undergone five months of psychiatric care in early 1980 with Evergreen Consultants in Human Behavior in Evergreen, Colorado. Evergreen Consultants practices a

wide range of psychiatric techniques, some of which are admitted to be unorthodox.

Little is known about Hinckley's personal psychiatrist, Dr. John J. Hopper, except that he completed training in Texas in the mid-1970s. Dr. Foster W. Cline of Evergreen Consultants revealed to the *Baltimore Sun* that he personally practiced "rage therapy" to force patients to release pent-up infantile emotions.

As last week's *EIR* Special Report detailed, the Evergreen-Lakewood area is dotted with radical psychiatric programs, including a number of "therapy communes," according to Marilyn Ferguson's recent book *The Aquarian Conspiracy*.

Two institutes of possible significance for the Hinckley-Richardson investigation are:

- **Naropa**, located in Boulder, Colorado. The city is a center for environmental and Arab terrorist groups in the region. The assassin of Saudi Arabia's King Faisal was tracked to the Boulder area. Naropa has been preliminarily linked with Timothy Leary, the sponsor of drug-induced behavior modification experiments developed in the MK-Ultra program.

- **Mt. Airy Hospital**, an exclusive psychiatric hospital specializing in drug and alcohol addiction treatment. As yet unconfirmed reports have Hinckley staying there as a patient. Dr. Edmund Casper, who claims to have taught Hinckley's psychiatrist at Evergreen, Dr. Hopper, his "street-wise sense," is on Mt. Airy's staff. Casper was a division psychiatrist with the U.S. Army in Vietnam at the time when behavior modification techniques of the sort developed at the Tavistock Clinic in England were first introduced.

### **Permindex connection?**

Richardson's and Hinckley's families also share involvement in religious institutions with known intelligence connections. Edward Richardson converted from Catholicism to become a "born again" Christian.

From 1979 until his stay in Lakewood, Colorado, Richardson attended the Shelton Bible College, whose founder, Rev. Carl McIntire, is also the founder of the American Council of Christian Churches (ACCC). Shelton is a nonaccredited college whose facilities have traveled from Collingswood, N.J.—also the base of McIntire's 20th Century Reformation Hour—to Florida when Richardson was a student.

Personnel associated with the ACCC had been directly implicated in the 1963 assassination of President John F. Kennedy. New Orleans D.A. Jim Garrison, who traced the Kennedy assassination to Permindex Corporation (the same entity French intelligence also believed responsible for over 30 attempts to assassinate French President Charles de Gaulle in the early 1960s), indicated Eugene Bradley, West Coast head of the ACCC, as a co-conspirator. (See *EIR*'s Special Report

in the April 14 issue for more on Permindex.)

A profile of the ACCC as a cover for a Mexican-based professional hit team is reported in two studies of the Garrison investigation: William Torbitt's *Permindex Papers* and Paris Flammonde's *The Kennedy Conspiracy*. According to these sources, the Mexican team was founded in 1942, under direct orders through two channels, Division Five (Counterintelligence) of the FBI and Albert Osborne (also known as John Howard Bowen) of the ACCC.

It was Osborne who is said to have met Lee Harvey Oswald in New Orleans and accompanied him to Mexico in late September 1963, when he made his well-known visits to the Soviet and Cuban embassies there. Osborne set up a mission in Puebla, Mexico where youth were indoctrinated in a fundamentalist religious belief structure at the same time they received training as future assassins. According to these same sources, Osborne had regular contact with Clay Shaw, head of Permindex's New Orleans branch who acted as Oswald's "control" there, and with others indicted by Garrison, including David Ferrie.

This reported modus operandi used by Osborne at his Puebla, Mexico mission to train multiple assassins raises interesting questions for the cases of Richardson and Hinckley. Dr. Cline, the associate of Hinckley's psychiatrist in Evergreen, works as an adviser with Colorado Christian Home, which specializes in youth with a proclivity toward violence.

The home itself is partially funded by the Disciples of Christ, an Indianapolis-based sect involved in the early phases of Rev. Jim Jones's People's Temple Cult.

John Hinckley's father underwent conversion from the Episcopalian Church to become a "born again" Christian. He funds one of the largest nondenominational, religious relief agencies called World Vision International. WVI's original base at its founding five years ago was in Pasadena, California, the former West Coast base of ACCC. According to Robert Ainsworth, the head of the U.S. Ministries Division of WVI and a former political-military affairs specialist for the State Department, Hinckley, Sr. and he traveled to the Sahel and Zimbabwe in Africa on WVI-related matters.

According to highly informed intelligence sources in the U.S., WVI has been actively involved in intelligence operations. The exact nature of these activities is unclear. It began in Korea in 1950 under the direction of Dr. Robert Pierce, an evangelical minister associated with Youth for Christ. Today, it has operations in Kampuchea, El Salvador, and Honduras.

Another lead is a March 30, 1981 WVI ad on world hunger in *Der Spiegel* which quotes from Richard Barnet, a founding member of the Washington, D.C. based terrorist-linked center, the Institute for Policy Studies.

# Stockman's link to Global 2000

*The OMB director has worked on 'population control,' and his budget for AID reflects that outlook, documents Lonnie Wolfe.*

Office of Management and Budget Director David Stockman has quietly engineered a major funding increase in the State Department's international population programs. These are the core programs for carrying out the Carter administration's Global 2000 perspective of reducing by 2 billion people the turn-of-the-century world population.

According to documents submitted to Congress by the State Department, the Stockman-prepared budget for FY 1982 pegs funding of international population programs at \$253.4 billion, or a 33 percent increase over the Carter FY 1981 budget line of \$190 million. The funding goes for "family planning" programs in more than 20 countries. Spokesmen for the Agency for International Development (AID), which administers the programs, say that this translates into a whole range of contraceptive and sterilization programs aimed at reducing fertility rates.

These programs, run by State Department Coordinator for Population Affairs Richard Benedict through AID, are an essential component of the Global 2000 machine operating within State. Population control programs, in the view of this group, are a foot in the door for dictating "life-and-death" decisions for the Third World. These are the planners who not only want to prevent future births, but are committed to exterminating millions already alive.

## **Stockman's past**

Less than a month ago, spokesmen for the population programs at State "optimistically" looked forward to funding for FY 1982 at \$220 million. This, they thought, was the maximum "that could be snuck by the White House." But these aides were not counting on the power of Budget Director David Stockman. While Stockman "keeps the issue of population at arm's length now," according to former associate Michael Teitelbaum, director of the Population Office at the Ford Foundation, Stockman's budget is "only putting into practice the work that he did during the 1970s."

Omitted from all references in former student radical

Stockman's official "born-again" conservative biography is the fact that as a freshman congressman from Michigan, Stockman was one of the leaders of the despised House Select Committee on Population Affairs in 1977-79. The committee, headed by zero-growth advocate James Scheuer of New York, was set up at the instigation of the Population Crisis Committee/Draper Fund, whose directors are committed to the Malthusian world view of Global 2000. It was mandated to "investigate world population growth and the U.S. role in meeting this challenge, as well as to assess population trends in the U.S. and the need for additional policies."

Stockman cochaired the committee task force on "Domestic Consequences of U.S. Population Change." This group made long-range proposals for shaping U.S. budget policy to reduce the population in the U.S. According to Teitelbaum, the former chief of staff of the committee, Stockman's task-force recommendations are contained in his 1982 slash-and-burn U.S. budget.

"Dave was particularly concerned with overspending on internal improvements such as water projects, highways, utilities, and other infrastructure," said Teitelbaum, "because such projects create population that wasn't there."

Jimmy Carter's water project plan, which galvanized the Congress against him in 1978, was lifted almost whole from the Select Committee study, according to Teitelbaum. So are most Environmental Protection Agency regulations limiting local authorities in their requests for water and other projects on the ground of "environmental impact," he boasted. As OMB director, Stockman now proposes to slash 20 percent of all U.S. water project funding.

The Stockman task force also proposed that America's entry into a zero-population-growth society necessitates a budgetary shift to deal with a higher percentile of elderly and a falling percentile of children. "More elderly on top of a shrinking workforce means that we will have some hard decisions to make about reducing Social Security payments and raising the retirement age," said Teitelbaum.

According to Len Rogers, a spokesman for AID, Stockman, working with OMB International Division chief Phillip Dussault, told AID acting director Peter McPherson to come up with an amount for the population programs, but to scale it down somewhat to keep it within the budget-cutting profile of OMB. This would make it easier to sell to the White House. Working with Dussault, a member of the National Security Council's Ad Hoc Group on Population Policy—the agency that evaluates the population programs and assigns “targets”—McPherson came up with the \$253.4 million figure.

Stockman in fact proposed several cuts in AID programs. The most notable was to a key program that keeps people alive. The FY 1982 budget draft contains a conspicuous \$22 million cut in AID's primary health-care program, which is aimed at reducing mortality rates in the developing sector, especially among young children. Funding is to be reduced from \$142 million to \$120 million.

“Sure, this cut will mean that more people will die,” said an AID spokesman. “But Stockman's budget says we can't save everybody.” AID spokesmen could offer no real explanation of why money was found for expanding the population-reduction program and cuts were made in the health-care program. “It is a policy decision,” said the spokesman. Asked about support for the Global 2000 doctrine, he replied, “Let us say that our support must be covert for the time being. We wouldn't want to antagonize the White House.”

The funding increase for the population programs as well as the cuts in the primary health-care aid were contained in the Senate budget resolution passed last week. The budget must now be reviewed line by line by various House and Senate committees.

The backers of Global 2000 are worried about possible congressional opposition and are lining up support. Their “point person” will be Sen. Charles Percy of Illinois, an outspoken environmentalist and a delegate to the Club of Rome's 1974 Bucharest World Population Conference.

Senator Jesse Helms of North Carolina has promised publicly and loudly that he would lead a fight to delete funding for the population programs. But his office seems unaware of what Stockman has done with that portion of the budget. A leading spokesman for the pro-life groups that back Helms say that they have been “promised” by McPherson that “none of the money” allocated for the population programs will be spent on population reduction—a statement as untrue as it is naive.

What really worries the Global 2000 backers at State is that “the Reagan White House will suddenly wake up and junk the whole thing,” said an AID spokesman. “I really don't know how we've gotten this far.”

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## Documentation

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### From AID's McPherson

*The following is excerpted from testimony by M. Peter McPherson, the administrator of the Agency for International Development (AID), before the Senate Foreign Relations Committee on April 1.*

*According to sources at AID, McPherson's statements had the approval of Assistant Secretary of State James Buckley and other officials. The AID sources say that McPherson is “very positive” toward the Global 2000 report and that his statements on the population crisis “might as well be lifted directly from Global 2000.”*

In the past year public awareness of our interdependence has been highlighted by the President's Hunger Commission, the Brandt Commission, and the Global 2000 study. The Global 2000 report in particular presents a sobering picture of large-scale, interrelated problems caused by population growth, energy scarcity, forest destruction with attendant soil and atmospheric effects, and pressure on food production capacity. . . .

Rapid population growth in developing countries exacerbates food, environment, and energy problems. Between 1980 and the year 2000, the world's population is expected to increase from about 4.5 billion to over 6.3 billion people; 90 percent of that increase will take place in the developing countries. While the demographic situation is serious, it is not hopeless. Worldwide population growth rates are no longer rising. Among the 12 most populous developing countries, all have experienced crude birth-rate declines. However, significant countries and regions of the developing world are still growing at rapid rates that offset development gains and contribute to local and global instability.

As the largest donor for international population programs, the United States has played an important part in bringing about decreased population growth rates. We have led in developing and disseminating the most widely used contraceptive methods; in providing contraceptives; in developing inexpensive service delivery systems; in training personnel; and [in] increasing motivation for family planning among individuals, communities, and national leaders.

We must continue to assert our leadership. Today, demand for population programs far exceeds available resources. Our funding request of \$253.4 million for population programs is essential to keep up the momentum in the highest priority program areas.

# Trilateralists stage defense of Volcker's credit policy

by Scott Thompson

"I'm not sure that the business of the world should be run by the heads of state," said David Rockefeller, chairman of the Chase Manhattan Bank and founder and North American chairman of the Trilateral Commission.

Rockefeller's grandiose statement capped the four-day annual meeting of the Commission—a body of 300 powerful bankers, political figures, and trade-union leaders from Europe, Japan, and North America—that convened at the L'Enfant Plaza Hotel in Washington, D.C. on March 29. I attended all the public sessions and press conferences.

If the heads of state are not to shape world policy, as Rockefeller suggests, who then will do so?

Throughout the conference, Trilateralists were assured that they were members of an elite that would usher in a "multipolar world" of regions that is to be "overarched" by such international institutions as the World Bank and IMF.

Such designs for "one-world governance" are not new, nor is the means by which they are to be imposed: through "controlled disintegration of the advanced-sector economies," first publicly advocated in the Council on Foreign Relations' 30-volume "1980s Project" released last year. Attempts to tighten control over such key resources as food and energy, and especially to gut the industrial base of advanced sector economies through Federal Reserve Chairman Paul Volcker's high interest rates, are all part of this "controlled disintegration" scenario.

What was significant about the Commission's Washington meeting is that one leading speaker after another endorsed prolonging high interest rates, despite strong warnings from such spokesmen as Baron Leon Lambert, president of Bruxelles Lambert, S.A., that such a policy courts economic catastrophe and the potential loss of Europe from the "Trilateral world."

For the United States, the intended effect of this "controlled disintegration" policy was spelled out by Ryokichi Hirono, a consultant to both the Trilateral and

Brandt Commissions, in a task-force paper discussed in closed-door session March 30. In his section of the paper titled "'Trilateralism' in the International Economy of the 1980s," Hirono states: "In the economic sphere the erosion of United States dominance will persist, in spite of the sincere efforts of the administration in restructuring or reindustrializing its economy."

As for the Third World, Hirono states: "More labor-intensive methods of production and technology . . . [should] be adopted by producers in both rural and urban sectors. . . . Transnational corporations and governments of Trilateral countries, as well as international development institutions, will be asked more than ever to assist Third World countries, including low-income ones, to develop appropriate technology. . . ."

That the technocrats of David Rockefeller's Trilateral Commission believe they can continue to "control" the depression of the advanced-sector economies and carry out "resource warfare" and enforced backwardness throughout the Third World, while maintaining a "stable climate for investment," is one of the more dangerous cases of mass delusion in the world today.

## Back on the track

True, the irrational budget cuts by OMB Director David Stockman will fuel the "controlled disintegration" of the U.S. economy. Yet the Reagan administration, particularly the inner White House circle around Presidential counselor Ed Meese, is viewed as a potential danger to the goals of the Trilateralists.

Commenting on this, one highly influential source who helped make Al Haig Secretary of State said, "The Trilateralists will never get their policies through as long as Meese is there."

According to George S. Franklin, Trilateral Commission coordinator and past executive director of the Council on Foreign Relations, the need to correct this problem is a principal task for the Commission. "Don't worry," Franklin told an interviewer before the conference, adding: "We'll all get together and work things

out. We need to get the administration back on the right track."

Lending support to this effort were Vice-President George Bush, Secretary of State Haig, and Secretary of Defense Caspar Weinberger, each a member of the Commission before they joined the Reagan administration. Haig even opened up the State Department to host the entire Trilateral Commission for its last dinner together on March 31. Commenting on his closed-door meeting at his press conference the next day, David Rockefeller said: "Considering the fact of what he had been through 24 hours before with the attempted assassination of the President, we were very pleased he would take two or three hours to be with us."

The fact that Haig and Weinberger, two of the most powerful cabinet members, would appear before the Commission the day after the President was shot is a sign of the Commission's influence. This influence has waned, however, compared with the Carter administration, when 17 cabinet members and undersecretaries were drawn from the Commission's ranks.

In order to reverse their "one-world conspiracy" image, the Trilateralists mounted a major public relations effort during the conference. Still, it was surprising that Vice-President Bush, who, in contrast with Haig, has sought to work with other members of the "Reagan team," made a sudden Sunday-evening appearance.

"I am very, very pleased that Mr. Rockefeller asked me to be here today," Bush told his former Commission colleagues, adding: "It might be appropriate for me to say here and now that this administration as other administrations are grateful to him."

After briefing the Trilateralists on the new administration's three-phase economic policy of budget cuts, tax cuts, and further deregulation, Bush apologized for not touching upon foreign-policy issues. He concluded saying: "If we [the administration] haven't figured these problems out, please figure them out for us."

On this cue, Rockefeller closed the public session with Bush, stating: "We hope you will join us again. We hope you will join us for other meetings" long before Bush is officially able to rejoin the Commission.

## A multipolar world

In a section entitled "Trilateralism and the Governance of the International Economy," Miriam Camp, a former adviser to the State Department, CFR, and Royal Institute for International Affairs, presented "Five Propositions for the 1980s":

1) **The New Multilateralism:** Ideally the original Bretton Woods conception should be "completed" by a new global trade and production organization which would supersede both the GATT and UNCTAD while retaining much of

importance now done by both organizations. . . .

2) **Leadership and Steering:** Consultation and cooperation on exchange-rate policies and on monetary and other macroeconomic policies among the key countries . . . should [increasingly] take place within the IMF as part of the intensified "surveillance" that all IMF countries agree is desirable. . . . Today there are few global institutions that are efficient enough or tough-minded enough to make "steering" by collective action from within a global organization a wise prescription. But the IMF would seem to be one place where it could be done. . . .

So far as summitry is concerned, it is not well-suited to the kind of continuing consultation on macroeconomic policy that could usefully be carried on by a restricted group within the Fund. . . .

3) **Regionalism:** There are signs that the international system is becoming organized around several poles with the strongest industrialized centers each dominating . . . a less-developed hinterland: the U.S. and Latin America; Western Europe and Africa; Japan and Southeast Asia; the Soviet Union and the countries of Comecon. . . . A more pluralistic system with . . . a few efficient global institutions combining in new ways common rules and procedures . . . seems likely to be a more efficient, a safer, and a more widely acceptable pattern.

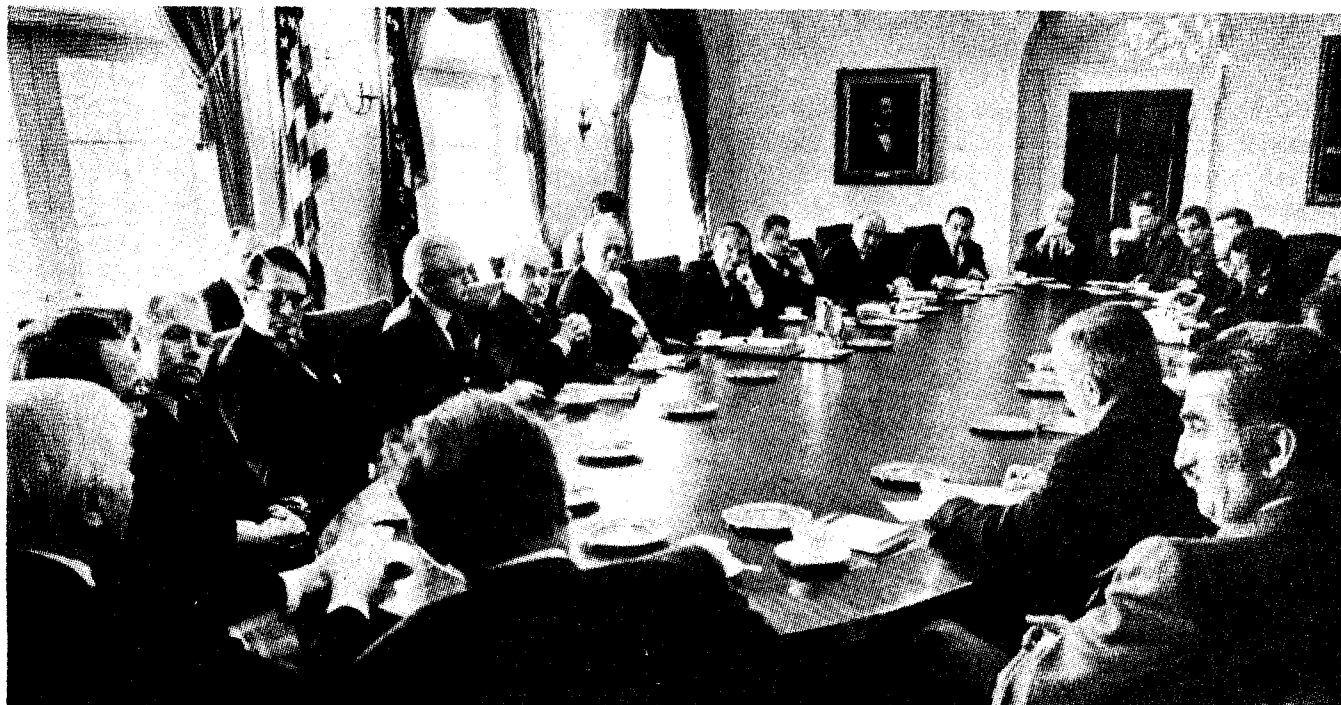
4) **Overloading:** Priority should be given to continuing to reform the IMF, the World Bank and the GATT/UNCTAD. . . . Much of the global-level "governance" that the international economy requires could be supplied by these three. . . .

5) **National Policies:** . . . Key country consultations can be made more aware of and sensitive to the needs of the international economic system as a whole by embedding them in a global institution like the IMF.

A debate over policy erupted on the first day of the conference following a presentation by Alan Greenspan, former chairman of the Council of Economic Advisers and now a member of President Reagan's CEA. In a later press conference, Greenspan sketched in double-speak why it was necessary to maintain high interest rates:

"I pointed out [to the Commission] that we do not have a choice in the United States of living with higher interest rates. . . . Unless and until interest rates are brought down, we are threatened with a major crisis in our credit institutions, particularly the savings and loan institutions. . . ."

Still, Greenspan argued: ". . . Interest rates cannot be changed merely by presidential or congressional



Courtesy of the Trilateral Commission

*Trilateral Commission members offering an earlier Republican President their advice.*

measures . . . because of the perception that our federal fiscal policies are out of control and that borrowing of all sorts by the federal government had to be reduced. . . . So long as this inflation premium exists, so long as the expectation is there and embodied in the interest rate structure, it will be very difficult to mold the economy from its state of stagnation and to reduce inflation. . . .”

When I questioned him later, Greenspan admitted that high interest rates were a more significant cause of double-digit inflation than federal spending; however, he added, as long as “people perceive that inflation is government-induced and that high interest rates make it more difficult for the government to borrow,” it will be impossible to lower them.

Greenspan’s presentation to the Trilateral Commission was strongly challenged by Baron Lambert, who later said of his intervention:

“I spoke about high interest rates this morning. I think that short-term interest rates are too high. In all humility I think that high interest rates are more the cause of inflation than the cure. I think that one hasn’t given enough attention to the international repercussions of these very high interest rates.”

Asked what Europe could do, Baron Lambert responded: “So far I see nothing Europe can do. The only thing that Europe *has had to do* was increase its own interest rates, although it’s detrimental to our own situation. Why have we had to increase our own rates? In order to keep the value of our currencies up in

relationship to the dollar. . . .

“I think that one of the things to do so far as short-term interest rates are concerned would be an international Western agreement to pull them down all simultaneously by the same amount. . . . I don’t foresee it being done, but I think that it should be done.”

On April 1, two days after Lambert made this attack, the Belgian central bank, in an effort to destroy the European Monetary System, raised interest rates an incredible 3 percent and the government fell! Whatever Lambert’s motives (his family is a major influence at the Belgian central bank), the fact remains that the Trilateralists dismissed his warnings.

In a “let-them-eat-cake” response to my question as to whether he supported the interest rates that were strangling the European and U.S. economies, David Rockefeller said: “I do not think there will be any sudden relief. Interest rates will continue to *drift downward along with inflation.*”

### **Camp David revisited**

Another major issue raised at the Trilateral Commission was how to co-opt into the Camp David framework the European initiatives and those of Labour Party leader Shimon Peres for broader peace negotiations.

In a task-force paper titled “The Middle East and the Trilateral Countries,” the following three-part program was adopted:

- 1) Using “Camp David as a useful base on which to



build," simultaneous pursuit (until the Israeli elections) of Begin's autonomy arrangements for the West Bank Palestinians as called for in the Israeli-Egyptian Treaty and of Peres' broader "Jordanian option." "The ultimate aim, utopian though it may appear today," the Trilateralists state, "could be the creation of a regional security system and a regional development plan, both supported by Trilateral resources, know-how, and political-military power."

2) Pursuit of "greater energy independence" (i.e., austerity) in response to an expected "series of dramatic 'emergencies' of a political nature which could even endanger the economic and political stability of the Trilateral regions." One of the chief current "convulsions" of this sort is the Iran-Iraq war, which the Trilateral task force not only predicted would be "protracted," but would possibly force Iraq to adopt Trilateral-type policies.

3) A new "containment policy" in which "the industrialized democracies will have to prove that they are able also to contain the potential Soviet menace in the newly threatened areas of the Middle East, and to strengthen their position in the European theatre." In this context, the Trilateralists endorsed the Rapid Deployment Force and called for Europe to create similar units.

In a Monday, March 30 press conference that followed their presentations to the Commission, the task-force members—including Arrigo Levi, columnist for *La Stampa* and *The Times* of London, and Joseph Sisco, former U.S. Undersecretary of State—said that there was broad agreement on their proposals, including that of former Secretary of State Henry Kissinger, former National Security Adviser Zbigniew Brzezinski, and Mideast negotiator Sol Linowitz.

Georges Berthoin, European chairman of the Commission, said in an interview on this: "As a result of the discussion, Europeans now have a far better sense of the importance of Camp David. . . . And I feel on the part of the Americans there is a better understanding of the need for European participation in the peace-making discussions." What was incredible was not this, but rather their suggestions that Europe should participate directly with the United States as part of a force buildup in the region.

"The effectiveness of a military presence would be enhanced if it were collective in nature. Europeans ought to respond to the increasingly strong feeling in the U.S. that other NATO members should recognize more explicitly the vital nature of the Gulf and assume a more substantial direct role, within the limits of their capability. *Likewise a reassessment is needed of the current NATO policy limiting its security concerns to the immediate geographic perimeter of the Alliance.*"

The Soviet threat to the Gulf was also used by the

Trilateralists to push for European "force modernization," a constant theme throughout the conference. Echoing National Security Adviser Richard Allen's "better dead than red" formulation, the authors state:

"On the American side, the more cautious European approach to the U.S.S.R. . . . is seen as flirting with neutralism. . . . The U.S. has been dissatisfied with signs that European defence budgets have not increased according to agreed plans and that the NATO decision of December 1979 to modernize Europe's nuclear capacity is meeting with new difficulties in certain countries."

Such "linkage" of NATO to the Middle East no doubt raises the problem in many Europeans' minds that the last NATO deployment into the region was when Al Haig's deputy, General Huyser, was sent to Iran to oversee the coup against Shahpour Bakhtiar that finally ushered in Khomeini.

### **A quadrilateral world?**

According to confidential documents obtained by *EIR* from sources within the European Executive Committee of the Trilateral Commission, a key part of the secret discussion at the Executive Committee-level dealt with "contacts with Peking and Moscow."

Among these documents is the agenda for a four-day conference of the Commission's leadership with members of the Chinese People's Institute of Foreign Affairs to be held in Peking on May 19-23, 1981. Asked about the meeting in a later press conference, David Rockefeller stated: "This is a very informal meeting between some members of the Commission and the Chinese government who asked us to meet with them."

The broad discussions—ranging from "Cooperation in the Economic Sphere" to "The Global Political Environment"—comes at a time, however, when a revitalization of the "China Card" is under consideration as a possible response to Soviet moves in the East bloc. Only a week earlier, National Security Adviser Richard Allen announced at a meeting of the Conservative Political Action Committee that a "strategic alliance" with China is being discussed.

Among those who plan to participate in the Peking meeting, in addition to Rockefeller, are Georges Berthoin, European Trilateral chairman and international chairman of the European Movement; Takeshi Watanabe, Japanese Trilateral chairman and past president of the Asian Development Bank; Robert Ingersol, deputy chairman of the board, University of Chicago; Winston Lord, president, Council on Foreign Relations; Bruce MacLaury, president, the Brookings Institution; Henri Simonet, former Belgian prime minister; Denis Healey, member of Parliament and deputy leader of the British Labour Party; and Sir Philip de Zueleta, chairman, Anthony Gibbs Holdings Ltd.

## Democrats propose own tax plan

A group of moderate Senate Democrats announced at a press conference April 8 that they intend to submit to the Congress their own tax proposal. The group made clear that they will not support the across the board tax cut plan known as the Kemp-Roth bill, but want instead to channel tax cuts toward increasing personal savings and industrial investment.

They will propose a plan that expands personal exemptions, reduces capital gains taxes, ends discrimination on investment income, lowers inheritance tax rates and cuts the marriage tax penalty. Senator Boren (D-Okla.), the leader of the group, declared that the senators were taking their action to "demonstrate that the Democrats are still in the mainstream." The tax approach parallels that of House Ways and Means Chairman Dan Rostenkowski.

The Senate action came as House Democrats backed a budget cut alternative to the Reagan proposal, made with assumptions that Congress will adopt a tax cut much lower than the administration wants. The House Budget Committee voted 17-13 April 7 to back a Democratic-sponsored alternative budget. The budget proposal calls for restoring about \$7 billion in social services, while cutting \$4 billion in defense funds. They estimated an overall budget deficit of \$24.6 billion, much lower than Reagan's estimated \$45 billion deficit, in part because the Democrats expect a smaller tax cut to be adopted.

The only Democrat to oppose the proposed alternative was Rep.

Phil Gramm of Texas, who is a leader of the Conservative Forum, a group of conservative Democrats. Gramm told reporters that he will introduce a budget plan to cut \$4 billion more in the President's budget, while giving him all he wants for defense.

## Biden to DEA: 'try to save you from yourself'

Drug Enforcement Administration chief Peter Bensinger appeared before the Senate Judiciary Committee on April 2, and refused to admit that the administration's proposed budget cuts would hurt the DEA's drug fighting capability. An exasperated Sen. Joseph Biden (D-Del.) a congressional leader in the fight against international narcotics trafficking, was forced to tell the stolid Bensinger, "I'm going to try to save you from yourself. You have my commitment that I will fight to see that you don't undergo cuts which will hurt the drug enforcement effort."

In the face of substantial funding reductions for critical DEA programs, Bensinger's testimony made no mention of the budget cuts and instead reported on drug enforcement trends and efforts over the past year.

Biden stated, "I am very disturbed about the cuts being imposed on your agency and others having to do with law enforcement. The Carter budget had \$5.4 million for the Southwest Asian heroin program. That is being eliminated as well as funding for state and local task forces and federal-state-local coordinating efforts. The U.S. Customs Service drug interdiction is being cut. I

want you to tell me if DEA will be hurt by these cuts."

Bensinger maintained that with the help of other agencies, the DEA could somehow manage. Growing increasingly angry, Biden demanded, "I want a yes or no, has the DEA been hurt?" Bensinger began to reply, "With rearranged priorities..." when Biden interrupted. "Has it been hurt?" he asked again. Bensinger did not reply.

## Congressmen attack Fed's high interest policy

Members of the House Committee on Small Business at hearings the committee held April 2 roasted Federal Reserve Board Vice-Chairman Frederick Schultz for pursuing a high interest-rate policy that is destroying small businessmen. The hearings were the result of meetings between the committee members and numerous trade association representatives several weeks ago, where the trade association spokesmen warned the congressmen that high interest rates were having a disastrous effect on the U.S. economy.

"Some contend that the Federal Reserve's past failure to conduct monetary policy prudently has contributed to current high interest rates and increased inflation and unemployment as well as a resultant rise in the number of business failures," declared Rep. Parren Mitchell (D-Md.), chairman of the committee in his opening statement. "Because of last year's recession and high interest rates, business bankruptcies are spreading throughout the economy. During the first two months of 1981 busi-

ness bankruptcies reached approximately 3,000, a gain of 63 percent from a comparable period last year. . . . Indeed, interest rates have been a decisive factor in a number of bankruptcies among smaller companies."

Rep. Henry Nowak (D-N.Y.), chairman of the subcommittee on Tax, Access to Equity, and Business Opportunities, was even more blunt. "Business bankruptcies are at an all time high, interest rate levels are once again moving up and the short-term economic outlook is bleak. How much longer can small firms survive in this environment?"

One after another congressman grilled the Fed spokesman, while Schultz readily agreed that Fed policy was causing major disaster to the economy, but said that the Fed had no other choice. There was this exchange with Rep. Lyle Williams (R-Ohio):

Williams: "Mr. Schultz, in your testimony you said 'we recognize that in many respects small business forms the backbone of the economic system.' And yet you say high interest rates are causing incredible hardship. Aren't you attacking the backbone of our economy?"

Schultz: "I think the greatest danger to the financial system of the economy is the pressure put on small business by high interest rates."

Williams: "So you are saying the answer to my question is yes?"

Schultz: "Yes, but . . . the answer is to develop noninflationary growth of the monetary supply over time."

When asked whether interest rates were the cause of inflation Schultz declared brazenly, "Of

course . . . but they restrain demand."

Confronted over and over again by the congressmen, Schultz declared that it was unfortunate, but the Fed had to continue its policies. "Small business is suffering . . . terribly, but I don't think we have a choice of moving off our anti-inflationary spiral."

### **S**ubcommittee examines agricultural export prospects

Senator Rudy Boschwitz (R-Minn.), chairman of the Senate Foreign Agriculture subcommittee, announced on April 8 that he and Senate Agriculture Committee Chairman Robert Dole (R-Kansas) will introduce legislation to establish an agricultural export specialist within the office of the Special Trade Representative. Boschwitz added that they have yet to decide whether their proposal would be part of the 1980 farm bill or would be a separate piece of legislation.

The announcement was made at subcommittee hearings called to review the results of an agricultural export report produced by the Agriculture Council of America. The report, the product of over a year's worth of work, outlined the importance of exports to the U.S. agriculture sector, and called for Congress and the administration to adopt a coherent agricultural export strategy for the first time in over 20 years.

Sources close to the subcommittee note that if the administration does not propose a revolving fund to help finance U.S. agricultural exports, at least one subcommittee member is committed to it.

### **S**enator wants tighter money supply

In a statement on the floor of the Senate April 7, and in remarks before the Joint Economic Committee the next day, Sen. Roger Jepsen (R-Iowa) charged that the Federal Reserve Board is allowing for a too-rapid increase in the money supply and called for cutting the growth rate of selected monetary aggregates in half by 1982. Jepsen stated, "The Federal Reserve target growth is designed to accommodate and preserve inflation, not to reduce it."

In response, Treasury Undersecretary for Monetary Affairs Beryl Sprinkel told the Monetary and Fiscal subcommittee of the JEC that the administration thinks Jepsen's target is appropriate, but that the reduction should be made more gradually over the next four years. However, Sprinkel added: "Let me emphasize that I recognize and support completely the independence of the Federal Reserve System under the oversight procedure which the Congress has established. The administration, including the Treasury, neither seeks nor envisages a confrontation with officials at the Federal Reserve over the formulation of monetary policy."

Sprinkel also stated that "this administration will work vigorously to reduce export subsidies from other nations," a policy that will allow the United States to continue to cut funding for the Export-Import Bank. He added that the Exim was one of a "series of subsidies which result in a misallocation of resources and which the administration intends to remove or reduce."

# National News

## 'Free trade zone' proposed for Mexican border

Abelardo Valdez, the White House chief of protocol under the Carter administration, has proposed a 200-mile "free trade zone" along the U.S.-Mexico border. Valdez submitted his proposal to the United States Trade Advisory Committee in the Special Trade Representative's office.

In the past, similar proposals have found strong opposition in both countries on the basis that they would make the border a center of illegal activities.

In an op-ed published in the *New York Times* April 5, Valdez straightforwardly asserts that such a zone would be expanded to "include a greater part of each country's territory or the entirety of both countries. If productive, it could be expanded to include not only the United States and Mexico but also Canada and other countries of Latin America and the Caribbean."

Valdez states that this "little Hong Kong" "could be the first step toward creation of a North American equivalent of the European Common Market," a scheme persistently rejected by the Mexican government as a natural resources-grabbing plan.

## Teamsters' Sheeran blasts Justice Department

Frank Sheeran, the president of Teamsters International Local 326 in Wilmington, Delaware, held a press conference April 8 to expose what he called the "collusion" of federal officials in a "vicious campaign" against him and the union. "Through its vast resources, the government has conspired and acted in collusion to force me to undergo double jeopardy in a determined effort to oust me as a responsible and outspoken union leader. Working hand in hand, the U.S. Department of Labor, the federal judiciary, and the FBI strike force have very

cleverly mounted this personal vendetta. . . . I'm here today to put these agencies on notice that I am not going to give in without a fight and without exposing their vicious tactics."

In February 1980, a Philadelphia jury found Sheeran innocent of all charges, including murder and embezzlement, stemming from a Justice Department (DOJ) indictment. Charles Allen, a convicted felon now in the Federal Witness Protection Program, provided the evidence. The government then moved to invalidate the union local election that re-elected Sheeran by more than a three to one margin. Meanwhile, the DOJ indicted Sheeran again on slightly different charges.

The FBI has now "warned" Sheeran that a murder contract has been taken out on him by organized crime, and proposes that he confess to his alleged crimes and testify against other unionists in exchange for FBI protection.

## Yippie finds some well-placed defenders

Abbie Hoffman, a cofounder of the Youth International Party (Yippies), attempted last week to get out of a five-year maximum jail sentence for selling cocaine and jumping bail. Hoffman solicited character witnesses among prominent citizens. Although the effort did not rescue him from a three-year sentence, of which one year will definitely have to be served unless he receives a pardon from New York Governor Hugh Carey, the petitioners for Hoffman were notable.

The list included former Attorney General and NORML supporter Ramsey Clark; libertarian William F. Buckley, also a NORML supporter; Bishop Paul G. Moore, Jr. of the Episcopal Diocese of New York; Dr. Benjamin Spock; and Rabbi Alexander Schindler, president of the American Union of Hebrew Congregations and former president of the Conference of Presidents of Major Jewish Organizations. Michael Dooley, senior editor of the *Los Angeles Times*,

who wrote that he considers Abbie "a great American patriot. . . . Cocaine is so prevalent out here, it's not even punished."

## Philadelphia strike no victory for labor

Philadelphia transit workers ended their 19-day strike April 3 when the management of the Southeastern Pennsylvania Transit Authority (SEPTA) retracted its demands to hire part-time workers and institute written tests of maintenance employees.

The strike was hardly a victory for labor, however, as the Transit Workers Union accepted a 14 percent wage increase over two years, an offer that was lower than the 16 percent first proposed by SEPTA. While business in the downtown area suffered significant losses, the shutdown of the system's deficit-ridden daily operations helped SEPTA alleviate its \$16 million budget shortfall.

## Charles Percy 'changes mind' on paraquat

In an April 8 meeting with Fausto Charis Romero, president of the Colombian Antidrug Coalition, an aide to Sen. Charles Percy (R-Ill.) reported that the senator—author of the amendment banning the use of foreign aid funds for purchase of the herbicide paraquat—has now "changed his mind." Percy, according to the aide, "no longer opposes the use of paraquat and will not obstruct a paraquat-spraying program." A day before the meeting, two subcommittees of the House Committee on Foreign Affairs unanimously passed the Foreign Assistance Act for FY 1982, including an amendment to repeal the Percy Amendment. The new amendment, introduced by Georgia congressman Billy Lee Evans, also stipulates that funds already allocated to Colombia for combatting the drug trade could be used for purchase

of paraquat. The bill passed on April 7 and will go to the full House for discussion shortly after the Easter recess.

Charris told aides of several senators and congressmen with whom he met during his two-day visit to Washington, D.C. that the House initiative and similar legislation under discussion in the Senate must be supported by the entire Congress in order to translate President Reagan's commitment to wiping out the international drug trade into a reality.

In his meetings with Republican and Democratic representatives, Charris described how the paraquat ban had severely affected the Colombian government's ability to halt the drug trade. He also emphasized that Colombia requires aid not only to repress the drug trade but also to industrialize the country. Charris's meetings in Washington were the last leg of an international tour that included six European nations.

## Liberals mount campaign against Watt, Edwards

In an April 5 editorial, the *New York Times* blasted Interior Secretary James Watt for his national park policy, which allegedly favors private concessionaires, concluding that the secretary "does not sound like a man to be trusted." On April 7, the *Times* ran an op-ed by the acting director of Ralph Nader's Critical Mass group challenging Energy Secretary James Edwards' claim to have a mandate to eliminate solar and conservation programs in favor of nuclear power.

The April 6 *Washington Post* carried a feature by Dennis Collins titled "The Canaan Struggle," which details the seven-year fight over construction of a hydroelectric dam in the Appalachia region of West Virginia. The article highlights the fact that while at the Federal Power Commission in 1977, James Watt overruled his own staff and a commission review judge in granting a license for construction. The article also accuses Watt of undercutting a proposal by the Interior Department that would have

purchased the disputed acreage for a national wildlife refuge, and announced that "conservationists throughout the country" are posed to go after Watt if he proceeds with the project.

The next day, the *Post* ran an article by National Audubon Society chief Russell Peterson which termed Reagan's energy program "environmentally harmful." Peterson, former head of the Council on Environmental Quality, proposed a phaseout of nuclear power and a commitment to solar power.

The suggestion of "conflict of interest" has been thrown against both secretaries since their nominations. Toby Moffett (D-Conn.), an avid opponent of nuclear energy has used the House subcommittee on Environment, Energy and Natural Resources to probe numerous nominations under the rubric of the conflict-of-interest provisions of the Ethics in Government Act. Secretary Edwards told a National Press Club gathering that he was "having a hard time" filling Department of Energy posts because "good men are assumed to be crooks or cheats." Moffett is an affiliate of the Institute for Policy Studies, which helped set up the environmentalist movement in the U.S.

## OTA implicated in Global 2000 plan

The release of a new report by the congressional Office of Technology Assessment will be part of the next phase of Global 2000 efforts, report sources in Washington. The OTA report, scheduled for early June, deals with "the population crisis in the developing sector" and will propose that Congress take "stark and drastic action." Ostensibly, the report will focus on new contraceptive technology and making it available in the developing sector.

"We have to be very careful about how we say things," commented an OTA spokesman, "but we are going to have to present information that will make people believe that whole sections of the world must be written off. . . . It takes a while to translate this into policy."

## Briefly

● **JOE HAUSER**, the government's key witness in the Brilab sting is going to be put through the wringer during cross examination in the New Orleans Brilab trial. One of the defense attorneys was quoted recently on Hauser: "Hauser's the name of the case. . . . You go to bed with a guy like Hauser and you get up with roaches on you. That is what the government did." A recent exposé showed that Hauser had passed a polygraph test in 1974, successfully answering a question denying that he ever paid bribes to union officials. While under oath in the Houston Brilab case, however, Hauser testified that he couldn't get along in the labor union insurance business without paying off labor union officials.

● **BERKELEY**, California has instituted a compulsory course in draft dodging, according to the *New York Daily News*. The two-week course will require students to learn how to avoid prosecution, and how to file for conscientious objector status. It is included as part of students' history and civics courses.

● **CLUB OF ROME** U.S. vice-chairman Elizabeth Dodson Gray announced this week that she would soon initiate a campaign to defend the rights of stupid people. "Our technological-patriarchal society has a deep bias in favor of intellectuals and against stupid people," she said. "This needs to be reversed."

● **CARNEGIE-MELLON** University has released a study that forecasts that 30 percent of white women in the U.S. who were 24 years old in 1978 and 20 percent of the corresponding non-white females "will remain forever childless." Throughout most of the century the rate had been 10 percent. The university is funded by the Carnegie Endowment, which is a foundation calling for reduced rates of economic and population growth.

## Canada: new oil giant?

*Additional data suggest that Trudeau intended to prevent the development of vast new oil fields.*

**D**ome Petroleum Ltd. is delineating a "small Middle East" giant oil reservoir it claims could make Canada self-sufficient by 1990. The company has mapped 45 "excellent" geological structures in the Beaufort Sea, adjoining Alaska, with potential reserves of 32-70 billion barrels of crude. G. L. Henderson, a senior vice-president for exploration with Chevron Standard Ltd. has simultaneously announced that the Hibernia field off the Newfoundland coast "will rank with the top fields of the world."

Panarctic Oils Ltd. says that a large offshore area known to hold huge quantities of natural gas has been discovered some 600 miles above the continental border in the High Arctic Islands area. Based on seismic tests and one successful drilling, Panarctic told the Canadian parliament that one structure in the region alone contains a conservatively estimated 280 million barrels of crude, at a shallow depth of 3,000 feet. Geologists now believe far larger reserves exist down deeper and are drilling the exploratory well, called Skate B-80, down to 6,500 feet.

In addition to these remote regions offshore, a Calgary-based independent, Omega Hydrocarbons Ltd., has made a significant discovery in the Canadian extension of the prolific Dakota geologic basin referred to as the Williston Basin. By contrast, proved reserves in the U.S. are 27 billion barrels of crude

as of 1979, according to the American Petroleum Institute.

But none of this oil may ever flow into the world's economy if Prime Minister Pierre Trudeau's government has its way. As I reported on Feb. 24, Trudeau's National Energy Plan (NEP) would adversely affect energy production.

I asked the managing director of the Independent Petroleum Association of Canada, John D. Porter, about the impact of Trudeau's NEP on energy production. Porter points out a fallacy in Trudeau's policy of "economic nationalization," or expropriating U.S.-based corporations. "Many of us do not view government ownership as Canadianization," Porter stated.

Yet, he points out that the state-owned Petro-Canada will use an additional gas tax to finance purchase of foreign-controlled oil and gas companies. Petro-Canada plans to spend \$1.2 billion of taxpayer money to buy the Canadian subsidiary of the Belgian Petrofina.

"A second feature of Canadianization is the *retroactive* confiscation," Porter told a recent conference on Western Canadian resource development. Under the proposed NEP, 25 percent of all holdings by the oil and gas industry in federal or Canada Lands areas are to be handed over, *free*, to Petro-Canada. "The benefit for Canadian companies in the program," Porter caustically declares, "is that after reducing our cash flow and confiscating

our assets, the government makes available a possible cash grant of up to 80 percent for exploration on federal lands." He calls the object "overt control of and direct involvement in the decision-making process of our business."

Porter is in Ottawa to organize opposition to the Canada Lands (C-48) part of the NEP. Whether or not that passes, much damage has already been done. Porter points out that Trudeau's vocal campaign to give Canada a federal constitution (legally, Canadians are still British subjects) is a Trojan horse: Trudeau is using "nationalist" rhetoric to take mineral ownership away from the provinces. Some Western oil provinces are threatening to secede from Ottawa if this proceeds.

The impact of these drastic moves has been disastrous cancellations of large exploration plans and flight of investment capital and drilling rigs south to the U.S. Stock prices of foreign-owned oil companies traded in Canada have plummeted. But a method appears in the madness of Trudeau and his economic nationalization architect, Industry Minister Herb Gray.

Having knocked down the value of foreign-owned companies, Ottawa unleashed Petro-Can on an acquisition spree. Starting as the 12th largest, Petro-Can is now No. 5 and if predictions of Energy Minister Marc Lalonde prove accurate, it may soon be No. 1.

Petro-Canada is the brainchild of London-linked environmentalist strategist Maurice Strong, who ran the 1972 Stockholm U.N. Conference on the Environment that spawned the international attack on industrial growth under the rubric of "protecting the environment."