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The Trilateral strategy to bring back the 1930s

by David Goldman

'Carter's interest rate policy should finally tip the U.S. economy into a real recession, as opposed to a pseudo-recession that never materializes. Then contraction will start to bite. No real recovery is possible until there is a real recession. Then there will be room for fiscal measures to be taken.'

David Rockefeller, Chairman of Chase Manhattan Bank and founder of the Trilateral Commission, made these remarks March 27 following a meeting of the Commission in London. Since echoed throughout the American financial press, Rockefeller's statement announced a policy decision to permit American financial markets to crash. But contrary to the rationalizations for "purgative action," the expected result is not a reduction of the inflation rate, but a top-down reorganization of the American economy along lines resembling 1933-39 Germany.

This much is stated in so many words by House Banking and Currency Committee Chairman Henry Reuss. After President Carter signed into law April 1 the Reuss-sponsored Omnibus Banking Bill of 1980, following Carter's invocation of the Credit Controls Act of 1969, Federal Reserve Chairman Paul Adolph Volcker has more power concentrated in his hands than Hjalmar Schacht ever wielded from his cockpit at the Reichsbank in the 1930s. Federal Reserve officials and congressional staffers who worked closely with Reuss and Volcker to design this steamroller believe, and state frankly, that the result of their actions will be widespread bankruptcy among the financial and corporate sector. These bankruptcies will lead to a general reorganization under control of the Federal Reserve Board and corporatist industry-labor-business panels.

Few in the financial community, or the general population for that matter, expect that the nation's financial structure will avoid a major crisis

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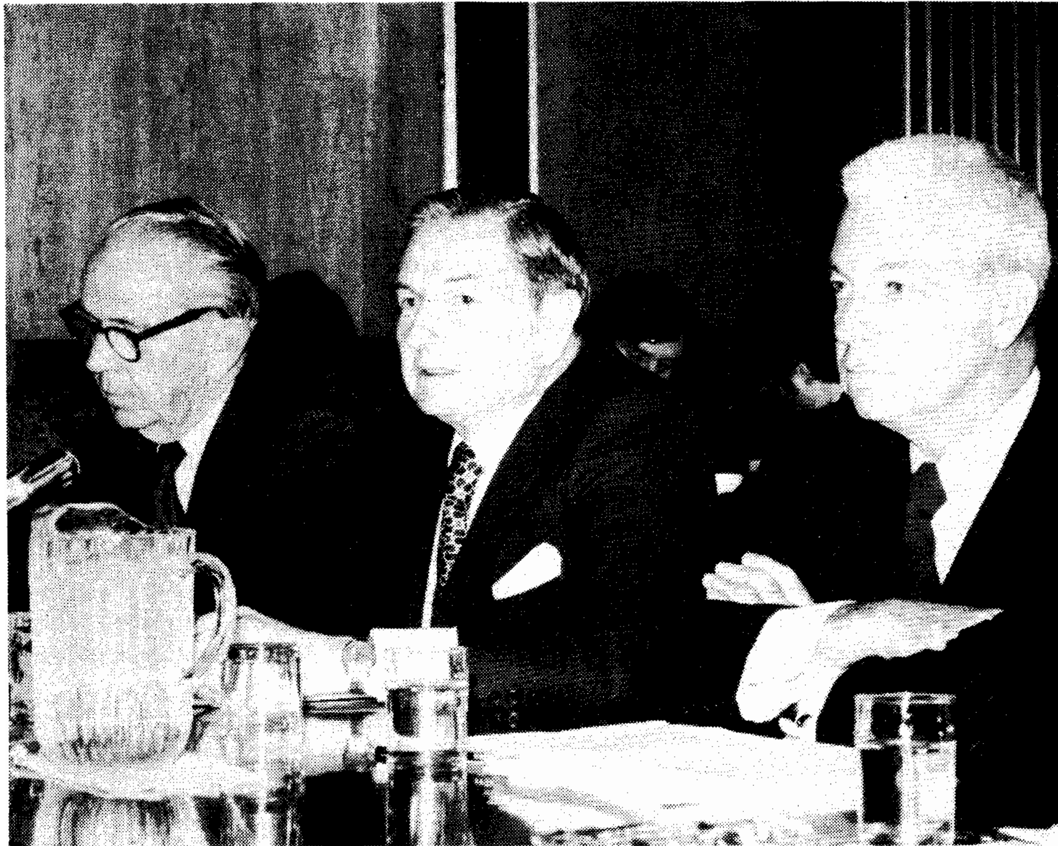


Chase Manhattan Bank chairman David Rockefeller flanked by Elmore C. Pattern, chairman of Morgan Guaranty Trust (left), and Edward Palmer, Chairman of Citibank in 1977 Senate hearings on Federal loans to New York City.
Photo: Wide World

in the immediate weeks ahead. But the nation's management is in the hands of a faction that believes that this crisis can be managed with the result detailed exhaustively in this special report.

"Bubbles of all sorts build in any period of virulent inflation," the *Wall Street Journal* wrote in an editorial April 2 that summarizes the apology for the "purgative crisis." "They are finally punctured when authorities finally move toward correction. When the Fed stops printing money, the ensuing credit crunch shakes out the rickety structures that the inflation built. We are already seeing the Hunts taking a bath in silver, Chrysler unable to come up with the loans to qualify for its federal bailout, New York City suffering a transit strike that may be a precursor of its financial problems evolving into real pain. We see institutions in danger, the long-term bond market destroyed and the whole savings and loan industry endangered... The danger is that the pain of correction may become so acute that the Fed will be swayed from its course."

There are two reasons why this perspective is insane.

As Reuss's advisors indicate, this assumes that the administration and the Federal Reserve can drag Western Europe into a crash along with the United States. The current issue of *Business Week*, for example, contains a lead story insisting that the first "victims" of

In this section

This report was prepared by a team under the direction of Economics Editor David Goldman, including National Editor Konstantin George, Kathy Burdman, and Richard Freeman. It features:

I. A bank collapse bill
Including the Omnibus Banking Bill, the Credit Control Act of 1969 and interviews with aides to Rep. Reuss and Sen. Proxmire

II. The casualties
Where the first bankruptcies will hit

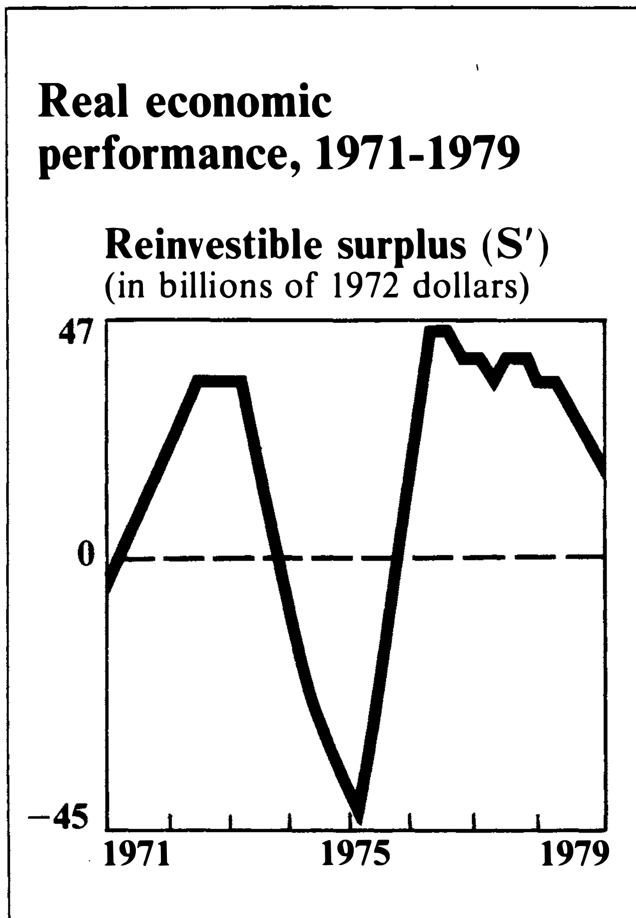
III. An economic restructuring of the U.S.
Including an exclusive interview with Henry Reuss on his proposal for a new Dept of Trade & Industry

IV. A NATO military buildup
Including statements by McGeorge Bundy and NATO policy spokesmen

V. The war on Europe
Including an interview with Reuss's speechwriter, a statement by Senator Birch Bayh, and correspondence between Reuss and Treasury Secretary G.W. Miller

the Federal Reserve's credit-tightening will be Western European and particularly German banks, whose reserve positions are allegedly worse than those of American banks. This point is made frequently in private conversations among New York bankers. If the result of a crisis in America is merely the replacement of the Eurodollar market by a gold-backed monetary system, however, Western Europe will walk away from a collapsing American economy and make its own arrangements to survive economically in combination with the Arab world, the developing sector, the Soviet Union and the East bloc.

Currently, the American short-term credit markets are supported by short-term foreign investments into dollar paper, due to the incredible 10 percent spread between Eurodeutschemark and Eurodollar interest rates. A massive, coordinated flight of such funds is not only possible, but considered likely by most New York City bank economists. A collapse of the dollar under these circumstances could trigger a financial panic in the United States. However, if all national sectors were equally affected, there would be no special damage to dollar markets.



However, even in the worst-case eventuality that the entire Eurodollar market froze due to the chain-reaction interruptions in payments, Europe has the mechanism through the European Monetary System to issue gold-backed liquidity to its own banks and freeze the foreign dollar balances. This is strictly a political question. If the links to the Arab world consummated last month in French President Giscard's trip to the Persian Gulf remain intact, there are no objective obstacles to Europe insulating itself from the worst effects of an American crisis. "Our only way out is through an export drive and deals with OPEC," a top West German banker told *EIR*. "There will be a terrible, terrible crunch for the American banks. We will be hurt. But we will survive."

Rep. Reuss and former Secretary of State Henry Kissinger are currently in West Germany demanding, in effect, that West Germany stay "in phase," to use the euphemism, with the American depression. What Western Europe will do is a political matter that Paul Volcker, Henry Reuss and Company have not left out of account. This week's visit may unpleasantly surprise them.

However, whether or not the international conditions prevail for the political success of the "managed depression" policy, there is a much deeper reason to characterize this policy as insane. The graph accompanying, generated by the LaRouche-Riemann computer model, shows that the net "free energy" (or all tangible goods available for reinvestment) in the American economy became negative at the beginning of 1980. The reason is that the "overhead costs" of industry, in the form of environmental and energy regulation, now absorb more than the useful, tangible surplus of productive industry.

The American economy has entered a self-cannibalization mode identical to the 1936-38 crisis in the Nazi German economy. Virtually the entire margin of the so-called recovery from the 1974-75 industrial breakdown is due to production to meet overhead costs. This is identical to the 1933-36 German "recovery" based on arms expenditure, which led to a potential breakdown crisis. The Nazis solved this problem with well-known methods.

The terrible irony of the American situation is that Volcker, Reuss and their collaborators propose to force a financial crisis in order to obtain a top-down reorganization of the economy. That reorganization itself would constitute the worst crisis that the American economy had ever endured, forcing the economy into further counterproductive channels in the energy and military fields, and cutting away the economy's flesh and bone. Physically—as the cited computer-model shows—the economy cannot stand this. The result would be a crisis past Mr. Volcker's imagining.

I. A bank-collapse bill

On April 1, President Carter signed into law the "Proxmire-Reuss Depository Institutions Deregulation and Monetary Control Act of 1980," familiarly known as the Omnibus Banking Bill. With it the U.S. Federal Reserve has been given by the liberal Congressmen Henry Reuss and William Proxmire from Wisconsin a legal dictatorship over the U.S. credit system. Reuss, Proxmire, and Fed Chairman Volcker have already signaled their intentions to use this power to cut credit to the U.S. economy so severely that the U.S. will go into an industrial decline more severe than the 1930s.

"With this bill you won't have any need for a credit control act," boasted one of Proxmire's aides to the March 24 *Business Week*. The Proxmire-appointed chief economist of the Senate Banking Committee continued: "The Fed can do it all."

The dictatorial provisions of the bill speak for themselves. They are:

1) Require all depository institutions to keep reserves with the Federal Reserve System.

2) Provide the Federal Reserve with emergency authority to raise reserve requirements to any level it likes.

3) Waive all state anti-usury laws. State-chartered depository institutions are permitted to make loans at 1 percent above the Fed discount rate.

4) Permit the National Credit Union Administration to lift the 12 percent usury ceiling for federal credit unions for up to 18 months.

5) Repeal Regulation Q, which allowed savings banks to offer higher interest rates than commercial banks, enabling them to attract capital to loan to the housing market. This measure alone will destroy housing and bankrupt hundreds of savings and loan institutions.

6) Preempt state usury laws for mortgage loans, lifting present state ceilings.

Through the Reuss-Proxmire legislation, Volcker will soon have total say as to how much credit and at what rates each and every financial institution in the United States may charge.

Sen. Robert Morgan (D-N.C.) commented: "I think this bill should be entitled the 'Depository Institutions Abolition Act' ... the effect could be the destruction of the savings banks and the mortgage industry of the United States."

Credit control and bank warfare

The passage of the "Omnibus Banking Bill" closely follows the invocation of the Credit Control Act of 1969, also authored by Proxmire and Reuss, by President Carter in his March 14 "sacrifice" speech on the economy. The bill gives the Federal Reserve carte blanche to "regulate and control any or all extensions of credit."

The Credit Control Act's invocation means that Fed Chairman Volcker will be able to put the broadest interpretation possible on the Omnibus Banking Bill. In particular, the bill has no provisions regarding volume of credit to be cut or interest rate limits on Federal Funds, the key source of funds to banks in the federal money markets, which are provided by the Fed. With the Credit Control Act invoked, Volcker can raise interest rates throughout the economy as high as he dares.

The press and Reuss's congressional office were unanimous this week that the bill will triage whole sections of the U.S. banking system. "Let the Banks Compete," read an April 2 editorial of the *New York Times*.

Go bankrupt is more the idea."The banks gave into the bill because they feared that if there was no legislation and there was a financial crisis with 600 or 700 banks bailing out (of) the Fed, worse would happen ... they all want to have access to the Fed's discount window when the crisis hits," said Proxmire's Senate Banking Committee chief economist. "But mainly now we're thinking about ways to stop a lot of thrift institutions from going under." Tens of billions of funds must be rolled over by savings banks caught in the Fed's high interest rate squeeze—rates they can't afford to pay."

A top Reuss aide agreed with the *Wall Street Journal*'s assertion March 31 that the "Fed will engineer ... something akin to the Franklin National Bank collapse" with its current interest rates. "Sure, the Fed is looking into liberalizing the procedures whereby larger institutions can absorb those savings banks that are going down the tubes." Asked what else the Fed planned and whether it would be willing to financially help banks threatened with bankruptcy, he responded, "No, the Fed is just saying that if they go down the tubes, they go down the tubes."

The Omnibus Banking Bill

Below are excerpts from Rep. Henry Reuss's comments on the banking legislation which he sponsors in the House as they were published in The Congressional Record of March 20.

Mr. Speaker, next week the House will have before it the conference report on H.R. 4986, the Depository Institutions Deregulation and Monetary Control Act of 1980—the most comprehensive legislation affecting financial institutions and the users of their services since the 1930s....

H.R. 4986 is timely and crucial legislation. A summary of major points of the Senate-House conference agreement follows:...

III. Regulation Q and ceilings on interest paid on savings deposits

Authority to set interest rate ceilings, by majority vote, is given to a committee composed of the heads of the Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, and the Secretary of the Treasury, with the Comptroller of the Currency serving as a nonvoting member. The NCUA will continue to set ceilings for credit unions. The committee, to be known as the Deregulation Committee will meet in public session at least quarterly.

All authority for interest rate ceilings on all types of deposits will end in six years. The Deregulation Committee is given a strong directive to phase out the ceilings as expeditiously as economic conditions and viability of depository institutions permit. A "target" phase-out rate is established as follows: one-quarter percentage point increase in the ceilings within 18 months; another ½ percent within the next 18 months; and ½ percent each year for the following three years.

The committee may phase the ceilings out either faster or slower than the "targets."

The conferees agreed that the phase-out must be accomplished in a way that ensures equity for small savers, and ensures competitive equity among financial institutions. It must also be accomplished with due regard for the financial condition of depository institutions.

During the 6-year phase-out period, the quarter-point differential for thrift associations will remain in effect.

IV. Powers of thrift institutions

(a) Investment authority is expanded to enable thrifts to earn more in order to pay higher interest rates on deposits. Federal savings and loans will be able to invest up to 20 percent of assets in consumer loans, commercial paper, and corporate debt securities; to offer credit cards and lines of credit; and to offer trust and fiduciary services....

VII. Insurance of accounts

The limit on federal deposit insurance is increased from $40,000 to $100,000. The FDIC may change its assessments to cover its increased exposure.

VIII. Bank reserves and Federal Reserve membership

Membership in the Federal Reserve remains voluntary.

Reserve requirements are imposed uniformly for all depository institutions on transaction deposits (checking and checking-type accounts such as NOW accounts, share drafts and automatic transfers) and on nonpersonal time deposits.

On transaction accounts, the initial rate is 12 percent (with a range of 8-14 percent) on deposits above $25 million. This includes telephone transfer accounts. Vault cash counts toward meeting the reserve requirement.

On nonpersonal time deposits of all maturities, the initial rate is 3 percent (with a range of 0-9 percent).

The Federal Reserve may impose reserve requirements outside the statutory limits, in extraordinary circumstances, for up to 180 days.

The Federal Reserve is also given authority to impose a supplemental reserve requirement on transaction accounts of 0-4 percent. A vote of at least 5 members of the Board is required to do this. The Federal Reserve will pay interest on these supplemental reserves at the rate it earns its own portfolio, currently 8.5 percent.

Reserve requirements for non-Fed members will be phased in over 8 years. Members will have their requirements phased down over 4 years. The phasing will begin immediately. Any new types of accounts that may be authorized will be subject to full reserve requirements. That includes NOW accounts except in the 8 states where they already exist....

The effect is to reduce reserve requirements on member banks and spread the burden evenly among competing institutions. Reserves will have to be posted at the Federal Reserve by 4,165 nonmember banks, 1,360 S&L's, and 70 mutual savings banks that now have no such requirement....

The Credit Control Act of 1969

On March 14, President Carter invoked the Credit Control Act of 1969, handing over to Federal Reserve Chairman Paul Volcker what the March 13 Business Week *"martial law" powers over the U.S. economy.*

The act is the most dictatorial legislation on the books in the United States today, and placed in the hands of a government faction dedicated to "controlled disintegration" of America's industrial base, it is the only tool that faction would really need to accomplish its aim. The Credit Control Act, Title II of Public Law 91-151, delegates authority to the President to implement a regime of "unprecedented credit controls," as a congressman at the time described it.

The act awards the U.S. President standby powers to direct the Federal Reserve to cut off credit selectively for the purpose of combatting inflation and, if necessary, of gearing up the economy for war. The act was inspired by the Congressional Joint Committee on Defense Production under the chairmanship of Senator William Proxmire (D-Wisc.) and grew, in fact, out of plans drafted by the Office of Emergency Planning for standby credit controls on consumer credit and other mechanisms for ensuring the defense production capabilities of the economy in the event of conventional or nuclear war. Some of the key provision of the law read as follows.

§1904. Credit controls

(**a**) whenever the President determines that such action is necessary or appropriate for the purpose of preventing or controlling inflation generated by the extension of credit in an excessive volume, the President may authorize the Board to regulate and control any or all extensions of credit.

(**b**)The board may, in administering this Act, utilize the services of the Federal Reserve banks and any other agencies, federal or state, which are available and appropriate.

§1905. Extent of control

The [Federal Reserve] Board, upon being authorized by the President under section 1904 of this title and for such period of time as he may determine, may by regulation

(**1**) require transactions of persons or classes of either to be registered or licensed.

(**2**) prescribe appropriate limitations, terms, and conditions for any such registration or license.

(**3**) provide for suspension of any such registration or license for violation of any provision thereof or of any regulation, rule, or order prescribed under this Act.

(**4**) prescribe appropriate requirements as to the keeping of records and as to the form, contents, or substantive provisions of contracts, liens, or any relevant documents.

(**5**) prohibit solicitations by creditors which would encourage evasion or avoidance of the requirements of any regulation, license, or registration under this Act.

(**6**) prescribe the maximum rate of interest, maximum maturity, minimum periodic payment, maximum period between payments, and any other specification or limitation of the terms and conditions of any extension of credit....

(**8**) prescribe the methods of determining purchase prices or market values or other bases for computing permissible extensions of credit or required down payment.

(**9**) prescribe special or different terms, conditions, or exemptions with respect to new or used goods, minimum original cash payments, temporary credits which are merely incidental to cash purchases, payment or deposits usable to liquidate credits, and other adjustments or special situations.

(**10**) prescribe maximum rations, applicable to any class of either creditors or borrowers or both, of loans of one or more types or of all types.

(**A**) to deposits of one or more types or of all types.
(**B**) to assets of one or more types or of all types.

(**11**) prohibit or limit any extensions of credit under any circumstances the Board deems appropriate....

REUSS AIDE

The Fed and Mr. Reuss 'don't plan any bailouts'

Following is an interview with Lloyd Atkinson, the chief economist for the Joint Economic Committee of Congress and Rep. Reuss's chief international economic advisor.

Q: Did you see the *Wall St. Journal* lead of March 31 which said that the Fed is going to pull off a Penn Central/Franklin National bankruptcy deliberately?
A: Sure. What the Fed is doing is looking into liberalizing the procedures whereby larger institutions can absorb those savings banks that are going down the tubes.

Q: Wouldn't this require legislation?
A: Lawyers at the Fed have a different interpretation, as a regulatory agency, they can. ... This will also involve the FDIC, C. Fred Bergsten's group at the Treasury, Jerry Newman at the Treasury Office of International Monetary Affairs, and Steven Axilrod's office of Monetary Affairs at the Fed. The lawyers are trying to figure out how much authority they have. The S&Ls are pretty much alright but most of the savings banks, biggies like the Dollar, are in trouble . ...We're going to see a few sizeable institutions collapse. The commercial banks don't show up quite so much in the data I have.

Q: You mean the Fed is going to refuse to bail anyone out?
A: If they go down the tubes, they go down the tubes... It's hard to tell on a time frame, we'll see a few fairly sizeable financial institutions collapse.... Some of them will be absorbed and the rest will just go down the tubes. The Fed is just saying if they go down the tubes, they go down tubes, There's lots of nonfinancial institutions, construction firms, that fold. They don't see any reason to treat financial institutions any differently. ...The Fed is aware of what the implications of its policies are. Some financial institutions are in very serious trouble. And they're not going to loosen credit for them. ..There are some instances reported already of larger commercial banks seeking absorption of savings banks in trouble.

Q: And the Heinz Amendment on the Omnibus Bill says foreign banks can come in if a bankruptcy is in question?
A: Exactly. The Fed and the Treasury are treating this as the same as any other bank trying to absorb a bank. Fred Bergsten and Jerry Newman are handling this. Working with Axilrod...

My next immediate effort is the stringent criticism that Carter's measures are inadequate. I'm advising Reuss to hold hearings and write letters to the Fed, urging the Fed to just put the discount rate up to at least 18 percent, make it a penalty rate! ... In fact the discount rate should be above the prime....

And if things go as I've warned we'll certainly have controls by summer. Even if the banks hang in in there, we'll have controls by September at the latest.

PROXMIRE AIDE

'We fully anticipate a financial crisis'

Following is an interview with Steve Roberts, the chief economist for the Senate Banking Committee, which is chaired by William Proxmire.

Q: Why didn't the regional banks and savings banks complain about the Omnibus Banking Bill's enforced Fed membership?
A: They realized they could have been subjected to a much rougher reserve requirement. ... They know the Fed has to clamp down. There were 600-700 banks who announced they were going to leave the Fed altogether. They were afraid that if the banks did pull out they'd get an even worse mandatory system. They feared that if there was no legislation and there was a *financial crisis* with 700 banks bailing out of the Fed, worse would happen, a collapse of the bond market deeper than we've had, with the economy going into recession. ...They didn't want to see the Fed weakened and they all wanted to have that access to the discount window when the crisis hits.

Q: What is the implication of this bill passing in the midst of the Credit Control Act having been invoked?
A: If this bill passes, I think the Credit Control Act might as well be repealed, because the Fed will then be in a much stronger independent position of tightening monetary policy. The Fed will be able to apply reserve requirements however much they want, within the limits of the law, and in emergency situations, however high they want. The Emergency Provision of the law in both the House and Senate versions says you can set reserve requirements *outside the limits of the bill* for 180 days if there are emergency conditions....

II. The casualties

Intense meetings are now occurring at the Federal Deposit Insurance Corporation (FDIC), according to a top official at the agency, on what to do "with failing banks or banks that will come under tremendous financial pressure." One feature of the discussion is that it has already proposed allowing commercial banks to purchase savings and loans and savings banks, which would require a fundamental change in the government's banking laws which segregates ownership of these different banks. Arrangement of mergers and buyouts among commercial banks is also being discussed. An announcement by the FDIC, jointly with the Federal Reserve Board, the Controller of the Currency's Office and the office of House Banking Committee Chairman Henry Reuss (D-Wis.) will be made next week outlining what the measures will be, this spokesman added.

Mergers and bailouts of banks are now the order of the day and the *sotto voce* discussion on Wall Street because the tightening of interest rates by Federal Reserve Chairman Paul Volcker has left banks in a vise that is "bleeding them to death," in the words of one bank analyst. The banks currently are finding it hard to obtain funds; in some cases paying more for funds than can be obtained by lending them; and finding that with each new hike in the prime interest rate, which reached 20 percent April 2, the level of customers able to afford to borrow is becoming more narrow. Volcker's induced retrenchment of the banking system, once started, will now set off a spiral of bankruptcies and shakeouts.

While top New York commercial bankers such as David Rockefeller of Chase Manhattan say that "a real recession that bites" is healthy, the fact of the matter is that Rockefeller's Chase and practically every other bank in the economy could go under. Confirming this, a top Wall Street investment bank partner reported March 31: "Everybody has their list of banks that are in trouble. Mine includes the Philadelphia banks, none of which are very good; First Chicago, which is heavily in the paper market. I wouldn't go near Chemical Bank or Bankers Trust and I'm not too sure of Citibank (of New York). It's not just their domestic loans. Their international portfolio is in big trouble."

The erosion of bank spreads is just the first level of the problem that banks are facing, but a very real one. The savings and loan industry has found that the high interest spiral kicked off by Volcker is causing a massive disintermediation of funds, as erstwhile depositors now seek the higher yields given by money market instruments and Treasury bills. Whereas in January and February of 1979 the savings and loans took in $7.5 billion in new savings, in the same two months of this year they took in just $2.2 billion, less than a third of the 1979 rate.

At the same time, the Volcker high interest bubble is distorting the entire lending picture of savings and loans. Thrifts are now paying almost 16 percent on money market certificates issued at the prevailing six month Treasury bill rate, and cannot recoup sufficient earnings on their lending, even at 17.5 percent, to the housing market. So, in a true perversion of the banking function, the savings and loans are investing in large CDs issued by the commercial banks. This, however, cannot stave off bankruptcy for many savings and loans, and according to one economist 20 percent of the savings and loans are losing money with the ratio expected to go up fast.

On the commercial bank side, the overall problem of negativity in lending spreads is the same. The total fixed assets of several troubled banks consists of holdings of corporate bonds and mortgages, as well as consumer mortgages which were locked into when rates were considerably lower. This is putting the utmost strain on these banks. Any attempt by these banks to liquidate their bond holdings, however, runs the risk of dumping them into a falling market and pushing the market lower.

This process must continue to push the prime rate into higher ranges, placing even more pressure on the banking system. As this process continues it will soon be discovered that some banks have outpriced their customers and their bad paper outweighs both their bank capital and their earnings potential for the year. Then one has the classic case of bankruptcy.

So the banks are searching for cheap sources of funds. But it is here that Volcker's credit tightening bites hardest. Each new commitment in managed liabilities (liabilities above the level of deposits) above the level of late

last year must be met with a 10 percent reserve requirement. This rules out for many companies the traditional area of a good amount of cheap funds.

The drying up of cheap sources of funds, and the expense of the discount window for large banks with over $1 billion in assets (which covers 70 percent of all U.S. banking deposits), has thrown every bank into a mad scramble onto the federal funds (interbank) market. Individual banks are gobbling up as much as $4 to $5 billion a day on this market.

If there is a sudden drying up of the federal funds market, the banking system is through. Already, certain large money center banks are exercising a profound influence over the future solvency of the banking system by determining which banks will get federal funds. "The large banks now will decide among themselves who gets the money," reported Jeff Nichols, economist for Argus Research Co. in New York. "They will decide whether a bank deserves to go through bankruptcy or not."

But the drying up of federal funds to some banks is just the trigger for a chain reaction of bankruptcies, as one firm's asset is always someone else's liability. Mediated through the industrial and agricultural economy, as specific companies are sent down the tubes because of the bankruptcy or inability of some banks to lend, other banks will be impaired. This dance of withdrawals and shutdowns can end in a 1930 Kreditanstalt which plunged the world into the last great depression.

Corporate shakeout

Not surprisingly a chain reaction of bankruptcies is threatening the corporate sector as well.

- The Chrysler Corporation announced this week that it may be brought down by the unwillingess of key banks to lend to it. Two Chrysler creditors, who are not members of the 300 member syndicate of banks with loans out to Chrysler, sued the company for nonpayment of loans. As a result, the country's tenth largest industrial company and third largest automaker was informed by the Senate Banking Committee March 31 that as a result of Chrysler's inability to get new loans, the $1.5 billion federal loan guarantee, on which Chrysler's survival depends, may be canceled.
- A recent Department of Commerce survey of the inventory-to-sales ratio, particularly on the manufacturing level, are, when *deflated*, greater than during almost any time in postwar history.
- Montford Meats, the Colorado-based third largest meat packer in the country, was reportedly forced to close and file for bankrutpcy.
- Itel Corporation, one of the largest computer companies in the nation, defaulted on $38 million worth of loans, which is probably the last step before that company's liquidation.

III. An economic

House Banking Committee Chairman Henry Reuss has developed a program for what can only be politely termed "fascism with a democratic face" in the United States. Referred to by Reuss and his aides as Economic Restructuring for the 1980s, it is a plan to triage large chunks of American industry through credit cutoffs implemented by the Federal Reserve under the authority of Reuss and Senator William Proxmire's various banking bills such as the Omnibus Banking Bill and the Credit Control Act.

Reuss introduced a congressional proposal on March 10 for the establishment by the President (under the emergency Government Reorganization Act of 1977) of a new Department of Trade and Industry which would not only take over foreign trade functions, but control all domestic U.S. industrial production. It would oversee, "the long term restructuring of industry," an aide said, "just like in a Third World country. Not only would the department encourage foreigners to build their plants here, but they would take over encouragement of new plant building by domestic corporations," he said.

If the DITI proposal fails, Reuss's office plans to get an Executive Order for doing the entire reorganization through a revamped Department of Commerce, his aide revealed.

The remaining industry, "those sectors which will be saved," as a Reuss aide put it this week, will be organized into "tripartite boards of government, industry, and labor"— technical corporatism —"modeled on Germany both before and after the war," the source said. These tripartite corporatist boards will organize a "major structural overhaul of the economy, through the creation of a national economic consensus and putting together a group of people in a bipartisan way to get the job done.... The crisis allows us to do this," he said.

Financial dictatorship

Reuss also introduced the Federal Reserve Remodernization Act of 1980 (H.R. 7001) on April 1, which would "give the Federal Reserve an advisory role, serving as the economic staffing for all the departments of government and to industry and labor," as Reuss himself put it, that is, to the entire economy. "The Federal Reserve has all these economists, real estate, and com-

restructuring of the U.S.

puters.. .I want to put it at the disposal of the President and the Department of Trade and Industry and teams of labor and industry under the White House," he stated.

As Reuss told Federal Reserve Chairman Volcker in congressional hearings March 27, he expects the Fed and his committee of Congress to jointly tell industry, through these tripartite boards, exactly what they may build and how much credit they may have. "I sponsored the Credit Control Act," Reuss told Volcker in hearings. "You are quite right in using it. ... I understand you will get a report on the loan portfolios of the major banks on the first of every month. What I want to work out with you in Congress is how we can gain access to these reports so that we can play a role in monitoring compliance of the banks."

The immediate aims of Reuss's program, as an aide put it, are wage/price controls, "the barbicans" of Reuss's "citadel," the first defenses of his program. This means immediate implementation of wage/price controls, total control over monetary aggregates (credit), and fiscal budget cuts. Longer-term triage of the economy would follow.

ANOTHER REUSS PLAN

An agency for trade warfare

On March 10, Representative Henry Reuss (D-Wisc) proposed that a Department of Industry and Trade be established by executive fiat under the Government Reorganization Act of 1977. "Mr. Speaker, we ought to upgrade and give a real mission to the present Department of Commerce by creating in its place a new Department of Industry and Trade. Such a department to revitalize the American economy could be achieved under the President's reorganization power," said Reuss.

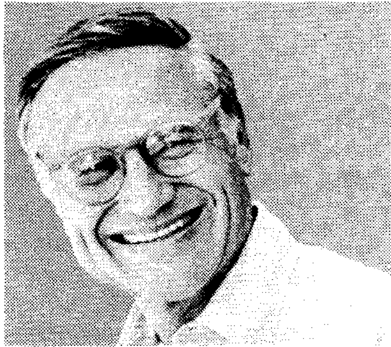
Reuss also proposed that the new department control all U.S. overseas trading as well. "The Department of Industry and Trade would put. . .under one tent all of our export aiding activities. All the export functions need to be concentrated in the new Department of Industry and Trade. There needs to be added the Office of the U.S. Trade Representative ... and the Export-Import Bank and OPIC."

According to Reuss, the new department would use the Federal Reserve System to implement policy. "Operating economies can be obtained for the new department by utilizing the personnel of the Federal Reserve System, without in any way compromising the independence of the Federal Reserve. The new productivity increases, structural reforming, reindustrializing activities of the Department of Industry and Trade could be enhanced by drawing on the expertise of the 40,000 Federal Reserve employees...now at work in Washington, D.C. and in the 12 cities housing the Federal District banks and in their 26 branches and 46 centers."

Reuss declared that the department would oversee a restructuring of the U.S. economy. It would use tripartite corporatist boards modeled on those used by Mussolini. "Its technique would frequently involve the use of government, business, labor teams to make indicative plans and to propose solutions for those sectors of our economy that are lagging in productivity. ... In railroads, proceeding with the electrification of high traffic rail routes using coal-generated electricity and thus saving imported oil; and rationalizing rail systems generally. In food distribution, discerning new efficiencies that can bring about lower prices. In a whole range of industries," consumer electronics, conductors, textiles among them, determining why we are losing competitiveness and what can be done. In health care working for more rational delivery systems...

"These structural reforms need to be surrounded by at least five auxiliary outworks:

1. a fiscal policy that aims at a balanced budget now as much for its symbolic as well as its substantive effects,
2. a monetary policy that continues firm control over the monetary aggregates...
3. an employment policy that focuses on the structure of the labor market in our central cities and in our pockets of rural poverty,
4. gasoline rationing, and
5. a temporary wage-price freeze."



Exclusive

Henry Reuss talks to EIR

Rep. Henry Reuss granted the following interview to Executive Intelligence Review *on April 2.*

Q: Congressman you have proposed a Department of Industry and Trade that will deal both with the domestic economy and exporting. I understand its function is a restructuring of the economy. How would that work?

A: The Department of Commerce as a result of last fall's reorganization has a much more expanded export power. What currently needs to be done is a Department of Industry for here at home, so that we can recoup U.S. industry, such as the steel industry and auto. Our auto industry, in conjunction with government and Labor has to recapture the American-built compact. We have to enable the steel industry to develop its casting capability. We have to reindustrialize America, increase productivity, competitiveness.

Q: I see you proposed the Fed staff the new department.

A: I introduced a bill yesterday to reorganize the Federal Reserve in that regard. It's beautifully decentralized. I would use the Federal Reserve for staffing and solving these problems. It would work. The Federal Reserve has personnel devoted to monetary policy, but I want it to work also on structural policy.

My total proposals for restructuring are: 1) a strong White House which is central to this, 2) a revived and revised Department of Commerce, 3) help on this restructuring by the Federal Reserve; and 4) establishment of business, government and labor teams.

Q: What response have you had from the administration?

A: I have talked to Commerce Secretary Klutznick and Assistant Secretary Hodges. They're sympathetic.

Q: Can you go into more detail about your proposal?

A: The bill will have hearings right after the congressional recess. I have called for the Federal Reserve to have an advisory role, serving as the economic staffing, for all the departments of government and to industry and labor.

The Federal Reserve has all these economists, real estate, computers and they don't have enough to do. I want them to put it at the disposal of the President and the Department of Trade and Industry and teams of labor and industry under the White House. These teams have the task to make plans for a troubled economy. For example, the Federal Reserve would advise the different agencies. An example is that the railroad situation is very bad. The Department of Transportation needs some staff help. The Chicago Federal Reserve is the homebase of the Milwaukee Railroad. The Federal Reserve could have given help on that. They could have proposed the abolition of the ICC which I think should be done.

If we had this then, for example, Detroit would not be such a mess. Four years ago we would have told Chrysler to stop focusing on gas-guzzler cars and we would have had whatever regulatory measures were needed to do that. Instead Chrysler kept up with their silly ways and they and Ford and GM are in deep trouble.

Q: What has been the response of labor?

A: They are favorable. I know this by my discussions late at night with labor leaders.

Q: Your bill deals with export questions. The Europeans have been subsidizing exports and there is much discussion in Congress about either stopping this in Europe or beginning such a policy here.

A: There is too much subsidizing of exports there. But we can't call our dogs off until they do.

Q: You are going to Europe next week to discuss some of your proposals with them. Where are you speaking and what will you tell them is Europe's role?

A: I will speak to government leaders at the OECD in Paris, the Ebert Foundation in Bonn and the Metale Gesellschaft in Frankfurt, before a group of industry, government and labor leaders. I will discuss my proposals and how it relates to Europe.

Q: How does it relate to Europe?

A: Let me pass on that one.

IV. A NATO military buildup

A consensus has been reached at Washington's leading centers for planning Anglo-American military strategy that the threat of an oil flow cut-off from the Persian Gulf must be used as a weapon to force Western Europe into agreeing to a massive military buildup over the next few years. This line is now being pushed by the Atlantic Institute, the Brookings Institution, and the Georgetown Center for Strategic and International Studies (CSIS).

In a series of studies and interviews, Atlantic Institute strategists have been most vociferous in insisting that Europe must be brought "into line" by the threat that the U.S. will pull units out of Central Europe if the Europeans don't agree to take "a greater share" in an expanded NATO organization. If they refuse to do so, the Atlantic Institute is warning, Europe would find its oil supplies jeopardized by an American refusal to secure them.

This line is hardly surprising given that the Atlantic Institute directorship significantly interfaces the Club of Rome, the organization which has pioneered the modern "limits-to-growth" propaganda as a means of generating hysteria over resource scarcity and thereby increasing Anglo-American control over resource flows. Harlan Cleveland, a former U.S. ambassador to NATO, is a Vice-Chairman of the Atlantic Institute and a member of the U.S. Association of the Club of Rome. George McGhee is also a former NATO ambassador, a member of the Club of Rome, and Director of the Atlantic Institute.

Another Atlantic Institute Director, Helmut Sonnenfeldt, also at Brookings, has participated in a Brookings study, along with Brookings Middle East Director William Quandt, profiling how Europe will be increasingly vulnerable to instability in the Middle East, especially "inter-Arab warfare," and therefore would be forced to take a larger role in an expanded NATO structure.

Variants on the same theme have surfaced in two key policy formulations:

• A March 19 speech at New York University by former National Security director and Ford Foundation head McGeorge Bundy. Bundy warned of the threat of "internal instability" in Gulf countries and proclaimed that the U.S. could not and would not be able to defend Europe's energy supples from this threat unless Europe agreed itself to play a major security role (see below).

• An April 1 conference at CSIS on "The Future Role of Naval and Marine Forces," chaired by CSIS gulf expert Alvin Cottrell. A speaker at that conference, Jeffrey Record, formerly of Brookings, remarked after the event that the U.S. should seek "to put the fear of God into the Europeans" if they refuse to "play a larger role in an accentuation of NATO." Record insisted that gulf oil supplies were threatened by both "intra-Arab conflict" and "religious fundamentalism à la Khomeini."

McGEORGE BUNDY

'Oil shortages hurt Europe the most'

Following are excerpts from a speech which former National Security adviser McGeorge Bundy delivered at New York Univesity on March 19.

"The authentic crisis I speak of is the crisis in foreign and defense policy that lies behind the headline stories of hostages in Iran and Soviet invaders in Afghanistan. The root of this crisis is the inescapable dependence of the most important friends and allies of the U.S. on sustained supplies of oil from the region of the Persian Gulf. ... This crisis was not created by the Soviet advance on Kabul and still less by the kidnapping of American diplomats in Teheran. ... It is much larger; its roots go deeper; it will last till the end of the century.

The nations of Western Europe and Japan are economically dependent on Persian Gulf oil in a most categorical and decisive way. ... Where oil for us is less than half our energy, for Europe it is about three fifths and for Japan three quarters. ... And for Europe and Japan it is a dependence quite unaccompanied by any power to protect that Persian Gulf oil from outside threat.

There have already been two relatively modest interruptions of these supplies—an oil boycott in 1973 and a

cutback of Iranian oil in 1979. Each of them had brutal consequences, though each was small compared to what could easily happen in the future. Either by an expansion of Russian physical power—not the more likely case—or by a major shutdown resulting from upheaval within this area, there could be a most dramatic threat to the whole fabric of European and Japanese society. And it could come at any time....

The President also understands that the gravest danger in the Persian Gulf is not a direct Soviet attack but internal turmoil—and that while American power can and will almost surely hold the ring against invasion from the north, the U.S. cannot—as it should not—by itself protect the region from itself, or make it "safe" for rich consumers. Mr. Carter has said some of this and should say it all. *Only* the Americans can deter the Russians, but the Americans *alone* can do almost nothing else....

THE ATLANTIC COUNCIL

'Giscard shouldn't do' what he is doing'

Dr. Francis Wilcox, head of the Atlantic Council, granted an interview on April 2 to EIR *which we excerpt here.*

Q: I understand the Atlantic Council has begun a study of the NATO alliance.
A: The project just got under way. ... We don't really have our sights set completely at this point, but we do plan to cover the following areas: The extent to which the U.S. and our allies are capable of dealing with emergencies; the relationship between defense and detente; the military balance; the questions of readiness and supply—especially vis-à-vis NATO's southern and northern flanks; the impact of NATO outside specifically defined NATO areas, especially the Middle East and Africa; resource constraints and dilemmas.

Q: How about the economic and political aspects of NATO, for instance, the ramifications of the European Monetary System and the question of the economic underpinnings of a defense system?
A: Oh, absolutely. These are questions of the utmost importance, and we will give in-depth attention to them. We'll take a close look at our allies and the divergence of views between us and them.

Q: Do you find the German-French attempt to carve out an apparently independent strategy disturbing?
A: Well, yes, I do. And I must say that one of our working groups will try to come up with the best way of dealing with this problem. I don't agree that getting angry at our allies is the way to get them to act in a more responsible fashion. We aren't too pleased with Carter's handling of the situation either. We must emphasize to them that they are far more dependent on energy imports from volatile areas than we are, and that they therefore have a stake in the question of our armed strength outside the NATO area proper.

Q: Keegan brought up the question of Soviet E-beam capability at Congressional hearings a few weeks ago....
A: Definitely. These questions will be addressed with utmost seriousness, as will generating capital to permit a defense catch-up.

Q: Back to the question of our allies: What makes you think that they will go along with what you recommend, given how upset they are with Carter's leadership?
A: The feeling of our working group so far is how tremendously important it is that our allies know what we're up to—we must have a greater degree of constancy, much more than Carter has provided. We must tell our allies in advance what steps we're going to take, for example, in response to a Soviet move into Afghanistan. The whole problem revolves around consultation. We must have closer consultation with our allies. As I said before, though, the Europeans are just going to have to realize how important NATO is in protecting their access to raw materials in the Third World—not just NATO as it exists, but an expanded NATO.

Q: What do you think of Giscard's trip to the Mideast? Isn't it possible that the Europeans are working out their own way of securing these raw materials?
A: You have to expect the French to do unusual things—not just unusual, but unreasonable as well. I must admit I'm dismayed at what Giscard has been doing. ... I don't like this arrangement with Iraq. That doesn't do NATO any good....

Q: Well, aside from the consultation carrot, won't you be considering some sticks to use against Europe?
A: Well, yes, sticks. They are necessary sometimes. These countries are pretty independent though, and you will have to be a little careful of what sticks you use, or the whole thing will backfire. ... We will be looking at certain means of persuasion—trade relations, the Mansfield amendment might be worth reviving in some form [the perennial amendment offered by former Senator Mike Mansfield, now Ambassador to Japan, to withdraw U.S. troops from Western Europe]—that would really create some domestic problems....

V. The war on Europe

House Banking Committee Chairman Henry Reuss (D-Wisc.) will be traveling to the West German capital of Bonn on April 8 to announce the expected result of Federal Reserve Chairman Paul Adolph Volcker's high interest rates on Europe. "The European Monetary System could go down the tube," is what Reuss will say in an April 10 speech to the elite Friedrich Ebert Foundation, according to a top Reuss aide.

Reuss will be traveling to Bonn at the same time as former Secretary of State Henry Kissinger and an entire delegation of U.S. congressmen who were invited by the Konrad Adenauer Foundation. In a series of meetings, they will propose to West Germany that Europe's only way out of international monetary crisis is to implement "an entire international economic restructuring" based on the U.S. "Economic Restructuring for the 1980s" plan Reuss submitted to Congress during March.

Reuss' first stop in fact will be the Organization for Economic Cooperation and Development in Paris on April 5, where, according to Reuss in an exclusive interview with *EIR* "I will discuss my proposals for the U.S. economy and how they relate to Europe." The OECD is the umbrella economic policy board for NATO which dictates economic policy to most NATO member governments.

The congressional delegation, which includes Senator William Roth (D-Del.), fresh from the London Trilateral Commission meeting, will visit the Konrad Adenauer Foundation from April 8 to 11, where Reuss will join them. Reuss will stay at the Friedrich Ebert Foundation, the correspondent of the New York Council on Foreign Relations, April 10-12 for private discussions, and then travel on to the city of Frankfurt, where the congressman will give a speech to a meeting of government, industry, and labor at the Metallgesellschaft Corporation.

Trade war

From Capitol Hill, Senators John Heinz (R-Pa.) and Birch Bayh (D-Ind.) together with the Georgetown Center for Strategic and International Studies, have launched a trade war against European exports of industrial development to the Third World. Heinz's office was asked about the intent of the Competitive Export Financing Act of 1980, which he and Senators Alan Cranston and Jacob Javits are cosponsoring. "The purpose of the bill is to bring Europe to the bargaining table" to negotiate the cutbacks of their export financing, the aide said.

Georgetown CSIS itself held a March 26 press conference in Washington to announce publication of the first studies of its "U.S. Export Competitiveness Project," which supports the Heinz and related bills. Project Chairman Robert Kilmarx told the press "we are living in a dream world with respect to our allies. They are self-serving, nationalistic and jingoistic with respect to their export subsidy policies" which must be halted.

And Senator Bayh, in a speech to the Senate March 20, said he plans legislation to declare a U.S. trade war against all "our allies and erstwhile friends" who do not adhere to the U.S. trade boycott against the Soviet Union. "If such cooperation is not forthcoming voluntarily, we must use our own economic weight" against Europe, he said.

Toppling the German government

This war on Europe dates back to last August when Reuss announced that he was intervening in the West German elections to try to topple Chancellor Helmut Schmidt, on whose policy rests the future of the European Monetary System. Reuss, a City of London spokesman on Capitol Hill, wrote then to G.W. Miller that the Schmidt government must be "urged" by U.S. pressure to cease it's progrowth policy and "fight inflation primarily by fiscal policy." Reuss admitted to the German press that he was deliberately "intervening" in Germany's election debate.

In November, Reuss's House Banking Committee and the Joint Economic Committee, of which Reuss is a ranking member, issued a report titled "The European Monetary System: Problems and Prospects," which predicted the early collapse of the EMS based on "a rapidly depreciating dollar (which) can generate severe strains within the EMS," and said that other European countries would drop out of the EMS because of German "tyranny."

REUSS SPEECHWRITER

'The EMS could go down the tubes'

An aide to Rep. Henry Reuss who drafted the congressman's April 10 speech to the Friederich Ebert Foundation in Bonn said that Reuss was working on the following background assumptions regarding the crisis in the international monetary system.

As soon as the Volcker policies really take effect here in the United States, the economy will go into deflation. This will push our interest rates down and weaken the dollar. But the Europeans will be very reluctant to intervene. If the dollar starts to go, it will have to go, because their intervening would be too inflationary for them now. The resulting dollar crisis could wreck the EMS. It could hurt the EMS a lot; they do not have a dollar policy. They have been lucky the dollar has been stable. The EMS could go down the tubes... The parities [among EMS currencies] will get shoved to hell and they may just have to abandon them. If the pressures get too intense on the non-German members of the EMS, they may just have to scrap it and say "The hell with it, we're not going to wreck our domestic economies just to maintain the parities."

Therefore Reuss says our priority has got to be some negotiations with the Germans. He'll tell them that they have been demanding we deflate, and now we have, and we're in recession, and they are going to have to give support to a program for long-term restructuring of the U.S. economy. Germany will just have to support Reuss's Economic Restructuring for the 1980s, and demand that Carter implement it. That means in the short-term wage/price controls and budget cuts, in the long-term, total restructuring of major economic sectors.

The aide then quoted a draft from Reuss's speech:

Chancellor Helmut Schmidt must bring his personal weight to bear in international forums and institutions on Mr. Carter to see that the fundamental restructuring of the U.S. economy takes place, to urge programs of fundamental reform rather than yet another macroeconomic ratcheting down of the U.S. economy....

I call for the endorsement of the work of the Brandt Commission. In a world situation in which we face a world-wide restructuring of the financial obligations and the debts of the less-developed countries, industrial nations must support and put into place institutions to deal with this such as the Brandt Commission's proposed World Development Fund...

On the basis of this fundamental economic reform, the industrial West will be in a position to cut a deal with OPEC. We would be in a position to guarantee a real price for the U.S. dollar and thus for oil, in exchange for oil availability and stable oil prices.

The aide then commented that Reuss, in his off-the-record remarks, would demand that Germany and all Europe

House banking chairman demands intervention

The following exchange took place between Henry Reuss and President Carter and his Treasury Secretary G.W. Miller in late August. The Congressman's intervention into the West German electoral process continues to this day, according to his aide Jaimie Galbraith.

Reuss to Carter, Aug. 2, 1979

The free world is on precisely the wrong track. Germany, Japan, and others similarly situated should fight their domestic inflation in a way that will not endanger the world's currency, the U.S. dollar, into a depression that could sink the whole free world. In short, our trading partners should fight inflation primarily by fiscal policy rather than monetary policy. They are doing just the opposite. I respectfully suggest that you urge the leaders of Germany, Japan and other countries to change their anti-inflation *mix* so as to rely less on monetary policy and more on fiscal policy.

Miller to Reuss, Aug. 30, 1979

...There are continuing high-level discussions with authorities of Germany, Japan, and other countries, and these will be used to discuss the issues you have raised.

Reuss to the West German papers *Handlesblatt* and *Wirtschaftswoche*, September, 1979

Q: Your dramatic intervention for fiscal tightness comes at a time in Germany when the election is

participate in "an entire international restructuring" modeled on his Economic Restructuring for the 1980s in the U.S.

It's a question of all of us doing what we're supposed to be doing. We cannot get our monetary cycles completely out of phase again ... he's going to press for a coordinated fight against inflation. We ought to put into place steady monetary and budget policies, and wage price controls. The same kinds of policies are required for West Germany, Japan, and the other countries. They must keep their budgets down, reduce their monetary aggregates, and implement wage/price controls. ...Of course they won't implement it, but just because they ignore him that never stops Reuss from telling them ... this is not a one way option ... we're talking about an entire international restructuring.

Then Reuss will tell them we have to get serious about beating up on OPEC for beating up on the LDCs. He figures that one thing that has been noticeably absent is any attempt to embarrass OPEC and point out that the consequence of their policies is disaster in the LDCs. He wants the consuming nations to get together and attempt to embarrass OPEC, exposing them...say that there are bodies lying in the street dying in the LDCs because of their policies. He'll demand they cut oil consumption and go to alternative energy. ...They've been moving ahead too much on nuclear. This doesn't seem to bother them, the safety problems....

It's OPEC itself which is particularly anxious to divide us from Europe...."

drawing near and nobody is thinking of raising taxes, but everybody is discussing whether taxes should be lowered in 1980 or 1981. Did you mean to inbervene in this debate?

A: I simply point out that a moratòrium on constructive election year dialogue would only result in perpetual silence. In fact there is an alternative to German tax cutting—namely a less restrictive monetary policy. Forswearing tax reduction should make it possible for the Bundesbank to avoid excessive interest rate increases...I would welcome German advise against a vote-catching U.S. tax cut....

...I do not suggest the German government is engaged in conscious dollar weakening, but there is a definite risk that the monetary policies now being pursued in Germany will in fact weaken the dollar and *force countermeasures from the Federal Reserve that will have grave consequences for the world economy.*

BIRCH BAYH

'Europe boycotts USSR, or we boycott Europe'

Senator Birch Bayh (D-Ind.), a member of the New York Council on Foreign Relations, inserted a statement on "Deterring Soviet Adventurism" into the March 20 Congressional Record. *We excerpt from that statement.*

The importance of effective U.S. sanctions against the Soviets for their invasion of Afghanistan will require that our allies do not undermine our efforts. ...

If such cooperation [from America's European allies, particularly] is not forthcoming voluntarily, we must use our own economic weight to encourage the cooperation necessary to achieve the withdrawal of Soviet troops from Afghanistan and send a clear signal that no further military adventures should be undertaken. I will soon introduce legislation which will permit the President, by proclamation, to increase duties on goods from countries which do not cooperate with our efforts. This legislation would also exclude from U.S. Government procurement under the International Government Procurement Code the products from such countries...

While this step might seem heavy handed to some theoreticians of international trade and politics, it is a useful signal which should be understood by those nations who see America's response to the Russian threat to world peace as a splendid opportunity for them to make a fast buck. Put simply, if a country insists on undermining our efforts...then that country's exporters should face the likelihood of higher tariffs on their products exported to the United States as the price of their indifference to the presence of Soviet-manned tanks in Afghanistan. ...

And our oil consuming allies must understand that their economies and prosperity depend far more than our own upon secure lines of supply from the gulf.

So what do we do? To be sure, the present situation requires a careful, balanced, and effectively directed effort to enlist assistance of other countries... Our concern about stopping the spread of atomic weapons must continue, NATO should play a part.

The time has come to make our position clear. The United States expects its allies, for whom it provides a nuclear umbrella at great cost to our own taxpayers, to join in defending the Persian Gulf region from Soviet takeover or domination, and we do not intend to disregard flagrant attempts to undermine our own efforts to sustain the reprisals we have undertaken....