

Callaghan Weathers Confidence Vote

BRITAIN

British Prime Minister James Callaghan successfully weathered a vote of "no confidence" last night, due to a last minute agreement worked out with the 13-member Liberal bloc in Parliament. The 322-298 victory for the Labour Government thwarted efforts by Conservative Party leader Margaret Thatcher to precipitate a General Election just as Callaghan was preparing to embark on diplomatic initiatives for a peace settlement in Rhodesia and action to ensure international economic stability.

"We are only halfway through the job we started," Callaghan told supporters as he indicated his willingness to collaborate with other parties if necessary to ensure that the Government could remain in office to complete its task.

Callaghan was able to consolidate the voting support of the Liberal party in exchange for provisions which will neither seriously compromise his domestic economic program, nor hamper his international role as a spokesman for trade and development. Under the arrangement — called "unique" in British Parliamentary history — a joint Liberal-Labour consultative committee will be set up to review all future legislation. This represents a tactical retreat for the Liberals, whose original "laundry list" of demands called for the reversal of Labour's entire strategy for industrial growth.

The agreement is *not* the type of centrist coalition which could trap Callaghan into moderating his industrial policies — as hoped for by a broad spectrum of the U.S. press. Both Callaghan and Liberal Party leader Steel made clear that nothing in the "deal" binds the Government to accept Liberal views and nothing in it requires the Liberals to vote with the Government. Furthermore, Callaghan emphasized to Parliament that the "experiment" with the Liberals would be reviewed in the fall to "see if it had been of sufficient benefit to the country."

Callaghan described the agreement as providing the Labour Government with "the opportunity of maintaining a stable position to carry through its economic and social policies." Welcoming the respite from Tory pressure, Callaghan asserted: "We shall use the time of this Parliament to plan how best to distribute the fruits of our economic success."

With most major bills, including nationalization of the shipbuilding and aerospace industry, already on the statute books and other contentious legislation having been temporarily laid aside, the only major domestic proposals which would be subject to Liberal Party scrutiny are

the Government's 1977-78 Budget (due March 29) and the third phase of pay agreement with the trade unions. There is unlikely to be a clash on the Budget since early reports indicate that its mildly reflationary proposals will command widespread support from the trade unions, industrialists and a broad majority in Parliament. Pledges of support from top trade union leaders during the tense days of maneuvering prior to the vote of confidence show that the "special relationship" with the Labour Government will be preserved through a third round of wage restraint to achieve the necessary economic goals under current conditions of general economic decline in Europe.

The very limitations of this legislative program reflect the fact that the reinforced Callaghan government is now faced with completing its most important task in guaranteeing the country's economic future: making decisive moves against the dollar empire by organizing for Western European debt moratoria. Indicating government thinking on expanded East-West trade, the British newspapers have been giving regular coverage to proposals for extending the Comecon transfer ruble outside the socialist sector as the basis for a new world monetary system. Foot-dragging on bringing this about has given the New York banks and their allies within Britain — such as Conservative Party leader Margaret Thatcher — the opening for destabilizations such as last week's attempted toppling of Callaghan.

Thatcher herself was livid following the confidence vote, as she denounced Callaghan's "shabby" deal with the Liberals. The Tory leader's annoyance is perhaps also explained by the effect Callaghan's successful maneuver may have on her own far shabbier alliance with West German neo-Nazi Franz Josef Strauss, consummated during a meeting in Munich last week. The purpose of this meeting was to set up a pan-European conservative moment to overthrow the governments of Britain and West Germany, both dominated by parties of social-democratic stamp with a labor base. Thatcher also sent her "Shadow" Foreign Secretary John Davies to the U.S. last week to collaborate with the Trilateral Commission members of Carter's Cabinet in new proposals for racial conflict in southern Africa.

The Callaghan government, however, had already announced that Foreign Secretary David Owen will be undertaking an "independent" tour of the Middle East and Africa during April to discuss peace initiatives in both areas. Meanwhile, Callaghan is personally organizing specific proposals for trade and development to be presented for the May 7 economic summit in London and the meeting of Commonwealth heads of state in June. During a week in which a Bulgarian trade delegation arrived in London and final touches were put on a joint British-Polish shipbuilding venture, British Trade Secretary

Edmund Dell stated in Parliament that "it is our wish to build up trade with the Soviet Union and that seems to us the right objective."

Further, in his opening speech of the two-day parliamentary defense debate which began on March 22, Callaghan's Defense Minister Mulley argued for Government-proposed cuts in the British defense budget on the grounds that the monies are needed for domestic economic expansion. "This was why the Government had

given overwhelming priority to the tasks of industrial regeneration and fighting inflation on which Britain's future depended," *The Times* of London quotes Mulley. Importantly for British intentions on expanding East-West relations, Mulley stressed that "NATO's policy of deterrence was still working and there was no imminent risk of aggression by the Warsaw Pact," reports *The Times*.

Andreotti Says He'll Bow To IMF But The Battle Is Not Over

ITALY

Italian Prime Minister Giulio Andreotti emerged yesterday after three days of preliminary consultations with the top leadership of all political parties to announce that his government will soon ratify the "Letter of Intent" which stands as the conditions Italy must agree to to receive a \$530 million loan from the International Monetary Fund (IMF). Andreotti further enunciated that *all* parties agreed that acceptance of the IMF conditions would be "to the advantage of workers."

To substantiate Andreotti's statements, both the Christian Democracy (DC), and the Italian Communist Party (PCI) issued press statements accepting the Fund's austerity packet.

Aldo Moro, DC factional right-wing leader, told the press that the party concurs with "the objectives indicated by the IMF," while Luciano Barca, PCI economist, authored an article in *Unità* fully exonerating the IMF from its genocidal policies. The decree-law to slash the cost of living escalator (COL) and increase the added value tax — the two most controversial clauses — wrote Barca, were not invented by the IMF, but were approved by the Council of Ministers even before the IMF delegation arrived in Italy. Therefore, the Fund cannot be accused of posing demands that were already up for approval. The PCI, however, is willing to propose "alternative" methods to slash the COL that will be acceptable to the trade unions, while simultaneously yielding the same or *better* results — without touching the "symbolic" COL system.

The IMF demands will gut the Italian economy and throw the country into Latin American levels of austerity:

- * The Treasury deficit for 1977 must be contained at 9,800 billion lire.

- * Internal credit for industries must be contained to 30,000 billion lire to be divided half and half between the public and private sectors.

- * Public spending rate of growth must be less than the inflation rate for the 1977-78 period.

- * The rate of inflation must be less than 10 percent in 1978.

- * The increase in the cost of labor must be less than 16 percent in 1977 and less than 10 percent in 1978.

- * The effects of the cost of living escalator must be "sterilized" (i.e. offset) by an across-the-board increase of added value tax on all products.

A few days after these demands had been made public, the Italian newspaper *La Stampa* revealed March 23 a number of secret clauses contained in the agreement:

- * Immediate cutoff of all national government loans to the cities through the nationalized banking system.

- * The reduction of Italy's balance of payments deficit from 2,300 billion lire to 500 billion by no later than March 1978.

- * Central bank interference on the foreign exchange markets in defense of the Italian lira must be ended.

The question arises as to how the pro-growth Bonapartist faction in the PCI, the Andreotti government, and its allies can accept these outrageous demands when — until recently — they were leading spokesmen of the world anti-dollar battle. How could they embark on a path that will most likely lead them to a dangerous clash with the trade unions?

The answer dates back to the negotiations between leading Italian industrialists led by Eugenio Cefis and Soviet officials to set up a transfer ruble for trade credits. The criminal refusal of the Soviets to go ahead with the transfer ruble precipitated a process of factional weakening for Cefis which was most notably seen in the ousting of some of his key collaborators from Montedison. Recent reports from one of his closest associates indicate that, following the Soviet backdown, Cefis has been forced, under extreme pressure, to retreat from the arena of international politics and economics and get rid of Montedison's most financially sound operations: its banks and insurance companies considered to be the "family jewels."

As a result, the strength of the PCI's former staunch fight against the austerity typified by the IMF demands, as well as its commitment to technological growth, was severely hampered. Cefis's alliance with PCI bonapartists rested on the East-West trade networks and policy tendencies built in the party by Enrico Mattei, the late president of the public-sector oil company, ENI. With this alliance broken, the PCI bonapartist faction is left without viable industrial allies and is thus vulnerable to isolation.