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# **EXECUTIVE INTELLIGENCE REVIEW**

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# IN THIS WEEKS

## EXECUTIVE INTELLIGENCE REVIEW

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Exxon, Mobil, Texaco...Chase Manhattan and a handful of New York banks...the striped-pants set at the U.S. State Department...**no one else** is responsible for the present energy crisis...certainly not the energy industry itself...

\* \* \*

In this week's Executive Intelligence Review is the evidence responsible decision-makers need to educate the population ... and each other ... on the energy issue. Here is a comprehensive analysis of the oil and gas industry ... covering everything from the costs of exploration, to tax shelters, environmentalist lawsuits ... and the amazing story of what happened to the fabulous "profits" from the post-1973 quadrupling of oil prices. See "How Rockefeller Sabotages Energy Development," in this week's **Energy Report**.

\* \* \*

This winter's weather was no more accidental than the gas shortage ... neither was last summer's drought. Jimmy Carter-style "energy conservation" policies used in Brazil's Amazon jungle destroyed normal global weather patterns ... A special exclusive report in the **Energy** section applies knowledge gained in advanced physics to explain how it happened.

\* \* \*

White House energy czar James Schlesinger ... the man who says politic is cheating... is determined to force global energy cutbacks, bust the OPEC oil producers ... and run a thermonuclear bluff on the Soviet Union in the Middle East. The U.S.

Congressional cave-in to Schlesinger on his energy bill has given him a running start ...For the lowdown on the Carter Administration war policy, including interviews and testimony by the men making energy a "national security issue," see **International Report**.

\* \* \*

Europe is fighting back on the energy issue. West Germany's Schmidt and France's Giscard d'Estaing have affirmed that every nation has the right to nuclear technology for peaceful purposes ... and a coordinated Euro-Japanese effort to put together new energy combines independent of the Rockefellers is well underway. (See **International Report**).

\* \* \*

But in the absence of an official European break with Carter, the situation in the **Middle East** is deteriorating quickly toward war. In addition to press reports and interviews on Sadat's right turn in the wake of last month's rioting in Egypt, this week's issue includes a review of the building war psychosis dominating the Israeli election race.

\* \* \*

While Carter's UN rep Andy Young is running around Africa ... the southern part of that continent is moving closer to all-out conflict. South Africa's Vorster has been given the go-ahead in Washington to defend white supremacist rule... with an invasion of independent black African countries if necessary. In a major address this week,, however, Gaullist candidate Chirac served notice that sensible Europeans will not "wait

INTER-NATIONAL
NATIONAL
ECONOMICS
ENERGY
SCIENCE TECHNOLOG
SOVIET SECTOR
EUROPE
MIDDLE EAST
AFRICA
ASIA
LATIN AMERICA
BOOKS

for Carter' before intervening. For excerpts of Chirac's speech, see **Africa**.

\* \* \*

Simultaneously the Carter team is trying to provoke the Soviets directly through destabilizations of Eastern Europe. This week's **Soviet Sector** report explains how so called Eastbloc "dissidents" are manufactured and controlled through Western political intelligence networks ... with National Security Advisor Zbigniew Brzezinski pulling the strings.

\* \* \*

This week's report in **Science and Technology** reviews an East German project for a fully automated steel-producing capability... producing 25 per cent more steel by upgrading worker skill levels and capital equipment.

\* \* \*

How can we make it happen in the West? The British government's Bullock Report on joint worker-shareholder management of industry suggests some answers ... among them, that a workforce educated and committed to advancing technology and industrialization is an indispensable tool. Lengthy excerpts from the official version of the Bullock Report are included under **Europe**.

\* \* \*

U.S. interests are beginning ... but just beginning ... to move on an industrialization program to counter Carter. Featured in this week's **National Report** is a bill introduced in the Washington state legislature calling on

Congress to pass the U.S. Labor Party's comprehensive energy development act ... as well as reports on a meeting of Chicago industrialists clearly uncomfortable with Carter's program ...

\* \* \*

What's holding things up? In a review of a book newly published by the '76 Press, **Wall Street and the Rise of Hitler**, U.S. Labor Party National Chairman Lyndon LaRouche analyzes the "loser syndrome" which victimizes U.S. conservative forces ... despite their fundamentally accurate perception of just who is standing in the way of U.S. industrial progress. (See **Books**)

\* \* \*

What's in store for all of us without a complete rebuilding job on the world economy is underlined in this week's **Latin American Economic Survey**, the third in a series of reports on major economic sectors. Providing a detailed, country-by-country breakdown of the major economic events of the past year, the survey paints a chilling picture of the way monetarist policies have brought an entire continent to the brink of economic catastrophe and ecological holocaust.

\* \* \*

After weeks of being scooped by the EIR, one of Washington, D.C.'s most highly touted "China watchers" telephoned the man on our China desk this week to try to spirit him away to his own staff. For the kind of in-depth coverage and analysis of China available nowhere else, turn to the **Asia Report**.

\* \* \*

Coming next week ... The Rockefeller Brothers Write Ralph Nader's Lines, or, Who Built the U.S. "Environmentalism" Movement?

# Energy Dictatorship Bill Passage Sets Stage For War On OPEC, USSR

Emboldened by the speedy passage in Congress of their emergency natural gas bill Feb. 3, President Jimmy Carter and his energy czar James Schlesinger have taken major steps to ensure that their United States energy crisis will lead shortly into a U.S.-Soviet confrontation in the oil-rich Mideast and a "crisis management" dictatorship in the U.S.

## *From Cold Wave to Cold War*

The Carter-Schlesinger team Feb. 1 dispatched Pentagon consultant Melvin Genant, a former executive of Rockefeller's Exxon oil company, to agitate at Congressional hearings for a U.S. military intervention into the Organization of Petroleum Exporting Countries (OPEC). Conant's testimony to the Senate Interior Committee, chaired by Schlesinger collaborator Sen. Henry Jackson (D-Wash), consisted of a 150-page report commissioned by Deputy Defense Secretary Robert Ellsworth, a Schlesinger protege and former partner in the Rothschild-linked investment firm of Lazard Freres. In it, Conant proclaims that U.S. energy strategy must be based on breaking up OPEC — by military force, if necessary — and gaining control over the oil supplies of Mexico and Venezuela — a surefire prescription for fomenting war between the Soviet Union and the U.S.

Conant's message was buttressed by a Jan. 31 *Washington Star* article based on a so-called secret report leaked by Schlesinger which accuses the USSR of using weather modification to cause the cold wave in the Northeastern United States. Authoritative Washington sources had informed the U.S. Labor Party late last week that Schlesinger intended to feed this lying report to the press in order to help his plans to use the energy crisis as a showdown with the Soviets.

A further elaboration of these plans was provided by Schlesinger advisor John Stewart, who also serves as chief energy aide to Sen. Edward Kennedy (D-Mass). In an interview this week (see below), Stewart revealed that one of the Carterites' key thrusts in the coming weeks will be to establish the climate for a foray against OPEC by falsely accusing it of collusion with the multinational oil companies to keep oil prices artificially high. While professing that it would be bad policy for the U.S. to take any "overt effort" to fracture the oil cartel, Stewart betrayed his complicity in the Carterite war strategy with his comment: "We couldn't sit by if the Arabs cut off our allies' oil ... a hostile act in any area could lead to war."

Schlesinger has taken steps to extend the dictatorial powers granted the Administration in the emergency natural gas bill internationally. According to Western Euro-

pean press accounts, Schlesinger has clamped down a de facto embargo on U.S. uranium exports to Europe, thereby attempting to starve out Europe's commitment to expanding its nuclear energy sources. (see report below.)

## *Carter-Schlesinger War on U.S.*

On the domestic front, with layoffs edging up to the 2.5 million mark and the prediction of more devastating fuel cutbacks and spring floods dominating the media, Carter set the stage for the next phase of his energy offensive in his "Fireside Chat" to the nation Feb. 3. Proclaiming that the "energy shortage is permanent" and that conservation and the elimination of "wasteful" energy consumption are the key components of the national energy program he intends to send Congress in April, Carter outlined policies which would mean an effective 20 per cent reduction in the country's overall energy usage.

In a Pittsburgh speech Jan. 30 Carter urged the immediate adoption of a four-day work week and the diversion of natural gas supplies from energy-intensive industries, such as fertilizer plants, to labor-intensive ones.

The hysteria whipped up by the Carter forces, coupled with the deteriorating natural gas situation and this past weekend's intense cold, succeeded in quashing Congressional resistance to Schlesinger's emergency energy bill — which was voted up overwhelmingly and signed into law by a beaming Carter Feb. 3 although a significant backlash to Carter's policy is beginning to emerge since his televised "chat."

The Carter Administration is attempting to get as much mileage as possible out of this initial victory to advance their designs for extending emergency powers over the entire domestic economy. The White House has announced that it will submit the Carter Schlesinger blueprint for establishing a Cabinet-level Energy Department to Congress by the end of this month, while the Administration's allies in Congress are embarking on parallel maneuvers. Kennedy aide Stewart disclosed that Kennedy was being groomed as the prime spokesman in Congress for the Carter-Schlesinger energy policy. The Massachusetts Senator, now angling for the chairmanship of the pivotal Senate Judiciary Subcommittee on Anti-Trust and Monopoly, will focus on two key issues: OPEC-multis collaboration, are breaking up the independent energy companies by enacting "divestiture" legislation. Divestiture hearings are expected to begin in six weeks, although conservatives on the Judiciary Committee and their industrialist and independent oil backers are attempting to block Kennedy from being

named chairman of the Anti-trust subcommittee.

The intended outcome of Kennedy's maneuvers, Stewart revealed, will be to establish the basis for a government energy-purchasing authority that will buy oil from OPEC countries through a sealed-bid procedure.

Although he claimed that the rationale for such a procedure is to drive down oil prices by forcing the OPEC nations to compete with one another on the market, the scheme is a provocation of OPEC which could easily lead to higher prices — or worse. Moreover, the scheme is meant to place top-down control over oil supplies in the hands of the Carter Administration.

Stewart also indicated that the Administration will move rapidly to impose mandatory conservation measures on industry and to obtain the authority to abrogate unilaterally energy deals between U.S. companies

and foreign entities that are judged to be contrary to U.S. interests. Given the Carterite deindustrialization policies, one can only expect the Administration's axe to fall on any deals that would augment the supply of energy to U.S. industries.

The Carter administration is implementing as much of its energy policy as possible without benefit of legislative approval. Transportation Secretary Brock Adams Jan. 31 used executive order to implement large chunks of Kennedy's highly controversial oil tanker safety bill. Effective immediately, Adams said, all tankers entering U.S. waters must be equipped with various sophisticated safety and navigation devices. Since this equipment is extremely expensive and not generally in use, Adam's directive will probably, as intended, cut off portions of U.S. imported oil supplies.

## Kennedy Energy Aide: A Hostile Act Could Lead To War

*The following is excerpted from a Feb. 2 interview with John Stewart, energy aide to Senator Edward Kennedy (D-Mass). Stewart also serves as an advisor to Special Assistant to the President, James Schlesinger.*

**Q:** Given the energy crisis and the necessity to ensure a sure supply of oil to the U.S., what changes do you see in the relationship of the U.S. to OPEC?

**Stewart:** We will continue to rely on OPEC with a growing dependence on OPEC and African countries like Nigeria.

**Q:** Would the U.S. try to diversify oil sources, that is get oil from Mexico and perhaps from Venezuela?

**S:** No, because Mexico could not supply that much and Venezuela has nationalized their oil companies and is consciously conserving their oil and shifted oil sales to other countries.

**Q:** Would this then mean that since the U.S. will have to rely on OPEC, the U.S. will try to split them apart?

**S:** We have to relate to OPEC with great sensitivity. We would not have an overt effort to break the cartel as that would strengthen it. Individual OPEC nations and the U.S. have to have special relationship. We have to link oil to what they need from us.

We have strategic reserves that need to be filled with the government buying it directly at lower prices. These strategic reserves could be filled by sealed bid which would give the OPEC nations a chance to compete. The broader Middle East situation is a political question that relates — a settlement may have the impact that would break up the cartel, as the anti-Israel stance has kept it together.

**Q:** There have been recent events in the Middle East that make it seem that a settlement might not occur soon,

that a war might even emerge. Given the current energy crisis here and the possibility that OPEC would maintain its hold, do you think that there might be impetus for the U.S. to invade the Mideast oil countries. A recent Harris poll said that 74 per cent of the U.S. population wanted to teach OPEC a lesson.

**S:** Assured access is primary. It would be very foolish to take military action though, to invade lets say, Saudi Arabia. Nobody thinks we will do it, every country would turn against us. They'd blow the oil fields up first. It could lead to the brink, maybe over, to nuclear war.

In response to something that OPEC might do however, we might take action. We are very vulnerable to supply interruption. Our allies are too and we couldn't let them be cut off. We couldn't sit by if the Arabs cut off their oil. It is an interdependent world. There are many other aspects to this — a hostile act in any area could lead to war.

If things change in our actions then it would be along the lines outlined by John Sawhill in his recent testimony in Congress.

**Q:** Do you mean that government will play a larger role in the oil question?

**S:** The cartel is dependent on the companies. We are waiting for a Government Accounting Office report that will discuss this — specifically they will discuss the fact that the companies now set prices and prorationing and that the OPEC countries should. We will have hearings on this as soon as it's out. This leads to the question of what role the government should play. The government should have more information on the companies and the power to suspend agreements of the companies if they are not in the U.S. interests. The government should also begin to be an active purchaser of oil. We don't have a national oil company. We need something like this so we don't have to go through Mobil. I think that Carter will

move that way. We don't need sudden jolts though, we need voluntary changes.

But the most important thing is that the current weather crisis shows the need for conservation. Carter will move on that, Schlesinger is committed to that. Their energy package will propose insulating homes, financial disincentives so that industry uses less energy, a solar push and mandatory efficiency goals for industry. We need a more serious effort in this. In the background is the fact that the country will not be self-sufficient in our lifetime.

## DOD Official: Break Up Opec

*The following is an interview with Melvin Conant, Defense Department advisor, former International Affairs head of Federal Energy Administration:*

*Q:* Given the current energy crisis and the growing awareness that we need to diversify our energy suppliers, what can be done along these lines?

*A:* In the next ten years little can be done to change our dependence on Persian Gulf oil. The argument is that conservation can't change this, that finding large reserves outside the Middle East is diminishing, that investment in nuclear power is falling off and this puts the burden even more heavily on oil. This is almost irreversible. We must act soon. The geopolitics of oil comes in when we accept that oil reserves abroad, that the control of them is with the non-industrial world. Therefore we must have adjustments if we are not to run an unacceptable shortfall. To ensure this we must —

1. Begin to limit imports from Persian Gulf and to develop on a scale not attempted before offshore oil, Arctic oil, deeper oceans oil and oil from other areas — namely Venezuela, Mexico and Canada. It is true that the current price of oil is not sufficient for this. The companies' argument is that if prices are lifted they could develop shale. There have to be incentives to allow this development. It has to be worked out in public policy. We need controllable incentives like Senator Jackson's bill. We are talking about billions of dollars.

2. By the mid-1980s we have to have billions of barrels in reserves. When talking about national security, this economic question has to be seen. We have to have the means to meet an embargo. There should be a major national effort in this. It was watered down by the FEA and it will take a trumpet call from Congress to do it, the cost is so great. The independent companies will want to avoid the cost of reserves.

*Q:* Who in Congress will be moving along the various lines you detail?

*S:* Well, Kennedy. He is trying for the chairmanship of the anti-trust and monopoly subcommittee of the Judiciary and will have this as well as the Joint Economic Committee energy committee as a forum. In the next six weeks, this subcommittee will have hearings on horizontal divestiture, going over the oil companies control of coal and uranium and other alternate energy sources.

3. The question is do we want to break OPEC up. We were taught a lesson in 1973. OPEC is deeply divided and as a practical matter we should try to boycott Persian Gulf oil. Venezuela and Nigeria will increase oil shipments. If we have a special relationship with Iran and Saudi Arabia we can politicize oil supplies. Saudi Arabia has insisted on change in the Israeli situation — we should zero in on them, and treat them as a separate country and not part of OPEC. We can't keep depending on Saudi oil.

*Q:* How should we therefore relate to them?

*A:* If we said that oil from other countries could do it. Most Arabs know the U.S. is the guarantor of the security of that country — Saudi Arabia, that must be part of the bargaining.

*Q:* Do you mean weapons?

*A:* Well arms sales, but more the protection of Saudi Arabia from Gulf attack. That point must be emphasized.

*Q:* Do you think as you just suggested that there could be terrorist attacks against the oil pipelines and such things?

*A:* That is one of the distinct possibilities. Saudi Arabian actions in OPEC were not well received by Iran. There could be hot headed irrational acts. There are no lack of incendiary things in the area.

*Q:* Could the situation get so serious that the U.S. takes military action to ensure supplies?

*A:* There is something in what you say. The present winter situation however won't be associated with oil imports. If you're going to be strangled, you do something.



# Schmidt And Giscard: 'All Nations Have The Right To Nuclear Technology For Peace'

Major European nuclear energy producers this week affirmed a number of steps which increase the overall commitment of the European Economic Community to development of nuclear fission as a viable energy resource. The commitment, underscored in a joint communiqué issued by West German Chancellor Helmut Schmidt and French President Giscard d'Estaing yesterday affirmed that "all nations have the right to nuclear technology for peaceful purposes."

The French-West German statement was a clear answer to extraordinary attempts by the Carter Administration to force the two countries to cancel major export deals with Brazil and Pakistan for export of reactor technology.

On his tour of Europe last week, Vice President Walter Mondale delivered the Carter Administration orders that expansion of European advanced nuclear capability must be halted. The Europeans have increasingly answered the U.S. policy of so-called nuclear non-proliferation with a fight to develop the industrial energy sector.

The political fight emerging between Europe and the U.S. Administration blew into a major scandal Feb. 3 with an effective accusation by the Energy spokesman for the European Community, Mr. Guido Brunner that the U.S. had disrupted shipment of enriched uranium, essential for Europe's nuclear industry.

The de facto U.S. uranium embargo is being called a direct form of blackmail.

To further facilitate increased export ties, especially with developing countries urgently pursuing policies of industrial infrastructure development, a number of moves in Europe are underway this week.

In West Germany, Kraftwerke Union (KWU), the Siemens subsidiary which has contracted to supply Brazil with eight reactors, moved to strengthen its export capability by forming a major consortium, Kernbrennstoffkresilauf, e.v. which will be a nuclear fuel cycle consortium including in addition to KWU, Bayer, Hoechst, Degussa, Siemens, RWE, Nukem, Uranit, Alcem, Steag and Gelsenberg. The large Dresdener and Deutsche banks are part of this major consortium whose purpose, according to a spokesman is to put the group "on top of every political issue concerning nuclear power and fuel cycles." This consortium will considerably facilitate increased export of complete nuclear facilities along the general lines of the Brazilian agreements to developing and East European countries.

An Italian consortium has been formed which if successful, will have major implications for such nuclear exports. The private nuclear firm, Belleli has formed a consortium with IRI's Italmimpianti for development of a special patent for a system of dry cooling for fission reactors which would be especially useful in desert areas like those in the Middle East.

British Energy Minister Benn held a series of important meetings this week in order to push critical areas of joint European nuclear development which have been

hitherto stalled by various forms of Atlanticist-connected political sabotage. Benn met with West German Minister for Research and Technology, Dr. Hans Matthoefter and their Dutch counterpart Lubbers to clear up delays in construction of the joint uranium enrichment facility, Urenco. To date a faction of the Dutch Socialist Party has blocked construction of an enrichment facility at Almelo in Holland. The increased enrichment facility is crucial as the consortium has a contract to supply Brazil's reactors with enriched uranium for at least two of its reactors by the 1980s before its own enrichment facilities are on line.

The British government, whose domestic reactor program is awaiting several governmental policy approvals for future development, is moving more actively to underwrite the capital risks for overseas power development projects. The British Export Control Guarantee Department (ECGD) is considering using the partially state-owned Nuclear Power Co. as a turn-key contractor for overseas power projects. The British General Electric Co. (GEC), which has part ownership of the NPC is reported in the London Financial Times to be part of a consortium along with Babcock and Wilcox and Rio Tinto Zinc, Ltd. which is seeking ECGD underwriting to win major turn-key contracts to build a power station in the mideast. GEC, B and W and RTZ are all heavily involved in nuclear power development. The ECGD under the Callaghan government has just substantially raised the ceiling on export credit guarantees for British industrial export to facilitate the Callaghan industrial recovery program.

British Energy Minister Benn also discussed with Matthoefter plans to break with stalemate in locating a site for the European Community's Joint European Torus (JET). The fight for a long-range European effort to develop thermonuclear fusion is being directly tied to commitment to long-range policies for expanded development of energy. For the first time the official paper of the Italian Socialist Party, Avanti, stressed that "fusion power can be realized before 1990", and urging Italy to push development of the JET. The Italian Il Fiorino linking Carter pressure on the West German fission export, stressed that "the ultimatum of Carter to West Germany can also be used against all of Europe; therefore the JET must be pushed."

Although to date no concrete agreement on the JET has been announced, the London Financial Times reports that the French, who under pressure from the U.S. had moved late last year to block choice of a site for the European research facility and effectively sabotage the project, have backed down under strong European pressure.

Underscoring this growing commitment to nuclear energy development, Dr. Guido Brunner announced that the European Community will launch a European-wide campaign to convince public opinion that there is "no substitute for nuclear energy and that fears over the safety of nuclear plants is misplaced."

## Illinois Industrialists Oppose Carter's Energy Program At Chicago Meetings

On Jan. 31, representatives of fifty Illinois industrial firms gathered in Chicago at a meeting called by the Illinois Chamber of Commerce to discuss and resolve their position on both short-term and long-term energy policy.

The meeting opened with a brief, but concise, statement on policy by James Ingersoll, Vice-President of the Chicago-based Borg-Warner Corporation and President of the International Trade Club of Chicago. He attacked Carter's energy proposal, and especially the suggestion of a four-day week, as a "foot in the door for the destruction of free enterprise" which must be vigorously opposed. The rest of Ingersoll's statement and the general mood of the entire meeting was pro-development, anti-conservation and zero-growth and explicitly anti-Carter.

The second policy statement was made from the floor by Mitchell Hirsch, representative of the U.S. Labor Party, who received a friendly welcome from the meeting. Hirsch stressed the immediate necessity of the meeting going on record in opposition to all measures initiated by the Carter administration which would result in cutbacks in production, layoffs, and conservation that

would lead to negative economic growth. Hirsch asked the meeting to endorse a long-term development proposal, backed up by a reorganized banking system which could extend credit for both short-term and long-term energy production and a crash program for fusion power research.

The final result of the meeting was a resolution that the Illinois Chamber of Commerce would: 1) Call for at least temporary lifting of unneeded restraints on sulphur dioxide Environmental Protection Agency (EPA) restrictions; 2) Increased use of coal on a standby and short-term basis where coal was available and conversion to coal not a problem; 3) Call for relaxation of environmental restrictions on shutting down afterburners of hydrocarbons; 4) Short-term diversions of small amounts of natural gas for hospitals and "human requirements" would not be opposed.

The most important resolutions agreed upon were to oppose any four-day week or other federally mandated cutbacks and to seek the establishment of a production oriented national energy policy. The group also determined to lobby strongly with the Illinois Congressional delegation on all these resolutions.

## Energy Development Memorialization Bills Advance

The nationwide effort to reorient U.S. energy policies back toward the program of growth and development of new high-technology sources prevalent until the late 1960s advanced significantly when a memorialization bill embodying the U.S. Labor Party's energy development program was read into the Washington State Senate Jan. 20. The bill, designated Senate Joint Memorial No. 102 (see text below) and referred to the Senate Energy and Utilities Committee, was introduced by Sen. Kent Pullen (R-Kent) and is being co-sponsored by the Energy Committee's chairman, Sen. Ted Bottiger (D-Pierce Co.) along with three other members of the Committee, Sens. August Mardesich (D-Everett), the former Senate Majority leader, Bob Lewis (R-Yakima), the minority assistant floor leader, and Max Benitz (R-Yakima). Since the four comprise a majority of the Energy Committee, the memorial will almost certainly be reported out to the full Senate, where it is also expected to pass. The memorial will then be sent to the House.

The memorial's chances for passage have been greatly enhanced, in the view of veteran Washington political

observers, by the offensive launched by Washington Gov. Dixy Lee Ray against Naderite environmentalists. Ray followed her recent denunciation of the environmentalists as "people haters" with an attack last week on the National Environmental policy act.

Ray called for amendments to the act which would require environmental intervenors to pay for the costs of environmental impact studies that are granted by the courts, and would place a statutory time limit on the delays to energy projects and industrial construction caused by such studies. She also asked for court penalties against defeated intervenors commensurate to the losses caused by delays to projects. These amendments would eliminate the stalling tactics employed by Naderites that have disrupted U.S. industrial growth since NEPA's enactment on Jan. 1, 1970.

At the same time, a memorial similar to that introduced in Washington was filed in Connecticut by Sen. Richard Bozzute (R-Watertown), Jan. 26. Filing of memorials is expected as well in Colorado, Oregon, and Vermont.

# The Washington State Energy Memorialization Bill

SENATE JOINT MEMORIAL NO. 102

State of Washington  
45th Regular Session

By Senators Pullen, Mardesich,  
Lewis, Bottiger and Benitz

Read first time January 20, 1977, and referred to Committee on ENERGY AND UTILITIES.

TO THE HONORABLE JIMMY CARTER, PRESIDENT OF THE UNITED STATES; AND TO THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA, IN CONGRESS ASSEMBLED:

We, your Memorialists, the Senate and House of Representatives of the State of Washington, in legislative session assembled, respectfully represent and petition as follows:

WHEREAS, The United States has a unique role to play in the world as a leading force for scientific and technological innovation and advanced agricultural and industrial production; and

WHEREAS, The rights and responsibilities this involves were initially secured through hard fought battles in the American Revolution up through the Civil War; and

WHEREAS, At this time there are those policy makers, who, through their adherence to "zero growth" and unsound monetarist policies, would act to subvert the historic American commitment to progress; and

WHEREAS, These interests would demobilize the American economy and sacrifice basic education standards by implementing programs of retrogressive energy forms, employment of skilled labor and youth in "public works" below subsistence levels, and dilution of education into "sensitivity" training; and

WHEREAS, Threatened in particular by the onset of such deindustrialization policies are the technical abilities which define us as a modern, industrial nation: the aerospace, electronics, and related sectors; and

WHEREAS, If the workforce, research and development capacity, and industrial infrastructure of these sectors are permitted to deteriorate either through

a deliberate dismantling policy or through defense expenditure vicissitudes, then all lower levels of technology including metal-work, industrial chemicals and the rest, will be in jeopardy because the nation's capability for the most advanced retooling and design will be lost;

NOW, THEREFORE, your Memorialists respectfully pray that:

(1) The Congress will prevent such a course of action inimical to the nation's future and to mankind, by implementing policies of industrial research and development, and the development of the advanced energy form, controlled nuclear fusion power;

(2) The Congress will undertake the necessary enabling measures to accelerate and broaden the research and development of controlled fusion reactions;

(3) The Congress will enact complementary enabling measures to develop fossil fuel usage and nuclear energy expansion under existing technologies to bridge the period between now and the target period of the mid-1980s when controlled fusion energy can come "on line";

(4) The Congress will undertake to foster the expansion and development of aerospace, electronics, computer, and related sectors by measures including the following:

(a) Development of the scientific and engineering know-how essential for bringing on-line controlled nuclear fusion reactors;

(b) Development of this sector for the stable domestic capital goods markets and for export;

(c) Development of this sector in connection with revitalizing the machine tool industry to in turn tool-up outmoded American industry in all lines of basic manufacture, transportation technology, agricultural production, and food and fibre processing;

(5) The Congress will enact measures required to strengthen basic scientific education for the population in the fields of physics, chemistry, biological research, agronomy, plus engineering and related professional skills.

BE IT RESOLVED, That copies of this Memorial be immediately transmitted to the Honorable Jimmy Carter, President of the United States, the President of the United States Senate, the Speaker of the House of Representatives, and each member of Congress from the State of Washington.

# New York City "Crisis" Scenario

## Is Test For U.S. Dictatorship

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### SPECIAL REPORT

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The Carter Administration and spokesmen for the New York City financial community announced a series of moves this week to make New York City, the showpiece of the city banks' austerity program, the nation's model for the James Schlesinger conception of a "crisis management" austerity dictatorship.

The moves, taken to ensure that the city was unable to meet a Feb. 3 state court deadline to produce a plan for payment of \$1 billion in short-term notes held in moratorium since 1975, have set in motion a "crisis" scenario that is intended to produce a level of austerity and service cutbacks which will make New York City a test case for Schlesinger's goal of reducing nationwide energy consumption by 40 per cent. Such austerity is considered vital to the efforts of leading Rockefeller-connected New York financiers to avoid bankruptcy court.

Herbert Tanschburg, a spokesman for the New York bank's "watchdog" group, the Citizens Budget Commission, told a reporter Jan. 30, "If the federal government asked for \$700 to \$900 million in cuts, we could make them. We may have to call in the national guard to do it, but we'd do it. We'd handle the situation." Making sure that his point was clear, Tanschburg stated, "(New York) Governor Carey is going to go after blood."

Added a spokesman for Lazard Freres the investment bank, in a Feb. 2 conversation with a reporter, "I foresee the Guard being used when all the policemen and sanitation men have been laid off to patrol the streets and move the garbage; the city is not going to put its house in order without doing that. The city should have gone bankrupt some time ago. What we're seeing is the beginning of the demise of the political patronage system in large U.S. cities."

The levels of austerity and cutbacks being sought were first outlined in 1976 by Roger Starr, a member of the board of directors of the New York Times, who stated in a Times article that New York City will be put through a "planned shrinkage," which will depopulate the city by 1.5 million people. Starr called for creating zones of the city, such as the South Bronx and the Bushwick section of the city, where essential services will be cut off altogether, thereby forcing areas to collapse and their populations to move out altogether.

This policy was restated Jan. 28, in a report released

by Secretary of State Cyrus Vance's private "Business-Labor Working Group," which centered around the establishment of an Urban Development Bank. The bank, according to its authors, will issue Mefo-bill type equities — first devised by Hitler's finance minister Hjalmar Schacht — to buttress the New York banks and finance labor-intensive jobs programs in New York City. This is a foot-in-the-door to the immediate spread of these programs to the entire Northeastern U.S. corridor.

#### *The Banks' Scenario*

The crisis scenario was set in motion Jan. 31, with the announcement by Jimmy Carter's press secretary Jody Powell that "we're not making a long-term commitment to solve a short-term extension. Short-term arrangements have to be worked out locally." With the refusal of federal aid to help meet the Feb. 3 note deadline, Carter — who attempted to make campaign hay in New York with assurances that he would aid the city before the Nov. 3 election — delivered an unambiguous message to the New York City population: drop dead.

Carter's statement — the "midwife to a constitutional crisis," according to one banker — coupled with the announcement by Senate Banking Committee chairman Sen. William Proxmire (D-Wisc.) that there was no chance for an extension of federal loans to the city, set up the crisis by forcing the entire burden of the court-ordered repayment directly onto the city.

In the next phase of the crisis, Gene Kaylin, executive director of the Municipal Assistance Corp. (Big MAC), told the New York State Court of Appeals Feb. 3 that, as a result of the lack of federal funds, the city is unable to come up with any funding plan. The Appeals Court is expected to order that the N.Y. case be remitted to a lower court, the New York State Supreme Court.

The Supreme Court will either issue a further ruling on the case, or, more likely, the case will end up under the supervision of New York's Southern District Federal Court, a Rockefeller fiefdom where Wall Street may put New York City through bankruptcy proceedings. Simon Rifkind, a member of the CIA-connected Wall Street law firm of Paul, Weiss, Rifkind, Wharton and Garrison (which includes Ted Sorenson as one of its members and which represents Big MAC) pointed out this week that either federal or state court will be free to appoint a "master" — a federal financial dictator who will manage the bankruptcy proceedings and strip away all the city's elective sovereignty.

The goal of the plan was spelled out precisely at a Jan.

19 meeting of the chairmen of the boards of the largest New York banks — David Rockefeller of Chase Manhattan, Elmore Patterson of Morgan Guaranty, Alfred Brittain III of Banker's Trust and Walter Wriston of Citibank, — with Gov. Carey and Stephen Berger, chairman of the Emergency Financial Control Board. There the bankers laid out plans for a three member local finance Commission, with broad subpoena powers, which would control and monitor the city's finances for the next twenty years.

#### *"Carey is Going After Blood"*

The express aim of the crisis management government is twofold: more austerity cuts, focused on ending the city's public hospital system, and the creation of a federally backed Urban Development Bank.

Boasting of the banks' ability to impose any and all levels of cuts, Citizens Budget Commission spokesman Ranschburg declared that New York City should "get out of the hospital system" by eliminating all public hospital in-patient service. "Let them go to the private hospitals," he stated. Indicating that the attack on the hospital system is just the beginning, Ranschburg claimed that Gov. Carey's attempt to dismember the Health and Hospital Corp., "was necessary. Somebody has to have the guts to say, 'you ain't going to get anymore.'"

The other side of the scenario was unveiled on Jan. 28, when Carter's Secretary of State, Cyrus Vance, author of

the 1968 "Garden Plot" scenario for federal military occupation of cities, and his private "Business-Labor Working Group" released their official report.

The centerpiece of the Vance scheme is an Urban Development Bank, according to Chase Manhattan vice president Jack Davies, who coordinated Vance's BLWG. "We want a federal urban development bank," Davies stated. "This is not stated in the report, but it is what we all have in mind."

The bank concept was originated by the Institute for Policy Studies' Gar Alperovitz. The plans for the bank, as outlined in the report, call for development of slave-labor industrial parks to be built in the gutted and depopulated sections of Brooklyn and Manhattan.

Nevertheless, the real matter still remains not New York City's financial crisis, but the financial crisis of the New York banking majors, who are attempting to unload their insolvency onto the city's population. The Securities and Exchange Commission, which oversees the regulation of stocks and bonds, is in fact now investigating this situation, focusing on the fact that several New York banks, led by Chase Manhattan, engaged in illegal dumping of New York City securities in order to bring in badly needed cash. Admitted the CBC's Ranschburg, "The SEC investigation is forcing a lot of people to dance around the bush on the question of loans to New York City. If they break the full story there will be a lot slack faces around here, a lot of sick faces."

## Bond Markets Weaken, U.S. Gluts Feared

The U.S. bond market, the Eurobond market and the West German domestic bond market continued their January downturn this week. U.S. Treasury's trading is suffering from a lack of foreign interest, while a glut has built up in U.S. state and local paper. The West German market, where foreigners are backing off as well, is suffering price losses, while the general flow of international investment away from the mark has unfavorable repercussions for deutsche mark issues in the Eurobond sector.

In the wake of the news that the narrowly defined U.S. money supply had declined \$1.9 billion in the week to Jan. 26, a development accompanied by a "prudent" public posture on the part of Federal Reserve chairman Arthur Burns, prices rose yesterday on the U.S. bond market, counter to the steady 1977 sag, with 8 per cent Treasury notes up by more than one point. The Pickwickian situation of the American bond market is now such that only a drop in the dollar — inducing foreign central banks to rechannel their "hot money" dollar inflows into Treasuries—or a drop in the economy of the sort corresponding to the MM-1 growth contraction, or both, will save the market from the slump induced by fears of inflation and lack of foreign interest. Major bond dealers in West Germany and Luxembourg polled this week were shocked to hear reports of a planned sale of New York's Municipal Assistance Corporation paper in the Luxembourg market under another name; they not only called New York City debt a "disaster area" they would never touch, but reaffirmed their diffidence toward

Treasury obligations.

The U.S. Treasury market as a whole showed a decline of six points (\$60 per \$1,000 face value) so far this year. Dealer inventories of Treasury paper were over \$14 billion at the end of December; in January, the Federal Reserve had to buy \$1.2 billion in bills and \$1.2 billion in long-term coupons. The \$6 billion sale of new Treasury issues this week proceeded at depressed levels until the pick-up late yesterday. At the moment there is only \$260 million in new issues of state and local debt instruments, but almost \$1 billion in old ones are being traded inter-dealer, reports the Wall Street Journal, and this month a total of \$1.6 billion in new issues is slated.

On the federal level, the squeeze is represented by an expanded budget deficit plus the absence of foreign purchase of Treasuries can best be situated with reference to the \$5 billion in non-marketable Treasuries accumulated by European central banks from November through January. In effect these central banks—chiefly the Swiss, West German, and British—were using the excess dollar reserves, accumulated due to speculative flights out of U.S. holdings, to help finance the U.S. budget deficit. Ironically the recent short-term stabilization of the dollar cuts this inflow, while a compensatory private foreign interest in Treasuries and tax-exempts has yet to manifest itself.

U.S. banks, meanwhile, which had stocked up on Treasuries during the bond-market upswing of December, have liquidated \$700 million in one- to five-year notes this year, but still possess uncomfortably fat

portfolios, according to New York dealers who expect the banks to take losses on future sales.

The Eurobond market was swamped in January and new issues tended to do poorly, a situation which continued this week in all sectors. January volume was \$1.5 billion, with yields up owing to the rising trend in U.S. interest rates; competition has intensified among underwriters and national sectors, as a greater proportion of business is taken by continental banks (authorized to both underwrite and make retail sales) from U.S. and British merchant and investment banks. The Union Bank of Switzerland handling of a Mobil private placement, instead of Mobil's usual dealer Morgan Stanley, and the Deutsche Bank handling of an Imperial Chemicals issue instead of S. G. Warburg, are cited by *Business Week* as exemplary. At the borrowing end, Luxembourg dealers fear that U.S. corporations may start squeezing out European issues while the U.S. and British financial press deplores the quality of names coming to the market, and tends to bad-mouth French dollar-denominated Eurobond issues which have, thus far, sold relatively well. Forecasters expect upward pressures on interest rates to discourage short-term 1977 Eurobond investment and help the market's long-term end; the former could, however, occur without the latter, drying up a comparatively cheap source of state and corporate financing.

Both Eurobond issues denominated marks and the domestic West German bond market are in a state of depressed uneasiness. In the Euromarket, a Bergen, Norway bond issued below par is doing poorly; \$400 million in new issues scheduled for this month on behalf of mostly Scandinavian borrowers are expected to sit heavily, along with a low-interest private placement for

the Austrian government.

The decisive elements for the West German bond market are a healthy margin of foreign buying and a lack of competition between public and private borrowers. The first is now lacking, as the dollar gains vis-a-vis the mark, and the second may be imperiled.

In 1976 the domestic bond market saw a generally smooth turnover of public debt at lower interest rates and longer maturities with few private issues, and a had a short, hectic boom during the turn-of-the-year dollar sag, with dealers clamoring for more government debt to sell. Now, the state rail issue is selling at a .75 per cent discount, and the bank purchasers are apparently holding off from the market, despite their relatively high liquidity. Both the Munich Bond Advisory Service and the Deutsche Bank foresee a squeeze coming if private borrowers, absent up to now because of low investment activity and or alternate financing sources, return to the market at the same time as the public sector's financing mounts: "In the near future there is going to be an avalanche-like increase of bonds maturing and in need of fresh financing," warns the Deutsche Bank. Since 1972, German corporations have stopped trying to borrow in this bond market, but a large retail company ventured in this December with a ten-year 7.5 per cent coupon offering.

In the French bond market, January issues were almost wholly from the public sector, and sold on average a quarter per cent below par. The secondary market, however, showed an upward trend last month for both private and public obligations. British government securities, or "gilts," continue to enjoy international demand sufficient to permit further lowering of the minimum lending rate and expansion of banking reserves.

## Markets Await European Action On New Monetary System

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### FOREIGN EXCHANGE

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Behind the relative quiescence of international foreign markets this week — and the seeming stability of the U.S. dollar — is a raging policy debate at the highest levels of European government and industry concerning the future of the present dollar-based world monetary system. The outcome of this policy debate — rather than any simple linear projection of present trade and interest rate trends — will be the primary determinant of foreign exchange market swings over the next three-month period.

The West German business daily *Handelsblatt* this week provided the first major European press coverage of an article published in the Soviet journal *International Affairs* in January proposing to replace the crisis-ridden Bretton Woods structure and its "floating rates" sequel

with a system based on the Comecon's transfer-ruble. Signalling intense European interest in the Soviet offer, *Handelsblatt* reported that the Soviet's willingness to use the transfer-ruble to finance "continent-wide projects" could result in "billions of deustchemarks in new orders" for export starved West German industry.

Saudi demands for fundamental reform of the monetary system, including a "freeze" on Third World debt payments, was a major agenda item at the EEC Foreign Ministers meeting in London this week, according to a New York oil specialist. The Saudis realize that much of their present Eurodollar market deposits would be wiped out in a Third World debt moratorium, the source said, but they "do not expect to get this money back" anyway and are more concerned about establishing sound alternative monetary arrangements. U.S. government pressure forced the EEC ministers to put off action on this question for the moment. Further delays, however, could wreck the fledgling export-led European recovery and with it European currency stability.

### *To Reflate or Not to Reflate*

Although Vice President Mondale's efforts to persuade the West German government to reflate their economy proved to be a stunning failure, the limitations of the West Germans "Maginot Line" anti-inflation position became clear at the international bankers' forum in London this week. While British Treasury Secretary Healey and Bank of England head Richardson echoed U.S. demands for a more stimulative West German policy, Bundesbank chief Emminger complained of inflation and argued incredibly that bad credit risks were limited only to a few "isolated cases." Similarly, West German Finance Minister Apel attacked reflation but rejected recent French-Italian initiatives for European monetary union and a return to fixed exchange rates.

Ironically, the most fervent proponents of reflation — the New York commercial banks — are themselves the worst "isolated cases." Morgan Guaranty Trust Company, in its monthly World Financial Markets newsletter, admitted publically that U.S. private banks can no longer handle the financing of immense Third World and European payments deficits and called for large-scale U.S., West German, and Japanese contributions to the International Monetary Fund to bail the banks out of this predicament.

### *West German Economy Hits Skids*

Although West German monetary authorities may be correct in rejecting such flagrantly inflationary underwriting of New York's bad investments, the decline of their export markets in Western Europe and the non-oil producing Third World countries — *in the absence of any alternative credit system* — is bound to result. West German industrialists foreign orders fell 1.5 per cent in November-December, with overall orders showing only a 2 per cent rise. This was immediately reflected in a 10.6 per cent plunge in the preliminary (unadjusted) industrial production index in December and a jump in January unemployment from 1.09 to 1.25 million workers. Consumer prices also took a leap forward in January, rising 1 per cent in a month, the worst showing in a year.

This week's outcry from the West German financial

press and several economic institutes, pinpointing the recent metalworkers' wage pact as a precedent-setting "threat" to the economy and business capital investment plans, misses the real issue. The decline in real incomes during 1976 has already eaten heavily into the country's retail sales, and holding back wage increases will not improve the situation.

The real potential for West German economic renaissance, as everyone admits, lies in capital goods exports. While the government has greatly expanded the export guarantee program and encouraged private company oil-for-technology barter deals, only a limited volume of trade can be financed through such mechanisms — precisely why the use of the Comecon transfer ruble is being actively considered by the West German industrialists at this time!

### *U.S. Energy Shortage Threatens Dollar*

The West German economy's turn for the worse, among other factors, has given the U.S. dollar a continued reprieve this week despite even worse economic news emanating from the U.S. itself. When word of how bad weather and natural gas "shortages" were damaging U.S. economic prospects — to the point of wiping out entirely the stimulative effects of Jimmy Carter's budget — reached Europe on Monday, Jan. 31, European banks unloaded their dollar holdings onto the markets driving the dollar down nearly 1 per cent against the deutschemark. Central bank interventions and "technical corrections" later wiped out most of the deutschemark's gain. However, traders report that the U.S. energy crisis could force the Federal Reserve to ease up further on money to prop the U.S. economy, leading to a surge in inflation, and a resultant flow out of the dollar.

Another short-term plus for the dollar has been the flow of speculative capital out of the deutschemark back into the British pound, following last month's sterling balances agreement, and the Bank of England's large-scale acquisition of dollars to rebuild its reserves. British central bank reserves jumped a record \$3.06 billion during January to a total of \$7.19 billion.

# How Rockefeller Sabotages Energy Development

Behind this winter's natural gas shortage is a systematic campaign conducted by Rockefeller family financial interests to prevent the development of new energy sources. Exploration and development of new oil and gas sources fell behind replacement levels not because new sources were not available, nor because the great majority of energy companies were not eager to develop them, but because the Rockefeller family exercised its muscle through market leverage, financial power, control of the Federal regulatory apparatus, and "environmentalist" covert operations.

Exxon, Texaco, and Mobil, the three companies who import 92 per cent of Saudi Arabian oil sold to the United States, are not "oil companies" in any useful meaning of the word. They are the Rockefeller financial group's front against the oil companies. Despite Exxon's notorious gimmick of packing its board of directors with less-than-worldly-wise Texas oilmen, the three Rockefeller companies have no interest in petroleum development. Their policy is to curtail the development of energy sources that would reduce the economic and political leverage of their control over Saudi crude. In the most obvious sense, Exxon-Texaco-Mobil control over cheap Saudi oil was the single reason that oil and gas exploration halved between 1956 and 1972, since the threat of price war hung over the market continuously.

The New York commercial banks who share directors with the three Rockefeller companies — principally Chase Manhattan, Citibank, Morgan Guaranty Trust and Chemical bank — dictate the international credit policies which have placed a lid on exploration and development.

The "environmentalist" movement is an agency of the Rockefeller Foundation, Ford Foundation, Stern Fund, Kaplan Fund, and other covert operations agencies of the Rockefeller family. "Environmental" lawsuits have slowed the rate of nuclear plant construction to a near-halt; prevented the development of off-shore oil in the Gulf of Mexico at the moment the energy industry was mobilized to take it on; stopped the flow of oil through the Alaska pipeline the moment it was completed; and created an atmosphere of terror against any significant capital investment in the industry.

The regulatory system adopted after OPEC raised prices in December 1973 "neutralizes" the effect of the higher prices by placing a charge on producers of previously-developed oil, in favor of the Exxon-Texaco-Mobil group that imports oil with a negligible cost of production from the Persian Gulf.

This overview will not treat the leading foreign policy questions which provide a determining context for the

economics of the oil industry. The U.S. State Department, most emphatically under Henry Kissinger, has made its principal objective the control of strategic access to petroleum. This objective interlaces with the Exxon-Texaco-Mobil policy of curtailing development of energy sources, as the recent Jackson Committee hearings in Congress show. (See International Report.)

As this study will demonstrate, the energy industry has suffered badly from the rise in exploration and development costs. Exxon, Texaco and Mobil have benefited from this rise, in two ways. First, the three companies who earn their profits mainly through "downstream" production of crude in Saudi Arabia pay taxes off these revenues; to the extent they engage in high-cost exploration and production they establish a tax shelter against earnings derived elsewhere. None of the Rockefeller trio of companies engages in exploration and development past the level that benefits their tax position. More importantly, the three companies have a strategic position of dominance that would be eroded or eliminated through a successful national effort to bring new petroleum sources and nuclear energy on line.

The benefit the Rockefeller financial group derives from the policy of energy curtailment goes far beyond the immediate cash advantage to the Aramco group. Expensive and scarce energy is the underlying basis — as Carter emphasized in his first fireside chat — for a general policy of economic regression to "labor-intensive" modes of production, de-industrialization, and lowering of living standards. The high price of energy, particularly when the cost is paid to Rockefeller-controlled corporations, establishes the basis for intensified financial looting of the economy as a whole. On a world scale, the paradigm for this form of looting is seen in the consequences of the December 1973 quadrupling of oil prices. Nelson Rockefeller's personal foreign policy advisor Henry Kissinger intervened in the deliberations of the OPEC countries following the October 1973 war to enforce the fourfold rise in the oil price. The price rise established a net tax on the world economy in excess of \$100 billion per year. Overwhelmingly, these funds went to the Eurodollar market or the home branches of New York international banks for deposit, and provided the means for a three-fold expansion in Eurodollar lending between 1973 and 1976. As the control points of the major source of international lending — providing 60 per cent of funds lent internationally last year — the Rockefeller-dominated Eurodollar banks assumed the powers of a supranational world government body with respect to a large portion of the developing sector.



No sector of U.S. opinion has been more badly misled by the pretense that Exxon, Texaco, and Mobil are "energy companies" than the energy industry itself. In particular, the apparent solid front of the "energy industry" in favor of deregulation of the price of petroleum products contains a bitter irony for petroleum companies with a commitment to exploration and development. Despite the quadrupling of oil prices and doubling of natural gas prices, exploration activity in the United States has shrugged off the expected benefit of the price-

incentive to exploration. New petroleum sources development ground to a halt by the end of 1975 because companies with the will to explore were over their heads in debt as a result of Rockefeller financial policies, and terrorized by Rockefeller "environmentalist" agents. Under conditions of Rockefeller control of Federal energy policy and Texaco-Exxon-Mobil dominance of the energy market, price de-control cannot possibly have a significant impact on the development of new energy sources.

## Dramatic Increase In Oil And Gas Industry Costs Is A Problem of Financing

In 1975, 9,214 new wells were drilled in the United States, below the 1966 figure of 10,313, and not substantially higher than the 1972 figure of 7,539. The relatively low level of exploration is a significant contributing factor to the current natural gas shortage, and is entirely inexplicable from the standpoint of price incentives to the petroleum industry.

As the pro-exploration oil companies themselves have argued, most of the excess revenues resulting from the oil price increase have been taken up in drilling and exploration costs. By 1974, the cost of exploration had risen to four times the 1971 figure; the cost per foot of drilling has been rising at an annual rate of roughly 25 per cent per year since the oil prices quadrupled in late 1973.

This exponential rise in costs breaks down principally into equipment costs, which have escalated significantly faster than the overall rate of capital goods inflation in the most critical sectors, and costs of land leasing,

particularly in the highly speculative 1974 rush into offshore leases. But the underlying impetus for the rise in costs — and the principal factor depressing private-sector energy development — is the stupendous aggregation of high-interest debt in the oil and natural gas industry (Graph 1). Chase Manhattan's analysts report on a \$4 billion increase in debt service charges to their Group of Petroleum Companies in 1975. Because the availability of energy-related capital goods and the financing of these capital goods involve a single operation, in which the elements of price and financing costs depend closely on each other, the cost-inflation problem is strictly a financial problem.

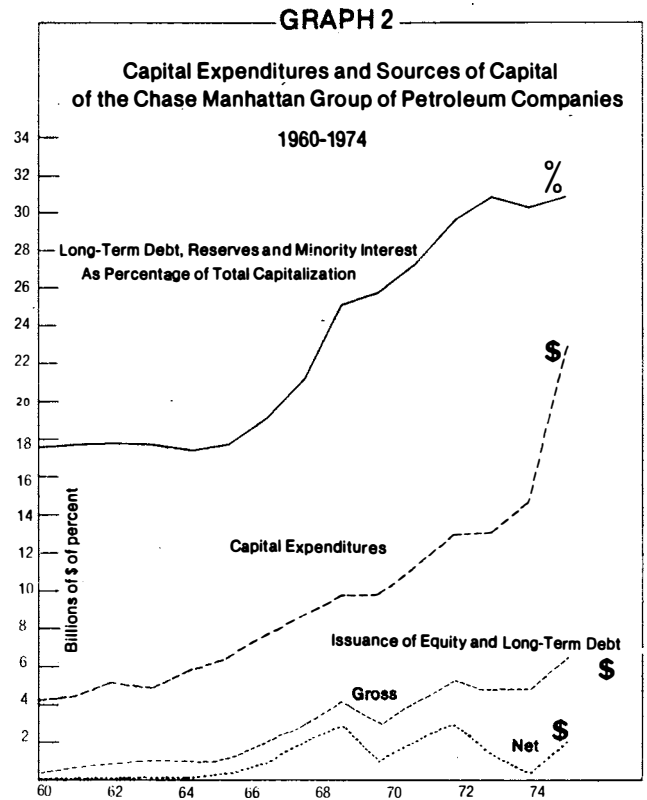
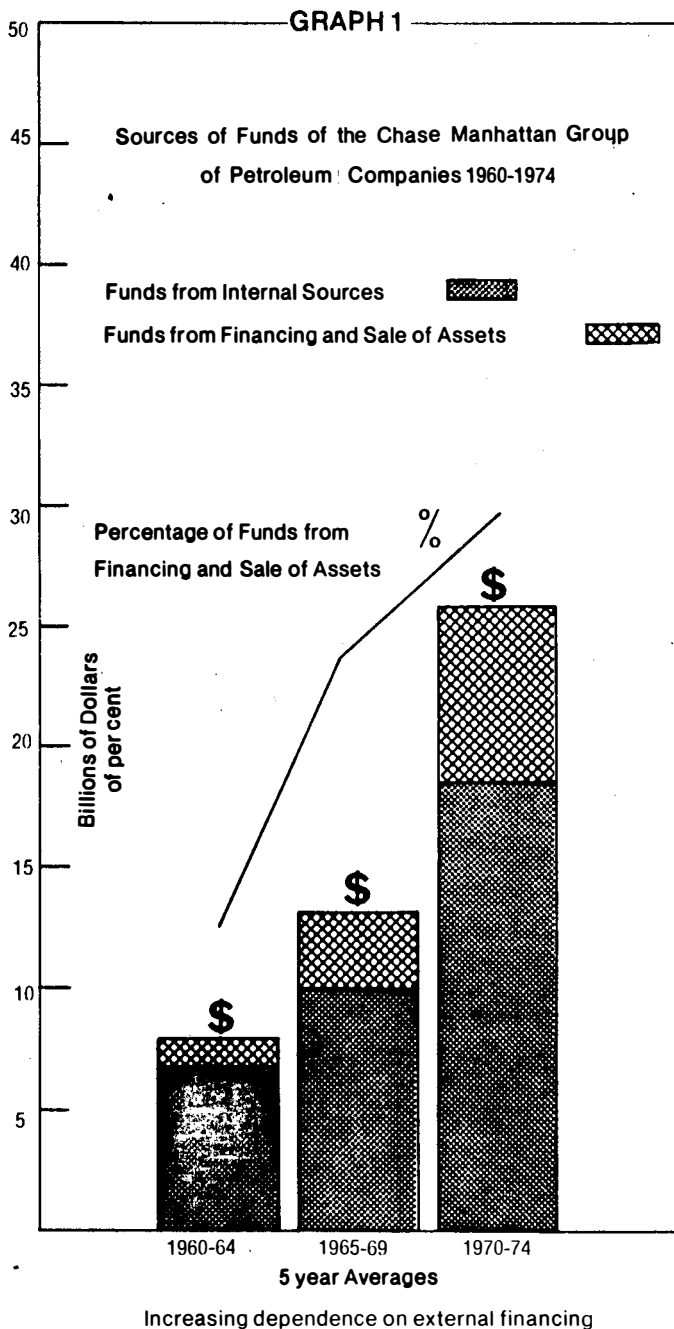
Since the 1973 rise in oil prices, the large commercial banks which dominate energy financing have been responsible for an anticipatory rise in industry costs, burning out the revenue advantage to the industry through a rise in strictly financial costs. Graph 1 shows that the external financing requirements of a key group

### Comparison Of Price Of Capital Goods In The Energy Industry And All Industry

(1967=100)

	1971	1972	1973	1974	1975
OIL FIELD MACHINERY INDEX	122.6	127.3	133.2	157.8	196.3
YEAR-TO-YEAR PER CENT INCREASE				18.5%	24.4%
OIL WELL CASING INDEX	120.7	128.4	133.2	170.7	211.5
YEAR-TO-YEAR PER CENT INCREASE				28.2%	23.9%
ALL CAPITAL GOODS INDEX	116.6	119.5	123.5	141.0	162.5
YEAR-TO-YEAR PER CENT INCREASE				14.2%	15.3%

of petroleum companies have risen exponentially, from 12 per cent of total turnover in 1960-1964 to 30 per cent during 1970-74; industry sources estimate that the problem has worsened dramatically since then. Of this external debt, only a negligible volume has been financed through the long-term capital markets and the equity markets (Graph 2). All but 5 per cent of the \$23 billion in capital expenditures made by the Chase Manhattan group of petroleum companies during 1974 depended on a variety of high-cost, short-term financial methods, the most typical of which are leasing of equipment at effective interest rates in excess of 20 per cent per year, and so-called production sharing arrangements.



Only a small margin of the external financing is long-term

To avoid confusion: although the large New York commercial banks are the dominant financiers for oil exploration and development, their terms of lending are no more onerous than those of the Republic National Bank of Dallas or the Bank of America, which have little sympathy for Rockefeller policies. Superficially the banking industry competes for such loans. But the overall conditions under which credit is issued in the United States have been determined by the explicitly New York policy of funneling loans out of the U.S. economy into speculative international loans, mainly tied to extractive raw-materials investment in the developing sector. The \$300 billion volume of unpayable Third World debt, the largest portion of which is owed to the U.S. and principally New York banks, has committed the U.S. Federal Reserve to an inflationary policy of sustaining the banks at all costs, and created a monetary context in which sufficient volumes of long-term credit cannot be raised.

On the overall position of the thirty companies included in their study, Chase Manhattan's analysts report: "The Group's dependence on borrowed funds has risen dramatically. That fact is reflected in the size of the funds applied toward repayment of debt obligations. Reaching the \$5 billion level in 1975 for the first time, long-term debt repayments were \$1.2 billion more than the year before. Totalling \$1.7 billion, investments and advances to affiliated companies nearly doubled. And \$99 million was used for the retirement of stock. The total funds utilized amounted to nearly \$37.2 billion. But, as indicated earlier, the various sources of funds provided

only \$35.0 billion. To compensate for that deficiency, the Group drew upon its working capital in the amount of \$2.1 billion." ("Financial Analysis of a Group of Petroleum Companies," Chase Manhattan, 1976). Of the \$35 billion in funds expended, more than one-third derived from borrowings.

The debt position of the thirty companies in the Chase survey ignores the position of hundreds of so-called independent companies, who accomplish a disproportionately large share of new exploration. According to Independent Petroleum Association of America and numerous producers, the cash position of this group has worsened more dramatically than the position of the large companies studied by Chase, to the point that a majority of the "independent" producers are now at the brink of financial embarrassment.

Secondly, in critical exploration areas such as offshore drilling, the debts incurred by petroleum companies represents only one aspect of the financing cycle. To this must be added the debts incurred by drilling contractors and rig-builders. In effect, most offshore drilling is financed two or three times over, and the end-product must bear double or triple interest charges (see below).

#### *Financing and Energy Policy*

The industry's underlying problem has surfaced in the unlikely forum of the Financial Accounting Standards Board, which is currently considering means of unifying accounting standards for the energy industry, under the direction of the Energy and Conservation Act of 1975. The oil majors employ a different form of accounting than the "independent" domestic producers, including substantial producers like Sun Oil and Pennzoil. The Aramco companies employ a bookkeeping device called "successful effort accounting," which entails the immediate writing-off of dry exploratory wells and capital equipment depreciation costs. The advantage in this is obvious. The major profits of, for example, Exxon, Texaco, and Mobil derive from extremely low-cost production in the OPEC countries, and integrated "downstream" refining and marketing, rather than development of new energy sources.

It would not be too much of an exaggeration to assert that the exploration and development activities of the Rockefeller oil organizations, the group with special access to Middle Eastern oil fields, represent a form of in-house tax shelter. Exxon, the largest U.S. oil company, devotes a portion of its earnings to capital investment that is among the smallest in the industry.

Nonetheless, Exxon managed to match its entire \$500 million rise in corporate income tax between 1973 and 1975 with a nearly identical rise in depreciation tax write-offs. There is speculation among oil security analysts that Exxon, Texaco, and Mobil measure exploration current losses with actuarial precision strictly to obtain the resulting tax benefits, especially with the repeal of the oil depletion allowance.

By contrast, the independent oil companies employ "full cost accounting," according to which all exploration costs, regardless of success, are capitalized

onto the books of the company. The revenue from successful wells ultimately pays the cost — it is hoped — of total expenditures. The company attempts to match its total revenue against both its costs and the debt-service attached to those costs. Particularly in the case of natural gas producers, whose product has increased in price more slowly than oil, the IPAA believes, only new price increases will enable a large proportion of independent producers to remain solvent.

The independents must use this form of accounting for two reasons. First, they have no incentive to write off costs on a current account basis, because their revenues from activities other than drilling and exploration are negligible in comparison to those of the majors. Secondly, since their earnings depend heavily on the commitment of venture capital, quarter-to-quarter fluctuations resulting from the uncertainties of successful exploration would produce extreme shifts in the balance-sheet position of the independent companies.

The differences between these accounting methods reflect a much more important policy question. Once Rockefeller allies such as Sawhill, Simon, Zarb and Schlesinger at the Federal Energy Administration and Rockefeller petroleum companies decide that all new development is a long-term no-win battle against the diminution of available resources, and that the cost of energy to the economy must follow a rising curve over the long-term, the current rise in costs is inevitable. The provision and cost of energy are the most basic determinants of economic growth. By mutual agreement, the Federal government, the three "Big Sisters" and the banks have *pre-discounted* the expected continuous rise in the price and debt-service cost of the means of development of new petroleum sources.

At bottom, the determination of energy costs is a political question. This is strongly indicated by the single fact that the major political assault against nuclear power development, the most important development area for alternative energy sources, has been financed and directed through the Lower Manhattan financial interests (see EIR Vol. IV no. 4, "A Company Against Uranium Use," p. 13). Once political and consequent financial policies determine that energy shall be scarce and increasingly costly, the petroleum industry no longer functions as a provider of energy. Instead the financial dynamics of the industry have turned the industry, from the shipyard rig-builder to the drilling contractor to the commercial bank leasing department, into a transmission belt for increasing debt-service costs to the economy. After the short-term credit markets have had their full play, the price of energy charged to the consumer has already been paid out through financial and related costs of development.

Available evidence shows that de-control of oil and natural gas prices will not have a substantial impact on energy development, and will have only a temporary impact on the financial problems of the independent energy companies. The experience of 1973-1975 shows that speculation in exploration and drilling equipment, plus financial charges, rapidly effaced the margin of

incentive to develop new sources.

The problem is set in appropriate focus by contrast to the alternative energy strategy available. By intermeshing a short-term program of intensive exploitation of available fossil fuel energy sources; an immediate program of nuclear fission, especially fast-breeder, reactor development; and a long-term (15 year) perspective of bringing controlled thermonuclear reaction, or fusion reactors into commercial use, the United States economy can anticipate cheapening energy costs. If the current rate of increase in energy development costs were to continue through 1980, the petroleum industry would require a second quadrupling of oil prices merely to keep pace, by linear projection. But the certainty of cheaper energy costs 15 years ahead — fusion is estimated to be 100 times cheaper than fossil fuels — justifies the provision of long-term, low-interest credits to the energy industry for all three aspects of the integrated energy program mentioned above.

In basic economic terms the cost of current energy production and development can be judged only in terms of the program as a whole. President Carter proposes to reduce energy consumption by as much as the United States currently imports, or roughly 40 per cent. Taken as a program, this perspective makes further energy development a luxury, and the current cost to the economy rises on a curve of marginal scarcity. This corresponds to the financial conditions that have been imposed on the energy industry, amounting to (by Chase's estimates) a 20 per cent annual charge on the account of debt service alone, plus a 25 per cent annual charge in the form of price increases for equipment, plus significant amounts for royalty payments towards oil produced on leased land. The standard charge for the latter is 16 per cent.

To these financial charges must be added a further significant cost factor due to the actual depletion of resources, which means that wells must be drilled deeper or in more difficult conditions. There is no way to quantify this factor at present. But the combined overhead charge to new petroleum production is in the order of magnitude of 75 per cent.

The relationship between these costs and the perspective of "resource depletion," "scarce energy," "rising energy costs," and the "need for conservation," assiduously manufactured by the Rockefeller and Ford Foundations and Nelson Rockefeller's Commission on Critical Choices is widely recognized. Against their better judgment and self-interests, some of the domestic producers have come to repeat Rockefeller Foundation arguments in order to justify price de-control — despite the implication that under scarce-energy conditions price de-control will not provide sufficient revenue for new petroleum development.

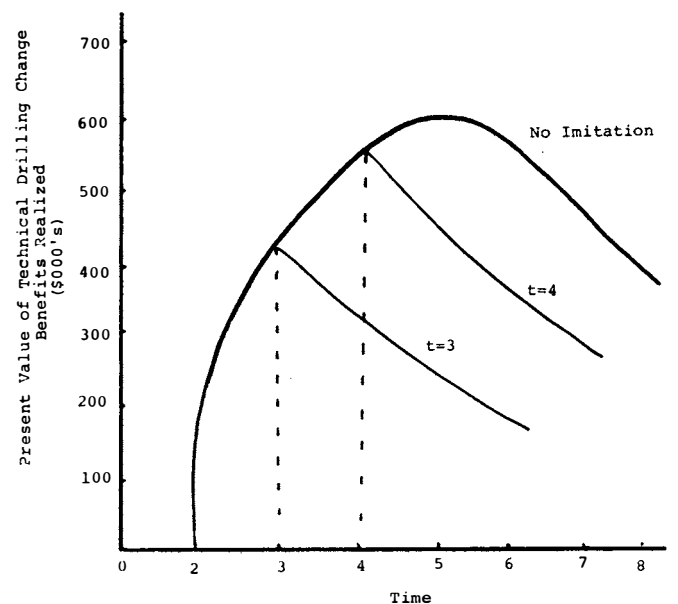
Within the oil industry, the conditions imposed on exploration and development by the Rockefeller oil companies, financial institutions and political agents are generally viewed as God-given questions of "economic conditions." This view has been enhanced by the clubby participation of Exxon and Texaco in the industry's demand for de-control. (In August 1975, Mobil was no longer able to contain its glee over the advantages it received from the entitlements system, and announced

publicly in favor of "gradual decontrol").

The petroleum companies' misperception that Exxon, Texaco and Mobil form part of their ranks reached a low point of drollery at the Oct. 22, 1976 meeting of the Cost-Study Committee of the Independent Petroleum Association of America in New Orleans. To give the lead address, the IPAA invited a snake-oil specialist from Salomon Bros., E. Anthony Copp. Copp presented the following analysis: "Over time, the long-run marginal cost curve per barrel of oil or per MCF of natural gas could still decline over all outputs and the industry would still be one of increasing cost." To expound this strange assertion, Copp says, "technological changes have reduced real petroleum drilling costs and have acted to counterbalance the tendency toward long-run increasing costs characteristic of the petroleum industry."

However, Copp says, the return to the technological innovator depends on his maintaining the exclusive use of his invention! He provides the following graph, with the explanation:

"If no-one imitates (the pioneer's) technology, and the pioneer can internalize all the benefits from his innovation, the 'no imitation' curve is the curve indicating the present value of benefits over the life of the innovation. However, if in year 3 or year 4, his competitors adopt or imitate the new technique, then the appropriate returns are reduced to the pioneer."



The minutes of the Cost-Study Committee do not record how the independent oilmen present, swamped by bank debts and rising equipment costs, reacted to the suggestion that they were each other's prime enemies.

#### How It Works

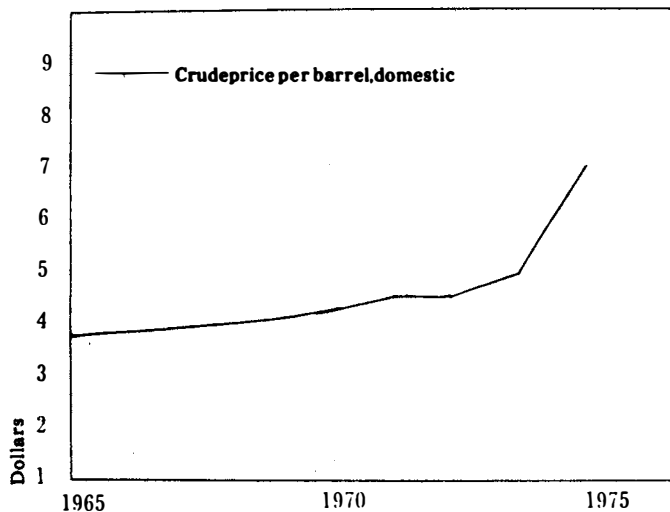
According to Offshore Rig Data Services, costs of offshore drilling equipment — since 1973 the biggest area of demand — have risen as follows:

Cost of a semi-submersible rig:	1960	\$ 8.7 million
	1975	\$37.3 million

Cost of average drill ship:	1960	\$ 5.6 million
	1975	\$32.3 million
Cost of average jack-up rig:	1960	\$ 5.2 million
	1975	\$21.7 million

These figures, which show rises about double the overall rate of capital goods inflation, reflect a burst of speculation in offshore equipment that began with the introduction of Federal guarantees for 85 per cent of the value of loans to drilling contractors, and peaked during 1974. Prior to this, during the 1957-72 period, the rig building industry, dominated by major steel and ship-building (and some large oil) companies, was in continuous depression. Prior to 1972, a mere 10 per cent of all rigs were built on speculation, that is, without a contract in hand. By 1976, however, Offshore Rig Data Services estimates, more than 50 per cent of all rigs were built on speculation.

### CRUDE PRICE PER BARREL, DOMESTIC

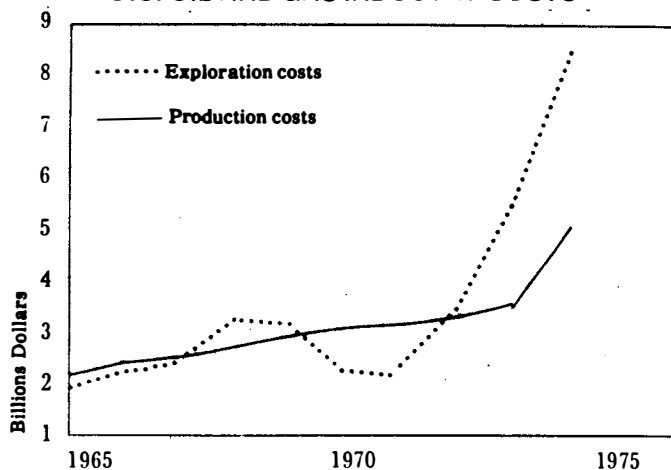


In the wake of the quadrupling of oil prices, a "gold rush" into offshore drilling equipment emerged, and represented the principal cost-factor that drove up the indices of drilling equipment prices and per-foot drilling costs. Drilling contractors went heavily into debt to purchase the equipment at higher prices, either through direct bank loans, or, more typically, through leasing arrangements with bank subsidiaries. Along with the tanker boom, the bull market in offshore equipment accounted for the sudden, exponential growth of commercial bank leasing subsidiaries.

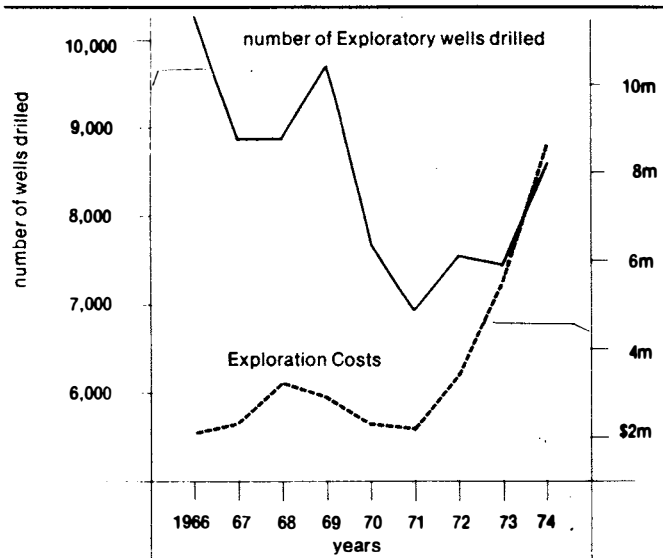
The following is a rough depiction of the complex and costly chain of financing between the rig-builder, drilling contractor, and petroleum company. Usually a shipyard division of a major corporation — Bethlehem Steel is one major builder — is the offshore rig builder. Shipbuilding is one of the most heavily indebted sections of industry, to start with. One of the leading twenty drilling contractors, which account for over 90 per cent of all drilling activity in the U.S., will obtain a three-to-five year drilling contract from a petroleum company. On the strength of this contract, the drilling contractor approaches a commercial bank for a loan, or for a leasing

contract, in which the bank purchases the offshore rig and leases it back to the contractor. In some cases the drilling contractor can qualify for a government-backed bond issue floated on the securities market. (The Federal Maritime Administration does not make the volume of its guarantees public).

### U.S. OIL AND GAS INDUSTRY COSTS



The drilling contractor has made a purchase of an expensive piece of capital equipment enormous in proportion to his capital. (Maintenance costs for a rig and crew are roughly \$20,000 a day, about the same as for a large oil tanker). The petroleum company which employs the contractor, typically, must borrow funds to meet the cost of the contract. Apart from balance sheet financing through the long-term debt market, which totalled \$10.1 billion during 1975, the general procedure involves a three to five-year mortgage on leased oil-producing property. The latter procedure is almost universal for smaller producers. (The credit of drilling contractors is extremely tenuous; one of the largest offshore contractors, Zapata Corp., had to withdraw from the bond market due to lack of investor interest at the end of January.) Intermixed with such arrangements are partial-payments arrangements between petroleum company, rig-builder, and contractor, which involve a



significant volume of suppliers' credits. In any event, the interest charges on the operation are paid to financial institutions by two or three of the parties simultaneously.

A subsidiary cost problem was the rush into offshore drilling area leases; in 1974, the turning point, the Federal government sold \$5.1 billion in offshore leases at auction. This sum represented the equivalent of 20 per cent of all capital outlays that year by the Chase Manhattan group of petroleum companies. However, after passage of the National Environmental Protection Act and its application to offshore drilling, government lease sales dropped to \$1.2 billion during 1975. But the choke-point for offshore exploration — the principal area in which substantial new oil and gas reserves are available — was debt. The International Association of Drilling Contractors estimates that a collapse of orders occurred during 1975 because contractors had borrowed themselves into a corner. Drillers are attempting to make ends meet by amortizing their existing equipment, the Association says. Few are actually in default — in which case the Federal Maritime Administration would make good some of their loans — but their capacity for further expansion is almost nil. Even where drilling contractors have obtained direct balance-sheet financing, rather than leasing equipment, they are compelled to pass along depreciation costs on equipment in their charges to the independent petroleum companies which employ them.

Under the burden of debt, the International Association

of Drilling Contractors estimates, 1976 orders were at the lowest point since the Association's series begins — this despite the recent quadrupling of oil prices! Since the lead time on rigs ordered is roughly two years, the flow of deliveries peaked in 1976, while orders collapsed. 1977 is expected to be a disaster year for the rig-building industry, despite the energy shortage. Towards the end of 1976, the cost of rig and related equipment utilization dropped for the first time since the 1974 boom. In the largest area of offshore development, the North Sea, the daily rental cost of a supply ship, for example, fell from \$2,300 during the first quarter of 1976 to \$1,800 during the fourth quarter, by an independent consultant's estimate. Recent reports show a pickup in utilization rates in the North Sea, due to the British government's strong support for the only real success story in offshore development. Industry sources say that drilling contractors are still operating at sharp discounts in the United States sector, and barely keeping their heads above water.

The conclusion is that the speculative and debt-service costs attached to the petroleum industry destroyed the industry's capacity to open up new sources within two years of the quadrupling of oil prices. An increase in prices might, at best, achieve a temporary re-ignition of the speculative cycle, with little benefit in terms of new sources. Nothing outside the availability of long-term, low-interest development loans will make a significant difference to energy supplies.

## Who Pays The Price Of Energy Development?

The astronomical costs of exploration and development have fallen most heavily on the three "little sisters" and a group of independent companies which have aggressively developed new sources of crude oil and natural gas in the North Sea and Alaska for their refining and marketing operations. By contrast, the Aramco companies — Exxon, Texaco, Mobil, and Socal — with their toehold in the Middle East, in particular Saudi Arabia, have spent relatively little on exploration and development in the last several years. This is consistent with the Rockefeller policy of limiting production, maintaining high energy prices, and forcing energy cutbacks on the world.

### *The Aramco Triumvirate*

Aramco's domination of the world oil-market — and of world energy policy — rests solidly on its monopoly of Saudi crude oil. Before the nationalization process began in 1972, the ownership of Aramco was: Exxon 30 per cent, Texaco 30 per cent, Socal 30 per cent, and Mobil 10 per cent. Discussions of full nationalization of Aramco by the Saudi government are still in process; however, nationalization has not disturbed the four U.S. multinationals' preferential access to Saudi production in the same pro-

portionalities as before 1972.

Exxon's annual report carefully obscures the exact amount of crude oil and natural gas liquids (NGL) production in Saudi Arabia (here and throughout "production" includes oil acquired under long-term purchase agreement); however, in 1975 the amount was roughly 30 per cent of Exxon's total worldwide production of \$5,411 million b.d. Exxon's total U.S. production was 970,000 b.d. or 18 per cent of its total worldwide production. The rest of Exxon's crude oil production was accounted for largely by its production in Venezuela (20.5 per cent), Africa, and the Middle East apart from Saudi Arabia.

Roughly the same story holds for the other Aramco companies with gross operating revenue of \$24.5 billion in 1975, little more than half of Exxon's \$47.8 billion, produced 1,886,000 b.d. in Saudi Arabia alone, 50 per cent of its 3,770 million b.d. worldwide production. Production in the U.S. (749,000 b.d.), Indonesia (384,000 b.d.), and Canada (139,000 b.d.) were the other main sources of Texaco's crude.

Mobil, with gross operating revenue of \$20.6 billion in 1975, produced 1,408 million b.d. in the Middle East, 63 per cent of its 2,240 million b.d. total worldwide

production. 995,000 b.d. or 44 per cent of the total was produced in Saudi Arabia alone. Mobil's U.S. production accounted for only 17.7 per cent of total production.

Socal's immediate financial base is somewhat distinct from the other three companies; however, the West Coast Hoover Institute-Bechtel interest group that Socal is a part of has historically kept step with Rockefeller-initiated policies. Socal, like Exxon, Texaco, and Mobil, depends overwhelmingly on its preferential access to Middle East crude for its world market position. In 1975 approximately 2 million b.d. or 66 per cent of Socal's crude was produced in the Middle East, 437,100 b.d. or 14.4 per cent was produced in the U.S., and 415,500 b.d. or 13.7 per cent was produced in Indonesia. Socal's gross operating revenue in 1975 was \$17.5 billion.

The four companies' extensive worldwide transportation, refining, and marketing facilities complete the picture of their dominance of the world oil market.

In essence, the policy of the four Aramco companies has been to sit tight on their Saudi crude oil and keep everyone else away from it. Saudi Arabia's developing closer relations with the European nations are no doubt causing ripples in Aramco circles. Particularly worrisome to the Rockefeller and allied financial interests is the Saudi government's decision to monitor the price of the additional Saudi production earmarked for oil companies. The sales are being made through Aramco companies, but Oil Minister Yamani has said the Saudi government would prevent the Aramco companies from "profiteering" off those sales.

Despite all the rhetoric about achieving energy independence from OPEC, the Rockefeller-dominated group of companies have, relative to their size, made no substantial investments in developing new sources of crude oil. For example, compared with the European companies such as British Petroleum and Royal Dutch Shell and U.S. independents such as Phillips and Getty, Exxon's North Sea interests are a mere side operation. Oil analysts expect the company to gain only marginal earnings from the North Sea by 1980. Exxon holds a 20 per cent interest in the Trans-Alaska pipeline; but has played a back seat role compared with ARCO and British Petroleum-Sohio.

There are clear instances of Rockefeller-controlled companies actually limiting production by various means. For example, Federal Power Commission officials allege that Mobil holds leases in the Gulf of Mexico which have fertile deposits of natural gas which the company is deliberately not developing. Mobil, in fact, distinguished itself from the rest of the oil industry, which has maintained that full decontrol of domestic oil prices was necessary to stimulate domestic exploration and production, by coming out for *gradual* decontrol in the midst of the debate over decontrol in 1975.

According to industry sources, Mobil knew that the proposal for gradual decontrol of domestic crude prices and maintenance of the "entitlements" system, which was designed to equalize the costs of price-controlled domestic crude and \$12 per barrel imported crude among refiners, was really to Mobil's benefit. Under the entitlements system, large domestic producers such as Gulf and Shell have effectively been forced to subsidize Mobil's imports of OPEC oil.

#### *The Little Sisters And The Independents*

The term "independent" is used here more broadly than is usual to include large integrated companies, but ones that are not solidly in the Rockefeller camp. These companies, and British Petroleum, Shell, and Gulf — the "little sisters" — have been motivated by the Rockefeller companies' virtual monopoly of Middle Eastern crude and policy of limiting production, enforcing conservation, etc. to develop new sources of crude. Given the extreme financial costs built into exploration and development costs, these companies have been forced to bear enormous costs to develop uncontrolled sources of crude oil. Thus, the Rockefeller group has boxed them into support of high energy prices.

Highlighting the policy difference between the Rockefeller and the non-Rockefeller companies was the commitment of Gulf and Royal Dutch Shell to develop nuclear energy through their partnership in General Atomic; by contrast, the Rockefeller companies live in a Malthusian universe where the determining feature is the depletion of existing fossil fuel resources at an exponentially increasing cost to the world economy.

*Atlantic Richfield:* ARCO is one of the few large domestic oil companies now in a position to realize substantial production in the next few years on the basis of the projected start up of North Slope Alaskan production later this year. ARCO and Humble Oil (which later became Exxon) made the first discovery of Alaskan oil in 1968, and since then ARCO has been one of the most aggressive companies operating in the region. ARCO, with gross operating revenue of \$7.7 billion in 1975, holds a 21 per cent interest in the Trans-Alaskan Pipeline System (TAPS). TAPS is scheduled to start transporting 600,000 b.d. by mid-1977 and 1.2 million b.d. by the end of the year. ARCO's expenditures for development and production in the main Prudhoe Bay field is estimated to be \$1 billion or more between 1975 and 1978. Reflecting the accelerating costs involved in development and production, the value of ARCO's materials and supplies was accounted at \$147, 244 million in 1975, 40 per cent above 1974 and 235 per cent above 1973.

Naderite and other regulations have kept ARCO moving ahead according to plan. The company owns coal rights under 218,000 acres, but development has been held up by a Sierra Club action. In 1975 ARCO's agreement with Pacific Lighting Gas to supply the utility with North Slope natural gas production in return for an advance that would be used to develop the deposits was jettisoned when the Federal Power Commission ruled against pipelines including Alaskan advance payments in their rate base.

ARCO's moves have been undertaken to reverse its historical predicament of being dependent on other U.S. producers for crude oil to meet all of its refinery requirements. In 1975 ARCO produced 370,271 b.d. in the U.S. and 223,466 b.d. in foreign countries, and had to purchase 11,800 b.d. from other U.S. producers

*British Petroleum-Sohio:* Under a 1970 agreement British Petroleum's U.S. operations were merged into Sohio in return for a 25 per cent common stock interest in the U.S. company. The stock interest, now 50 per cent, is to

escalate to 54 per cent, if net production from Sohio's Prudhoe Bay fields reaches 600,000 b.d. by Jan. 1, 1978. For BP the merger was in part a means of gaining access to Alaskan oil.

Sohio is entitled to all oil production from its leases in the eastern portion of Prudhoe Bay up to 600,000 b.d., which will turn around Sohio's position as a crude oil-poor company. In 1975 Sohio produced 49,601 b.d., compared with its refinery needs of 364,436 b.d.

In 1976 Sohio estimated that its share of the total costs of developing the Prudhoe Bay field, building the TAP (of which it owns 33.34 per cent), providing tankers to carry Alaskan oil to U.S. ports, and constructing a pipeline to bring Alaskan oil to the Mideast will be approximately \$5.5 billion. Various aspects of this ambitious plan are now threatened by Naderite legislation and other obstacles. A substantial part of the enormous investment is expected to come from external sources. Sohio's gross operating revenue in 1975 was \$2.5 billion.

British Petroleum has undertaken a similarly ambitious program of developing new sources of crude in the North Sea. BP discovered the first commercial gas field and oil field under the North Sea in 1965 and 1970 respectively. BP has a 97 per cent interest in the Forties oil field, 110 miles off the coast of Scotland, which is being developed to produce 400,000 b.d. by mid-1977.

In 1975 the main source of BP's total 3,440 million b.d. production — down 1 million b.d. from 1974 — was Iran (1,700 million b.d.). Its share of Kuwaiti production at 560,000 was half of what it was in 1974. The sharp decline in Kuwaiti production was ordered by pro-U.S. "conservationists" in the Kuwaiti Parliament. Also hurting BP was the 1975 decision by the Kuwaiti government to take over third party sales — production not used by BP and Gulf. Previously BP and Gulf had shared all Kuwaiti production.

*Gulf:* For Gulf the nationalization of its concessions in Kuwait and Venezuela have resulted in a redeployment

of its capital and exploration efforts to the U.S. As a result of enormous investment in old wells (secondary and tertiary recovery methods) and acquisition of new oil and gas acreage on and offshore, Gulf had arrested the decline of its domestic production by late 1976 — while overall domestic production continued to decline.

Presently Gulf is the fifth largest domestic producer of crude oil and natural gas, with some 68 per cent of its income generated from domestic activities in 1975. Hence, Gulf's fierce opposition to the entitlements system, under which Gulf, with substantial access to price controlled domestic crude oil, has to subsidize Exxon, Texaco, and Mobil's imports of OPEC crude.

Gulf is presently operating in Angola again, under the same terms as when it suspended its operations during the civil war in December 1975. Gulf had wanted to stay in Angola during the civil war and go on paying royalties to the official government — the pro-Soviet MPLA, but was temporarily pressured into leaving by the U.S. State Department.

Gulf, in partnership with Royal Dutch Shell, has actively pursued development of nuclear power. Gulf's 100 million pound Mt. Taylor uranium deposit is presently being developed into the largest and deepest uranium mine in the U.S.

*Other Companies in brief:* Phillips Petroleum, one of first successful North Sea pioneers, now all but dominates the Norwegian North Sea. Wood, MacKensie, the Edinburg oil consultant, estimates that in 1977 Phillips' North Sea operations will bring the company \$2.20 a share of 33 per cent of total earnings...

Also active in the North Sea are Getty-Skelly, Amerada Hess, and Occidental. According to Wood, MacKensie, Amerada Hess and Occidental will derive 20 per cent and more than 50 per cent respectively of their earnings from the North Sea in 1977.

## Who Runs The 'Big Sisters' ?

### EXXON

#### *Board of Directors*

*C.C. Garvin, Jr.* — Chairman, Chief Executive Officer  
*H.C. Kauffmann* — President  
*J.G. Clarke* — Sr. Vice President  
*T.D. Barrow* — Senior Vice President, member of American Petroleum Institute  
*N.J. Campbell, Jr.* — Senior Vice President  
*D.M. Cox* — Senior Vice President  
*J.F. Bennett* — Senior Vice President  
*G.T. Piercy* — Senior Vice President  
*Sir Richard Dobson* — Chairman of British-American Tobacco Co.  
*W. H. Franklin* — Chief Executive Officer and Chairman of the Board of Caterpillar Tractor Co.; director Federal Reserve Bank of Chicago, director Toledo, Peoria and Western Railroad Co.

*E.G. Harness* — Director and Executive Vice President of Proctor and Gamble

*J.K. Jamieson* — Director: Chase Manhattan Bank, Equitable Life Assurance Society U.S., International Nickel Company of Canada, American Petroleum Institute; member of the Business Council, National Petroleum Council, Trilateral Commission, International Chamber of Commerce, Council on Foreign Relations

*F.A. Long* — Director Inmont Corp.; Trustee Alfred P. Sloan Foundation

*D.S. MacNaughton* — Chairman of the Board and Chief Executive Officer of the Prudential Insurance Company of America; director ATT; member money market general committee Federal Reserve Bank of New York; member council Stanford Research Institute; director of the Conference board; member of the Business Council



*Martha Peterson* — President of Barnard College; member of executive committees of various universities

*Otto Wolf Von Amerongen* — member of Trilateral Commission; President of the West German Chambers of Commerce and Industry (DIHT)

#### *Major Ownership*

*Banks* (interlocks and fund management) : Chase Manhattan, Citibank, Morgan Guaranty, First National Bank of Chicago, Continental Illinois Bank, Old Colony Trust

*Insurance Companies*: Insurance Company of North America, Continental Insurance, Great American Insurance, John Hancock, Prudential, Metropolitan

*Foundations*: Rockefeller Foundation, Ford, Carnegie Corp., Alfred P. Sloan, Kresge, Duke Endowment

*Universities*: Rockefeller, Harvard, Yale, MIT, Princeton

## Mobil

#### *Board of Directors*

*Rawleigh Warner, Jr.* — Chairman; director Time Inc., Caterpillar Tractor Company, American Express Company, ATT, Chemical Bank; member Business Council; director American Petroleum Institute

*W.P. Tavoulares* — President

*H.J. Schmidt* — Vice-Chairman; director Transamerica Finance Corp.

*C.M. Klaerner* — Executive Vice President

*T.V. Nelson* — Executive Vice President; member Council of Business Advisers, Chicago

*R.F. Tucker* — Executive Vice President; director Economic Development Council of New York City

*P.J. Wolfe* — Executive Vice President

*F.J. Borch* — Chairman and Chief Executive Officer and director of General Electric; director Utah Construction and Mining Company; member of National Industrial Pollution Control Council

*H.L. Clark* — Vice President and Director Pan Am-Grace Airways Inc.; director Chrysler Corp., Xerox Corp., Stone and Webster Inc., Cluett, Peabody and Co.; trustee U.S. Trust Co.; Vice President New York Chamber of Commerce

*E.S. Donnell* — President Montgomery Ward and Co.; director Pennwalt Corp.

*L.A. Lapham* — President and Director Bankers Trust Corp.; director Federal Insurance Company, H.J. Heinz, Phillips Corp.; President New York Maritime Association

*G.C. McGhee* — Director Proctor and Gamble, American Security and Trust Company, member various advisory groups to private and governmental organizations, former U.S. ambassador

*J.Q. Riordan* — Director Dow Jones and Co.; trustee Brooklyn Savings Bank; advisory board Chemical Bank and Columbia Graduate School of Business; member Council of Foreign Relations

*L.H. Schoenhofen* — Chairman of Executive Committee of Container Corp. of America; Chairman of Board

and President of Marcor, Inc.; director Abbott Labs  
*H.G. Van der Eb* — Director, Chairman and Chief Executive Officer of Container Corp. of America; director of Marcor Inc.; National Blvd Bank of Chicago

*E.B. Sheldon*

*A.L. Williams*

#### *Major Ownership*

*Banks* (interlocks and fund management): Citibank, First National Bank of Boston, Cleveland Trust Company, Bankers Trust Company

*Insurance Companies*: INA, John Hancock, Metropolitan Life, Federal Insurance, Prudential, NY Life

*Foundations*: Rockefeller, Alfred P. Sloan, Carnegie Corp., Ford

*Universities*: Harvard, Columbia

## Texaco

#### *Board of Directors*

*M.F. Granville* — Chairman and Chief Executive Officer, Director Executive Committee; director Federal Reserve Bank of New York; trustee Presbyterian Hospital NYC; member of governing board of MIT; director of American Petroleum Institute; member Conference Board

*W.R. Young* — Vice-Chairman and General Counsel, Executive Committee

*J.K. McKinley* — President; member American Institute of Petroleum

*L.W. Folmar* — Senior Vice President, Producing; director of Aramco; director National Foreign Trade Council, Near East Foundation

*Earl of Granard*

*Augustus C. Long* — Executive Committee; Chairman of the Board of Trustees of Presbyterian Hospital NYC, member American Petroleum Institute, Business Council

*H.W. McCall, Jr.* — Executive Committee; President Chemical Bank; director Liggett and Myers Inc., Chemical International Finance Ltd; member of Executive Council of American Bankers Assn; director Inmont Corp.

*W.J. McGill* — Executive Committee; President of Columbia University

*T.H. Moorer* — Executive Committee; former Chairman Joint Chiefs of Staff

*George Parker, Jr.* — Partner Lewis Oil Co. and Parker Oil and Gas Co.; director Dallas Council on World Affairs;

*Ogden Phipps* — Executive Committee

*L.L. Rogers*

*Robert V. Roosa* — Partner Brown Bros. Harriman and Co.; director American Express Co., Anaconda Co., National Bureau of Economic Research; trustee Rockefeller Foundation; member Trilateral Commission

*William Wrigley* — Chief Executive Officer and President of William Wrigley Jr. Co., Chicago; director, member of executive committee and trustee committee of National Blvd Bank of Chicago

### Major Ownership

**Banks**(interlocks and fund management): Manufacturers Hanover, Chemical Bank, National City Bank Cleveland, Union National Bank Pittsburgh  
**Insurance**: Prudential, John Hancock, New York Life, Travelers

**Foundations**: Ford, Alfred P. Sloan Foundation; Andrew W. Mellon; Kellogg, Duke Endowment, Kresge

**Universities**: Harvard, Princeton, Northwestern, University of Texas, University of California, Columbia, California Institute of Technology

## Program for the Immediate Relief of the Natural Gas Crisis

James Schlesinger, now acting in his capacity as "Energy Czar" in the Carter Administration, has proposed emergency legislation to deal with the present critical natural gas shortage. This legislation will provide no significant relief for this shortage, and, in fact, is designed to serve specific political ends — simply put, Schlesinger's proposals continue his self-admitted policy of lying when politically expedient (see Rand corporation report, No. P-3464, "Systems Analysis and the Political Process," June, 1967.) His bill calls for broad emergency Executive powers, which are designed to accomplish no more than forced conservation and redistribution of dwindling supplies, in a political context which amounts to militarization of energy production and distribution. Indeed, as Schlesinger himself has been forced to admit, the legislation is being proposed so that decreepowers can be placed in the hands of the Trilateral commission Administration; the campaign for war being proposed by the Trilateral commission is unthinkable without such domestic power. The critical question of increased gas production is not even being addressed.

It is *only* within the context of an intermediate-range nine to twelve month crash program of energy development that a competent solution and drilling, expanded importation arrangements (which involves both contracts and capital investment), and the initiation of a longer term energy research and development in nuclear (fission and fusion) energy production. The necessary premise for the right set of short-term emergency measures is therefore the extension of low-interest investment credit specifically geared to the realization of such a medium term program. Deregulation is no answer and contains no guarantee of increased production.

### Emergency Measures

Once the incompetent premise of long-term fossil fuel conservation has been abandoned and an intermediate-range policy for necessary production increases has been adopted, the formulation of short-term crisis measures is relatively straightforward. At this point, we cannot hope to provide the quantity of gas necessary to make up for the whole three trillion cubic feet (TCF) originally expected shortfall of gas this winter. However, that is not necessary. The emergency measures are themselves being justified by the current *additional* shortfall which is approximately .7 TCF (for the six months of winter,

assuming continued severe weather conditions.) This shortage can be dealt with in the following manner:

1. Full exploitation of all gas reserves now in storage.
2. Speed up of production from existing wells.
3. Import of marginally significant amounts of natural gas and liquified natural gas from Canada and Algeria.

Table One contains a summary of the possible gas available from these sources:

TABLE ONE	
SOURCE	AMOUNT OF GAS AVAILABLE IN NEXT 60 DAYS
1. Exploitation of gas in storage: 20 per cent of 2.3 TCF base storage	.4 TCF
2. Maximum rate of pumping from present wells: 5 per cent of current production	.2 TCF
3. Importation:	
Canada	.1 TCF
Algeria	.1 TCF
<b>TOTAL NATURAL GAS</b>	<b>.8 TCF</b>

(Trillion Cubic Feet)

\*\*\*\*

1. Key to solution of the current crisis is the immediate, full exploitation of all existing stored gas reserves. Supplies in storage at the beginning of this year (from excess summer production) totaled more than 3.4 TCF. Of this, 1.1 TCF is working storage which is projected to be used over the duration of the winter. This leaves 2.3 TCF, which is called base storage. This gas provides a reserve which is used to keep pressure in the storage facilities, to push other (working) gas through the pipelines, etc. It is possible, with only small risk to these storage facilities, to draw about 20 per cent of this gas out of storage. Estimates of minimum necessary gas which must be kept in base storage are difficult to provide, but, none exceed 2.0 TCF. Thus, we can provide a substantial

amount of gas by an emergency use of base reserves.

It is possible that the allocation of this gas will place, in some localities, an extraordinary burden on pipelines. This situation must be dealt with in the same manner: conservative ratings of pipeline pressure must be carefully raised, for example, so that adequate gas, on an emergency basis, can be provided.

2. Any remaining shortfalls between now and March 31 must be covered through increased production from existing wells. Due to technical complications and the already low overall pressure in the national pipeline systems, a lead time of three to four weeks is necessary to realize such increases. However, the technical equipment (compressors, etc.) for more rapid exploitation of wells exists, and given the relatively small added amounts of gas needed, the risk to the wells, with adequate planning, is at a minimum.

3. Canada, Algeria and the Netherlands have offered

varying small amounts of gas for import. While these amounts are marginal they could significantly contribute to the alleviation of certain local hardship situations. This import capacity exists now, without further capital investment.

It must at this point be reiterated that the present energy crisis is a direct result of postponement of the development and introduction of more advanced energy technologies. The U.S. Labor Party has already called for a congressional investigation into the causes for such "shortsightedness." Passage of the Schlesinger bill, aside from its most dangerous strategic political implications, would only further obscure the fact that this country at this time has no competent long-term energy policy and would abet those who would prevent its development. Defeat of the Schlesinger bill is an emergency measure on a par with the measures we have identified above.

**EXCLUSIVE**

## The Real Causes Of The Winter's Weather

The abnormal weather afflicting North America this winter — the extreme cold in the East and the extreme warmth and drought in the West — is *not* the result of sunspots, Soviet radio signals, an impending Ice Age or any of a dozen absurd explanations currently being circulated. Its principal cause is the application of the very "energy conservation" policies which the cold wave is being used to justify.

The global disruption of weather over the past year has been triggered by the spreading drought in the Amazon basin, a drought caused by deforestation policies imposed on Brazil by the International Monetary Fund. This deforestation policy is the immediate correlate of the substitution of labor-intensive for energy-intensive methods in industry and agriculture, of the substitution of primitive charcoal for coal in Brazil's steel mills. It is the massive reduction in energy throughput caused by the application of such policies which is responsible for the weather disaster.

It is useless to attempt to understand the actual causes of the weather on the basis of the reductionist approach of most current meteorology. It is therefore scarcely surprising that no meteorologist working with that method has in fact come up with even a plausible reason for the current climatic shifts. What is required is the application of the same consideration of nonlinear effects which has been successfully used in the field of plasma physics.

The earth's atmosphere, as is the case with laboratory-sized plasmas, is dominated by nonlinear effects — self-expanding energy flows (energy flows which themselves contribute to the global process by which those energy flows are created). The dominance in the atmosphere of self-generating processes means that, in general, seemingly marginal initial effects can become rapidly

magnified into new self-expanding processes, eventually substantially altering global climate.

### *How Weather is Produced*

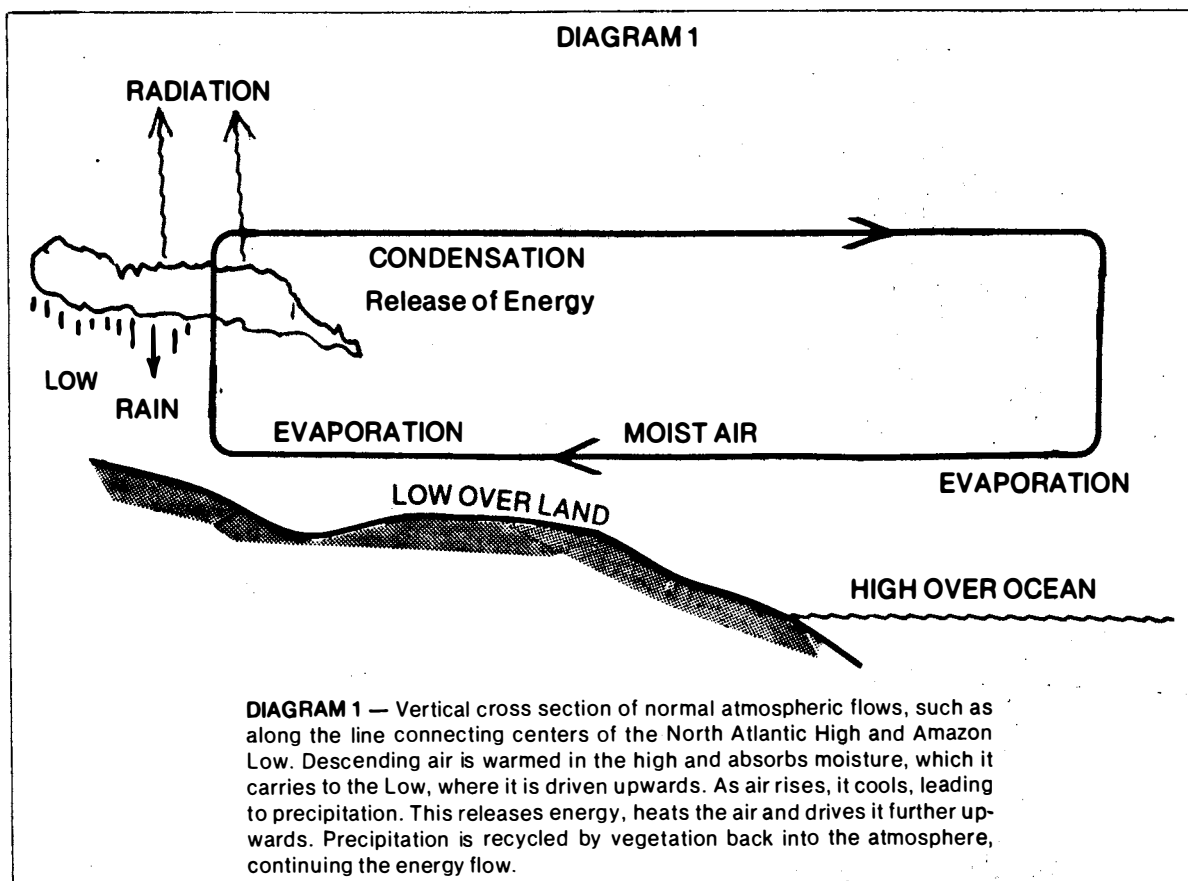
To understand how local climatic effects in a single part of the world can affect global climate, it is necessary to understand how the earth's weather is actually produced. Energy coming to earth from the sun is converted to energy of motion through the evaporation and precipitation of water, as in a steam engine. This drives weather patterns. About 15 per cent of all solar energy hitting the earth is absorbed through the evaporation of water. In the normal weather pattern, solar energy is absorbed in the evaporation of ocean water in the large oceanic anticyclones (see Map I and Diagram 1) in a manner analogous to the boiler of a steam engine. The resulting moisture-laden air flows into the major tropical cyclonic regions — the tropical jungles of the Amazon, the Congo, and Southeast Asia. From the centers of these cyclonic regions the moist air is pushed upwards, cooled, and the water precipitated out of it, releasing the energy previously stored. This tremendous release of energy, by warming the upper level air at the level where precipitation occurs, actually drives the motion which continues the circulation. This energy of motion not only drives the cyclonic circulation of the tropics, but is the main engine for driving the entire global circulation. The polar cyclonic zones constitute secondary engines of a similar sort, but of lesser overall energy throughput.

The role of the biosphere in this energy flow is dominant, although foolishly ignored by most meteorologists. Plant life, by utilizing solar energy directly to pump water into the atmosphere, contributes greatly to the recycling of rainfall back into the circulation. At least

30 per cent of the overall energy flow in the global circulation is directly attributable to the effect of vegetation. For example, the difference in water throughput between a temperate forest and bare ground is estimated at the equivalent of 40-50 cm (20 in.) of rain. The role of the tropical rain forests, of which the Amazon is by far the most important, is especially significant. The ability of these dense masses of vegetation to recycle water using solar energy is responsible for the intense energy flows in these regions, in excess of ten times the density of energy flows for the globe as a whole. The Amazon region alone accounts for about 10 per cent of overall climatic energy flows.

These energy flow patterns are self-maintaining, or

This very metastability or self-maintenance of existing circulation patterns (which determines climate) implies that such patterns can evolve rapidly since initial marginal changes will tend to become self-magnifying once a threshold is passed. During periods in which the biosphere is developing greater energy densities and greater amounts of vegetation come into existence, the overall circulation of the atmosphere is intensified — more rainfall and greater cyclonic activity results, leading to still greater increases in biomass. During such periods increased ordering of circulation leads to greater differentiation of climate and a greater difference in polar and equatorial temperature. The greater proportion of energy converted from heat to motion is



metastable, rather than absolutely stable in any static sense. The cyclonic regions, characterized by the transformation of heat energy into energy of motion, maintains this characteristic flow since the resulting upward flow of air maintains the release of energy through precipitation. The vegetation which contributes to this process is in turn also maintained by the rainfall generated. Conversely, in an anticyclone (on land for the sake of comparison) the absence of moisture and therefore of an energy source for upward motion, maintains a descending, outward air flow, which sustains the lack of moisture and rainfall and the resulting lack of vegetation. The large oceanic regions, which of themselves could support cyclonic activity as well (like hurricanes) are similarly maintained as anticyclones by the driving force of the surrounding land-linked circulation patterns.

connected with a general cooling of the earth as a whole, accentuating further the polar-equatorial climate contrast and expanding the polar air mass. In this cooling, the upper portions of cyclonic storms act as gigantic condensers on a refrigerator, radiating part of the heat released by precipitation into outer space. Such a process of energy intensification and cooler and wetter climate has characterized the long-term meteorological trend for the past tens of millions of years, climaxing in the present relatively cool climate and the even colder climate of the recent Ice Ages. The trend of the historic past few thousand years has also been toward colder, wetter climate — in general more and more favorable to human agricultural activity.

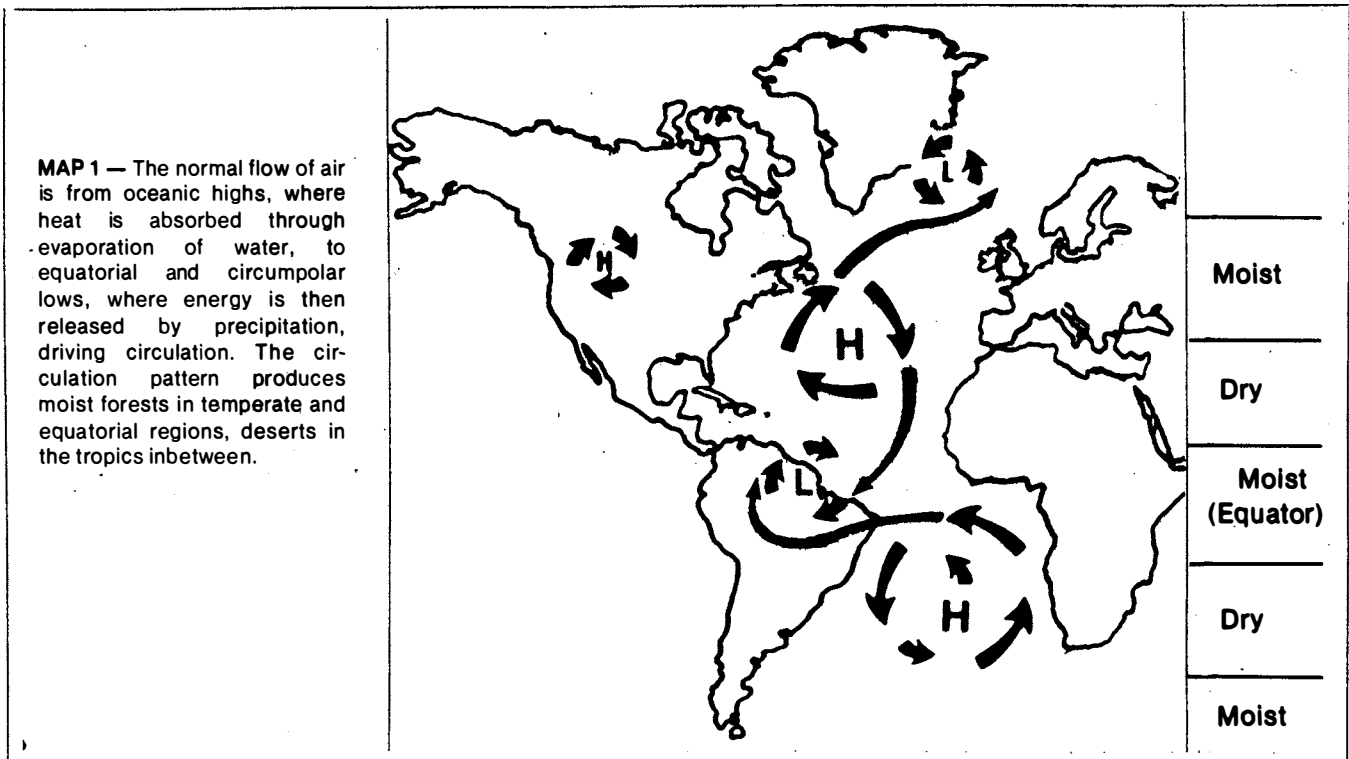
In historic times, the very expansion of human agricultural activity, by increasing energy throughput to the biosphere, contributed to the increasingly favorable

development of the climate.

However, the opposite process, devolution of energy flows, can occur as well. When vegetation is stripped from the ground, the process of desertification sets in. The energy flow necessary to drive cyclonic storms is lessened, leading to lessening of rainfall, increased loss of vegetation and increasing drought. Pushed sufficiently far on a global scale, this process leads in the direction of the formation of self-sustaining anticyclones over all land areas, general desertification, and tremendous changes in global circulation patterns. In opposition to the pattern during periods of development, the climatic zones become less differentiated, warm dry air expands outwards from the equator, the general circulation is weakened, rainfall decreases, and the average global temperature is slowly increased. On a local scale, such a phenomenon is evident in recent times

American high and the anomalous North-easterly location of the Azores high to a location over West Europe. The result of these two northerly shifts was to divert the polar cyclonic storms northwards, bringing drought to both Western Europe and Western North America. The shift of the Azores high, which normally brings warm air to the East Coast in summer, allowed a greater southwards motion of the Greenland low, making for a considerably cooler than normal summer in the East.

In the fall and winter, this pattern intensified and shifted (Maps 2 through 7). The North American high shifted still further northward, and the anomalous high in the West European area was now located over Iceland. The very strong North American high pushed warm air very far north, bringing 40° weather to Anchorage and even more efficiently diverting rain-bearing air far to the



in the spread of the Sahara Desert, and on a global scale was typified by the early stages of the Age of Dinosaurs 200 million years ago, when the continents were covered by vast interior deserts, no ice existed, and the global climate was warm and dry from the equator to the poles.

#### *The Present Situation*

It will quickly be seen that the current weather patterns are symptomatic of exactly that later sort of devolution of energy flows, despite the apparent contradiction involved in the abnormally *cold* weather in the East. While the precise details of the mechanics by which the shifts in the Amazon have altered temperate climate remain in doubt, the overall process is completely certain.

The phenomenology of both the summer and winter weather of the past year is widely known and agreed on among meteorologists. In the summer, the principal distortions in circulation in the Northern Hemisphere were the anomalous northerly location of the North

north of the drought-stricken western states. Simultaneously, the "Greenland low," hemmed in on all sides by the anomalous highs, and unable to retreat northwards, was pushed still further south, over Nova Scotia. The combined effects of the strong Western high, bringing frigid air from much further north than usual, and the southerly low has created a powerful funnel, bringing glacial air down over the Great Lakes and into the Mid-Atlantic states.

Since the weather flows are interlinked in a single hydrodynamic pattern, the behavior of the Greenland low can be treated as a mere corollary of the location of the anomalous highs.

Up to this point, all meteorologists would be in essential agreement, as is indicated by statements by Dr. Gilman of the U.S. Weather Bureau Long Range Forecasting, the noted predictor Jerome Namias, and others. The question is — what caused the tremendous, 500-600 mile shifts of the anticyclone circulations? It is

The maps show the development of circulation over the North temperate and North Polar regions in the past year. In addition to indicating average monthly location of the centers of high and low pressure systems, the maps show the mean flow of air around the polar lows, a flow which marks the average boundary of the polar air mass. The paths of winter storms form a band extending somewhat to the south of this flow line. Air flow around the most important highs is also indicated.

The general process clearly portrayed here is the distortions of polar circulation resulting from the northerly motion of the high pressure systems due to Northward shifts in equatorial circulation (south of the area shown in this map) The equatorial circulation shifts are connected with the Amazon drought and are communicated to the subtropic highs.

**MAP 2 — The normal winter situation.** The normal summer locations are similar, although strengths of systems differ. During summer, the North American high is further to the west, off California.

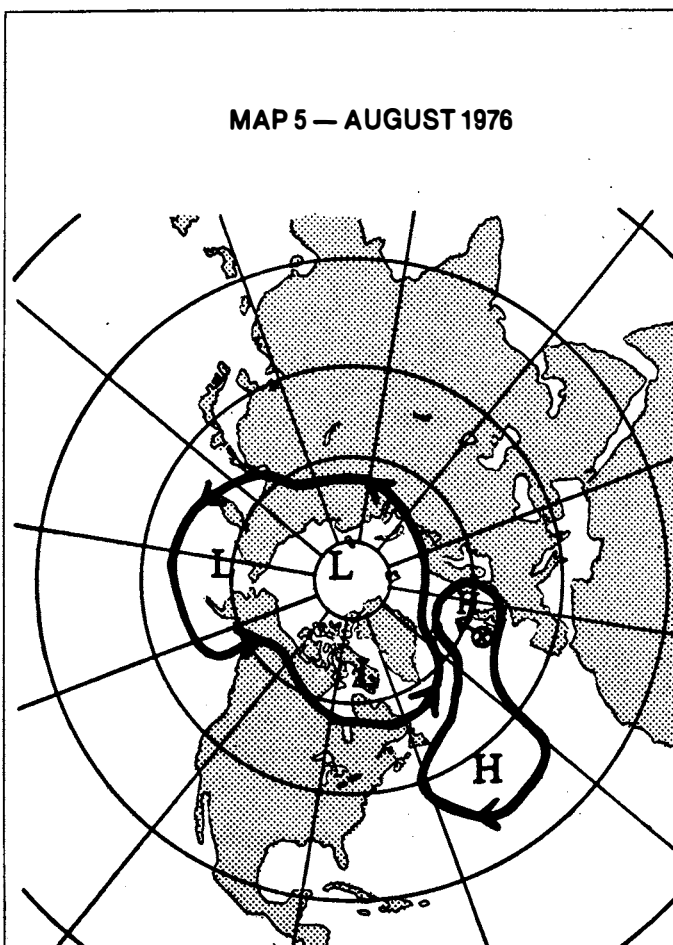
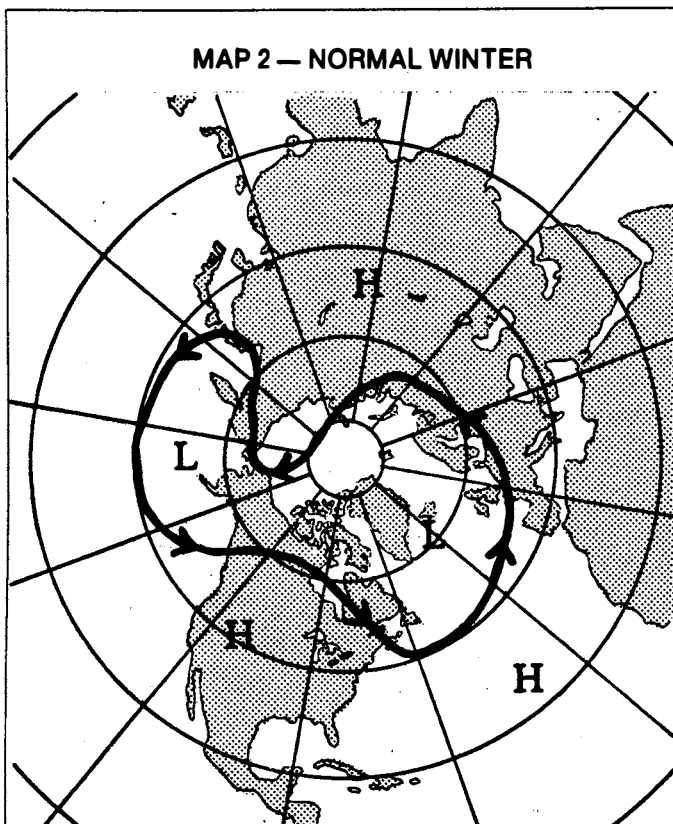
**MAP 3 — January 1976.** Note the change already evident. The North Atlantic high has been pushed northward and distorted into a dumbbell shape. This northward motion has put a dent into the polar circulation, separating the normal Greenland low into two components — one Near Novaya Zemlya (just east of Finland) and the other over northern Canada. The effect on weather was to divert winter storms both to the north over the Western United States and Western Europe bringing drought, and to the south over northern New England, bringing extreme cold to New Hampshire and Maine.

**MAP 4 — April 1976.** The situation has greatly accentuated. The cross and arrow show the motion of the northern end of the North Atlantic high between January and April. It has travelled much further north, squeezing the entire polar circulation northwards and further distorting it. This intensifies the droughts in the U.S. west and Europe, as rain storms move further North.

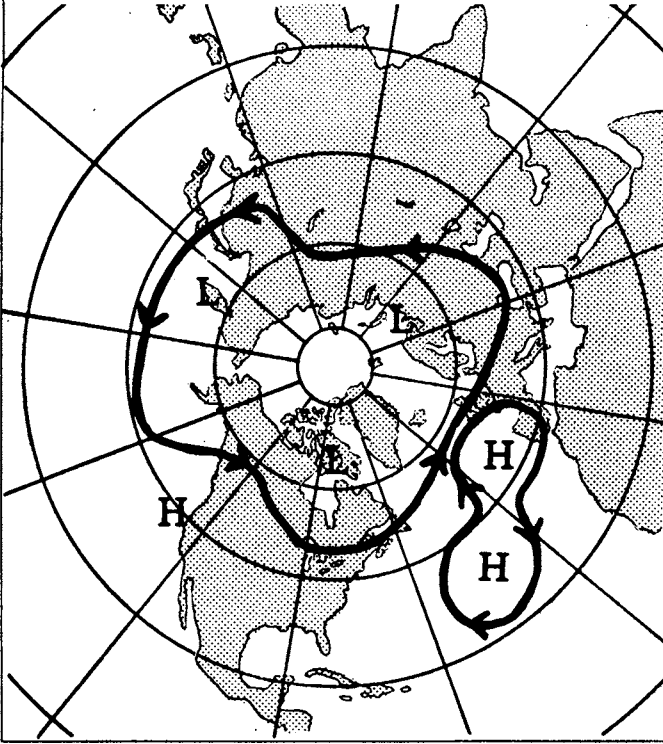
**MAP 5 — August 1976.** The continuous northerly motion of the North Atlantic high is pushing the Novaya Zemlya low towards the pole and closer to the low over northern Canada. A highly unstable situation is set up, since nearby lows tend to merge, one growing stronger at the expense of the other. The continuous movement of the circulation patterns further intensifies the Western European drought.

**MAP 6 — September 1976.** The North Atlantic and North American highs move further, and the instability begins to manifest itself, with the Novaya Zemlya low rapidly weakening and the flow reorganizing itself around the two remaining lows. Note also the southwesterly motion of the northern Canadian high, away from the North Atlantic high which is now located to the northeast of it. The instability continues through the fall as the circulation shifts between the two organizations of flow. Between Oct. and Dec., this instability brings a more variable flow to Western Europe and Scandinavia, temporarily alleviating the drought.

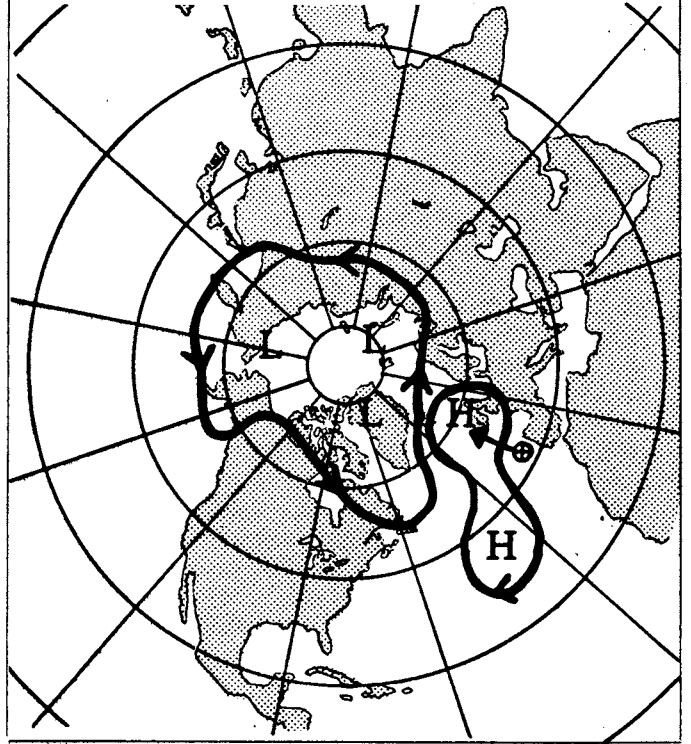
**MAP 7 — Jan. 1977.** The present situation shows the consolidation of a new metastable circulation system. Compare this with the normal winter situation shown in Map 2, the January 1976 situation in Map 3, and the preceding September map. The highs in North America and the North Atlantic are far to the north of both their normal position and last year's position. The entire circumpolar circulation has been pushed totally off center from the pole, now occupied by the powerful highs. The Novaya Zemlya low has been destroyed. The Canadian low has been forced down to northern New England. This result has forced cold air into the Great Lakes and Mid-Atlantic states, while producing very warm weather in the U.S. West and Alaska and cold again in northern Japan. If this situation remains stable over several months, it will renew the drought in Western Europe.



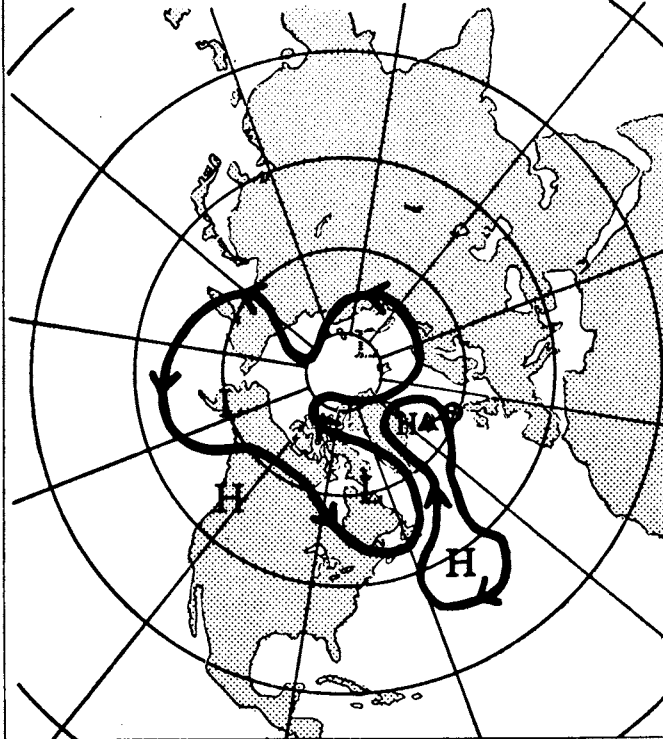
MAP 3 — JANUARY 1976



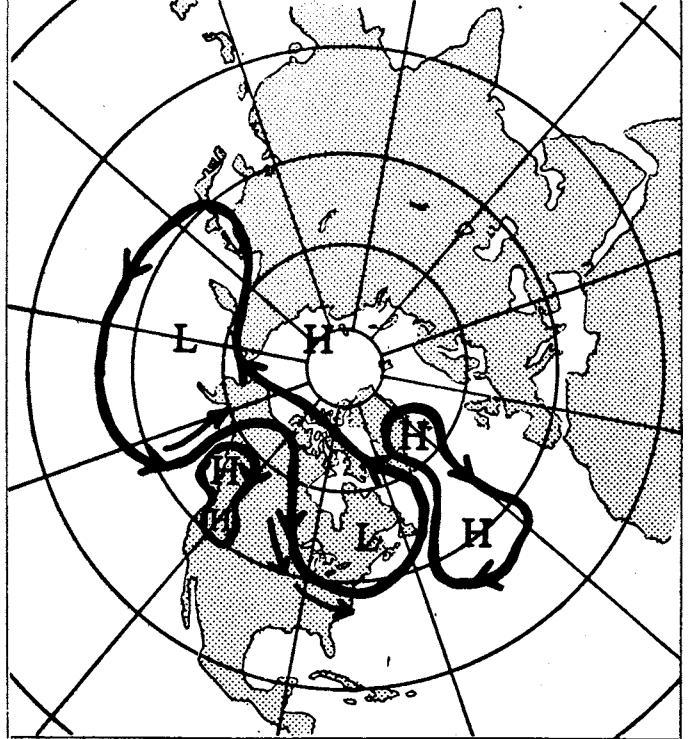
MAP 4 — APRIL 1976



MAP 6 — SEPTEMBER 1976



MAP 7 — JANUARY 1977



evident that this movement can be traced back at least to late 1975 and probably as much as a year earlier. There is no question that once set in motion, this shift too tends to become self-intensifying as both Gilman and Namias have correctly noted. The warm dry air over the western states intensifies the anticyclonic process leading to further warming, while the heavy snow cover over the East radiates the heat away, intensifying the cold. However, these additional self intensifications could only operate on the basis of an already large initial change in circulation, which neither Gilman nor Manias explain.

Before examining the actual explanation it is worthwhile setting up a firm criterion for dealing with the host of spurious causes which have been proposed.

The key criticism is that, even granted the self-intensifying character of climatic phenomena, the energy flow of the proposed cause must be of the same general order of magnitude of the effect. If this were not the case, than any normal small fluctuation would lead to similarly extreme weather. The trigger for such an extreme process must be over a certain threshold, and obviously greater than average fluctuations.

This consideration immediately rules out a number of hypotheses, since the energies involved are tremendous. The total solar energy reaching the earth is roughly 100,000 trillion watts, or 10,000 times present world human energy production. Total climatic flows amount to about 15 per cent of this total, in the sense that they are absorbed in the water cycle, while the rest is absorbed in direct heating.

To determine the approximate change in energy flows involved in the current shifts, we can calculate that roughly 5 million square miles of western North America and the Eastern Pacific have temperatures about 15-20°F above normal. This implies an overall energy flow about 10-12 per cent above normal over one fortieth of the earth's surface, or about 200-250 trillion watts — still 25 times human energy production. We can consider that, since the extreme cold in the east is essentially a corollary effect of the warmth in the west that this figure is a good overall representation of the size of the effect involved.

Such calculation immediately rules out such fantastic hypotheses as that mooted in the Washington Post that Soviet radio wave experiments, whose total power is a mere 10 megawatts or so could have any effect whatsoever on the phenomenon of the scale required. The Soviets could have a greater effect on the weather by ordering their army to face due North and blow hard.

Other theories which locate the cause extra-terrestrially, or as the CIA does, in "long term trends," are sheer nonsense. Causal connections are required, not mere correlations. The history of the CIA's efforts in long range climatology, as documented in the Jan. 28 issue of *Science* magazine, should be sufficient warning of the pitfalls of such linear projections. In May of last year, the CIA released a report predicting a general cooling trend leading to a new Ice Age. This cold weather, they said, would hurt food production, and in particular hurt the Soviet food crop. The evidence for this was a straight line extrapolation of climatic trends during the period 1950-74. Unfortunately the CIA failed to notice the end of this trend in 1974-75 and therefore was somewhat em-

barrassed by the extreme heat over Western Europe and parts of Russia which followed in the summer. Undaunted, the CIA commissioned a new study appearing Jan. 7, which extrapolated the more recent 2-year warming trend into a 100 year prediction, concluding that the *contraction* of the polar air mass would lead to dry weather in Russia, hurting the Soviet crop. This report predicting warmer weather came out in the middle of the worst winter in the eastern U.S. in one hundred years. But the CIA has still not learned its lesson, and last week released a statement saying that the current bad weather was an indication of "growing instability of weather," which would hurt the Soviet crop. Evidently *nothing* can help the Soviet crop.

Setting aside such fantastic explanations, the general considerations of meteorology we have just set forth would lead to an examination of changes in the main energy flow regions, starting with the Amazon basin, for possible causes for the circulation shifts observed. In fact such changes in Amazon climate have occurred over the same period as the shifts in Northern Hemisphere circulation. Beginning at the start of 1976, a devastating and still growing drought had afflicted a large and growing part of the Amazon basin and the surrounding region. By mid-year more than .7 million sq. km were affected, mainly in the northeast Brazil area. By year-end, the drought had spread in Brazil and also affected nearly all of Peru and Colombia. Rainfall in the unpopulated Amazon jungle heartland is also substantially affected. Overall, a region of nearly 1.5 million sq. km. has suffered a loss of more than half of a normally heavy rainfall, involving shifts in energy flows in excess of 300 trillion watts. Here we have a phenomenon of the proper scale to effect the circulation changes in the north, which as we have already calculated involve some 200-250 trillion watts. The local circulation has been massively changed in the course of the drought. Early last year, the high pressure region normally confined to the South Atlantic moved far to the north over part of northeast Brazil. By year-end, this motion had continued to the point where the normal low pressure region over the Amazon basin was essentially destroyed and replaced by an anomalous high. This change in circulation is exactly what is to be expected in the course of a self-feeding drought. The lack of moisture recycled to the air as vegetation dies off, decreasing the energy needed to drive the cyclone, leading to its contraction and the expansion of neighboring anticyclones. This decreases rainfall further, increasing the intensity of the drought, until the previous circulation pattern is completely replaced with a stable anticyclone.

By itself, the drought has produced substantial changes in the amount of energy available to drive global circulation — perhaps as much as a quarter of the entire Amazon throughput, or a few per cent of the global total. If this affected global patterns in a linear manner, it would have driven polar circulation northward by a few degrees of latitude, rather than the displacements of 15-20 degrees of latitude both north and south which actually occurred. However, the global nature of weather circulation introduces further nonlinearities. Since circulation occurs on a closed surface — that of the sphere — any shift in circulation in one part of the globe, if it is of



sufficient magnitude, must directly affect similar shifts throughout the globe, as the entire circulation redistributes itself to accommodate the local shift. Thus, relatively localized shifts, by putting a strain on the entire circulation, can precipitate major reorganization of the global pattern into new metastable configurations.

This is clearly what is occurring now. The immediate impact of the decrease in energy flow through the Amazon has been to replace the inward flow of the Amazon cyclone with a general relaxation of circulation — the outward flow from an anticyclone. This has effected a shift of nearly 20° northward of the normal South Atlantic high circulation. This new displaced flow has tended to force the adjoining circulations, normally driven and dominated by the energy flows of Amazon, North Atlantic, and North American highs, much further north.

In the circumpolar regions, where energy flows originating from the equator become compressed, the nonlinear effect of global circulations becomes accentuated. The tendency for the northward circulation shifts to force the polar circulation into a smaller radius is resisted by the still strong polar cyclonic patterns, which have been weakened only slightly by the direct impact of the overall energy reduction. The effect of these circulation shifts in the polar areas is sudden reorganizations of polar air flow and equally sudden resulting climatic changes.

The normal polar air flow is typified by the large Greenland and Aleutian lows, which together with the North American and Siberian highs give (especially in winter) a "two wave" pattern to the air circulations (see Map 2). During the early part of 1976 and through the first two thirds of the year, the northwards movement of the North Atlantic high into Western Europe distorted this flow into a "three wave" or "three lobe" pattern, with an anomalous low over Novaya Zemlya (maps 3-5). With controlled accentuation of the northward movement of both the North American and West European high, now moving into the vicinity of Iceland, the Novaya Zemlya low shifted further north and eventually merged with the Greenland low, reasserting a two lobe pattern in a very distorted fashion. The far northern location of the highs, occupying in fact all of the circumpolar region, has forced the Greenland low far to the south, over New England and has had the same effect on the Aleutian low, bringing frigid weather to Japan.

The Amazon drought is thus fully capable of accounting for both the scale and direction of the climatic changes over the past year. The question of course remains — what caused the Amazon drought? Here the answer can be quite unequivocal — the energy throughput of the Amazon has been massively reduced by deforestation. Since major deforestation began in 1972-73, over 250,000 square kilometers, more than 10 per cent of the total Amazon region has been stripped clean. The main motivations for the deforestation have been the encouragement of labor intensive agriculture and industry — cattle raising above all. The conversion of the

Brazilian steel industry increasingly to charcoal derived from wood has added considerably to the main devastation caused by the agricultural projects. The total energy flow loss involved in the total clearing of the forests is of the order of 100 trillion watts by itself, or one third of the total energy involved in the drought. Once the area of devastation passed a critical threshold sometime in 1974 or early 1975, the rapid self intensification of the drought which we have described set in.

In sum, we have a chain of nonlinear events which, once set in motion, built up to the observed climate changes. The deforestation, already of a large magnitude, set in motion a self-feeding drought in the Amazon. This drought intensified to the point that it crossed a threshold and energy flow was no longer sufficient to maintain the Amazon cyclone. Local circulation patterns were thus shifted into an anticyclone, altering flow by nearly 20° of latitude. This local alteration of flow, communicated through the interlocking shifts in global circulation patterns, intensified the overall effect of decreased energy flow — the shift of flow patterns polewards. This polewards shift first distorted the polar air mass during the spring and summer, bringing the European and American droughts, and then, with the intensified shift northwards, totally reorganized the polar air mass, forcing cold air southward over the Northeast U.S., Far Eastern Siberia and Japan, while further intensifying the North American drought. In each step we have a nonlinear "jump" effect, which intensified the change of climate involved. However, the overall magnification from initial cause to final impact is small — a factor of two or three. Although some details are still to be confirmed, this explanation is fully adequate for the main features of the current situation, a criterion not fulfilled by any proposed alternative.

From this analysis, a few things can be said about the probable future course of climatic developments — if the situation in the Amazon is not rapidly reversed.

The general tendency over the medium term, four or five years, will be a further accentuation of the drought conditions over North America as this stable high intensifies and moves northwards. Similar drought conditions could develop in the Soviet grain producing regions as well. The persistence of the extreme cold in the Northeast and the situation in Western Europe is more difficult to predict, because relatively small shifts in longitude of the Greenland low will dramatically alter the climatic effects. Over the longer run however, the extension of the Amazon drought and the further contraction of overall energy throughput will without question lead to a general poleward movement of weather patterns, and a general shrinking of the polar cyclones. This will mean generally warmer and dryer weather for the entire grain producing belt and disastrous consequences for world food production. If this leads to a general melting of the Arctic ocean, irreversible climatic changes of long lasting consequences could be brought about.

## Plasma Technology Applied To Steel Production In East Germany

*As Brazil returns to essentially seventeenth-century methods of iron production using charcoal from trees, the steel industry is experiencing a transition to genuine space age technology in East Germany. In the first large commercial scale application, the DDR steel industry is using plasmas in steel production to achieve a significant saving in energy and to improve working conditions — when compared to the presently used electric arc furnace.*

*The DDR method makes use of the much higher temperatures and heat transfers of a plasma-electric furnace to reduce and purify metals for steel production. The significance of the process, aside from the already mentioned advantages, lies in the technological experience gained in the transfer to a more highly developed productive technology. Knowledge gained in the implementation of the plasma furnace will be directly transferable to new techniques as the world economy shifts to fusion as its primary energy source in the late 1980s and 1990s. The action of plasmas on molten metal alone will add necessary knowledge for the rapidly approaching era of inexpensive, high energy plasmas. The article translated below appeared in Neues Deutschland, the official daily of the German Democratic Republic (DDR), on January 22.*

In our January 7 issue we reported on a "world première." The heat function tests were begun on a 30-ton plasma smelting furnace at the "May 8, 1945" high quality steel works. This is the only such plant in the world for high-efficiency metallurgy. The development of the plasma smelting technology, the design and construction of the required smelting unit, are all results of close cooperation between the GDR and the USSR. A member of our editorial staff, Dieter Brückner, spoke with Dr.-Ing. Franz Müller, scientific coordinator from the Ministry for Metallurgy, Ore Mining and Potash who has worked on the development of the new process from its inception, about the operation and significance of this scientific and technological feat.

*ND:* The steel production methods used the most up till now include the Siemens-Martin process, the converter and the electric steel process. What entitles primary plasma smelting to be described as a completely new technology in metallurgy?

*Dr. Müller:* Ever since human thought began, metallurgists have sought to use the highest temperatures possible in their smelting units. They attempted to achieve this through the use of wood and charcoal, and then went through hard coal, coke, gas and oil all the way to electric current and oxygen gas. In this

way, over the course of millennia smelting temperatures were pushed up higher and higher until the maximum limit seemed to have been reached at 3600 Celsius. However, by putting plasma to use as an energy source — plasma, which only occurs in nature in the form of the northern lights and ball-lightning, aside from in outer space — it has now become possible to attain 15,000 Celsius instead of the old 3600. That is really a technical revolution in metallurgy.

*ND:* Plasma — often described as the fourth state of matter — is created artificially, then. This extraordinarily high temperature must certainly have to be controlled. How is this done? What actually happens inside this plasma furnace?

*Dr. Müller:* An aimed electrical impulse is sent into a gaseous atmosphere. In this specific case it is argon which is ionized in this fashion. A "plasma cloud" is thereby formed between the cathode and an anode located in the center of the furnace. The high temperature of this plasma cloud are then used to directly smelt the solid materials which have been inserted into the furnace — i.e. high-quality steel scrap and additive materials. To do this it was necessary, for example, to construct plasma burners with a capacity not in existence before now, namely for current strengths up to 10,000 Ampere.

*ND:* The plasma furnace reminds us superficially of the electric arc furnace....

*Dr. Müller:* ...but there are also significant differences. For example, while the electric arc furnace works with vertical graphite electrodes, the 30-ton plasma furnace works with plasma burners set in the side. In order to tame the plasma energy with its high temperatures, completely new solutions had to be found for energy distribution. The same solutions had for such parts of the process as the smelting mechanism, the energy transfer, the thermal stress of the furnace elements, etc.

*ND:* Up until now the world's high-quality and stainless steel has been produced almost exclusively in electric arc furnaces. What will be the new advantages of plasma smelting?

*Dr. Müller:* There are extraordinarily many. But before I name the essential ones, let me emphasize once more that here we are talking about the smelting of high-alloy steels, and all the following information on the 30-ton plasma furnace's performance refers to comparisons with arc furnaces of the same capacity.

The extraction of alloy metals from the inserted scrap is raised. With chromium, manganese, molybdenum, wolfram and nickel, purities of up to 100 per cent

are achieved. In addition, the iron output rises by two per cent in comparison with the arc furnace. For every ton of quality steel about 60 Kilowatt-hours less electrical energy is needed. Steels and alloys with extremely low carbon content can be produced, e.g., high-alloy welding material and quality steels for special areas of application. Production costs go way down. Specific smelting capacities rise by up to 30 per cent. Compared with an arc furnace of the same size, the 30-ton plasma furnace distinguishes itself through considerably better working conditions, and it is more friendly to the environment, e.g. the enormous noise pollution disappears.

*ND:* These facts certainly do make it clear that we're dealing with a top achievement comparable to the development, design and production of the multiple spectrographic camera made by VEB Carl Zeiss in Jena. And here, as there, the most significant reason for this successful push toward scientific and technological excellence is close cooperation with the Soviet Union.

*Dr. Müller:* Yes, here we have the proof that the joining up of our forces leads to large profits in time and efficiency, to accomplishments which have been attained nowhere else in the world until now. The basis for this was a 1971 agreement signed in the context of the Parity Governmental Commission of the GDR and USSR. In the course of our joint development work we were able to draw upon experience gathered from a 3-ton furnace in our republic, a 5-ton furnace in Chelyabinsk, and then later also from the 10-ton furnace in Freital. The furnace was built and equipped according to joint specifications in a period which represents an international record.

*ND:* Since we're talking about international comparisons: our two countries are therefore the only ones possessing an operating plasma smelting furnace. Where do other countries stand?

*Dr. Müller:* Both in Japan and in France an induction furnace with plasma additive heating and a smelting mass of one ton has been developed. In the USA, all development in this area was halted six years ago, largely because of the complete failure of a large technical experiment at the US Steel Corp. The GDR and the USSR are, therefore, now actually the only countries in the world which have a plasma smelting furnace of this size, and what's more, are producing on a three-shift schedule. Naturally, in the non-socialist economic sector there is great interest in our joint results, that is, in licenses.

*ND:* So can we therefore say that with this new technology and the unit belonging to it we have found a real alternative to the previous primary smelting processes?

*Dr. Müller:* Yes. Until now, as I already said, the arc furnace was the last word in technology for the production of quality and stainless steels. And that oven can look back on a 75-year history of development. The four-year operation of the 10-ton plasma furnace in Freital and the figures given for the 30-ton furnace prove that the capacities of an arc furnace of the same size are not only matched, but are clearly surpassed. Also, looking at it from the energy side, the question about an alternative can be answered affirmatively. Electricity will be our major source of energy beyond the year 2000, and plasma smelting is already now a process which uses electricity most efficiently, transforms it into the highest temperatures and can be applied for the production of steels of the highest quality.

## How The GDR Develops Scientists

Behind the ground-breaking progress in the application of plasma technology for steel production, demonstrated in the GDR's plasma furnace at Freital, lies the conscious policy of the Council of Mutual Economic Assistance countries to promote technological advances and the scientific creativity on which they depend. The official wide-circulation press of the GDR, for example, has been the forum for a public discussion by that country's scientists on the necessary conceptual approach to scientific progress.

In the daily *Neues Deutschland* Jan. 15, Professor Guenter Kroeber contributed a commentary on the personal qualities necessary for scientists: persistence and personal involvement in the task of applying fundamental scientific progress to change technologies. But the scientists "human creative capacity" plays the leading role, stressed Kroeber, "since new knowledge only occurs through creative intellectual achievements." The potential for perfecting the creative capacities of scientists is "practically without limit," he said. "What is required is efforts to constantly expand one's own scientific horizon and to perfect the methodology of scientific work. The potential of scientific creativity grows, if the individual or group makes

# How The White House Manufactures 'Soviet Dissenters'

President Jimmy Carter and Secretary of State Cyrus Vance have publicly declared the cause of "human rights" in the Soviet Union and Eastern Europe to be a point of U.S. Administration policy on a par with strategic arms limitation. This priority, however, is not in fact a matter of human rights. It is a feature of the Carter Administration's strategic posture toward the Warsaw Pact countries and the rest of the world — one of the features which marks it as a posture for confrontation.

The people known as "dissidents" are paid or manipulated pawns in a scheme which has two immediate goals. The first is to destabilize the Soviet Union by fomenting unrest in Eastern Europe if possible, or at least by keeping the USSR uncertain of when and whether the U.S. will suddenly spring the human rights issue as a barrier in the strategic arms (SALT) negotiations.

Secondly, the Carter Administration intends to use human rights to play on its opponents from traditional conservative circles, people who favor world economic development, trade, and détente with Eastern Europe, but are susceptible to pleas to resist "communist oppression." Karin Soeder, Foreign Minister in the pro-development conservative Swedish government, was prompted by the hue and cry over Eastern European dissidents to denounce Eastern governments last week. Norway cancelled a Czechoslovak trade delegation due there Jan. 31, on the same account.

The individuals and institutions which pull the strings of the dissident networks, and the nets of propaganda which keep them a live story, overlap extensively with the Carter Administration. The appointment of Zbigniew Brzezinski as National Security Council chief is sufficient to make the case: long before he served as director of the Trilateral Commission, Brzezinski made his career in the study and subversion of Eastern Europe. His name has for years been synonymous in Warsaw Pact circles with "militant anti-communism" and then the 1960s strategy of "bridge-building", which culminated in the 1968 "Prague Spring."

If Warsaw Pact leaders today had considered that Brzezinski and Carter should have a grace period upon coming into office, the latter are provoking its speedy end. No sooner did the State Department release public endorsements of Soviet chief dissident Andrei Sakharov and his counterparts in Czechoslovakia last week, than Brzezinski came under fire in the Czech weekly *Tvorba* and some Western communist party papers with Eastern connections.

Leading propagandists for the dissident cause and network string-pullers openly admit that the potential for unrest sufficient to threaten the ruling parties and governments of Eastern Europe is next to nil (see interviews, below). Poland is the only country where, because of particularly difficult economic circumstances (the country's debt-exports ratio is the highest in Eastern Europe) and the strong influence of the Catholic Church, significant street action is considered a real possibility.

For all other countries, as well as for Poland, the Carter Administration's strategy is to push "human rights" as far as possible and rely on the effect that can be generated by the Western media.

The perception that mobilization around the dissidents can only provoke the Warsaw Pact nations is shared by numbers of leaders in Western Europe. Mr. Romili of the Italian state sector firm Montedison warned this week that the USSR might react violently to further pressure on this issue. Italy's Foreign Minister Arnaldo Forlani vehemently told fellow Europeans at the Strassbourg European Parliament meeting Jan. 29 and then at the Feb. 1 Western European Foreign Ministers meeting that debate on human rights must not be allowed to submerge military and economic détente topics at the June 1977 Belgrade follow-up to the 1975 Helsinki Conference on Security and Cooperation in Europe (CSCE). The Belgrade meeting is one event slated for sabotage by the Carter Administration. Forlani denounced U.S. manipulation of the human rights issue, and suggested that if there were any real problem in that regard, the Soviet Union would be far better able to resolve it in a world of détente than a world where détente had been wrecked.

### *Freedom House And The Press*

Freedom House, Inc., a New York-based think-tank and publishing house is a major source of documentation of alleged oppression in Eastern Europe, which it feeds to the press. Associated Press President Keith Fuller, whose employee George Krinsky stands accused by the Soviets for his active work among dissidents, is an associate of Freedom House. The House puts out a bulletin called *Freedom at Issue*, which reprints material from Eastern European dissidents, often rerun from emigrée social democratic magazines.

Zbigniew Brzezinski sits on the Board of Directors of Freedom House. So do New York Senators Daniel Moynihan and Jacob Javits. While such luminaries as these lend their names, support, and direction to the

Freedom House, the members most active on a month-to-month basis include Sidney Hook and Paul Kurtz, who won fame for their anti-intellectual University Committee for Rational Alternatives (UCRA), and Leo Cherne of the Foreign Intelligence Advisory Board.

Among Freedom House's sources of money is the J.M. Kaplan Fund, Inc., which also finances Amnesty International's similar efforts to publicize dissidents from Eastern Europe and maintain a "local" in Moscow, as well as a number of "left" and "right" extremist organizations. In 1967, *Newsweek* magazine cited the J.M. Kaplan Fund as a CIA front for transfer of funds to organizations engaged in CIA covert operations.

Legal counsel to the J.M. Kaplan Fund is the firm Fried, Frank, Harris, Shriver, and Kampelman. Partner Max Kampelman in otherwise counsel for the Committee on the Present Danger (CPD), the war-mongering organization whose interlock with the Carter Administration is most dramatically indicated by Carter's energy chief James Schlesinger's initiating role in the CPD. No surprise, *Freedom at Issue* has recently run an article on the "Soviet threat" and "Soviet imperialism," by CPD leader Eugene Rostow.

#### *The Commission On The CSCE*

The center of "human rights" organizing on Capitol Hill is the Commission on the CSCE, formed of six Senators and six Representatives in 1976. Its leading lights include Rep. Millicent Fenwick (R-NJ), the aristocratic representative from New Jersey's wealthiest district; Sen. Clifford Case (D-NJ), a former Wall Street lawyer whose background includes branch work in the Ford Foundation; and Sen. Claiborne Pell (D-RI), scion of a Rooseveltian Democratic Party family and board member of the Center for Strategic and International Studies (CSIS) think-tank.

The Commission will hold hearings in Washington this month to air testimony on human rights by witnesses ranging from Cyrus Vance to Vladimir Bukovskii, the recently exiled Soviet dissident tried in the USSR for organizing armed bands.

Not confined to the U.S., the Commission has sent delegations abroad for liaison with European centers of dissident control. In November 1976, a delegation including Fenwick, Pell, Rep. Jonathan Bingham (D-NY), Rep. Paul Simon (D-IL), and Rep. Dante Fascell (D-FA) visited 20 countries. Their contacts included:

- European correspondents for the *New York Times*, *Associated Press*, *Washington Post*, and *United Press International*;
- Soviet exiled and emigré dissidents including right-wing self-styled prophet Andrei Amalrik and Andrei Sakharov's friend Viktor Sparre;
- NATO Secretary General Joseph Juns;
- Long-time subversion specialist Richard Loewenthal, who was a guest professor at Zbigniew Brzezinski's Russian Institute at Columbia University in 1976;
- Social Democrat leaders Bruno Kreisky (Austria) and Olaf Palme (Sweden);
- Officials and programmers for Radio Free Europe and Radio Liberty, the traditional CIA-funded mouthpieces for destabilization propaganda broadcast from the West into Eastern Europe;

— Numerous nationality-centered emigré groups based in Western Europe;

— Specialists in Soviet Jewry from Zionist organizations, including the hard-core Rockefeller organization, the American Jewish Committee, which leads the field with a history of profiling for social control and propaganda purposes

Commission staffers also stress the body's contacts with the Federation of American Scientists (see "The Sakharov Case") and the World Council of Churches, an important conduit of funds from the Rockefeller Foundation, the Rockefeller Family Fund, the Russell Sage Foundation and the Stern Family Fund.

The Commission's February hearings also promise to introduce as witnesses Soviet Jewish emigrés who have been stuck in Rome for up to three years, supported by the Hebrew Immigration Aid Society (HIAS — also contacted by the Commission delegation in November), and waiting for visas to enter the U.S. It is no small irony that these people, seduced and abandoned by U.S.-based recruiters of prospective Soviet Jewish emigrés, may get their long-awaited visas for the express purpose of testifying in Congress for maximum propagandistic exploitation.

#### *"Left" Meets "Right" As West Meets East*

The operational coordinators of the current dissent in the Eastern European countries are to be found at national-language emigré magazines printed in Western Europe to circulate in the East. These journals operate with substantial backing from and coordination with both "right" CIA fronts like Radio Free Europe, and "left" intelligence countergangs such as Jean Paul Sartre's *Liberation*, the Trotskyist Mandel 4th International groups, and those sections of the Social Democratic 2nd International which are subservient to Rockefeller interests.

The magazines specialize in obtaining, publishing, and on occasion authoring writings which appear over the signatures of the dissidents of the hour. Two of the Polish journals, *Paris Kultura* and *Uppsals* (Sweden) *Aneks*, took the opportunity recently to carry articles by Zbigniew Brzezinski — "America in a Hostile World" and "International Relations: Conflict and Change."

In the summer of 1976, *Kultura* sponsored a meeting in Paris which brought together the editors of *Balt-Press* (Lithuanian), *Svedectvs* (Czech), *Kontinent* (Russian), *Suchanist* (Ukrainian), and *Irodalmi Ujsag* (Hungarian), with attendance from Radio Free Europe and Radio Liberty, all of the above-mentioned supportive tendencies, and observers from the major Western European press. This was a planning session for the human rights campaign that has been unfolding since then.

The keynote speaker, Polish Leszek Kolakowski (see dossier below), declared rightly enough that the capability for attempting takeovers in Eastern Europe such as Czechoslovakia in 1968 no longer existed. His alternative recommendation conformed to the Carter Administration's line today: it is still possible to carry out fruitful subversion, he said, by appealing directly to the public on human rights and using international agreements such as the CSCE to trip up the Eastern

European governments. This cemented the subsequent emergence of "Charter 77" — a document alleging Czechoslovak violations of the Helsinki accords (and which several signers have averred they were not shown in full before signing), and play-up of a Moscow committee to "monitor" Helsinki.

The USSR dissidents have a carefully cultivated image of political neutrality — neither "left" nor "right"; if anything, it is one of the delights of the Western correspondents who write on this to emphasize that dissent runs the gamut from Alexander Solzhenitsyn's "visionary" Russian Orthodoxy to "humanist socialism" of the Euro-communist breed. It is instructive, however, to observe where the dissidents gravitate when they emigrate or are expelled from the Soviet Union. Solzhenitsyn, most recently, has collaborated in a nationally distributed American Security Council-AFL-CIO film retailing the Committee on the Present Danger's line about Soviet intentions to inflict a nuclear first strike on the U.S., from sheer aggressivity. Vladimir Bukovskii, expelled in exchange for Chilean communist Luis Corvalan, appeared last week on a platform in London with representatives of the British National Association for Freedom (currently involved in attempts to Watergate the Callaghan government), CIA-linked Brian Crozier of the Institute for the Study of Conflict, and the anti-détente Tory leader Margaret Thatcher.

Now out of the Soviet Union, Solzhenitsyn continues to service the star dissenters by shipping them funds. Dissident Aleksander Ginzburg has just revealed that Solzhenitsyn sent in over \$350,000 in the past two years.

## Freedom House Director Sussman Outlines Hopes For Dissidents

*The following are excerpts from an interview with Leonard Sussman, the director of Freedom House.*

**Q:** Mr. Sussman, are the human rights efforts here and in Eastern Europe futile based on past actions?

**Sussman:** The effort is very serious and long overdue as an important aspect of U.S. foreign policy. It is a welcome change from the policies of Henry Kissinger. If we do nothing else, we have to make the Helsinki accords work. It is of no use for this country to make military concessions to the Soviet Union, as we have, without having them reciprocate by relaxing repression.

**Q:** Then the dissident movement in Eastern Europe is building momentum and is not simply reflective of increased attention in the U.S. press.

**Sussman:** Oh yes, definitely. It varies from country to country depending on the amount of repression and police measures in each. The most repressive countries show the least dissent, obviously. All the indications we have point to increased dissent activity all over the world. The really promising country is Poland, however. Poland is the loosest on restrictions and is the area of the most activity. Why, over last summer there were riots in Poland and a (deputy—ed.) prime minister was over-

thrown because of them. The Soviets backed down immediately by rescinding the price rises which caused the riots, so that the situation didn't get too far out of hand. But the spirit is there, in Poland, that discontent is still brewing.

The TASS response to the Sakharov affair of last week is all part of a game. They are trying to make the Helsinki accords into a one sided affair while we are trying to make it a symmetrical agreement. They take an indignant stand publicly for diplomatic reasons just like we make strong statements the other way. The real bargaining will go on at the SALT talks and the Helsinki meeting in Belgrade. We've got to make the Helsinki accord an East-West affair, and that means the Soviets must concede on basket III (the human rights issue —ed.).

Kissinger was the exact opposite. I welcome the Carter administration's approach to the problem. While Kissinger wanted to keep the issue on the back burner and play very low key, Vance is acting admirably by encouraging voluntary activity and giving that activity and giving that activity governmental backing.

**Q:** Is there any reason at this time to go slow in pushing the campaign for fear of provoking a Soviet response?

**Sussman:** We've got to push as hard as we can. History shows that whenever we have not put the human rights question out front, the Soviets have gained ground in their struggle. We have to take an ever firmer stand on the question and give as much strength as we can to the dissidents.

You know the Soviets view detente as simply a relaxation of military tensions. They have no compunctions about demanding military concessions while cracking down ever harder on their populations. Ideological struggle does not come under their definition of detente. The harder we push on the compliance with Helsinki, the more strength we have, and greater strength we give those yearning for freedom around the world. The ideological struggle will continue! And the Soviets had better be prepared to make concessions on the human rights issues or else they won't get any military agreements. Secretary of State Vance stated that policy very admirably when he said, "We will push the point without being provocative." That doesn't necessarily mean a great intensity in the cold war. I think you'll find George Kennan expressing the same views, and you certainly wouldn't call him a cold warrior. We simply tend to gain a firmer stand and put the Soviets in a more defensive posture the more the human rights issue is brought up.

**Q:** How does the message of human rights activists in this country get over to Eastern Europe?

**Sussman:** First and foremost are the radio networks, Radio Free Europe and Radio Liberty, but outside of that there exists a well organized campaign of international telephone calls going into the east bloc. Human rights leaders in this country are continuously on the phone with human rights leaders there and communicate everything that is going on here. That information is then put out on the underground networks through the Samizdat newspaper and other aspects of the dissident movement. The typewriters and mimeograph machines have been very busy in Eastern Europe lately.

# Kohler Of The CPD: 'Human Rights'

## —SALT Link Tricky

*The following are excerpts of an interview with Dr. Foy Kohler, former ambassador to the Soviet Union during the Kennedy administration. Dr. Kohler is currently the co-director of the Miami University Center for Advanced International Studies and member of the Committee on the Present Danger.*

**Q:** What is the relationship between arms treaties and the human rights question, and to what extent can the Soviets be pushed on the human rights question before they take some other tack of action?

**Kohler:** One can't plan too far ahead on these things. We are carefully looking for signs in the Soviet press of what their reactions are to all sorts of things. There have been two main areas of concentration which the Soviet Union has been pressing.

The first area is arms talks. There is no doubt about the fact that they badly want a SALT II agreement based squarely on the Vladivostock accords as they now stand. They would be happy to have the accords signed untouched. I have a strong suspicion that President Carter would like to do the same thing, but I doubt that he'll get away with it because the Senate must approve the treaty first. The Senate are a hard nosed bunch on military questions. My own views on this is that what will be signed will be an unsubstantial piece of paper with any

issues of substance or value left out simply to get the signatures affixed. The overall numbers limit of Vladivostock would be adhered to but not much else.

The second area which a great deal of attention has been paid to is human rights, with the Soviets taking an extremely defensive position. They have had a tremendous campaign of protecting themselves from charges of repression from the west. They say that the U.S. is violating the policies of non-interference and that the U.S. is meddling in the affairs of foreign countries. There are constant attacks on Radio Free Europe and Radio Liberty. The administration could conceivably try to link the arms control package with the SALT or other military agreements — this has been done in the past — but I don't think it would be very effective in that it would tend to impede both types of treaties.

**Q:** What about a tripwire conception? Is it possible to push the Soviets too far on this question and force a reaction, I'm thinking specifically of Prague, 1968.

**Kohler:** There is no chance for another Prague. The Soviets would never let it happen. Czechoslovakia is a strong state and I'm sure that there is collaboration with Soviet police to keep whatever dissent there is very controlled. They will essentially get away with anything they can. There are subtleties and shifts from country to country but the East bloc governments are in full control. There are some additional incidents which we don't hear about here but by and large there is nothing outside the realm of police control which could get out of hand. What you read in the Western press contains a good deal of the total dissident activity. The Soviets are not about to let any more large scale embarrassing incidents happen.

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## The Sakharov Case

*The following is excerpted from a feature article by Dr. Morris Levitt which appeared under the title "The Sakharov Case" in New Solidarity Vol. VI No. 64, Nov. 3, 1975. It was written soon after Sakharov was presented the Nobel Peace Prize.*

The Soviet dissenters movement which Sakharov purportedly represents is a hoax. No such group exists as an actual Soviet social formation. A handful of pathetic individuals is being manipulated by Anglo-American intelligence circles primarily for the purpose of demoralizing Western scientists and intellectuals about the prospects for the further development of human progress.

In themselves these people, Sakharov included, are entirely unimportant both with respect to their immediate collective impact on Soviet society and their long-term influence on world events. The sophisticated agent operation which sustains their performance, however, can be traced to Fabian origins dating back more than 40 years ago.

The Anglo-American intelligence authorship and present control of the Sakharov swindle is best indicated

by reporting that in 1973 Sakharov signed something known as Humanist Manifesto II.

The Manifesto was authored by Paul Kurtz, a former U.S. Air Force Intelligence Officer who is now a philosophy professor at the University of Buffalo. Kurtz is the prize pupil of Sidney Hook, the chief academic redbaiter of the 1950s McCarthy witchhunt period. During the 1960s and 1970s, the Kurtz-Hook University Committees for a Rational Alternative played right-wing intellectual cops, maintaining "law and order" on U.S. and Western European campuses by purging genuine leftists and intellectuals.

### *The Bestialists*

Hook and Kurtz publish a magazine, also called the *Humanist*. The magazine has awarded Sakharov the prize of "Humanist of the Year"; another so honored was B.F. Skinner, the psychologist who asserts that men have no minds. Racialists Arthur Jensen and William Shockley, both of whom attribute congenital intellectual inferiority to blacks, have published frequently in the *Humanist*, as has British quackademic H.J. Eysenck, most recently noted for efforts to prove the congenital

inferiority of workers.

In signing the Humanist Manifesto II, Sakharov was joined by Eysenck, Skinner, zero-growth science-fiction writer Isaac Asimov, and food-control specialist Lester Brown. Soviet emigré Alexander Volpin, a mathematical logician, and Yugoslav Svetozar Stojanovic, Philosophy Professor at Belgrade University were the only other non-U.S.-British signers.

The basic propositions of the manifesto dovetail with so-called "convergence theory," essentially the notion that the Soviet Union and Western capitalist countries have gradually been growing more alike in their basic institutions and policies.

There is nothing essentially new in this classic-collaborationist "evolutionary" approach — indeed it was pioneered under Humanist Manifesto I which appeared in 1935 under the imprimatur of America's leading "pragmatic" philosopher, John Dewey, at a time when Kurtz's present close collaborator, Sidney Hook, was a budding "Marxist" luminary on the basis of his plagiarized rendition of British Fabian Society agent Karl Korsch's "synthesis" of Marx and existentialism. In no major feature did the original Manifesto deviate from the moral philosophy of Mussolini.

According to Dewey and his fellow "humanists," 1933 was a year of unrivalled scientific achievements ushering in a "deeper appreciation of brotherhood." Therefore, the time had come for discarding old forms of universalizing religion and constructing a secular religion providing fulfillment in the "here and now." First, one had to learn to "face crises in terms of their naturalness and probability." Then "reasonable and manly attitudes will be fostered by education and supported by custom," and "social and mental hygiene ...discourage sentimental and unreal hopes and wishful thinking" — like eliminating the capitalist financier class. Finally, Dewey's minions incanted, a new religion which permits "joy in living" will usher in the "quest for the good life" in "a social and cooperative order" which "must replace profit motivated society."

#### *Sidney Spills The Beans*

If Sakharov's well-known fantasies about the "convergence" of the U.S. and Soviet systems did not arise from any organic ferment to *that* end within the Soviet Union, what then was their origin? A recent interview with veteran agent Hook, as well as other extant sources, provides a partial, but generally satisfactory answer. When asked for sources of information on the Sakharov case, Hook — reached by a reliable source at his office in the CIA think tank Hoover Institute — recommended getting in touch with the New York branch of the International League for the Rights for Man, the umbrella for the Sakharov-Solzhenitsyn operation in Moscow. Hook also mentioned I.I. Rabi, a retired Nobel Laureate physicist who was close to J. Robert Oppenheimer and instrumental in the Pugwash Conference meetings between Soviet and U.S. scientists. The reference to Pugwash, a series of secluded meetings between presumably pro-détente, anti-nuclear war Soviet and American scientists, indicates the conjunctural conditions under which Anglo-American intelligence operatives anticipated the "capture" of a least some well-known Soviet scientist, and for which there is em-

pirical evidence in the Sakharov case.

From the time of the development of the Soviet atomic (fission) and hydrogen (fission-fusion) bombs, U.S. policymakers sought in vain for some military-psychological stance that would permit a non-suicidal military confrontation with the Soviet Union. The first generalized social "movement" aimed at undermining Soviet nuclear resolve, or failing that, at recruiting politically weak Soviets as the predictable "fall-out", was the Anglo-American "Ban the Bomb" operation. This was the brainchild of British Labour Party psychological warfare expert Richard Crossman. The up-front man was Fabian pacifist Bertrand Russell who earlier in the postwar period had called for a U.S. nuclear attack on the Soviets.

#### *Ban The Bomb*

The anti-Bomb movement created a milieu, by "leaking" information and stressing the dangers of radioactive fallout, in which there appeared to naive persons to be an *equivalency* between the U.S. and Soviet Union in terms of the threat they represented to the rest of the world, and an apparent *symmetry* in terms of their geo-political aspirations with respect to each other. The Committee for a Sane Nuclear Policy — SANE — was the principal U.S. analog of the British group.

The Ban the Bomb Movement combined with the period of adjustment in the Soviet Union after the 1956 Twentieth Party Congress denunciation of Stalin, set the stage for the more specific conjuncture in the early 1960s out of which Sakharov began his career as a professional dissenter. The effect, however, of the late 1950s is reflected in Sakharov's comments in his autobiographical *Sakharov Speaks*: "Beginning in 1957 (not without the influence of statements on this subject made throughout the world by such people as Albert Schweitzer, Linus Pauling, and others), I felt myself responsible for the problem of radioactive contamination from nuclear explosions."

When the Kennedy Administration came to power in 1960, the entire nuclear weapons was destabilized, not only by Kennedy's demagogic campaign around the fictional "missile gap," but more importantly by Secretary of Defense McNamara's experimentation with strategies of "controlled and flexible" nuclear warfare. In June 1972 McNamara declared the U.S. was developing "first strike" capability against the Soviets. The McNamara scenario "mix" ranging from first strike to limited tactical warfare, sufficiently destabilized the strategic environment that a new round of missile and warhead development and testing ensued.

If Sakharov's memoirs are to be believed, he was this whole period as a series of mere bureaucratic "power politics" moves by Krushchev.

#### *Sakharov Remembers*

"I remember that in the summer of 1961 there was a meeting between atomic scientists and the chairman of the Council of Ministers, Krushchev," writes Sakharov. "It turned out that we were to prepare for a series of tests that would bolster up the new policy of the USSR on the German question (the Berlin wall). I wrote a note to Krushchev, saying, 'To resume tests after a three-year moratorium would undermine the talks on banning tests



and on disarmament, and would lead to a new round in the armaments race — especially in the sphere of intercontinental missiles and anti-missile defense.’ ”

In the year of the Cuban Missile Crisis Sakharov wrote, “...Another and no less dramatic episode occurred in 1962. The Ministry, acting basically from bureaucratic interests, issued instructions to proceed with a routine test explosion that was actually useless from the technical point of view...Realizing the unjustifiable, criminal nature of this plan, I made desperate efforts to stop it....”

Sakharov, if his statements are taken at face value, had capitulated to the issuance of Soviet “inflexibility” programmed into the CIA arms escalation-limitation policy.

Ironically, scientists such as Sakharov had already begun to play a role within Soviet society, which, in conjunction with the breakdown crisis of capitalism and the reawakening of international working class forces, could provide the sensuous knowledge of changing the world that had certainly been tragically limited or absent during the period of Stalin and the disarray or destruction of the Western working class.

In the 1940s Sakharov, a brilliant student, studied under one of the leading all-round Soviet physicists, Igor Tamm. He and Tamm then worked on the development of the Soviet H-Bomb and on the origins of the technology of controlled fusion. In 1950 the team laid the basis for Soviet theoretical work in the fusion field, which led into many subsequent ground-breaking Soviet developments in fusion.

In addition to being able to take the widest possible initiatives in science, Sakharov also took up successfully substantive issues of science and social policy, fighting against the dilution of education by proposed job training in high schools in the late 1950s, and against the reintroduction of Lysenkoism in biology in the early 1960s. Yet, by 1966, Sakharov abandoned these forms of intervention that are coherent with a meaningful concept of freedom and human development and lent himself to the intended artificial “polarization” of Soviet intelligentsia around the trial of “dissident” writers, Sinyavsky and Daniel.

#### *‘All Rolled Into One’*

From that period, Sakharov also apparently abandoned the task-orientation of fundamental theoretical fusion studies to embark on scientific work which by 1969 had led him to the fashionably esoteric but epistemologically ridiculous notion of a cosmological sea of anti-quark particles. The state to which Sakharov had reduced himself by latching onto all the worst features of reductionism in political and scientific thought was captured with unintended irony by New York Times Kremlinologist Harrison Salisbury, in introducing the 1968 publication of Sakharov’s *Progress, Coexistence, and Intellectual freedom* in the *Times*. To Salisbury, Sakharov had become the whole gallery of Anglo-American-intelligence-controlled U.S. atomic physicists, “Oppenheimer, Teller, and Hans Bethe all rolled into one.”

This marked full circle for the spread of Humanist rot from the infamous 1933 Manifesto, as Sakharov’s “philosophical” work had been self-admittedly motivated by his real or postured fear that “the *division* of mankind threatens it with destruction.” (Emphasis added). His answer? Dissolve all differences in a com-

mon “human” structure and value system “beyond” capitalism and socialism.

This final consolidation of Sakharov as a defacto agent was not suprisingly also characterized by a proliferation of symptomatic intelligence contacts. His second wife, whom he married in 1970, was Yelena Bonner, an activist in dissident and Zionist circles. Her nephew, Eduard Kuznetsov, was among a group charged with attempting to hijack a plane in Leningrad to fly to Israel. In 1970, Sakharov sent messages to Presidents Podgorny and Nixon asking for clemency for the Zionist hijackers and Angela Davis.

By the 1970s Sakharov was plugged into other CIA cover operations such as Amnesty International, tied to Cambridge anti-Soviet operative Noam Chomsky of MIT which has continuously tried to set up a “local” in Moscow.

Media controlled by Sweden’s Olof Palme have also served as a continuous conduit for Sakharov’s stylish pessimism. Even the left-CIA factional opposition to nuclear “chicken” games, best exemplified by the Federation of American Scientists (FAS), controlled by Director Jeremy Stone and CIA physicist Hans Bethe, consistently uses Sakharov to stake out its own claim to the anti-Soviet “convergence” turf.

In the Soviet Union itself, the Sakharov operation has gone nowhere. In a fit of candor in the January 1973 issue of the *Humanist*, Volpin admitted the total artificiality and definitive outside control of the highly touted Soviet dissidents movement. After reviewing the “highlights” of dissident activism, which included the gathering of liberals in defense of the Soviet Constitution in Pushkin Square in December, 1965, the founding of the Chronicle of Current Events in 1968, the setting up of the Initiative Group for the Defense of the Rights of Man in 1969, and the penultimate Moscow Human Rights Committee in 1970, Volpin let a few white cats out of the bag.

The total number of activists was never more than a handful of physicists, and literary figures led by the morbid mystic Solzhenitsyn. Most of their activity was directed at and mediated by foreign journalists and journals (*Humanist*, of course) because, by Volpin’s own testimony, there was hardly any Soviet audience for their work. In fact, by 1973, Volpin could comment from the “safety” of the U.S. that “it is evident that there are insufficient forces for further development of the struggle, that the struggle is near extinction and no new forces are visible. Only Zionists (since they receive help from Zionists abroad) and such known members of the Moscow Human Rights Committee as Sakharov...and the writer Solzhenitsyn are in a relatively favorable situation. I do not wish to say that this movement is ending, but I foresee a pause for several years in its activities with only the strong support of known Western cultural figures preventing this pause.”

There never was a significant indigenous dissidents movement during the late 1960s and 1970s! The “celebrities” that could be generated were conceived by themselves and the CIA as merely the focal points for an outside “juridical” movement to raise the issue of Soviet conformity to the International Covenants on Human Rights, to which it was a signatory. According to Volpin, the liberals had no program other than institutionalizing the right to any form of “dissent,” and then perhaps to form parties around different forms of dissent.

## Dossiers in Brief: Czechoslovakia

The 1968 operation against Czechoslovakia known as "Prague Spring" was coordinated personally by Zbigniew Brzezinski. He travelled to Prague to give the insurgents their marching orders, announcing in June of that year that "we in New York welcome these events, and feel that this is a good thing, because the old values are actually being realized in a new form."

The heart of Brzezinski's operation was the rapid consolidation of control over the communications media by his agents. Starting with the 4th Congress of the Writers' Union in the summer of 1967 (keynoted by dissident Ludvik Vaculik, see below) the media became a powerful weapon against the Communist Party and State. President Novotny and other leaders were Watergated out of office. A witchhunt atmosphere developed, as the press built scandal upon scandal. "The media began to assume an uncontrollable power," said a Communist Party statement after it was all over. Even the book *The CIA and the Cult of Intelligence*, by "ex-CIA agents Marchetti and Marx, references "a couple of ... public media projects ... such as the fall of Novotny in Czechoslovakia" which had "proven of value" to the CIA.

### "Charter 77"

The core of today's grouping is composed of agents who did not leave after the Warsaw Pact invasion, including:

*Ludvik Vaculik*, who launched "Prague Spring" with his speech to the Writers' Congress, declaring that "not one human problem has been solved in the last 20 year" in Czechoslovakia. This provocative declaration led to Vaculik's expulsion from the Communist Party, which in turn provided the pretext for the media to raise an uproar about "persecution" by the Party leadership. Nearly a year later, in June 1968, it was Vaculik's notorious "2,000 Words" manifesto which proved the last straw for the Soviet Union, convincing the Soviet leadership that the situation in Czechoslovakia had gone dangerously out of control and that military intervention would be the only way to prevent the restoration of capitalism in that country. Vaculik's document was counterrevolutionary call to arms. He urged a final vigilante onslaught against what remained of the authority of the Party and Government: "Let us demand the resignation of people who have misused their power... We must find ways and means to induce them to resign, for instance, through public criticism, resolutions, demonstrations... strikes and boycotts... Let us organize our own monitoring service at meetings. If we hear strange news, let us check on it, let us send delegations to the people concerned, and nail their replies to the gates if need be." Vaculik provocatively called on his countrymen to be ready to take up arms against the Soviet Union, saying that if "foreign forces interfere with our internal development... We can assure our government that we will back it — with weapons if necessary — as long as it does what we give it the mandate to do."

*Vaclav Havel*, a playwright, was in 1968 a member of the well-funded organization KAN, "The Club of Committed Non-Party People." Its stated aim was the re-establishment of a multi-party system in Czechoslovakia, an end to Communist rule. Havel demanded "swift political actions by the liberals," while a colleague proclaimed: "Today we are a club; tomorrow we shall be a force! And the day after tomorrow we shall be equal to the Communists." The Soviet literary magazine *Literaturnaya Gazeta* sharply attacked Havel, pointing out his usefulness to imperialist intelligence and subversion agencies.

Havel was arrested Jan. 17 of this year and has been charged with subversion.

*Jiri Hajek* — the Foreign Minister in the government of Alexander Dubcek, which replaced the Novotny government. Hajek had been a member of the Social Democratic Party before World War II, and when the Social Democrats dissolved into the Communist Party in 1948, he and many others joined up. Many of them became an important part of the "reformist" (agent-controlled) current during Prague Spring. The Social Democrats, with KAN and others, were pushing to re-establish an opposition party which would ultimately replace the Communists.

## Dossiers in Brief: Poland

During Prague Spring in Czechoslovakia, Brzezinski's circles had high hopes for parallel developments in Poland. A protest movement did emerge, involving students and professors who already had liaison with the emigré magazines and Fourth International publishing outlets, in particular. The Polish operation did not jell, but it intersected factional antagonisms in the Polish leadership and helped touch off an extensive destabilizing shake-up and purge of the Polish Communist Party in 1968-69. The prominent figures of the 1968 university movement, which shared slogans with its Czech counterparts, are in the news again today as members of the "Workers' Defense Committee" (WDC) or its overseas contacts and advocates.

When these people talk about opposition in Poland, their point of reference is 1968, not 1970 when the Gomulka regime was actually toppled in Poland. Although the 1968 crowd cheered during the December 1970 crisis, its direct trigger was a necessary but sudden retail price hike. This is why Freedom House is so excited about prospects for destabilization in Poland: the incidents of looting which led to arrests of the people who have now been adopted for defense by the WDC also occurred right after a price hike, one tentatively announced in June 1976 and most directly due to Poland's attempts to maintain payments on its debts to Western banks. A fusion of "1968" and "1970" in Poland is today's WDC aim.

*Leszek Kolakowski* (Oxford, All Souls' College), who in Dec. 1976 issued a manifesto from London warning of an "explosion" in Poland if open opposition is not permitted,

was a central dissident for nearly two decades starting with the CIA's "Polish October" in 1956. Polish authorities have repeatedly charged him of having contact with Zbigniew Brzezinski in that period.

In the 1960s he helped organize and defend a number of dissent documents from Polish writers, which culminated in an indictment of the government in a speech he gave in October 1966. Author of such works as *Marxism and Beyond* — a "socialist humanist" argument — Kolakowski was on hand at the key Writers' Union meetings in Warsaw in March 1968 which solidarized with the Czech Writers' Union, already won by Brzezinski's proteges. He left Poland in 1969.

*Wlodmierz Brus* (Oxford, All Souls College) was a colleague of Kolakowski at Warsaw U., as now. A reform economist, Brus was cited by the Czech Ota Sik as inspiration for his *Plan and Market Under Socialism*, the manual for economic policies of the Prague Spring regime. Today he joins Kolakowski in "manifesto" and support work for the WDC.

Of the 20-odd members of the WDC, these few are most prominent and active:

*Adam Michnik*, a 30 year old historian, was a dissident whiz-kid in the 1960s, associated with Kolakowski. He now serves as liaison between the WDC and its foreign support; he travelled to the Paris *Kultura* meeting in 1976 and then spent several weeks with Kolakowski and Brus in London.

*Jacek Kuron* was co-author of a 1965 "Open Letter to the Party," an incompetent indictment of Polish society as "state capitalist," which was published in Europe by Trotskyist groups. Kolakowski vigorously supported him then, as now.

*Edward Lipinski*, an octogenarian economist and former member of the pre-war Polish Socialist Party, has been a dissenter for over two decades. He toured the United States in 1976 to raise funds for the WDC among Polish-American groups, and authored a new economic critique of Poland which was published by the London-based Polish social democratic paper *Robotnik* and Freedom House's *Freedom at Issue*. New York Times dissident-follower Flora Lewis was received by Lipinski during her January 1977 trip to Warsaw.

## Gaullists Put The Squeeze On Giscard

### FRANCE

The French Gaullists have made an offer to France's President Giscard d'Estaing that the Wall Street-allied chief of state cannot refuse. Gaullist spokesmen have thrown down the programmatic gauntlet to Giscard in a series of policy statements over the last week centered around the Paris mayoral bid of the president's former Prime Minister and Gaullist Party (RPR) head Jacques Chirac. These pronouncements make clear that they graciously will accept nothing less than Giscard's full cooperation with their plans for domestic industrial and trade recovery via French participation in the new world economic order. Should the President refuse, the Gaullists have made equally clear that they will go for his jugular.

Chirac himself, reiterated the key points of the Gaullist economic program in a Jan. 28 press statement in Marseilles, a statement which had all the earmarks of General Charles de Gaulle's program for an independent French foreign policy and cooperation with the Third World.

Chirac accused Giscard of squandering "the capital of friendship and confidence (that France) gained when African nations became independent," and called for "a new Marshall Plan" by the industrialized countries to alleviate the Third World depression. France, Chirac claimed, must not wait until the divided OECD nations "speak with one voice" before attempting, on its own if necessary, to "pull the stalled North-South dialogue (on the new world economic order) out of its dead end."

The likelihood that the Gaullists' economic alternative to Wall Street put forward by Chirac in Marseilles will become French policy in the near future is increasing rapidly with consecutive consolidations of the Gaullist machine behind Chirac's mayoral candidacy. Gaullist "baron" Michel Jobert, known as the stinging public critic of Chirac collaboration with the Giscard regime during the latter's term as prime minister, emerged from a Feb. 1 meeting with Prime Minister Raymond Barre to tell the press that Chirac is conducting his campaign in the tradition of the Fifth French Republic de Gaulle founded.

Jobert's endorsement of Chirac's bid for the powerful municipal seat complemented the across-the-board support Chirac has gained from the Gaullist Party, reflected in the party's choice of political executive officers at its Jan. 30 central committee meeting. The newly elected political executive committee of the RPR has pulled in all major party tendencies, most notably the de Gaulle generation of old-line "barons" including Michel Debré, Pierre Messmer, Olivier Guichard and Maurice Couve

de Murville. Also sitting on the new committee is a sizeable contingent of "Corsican mafiosi" Gaullist leaders such as Alexandre Sanguinetti and René Tomasini, internationally known for their effective 1960s counterintelligence work against the Secret Army Organization, a Rockefeller-funded terrorist gang connected over the last two decades to Giscard's Interior Minister Michel Poniatowski.

Prime Minister Barre stepped into the act this week with a Jan. 30 radio press conference during which he refuted claims by Giscard's allies that the Chirac candidacy threatens a "crisis of the regime." Citing the Gaullists' support for his policies of economic and technological development, Barre stated that there exists "no fundamental difference" in outlook between him and Chirac. Moreover, according to the Paris newsdaily *Le Monde*, Barre held up his national radio statement until he had received news of both Chirac's Marseilles speech and the RPR central committee meeting that same weekend.

### EEC Commissioner Calls for Development Grants to Third World

*In an interview "timed to coincide with the European visit of Vice-President Mondale," European Economic Community Commission member in charge of aid and development, Claude Cheysson called for outright financial grants for the underdeveloped sector. The interview printed in the Jan. 29-30 issue of the International Herald Tribune, also called for participation of Eastern European countries in the new world economic order and European "integrated cooperation" with the Third World.*

*Cheysson has been a key figure in the North-South dialogue, and issued a public protest late last year when West European heads of state agreed that the talks had to be postponed until the Carter Administration took office.*

*The interview was conducted by James Goldsborough and excerpts are reprinted below:*

**Question:** Whatever happened to the North-South dialogue?

**Answer:** ...Attitudes in our countries have been changing. Our governments now realized that we need working agreements with the developing countries on all aspects of commodities, transfer of resources, opening up of their markets, etc. The economic crisis has

changed the attitudes of the industrialized countries; this is clear for France, Germany, Italy, all of Europe and possibly Japan. There is now a much greater concern on the economic order of the world tomorrow.

**Q:** Why is Europe so concerned about this?

**A:** One reason is that during the past three years the Arab world has become the European Community's No. 1 customer. It now represents 13 per cent of our exports. The United States only about 11 per cent. But the rate of growth has multiplied by four with the Arab world, while it is declining with the United States. And what is happening with the Arab world could happen in other developing countries if only they had the financial means to make the purchases from us....

**Q:** How can this interdependence develop when much of the world has not completely recovered from the recession?

**A:** I am convinced that the least deflationary method of recovery, with the least inflation, is in the Third World markets....

**Q:** But how rapidly does this transfer of resources have an effect on our own economies?

**A:** Very rapidly. When the oil prices first went up three years ago, the EEC made a gesture, little appreciated in Washington at the time. We offered to put \$500 million in a pot, provided that other industrialized countries and the oil producers would put the balance to make up a \$3-billion fund. Washington never followed, but the others did and the \$3 billion was made. But what is interesting is that this money, pumped into the developing countries worst hurt by the oil-price increases, resulted in purchases from us of much more than \$3 billion. It was an almost immediate return, just as fast as if you had

pumped the money into our own economies. But without inflation.

**Q:** It is a rather new approach to try to get out of a recession through investing in another country, isn't it?

**A:** That's right. The problem is that it is still being done in the old style, through export credits, which is nonsense. Those developing countries with their potentially huge markets already have passed their indebtedness capacity. It is sheer hypocrisy to increase export credits to India and such countries when we know they can't be repaid. Why pretend it is credit when it will turn out to be grants? I prefer to call it grants, and link it to economic recovery.

**Q:** What about linking the Communist nations to this exchange?

**A:** ...Many Third World nations with nationalist movements, in the first stages of independence in particular, are convinced they can rely on Eastern Europe for support, not only in their liberation, but in their development. But participation from Eastern Europe also follows from détente. If there is détente it means that East and West are going to work together on these important problems...It could be done in the North-South talks, but it could also be done bilaterally...In any event, Western Europe should be part of a new world economic order.

**Q:** What of the U.S. role?

**A:** The United States must accept that capital development is essential in the Third World. The record of the U.S. over the last few years has been very poor...Europe needs to enter into the kind of integrated cooperation with the Third World which the U.S. is not ready to accept....

**EXCLUSIVE**

## The Bullock Report: 'For The Health Of The British Industry'

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### BRITAIN

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The determination of British Prime Minister James Callaghan's government to bring before Parliament major legislation providing for worker democracy in industry by this summer has provoked one of the most important debates on post-war British economic policy. The apparent source of the debate is the Bullock Committee report on industrial democracy, released last week, which calls for a revolution in the structure of industrial management as the only sound basis for the growth in production and technological expansion that British in-

dustry must now undertake.

The report specifies equal representation of employee and stockholder interests on boards of directors of all British companies with at least 2,000 employees as the necessary prerequisite for development of industrial investment and modernization programs to boost output and productivity in British industry. The report dismisses as "sham and token" worker coparticipation programs of the Swedish and West German variety which induce trade unions to impose austerity on their membership. The report stresses that "trade union involvement is fundamental to the industrial strategy, not simply because such involvement is necessary to forestall negative resistance to change, but also because employees,

through their trade unions, have a positive role to play in combating industrial stagnation and in stimulating much-needed change in industrial structure and performance."

Prime Minister Callaghan has been adamant in his intention to carry out the basic strategy outlined in the Bullock report since the Labour Party annual conference in Blackpool last October when he exhorted delegates to "carry into the workplace" the government's essential policy of industrial growth. During one of his frequent visits to industrial centers across the country, last week Callaghan warned opponents of worker participation that the government would tolerate no "stranglehold or veto" over its legislation, since it is "important for the health of British industry in the last part of the twentieth century." When implemented, the proposals will effect a basic change in the lives of the British people comparable to the enactment of universal suffrage in the last century. Trade Minister Edmund Dell, introducing the report into Parliament Jan. 26, predicted that "Just as political democracy has been accepted by all our people, so we believe industrial democracy... will come to be regarded as a part of the accepted fabric of our national life and open a new chapter in industrial relations and a continuing improvement in our industrial performance."

The Trades Union Congress (TUC) is working closely with the government to implement the report's proposals, stressing that their support is possible only because the report is placed firmly within the government's overall strategy of industrial growth. Leading left-wing Labour Party MP Eric Heffer stressed the importance of such TUC support "to avoid the creation of bureaucratic structures which could take us further along the path to a corporate state..."

Not surprisingly, the report has provoked vociferous opposition from organizations throughout Britain purporting to represent "industrial interests." However, much of the so-called opposition is no more than honest questions about how the Bullock proposals would work in practice — questions which Callaghan himself is encouraging as part of the necessary public debate of the critical issues involved. With the Confederation of British Industries, the leading employers' organization in Britain, threatening to launch an "investment strike" if the proposals go through, opposition to the Bullock report is coalescing around the "Minority Report" filed by three members of the Bullock Committee itself. Their report focuses entirely on the bogus issue of trade union power, rather than how to best promote industrial growth, the core of the government's entire strategy. The Opposition Conservative Party led by Margaret Thatcher has spearheaded the hue and cry in Parliament about "threats to democracy" from the trade union menace, while staunchly continuing to advocate Friedmanite economic policies for Britain, of the kind that they themselves admit have only been proven "successful" under Chile's military dictatorship.

To avoid open warfare along "class lines," the Callaghan government, with the active support of the TUC, is drawing up plans to implement the Bullock proposals first in the nationalized and government-controlled industries, whose experiences will then be used as prototypes for broader application of the plan in the pri-

vate sector. Trade union representation on the boards of directors is near implementation in the Post Office and British Steel Corporation; plans are now being drawn up for similar representation on the National Coal Board, British Rail, and all other companies in the public sector.

*Equal Employee Representation:  
The Key to Industrial Expansion*

*Following are key extracts from the 120,000 word Bullock report on industrial democracy published Jan. 26. Committee members involved in the preparation of this report included: Lord Bullock, Master of St. Catherine's College, Oxford (Chairman); Professor George Bain, director SSRC Industrial Relations Research Unit, Warwick University; Mr. N. P. Biggs, chairman Williams and Glyn's Bank; Sir Jack Callard, chairman British Home Stores; Mr. Barrie Heath, chairman Guest, Keen and Nettlefolds; Mr. Clive Jenkins, general secretary, Association of Scientific, Technical and Managerial Staffs; Mr. Jack Jones, general secretary, Transport and General Workers Union; Mr. David Lea, secretary of the economic department, TUC; Mr. John Methven, director general of the CBI; Professor K. W. Wedderburn, London School of Economics; Mr. N. S. Wilson, solicitor:*

The last 20 years have seen the growth of the giant industrial enterprise, and the concentration of economic power in the hands of fewer and fewer such companies. The power and complexity of the industrial enterprise and the remoteness of decision-making have led to demands for large companies to be more responsive to the needs of society in general and to their employees in particular. Industry has come under pressure to consider the wider effects of the decisions it takes in pursuit of profitability, and companies now explicitly or implicitly accept that they have responsibilities not just to shareholders, but also to employees, customers, creditors, suppliers, the local community and to society at large.

The committee says it does not see why a board comprising employee as well as shareholder representatives should be unable to strike an adequate balance between short-term and long-term interests. To put it no higher, there does not seem any reason to believe that employee representatives will not have as clear a perception of where their constituents' best interests lie, or that the stake held by employees in the long-term health of the company is less than that of the shareholders.

We believe therefore that our twin aims of effective employee participation and efficient management can best be met in this country by introducing employee representatives on to the present company boards. The role and function of those boards, however, will need clear definition in the law, if we are to ensure that they carry the ultimate responsibility for decisions in important areas of strategic policy. It is of the greatest importance that employees should be represented on a board with a real opportunity to influence decision-making. A board would not have such influence if final decisions on major questions were taken outside the board level but could always be over-ruled by the shareholders' meeting.

We believe that the main benefits of representation at board level in terms of improved industrial relations and greater efficiency will result from the greater acceptability

lity to employees and trade unions of board decisions in which employee representatives have been fully included and for which they have taken equal responsibility. In our view these benefits may never be realized if employees are not equally represented on the board: first, because a minority group of employee representatives will be less willing to become involved in the formulation of policy, if at the end of the process they know they can always be over-ruled by the shareholder majority; second, because the credibility of employee representatives in the eyes of their constituents will be reduced, if those constituents conclude from the proportions on the board, that their representatives are powerless.

We propose that in companies where all conditions for the introduction of employee representation are met by the boards should be reconstituted to be composed of three elements — an equal number of employee and shareholder representatives plus a third group of co-opted directors. These additional directors should: (a) be co-opted with the agreement of a majority of each of the other two groups — the employee and the shareholder representatives; (b) be an uneven number greater than one; (c) form less than one third of the total board.

We have come to call this formula for board composition  $2x$  plus  $y$ , where  $x$  represents the number of employee representatives and also represents the number of shareholder representatives, and  $y$  is the number of co-opted directors.

Many of those submitting evidence suggested that employee representation on the board should be based, not on trade union machinery, but on works councils or consultative committees which are separate from collective bargaining and which represent all employees, whether union members or not. Such councils and committees, it has often been argued, are an essential preliminary to representation on the board, encouraging participation below the board level and providing the machinery through which employee representatives are appointed and can report back.

The dangers of proceeding with industrial relations legislation without trade union support have been amply demonstrated and we think it is impractical to contemplate a system of representation on the board which does not have the support of the trade union movement. There are also other reasons why employee representatives on the board should be based on a single channel of representation through trade union machinery. Such machinery would provide the expertise and independent strength necessary to support employee representatives and to enable them to play an effective role in decision-

making on the board. It would also provide an established and trusted channel of communication to and from the shop floor through which employee representatives could keep in touch with their constituents. Perhaps most important, integrating employee representatives into a wider system of representation based on trade union machinery would be the most effective way of ensuring that board level representation did not conflict with collective bargaining but that the two processes operated in a mutually supportive way.

The view has been expressed that there is a fundamental and irreconcilable incompatibility between board level representation and collective bargaining. We agree with the EEPTU (Electrical, Electronic, Telecommunication and Plumbing Union) that trade unions must retain their independence. But we do not see why this independence need be comprised by representation on the board. If, as we proposed, the employee representatives on the board are equal in number to the shareholder representatives, and if the former are backed by the strength of the trade unions in the company, they will carry both weight and influence on the board. Indeed, they will be able where necessary to oppose a policy not only on the board but also in collective bargaining.

We therefore believe that our proposals would apply both to the board of the holding company in a group where the aggregate workforce employed in the United Kingdom by all companies in the group is 2,000 or more, and also to any subsidiary company in the group which by itself employs 2,000 or more fulltime employees in the United Kingdom.

We do not seek to minimize the fundamental nature of the changes which this will entail, if they are to be successful, particularly in the traditional attitudes of many on both sides of industry. Nor do we claim that such changes will act as a panacea in eliminating conflict from industrial relations. What we do believe is that, if such requirements as we have proposed are carried through, they will release energies and abilities at present frustrated or not used and thereby create a framework which will allow conflict of interest to be resolved with greater mutual advantage.

Sooner or later, we believe, this is a decision which will have to be taken, whatever government is in power. Postponing it will not make it easier, may well make it more difficult, to take. We believe that the change in attitude of the TUC and its willingness to accept a share of responsibility for the increased efficiency and prosperity of British companies offer an opportunity to create a new basis for relations in industry which should not be allowed to pass.

# Equal Employee Representation: The Key To Industrial Expansion

*The following are extracts from the Minority Report of the Bullock Committee, which were prepared by Mr. N. P. Biggs, Sir Jack Callard and Mr. Barrie Heath. The Minority Report, in contrast with the Majority view of the Bullock Committee, calls for worker representation on supervisory boards, based on the West German model, which would leave the existing board structure in British industry virtually intact. Further, the report envisages the formation of such supervisory boards, to have no formal links with the trade union apparatus, only following a number of years experience with work councils within each company.*

We present this minority report in the confidence that our views will have the support of large sections of the industrial community. We are unable to satisfy ourselves that sufficient notice has been taken of the evidence and advice of those who work in industry — employers and employees alike — whose views and experience are most relevant and most valid. It would be exceedingly unwise for the nation to disregard their practical realism and accept the theories of those who see this debate as a means of changing the structure of society in this country and who would seek to bring the boards of the private sector under trade union control.

Our own first-hand experience of companies which operate in West Germany leads us to believe that it is the German insistence on effective works councils separated from the union negotiating system, representing all employees and given extensive powers, which is one of the key factors in the success of the German system of employee participation.

We believe that the substructures can be power houses of ideas, wisdom, and influence on a company's activities, and that they are essential complementary arrange-

ments to any form of board representation.

Our recommendation, subject to the creation or existence of a suitable substructure, is that if there is to be employee representation at board level, it should be on supervisory boards.

We propose that a supervisory board, where adopted, should consist of: one-third elected by employees; one-third elected by the shareholders; one-third independent members. Included in the one third employee elected representatives should be at least one member from the shop floor payroll, one from the salaried staff employees, and one from management.

If a supervisory board is to serve a useful purpose, it should not be a watchdog without teeth. It should exercise general supervision over the conduct of the company's affairs by the board of management, but should not participate directly in the management of the company, nor be empowered to initiate policies.

The effect of this proposal would be to leave the existing structure, organization, and purpose of boards of directors in the United Kingdom substantially unchanged, but it would introduce a new and, we believe, important element of accountability.

We believe that no candidate should be eligible unless he or she has: been employed by the company for a minimum of 10 years; been a member of a sub-board council-committee for not less than three years; and undergone adequate and appropriate training to enable him or her to participate effectively in the supervisory board discussions.

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Extracts taken from: *Report of the Committee of Inquiry on Industrial Democracy* (Command 6707, Her Majesty's Stationery Office)

## Carter Networks Use British Courts Against Callaghan

A decision to prevent political action against the fascist settler-regime of South Africa handed down by Britain's second highest court this week has become the leading edge of a right-wing destabilization campaign against the government of Prime Minister James Callaghan, under the manifest supervision of agencies in New York and Washington, D.C. The court decision, an injunction against boycott activities directed at South Africa by parts of the British labor movement, has directly challenged the role of Parliament as final arbiter of law in the nation, and reflects a deliberate intention to weaken Callaghan's ability to head-off the U.S. Carter cabinet's policies of military confrontation in Africa and the Mideast.

The unprecedented judicial action was taken by the British Court of Appeals, which served an injunction against the British postal unions who have been organizing a boycott of all mail and telecommunications with South Africa. With support from the Carter cabinet, South Africa's Vorster government refused to withdraw military support for the outlaw Rhodesian regime of Ian Smith, as the British government has demanded. The postal union's action is therefore consistent with British government policy.

The court acted to sabotage this peace policy at the behest of the right-wing National Association of Freedom (NAF) which charged the postal union with "arrogance of power." The court, moreover, delivered its injunction



only after Attorney General Sam Silken, an appointee of Callaghan and Labor Party Member of Parliament, had refused to interfere with the postal union campaign "in the public interest." The court, calling upon Silken to explain why he had not halted the boycott organizing, declared that "Political reasons are not necessarily good legal reasons," a hint of the underlying constitutional issue involved: Who is the final arbiter of the law, the courts or Parliament? (With broad support from Parliament, Silken insists that he is answerable only to Parliament, not the courts, and charges that the court has exceeded its authority, and has no business inquiring into the grounds of a decision for which he is accountable by English traditions only to Parliament.)

The court notably refused to investigate the NAF, whose intelligence agency origins and nature are not obscure, and which has been catapulted into national prominence by the case. Its decision, which implies a fundamental change in Britain's uncodified constitution, befits an operation which amounts to a treasonous conspiracy against the British government directed from the U.S. side of the Atlantic.

The NAF is tied closely to David Rockefeller's New York Council on Foreign Relations, the U.S. Central Intelligence Agency, and the intelligence-linked underside of the Tory party. The NAF shares personnel and policies with the London Institute for the Study of Conflict, the agency which has stage-managed every "red-scare" in Britain for the last three years. The Institute's director, CIA agent Brian Crozier, was identified by the Soviet daily Izvestia in November, 1976 as co-ordinator of Forum World Features, used by the CIA until 1968 as an "instrument...in the struggle against Communist propaganda." Robert Moss, who is now the ringleader of the National Association for Freedom, worked as a correspondent for Forum World Features, and specializes in terrorism and Third World destabilization — a fact revealed by both Literaturnaya Gazeta and, more recently, the Manchester Guardian. Moss is a top policy advisor to British Conservative Party chairman Margaret Thatcher, according to the Guardian. Moss, also editor of the London Economist's confidential weekly "Foreign Report" has recently authored "Chile's Marxist Experiment" — reportedly for the CIA.

Although the NAF vigorously denies connections to the Tory Party, its directors include Sir Keith Joseph, (Mrs. Thatcher's "right hand man"), Tory education spokesman Rhodes Boyson, and Conservative M.P. Ian Sproat,

who recently alleged that the Labour Party had been infiltrated by "crypto-Communists and fifth columnists."

Mrs. Thatcher herself — a member of the Bilderberger group carefully groomed by the Rockefellers' Council on Foreign Relations to take over Callaghan's job — is not above putting in an appearance at NAF functions, as recently when the guest of honor was Soviet dissident Vladimir Bukovsky. Right wing sources in the U.S. have affirmed that the "human rights" issue now being centered around Bukovsky in Britain could also easily be used to compromise Callaghan's fight for improved East-West relations on the basis of expanded trade and economic cooperation, in conjunction with the Carter administration confrontation policies which give added clout to the Tories' anti-Sovietism.

Callaghan's vulnerability to Cyrus Vance's destabilization attempts was revealed this week when, just after he had outlined British Government thinking on South Africa to visiting Trilateral Commission emissary Walter Mondale, eight bombs rocked through London's central shopping district — the work of the Rockefellers' Interpol terrorists. Just last week, British fascist Enoch Powell was trotted out again to give, according to the press, his "most startling and chilling prognosis yet" on the imminence of race war in Britain. Powell, now a member of Parliament from Ulster, has been inciting British workers to fight each other for years. This time, he said, all that was needed was a "few thugs, a few shots, a few bombs at the right place and time — and that is enough for disproportionate consequences to follow."

The Labour Party and the trade unions have already taken steps against such a possibility. Trade union leader Jack Jones, uncharacteristically coming right to the point, warned that Britain nearly faced a right-wing coup two years ago, and the same people "are still around." The press was full of "colonel this and captain that," recalled Jones. "Around the top echelons of society there was quite a lot of loose talking and quite a degree of undemocratic talk." In a warning to Callaghan not to hesitate in pushing forward with his policies for growth and economic stability, Jones noted that Britain had averted a coup two years ago only due to "progressive management" and the solid alliance between the Labour Party and the trade unions. Callaghan's Foreign Secretary Anthony Crosland has similarly urged the press to devote more attention to exposing the swing toward right-wing extremism in the Tory Party.

## Gov't. Gives Industrial Strategy Concrete Direction

Describing their proposals as "frankly experimental," British Chancellor of the Exchequer Denis Healey and Industry Secretary Eric Varley laid before members of the National Economic Development Council during their meeting Feb. 2 proposals to boost British exports by as much as £36 billion by 1980. The proposals, which are being seen as the first concrete implementation of the

government's much-discussed industrial strategy, focus on the importance of government-sponsored development of five key sectors of British industry for sparking a general recovery of the economy.

Held in the context of successive buoyant economic announcements, including a balance of trade surplus, a 75 per cent increase in the reserves in the last month, and

the continuous fall in interest rates, the National Economic Development Council (NEDC) meeting, chaired by Prime Minister James Callaghan, met with the purpose of extending these first signs of recovery throughout British industry.

The government's report to the NEDC clearly reflected the government's intention to spearhead economic recovery by planned intervention into critical industrial sectors. Named for immediate attention during Wednesday's meeting were industrial engines, construction equipment, office machinery, electronic components and domestic electrical appliances.

According to the government's report, these sectors have been chosen because they are "part of the mechanical and electrical engineering industries whose performance is central to increasing our overseas trade. Second, these sectors are among the world leaders in their markets or have expressed themselves as confident of their ability to make a very significant improvement in their market performance. Third, these are areas where the instruments of industrial policy available to the Government can contribute most effectively to the achievement of sectoral objectives."

Areas in which the government will now be concentrating include "assistance to exports (involving the Export Credits Guarantee Department, the British Overseas Trade Board and the provision of finance generally), scope for industrial restructuring and assistance to new product development."

Major responsibility for implementing the government's industrial strategy is being given to the National Enterprise Board to undertake discussions with targetted companies on future investment and organizational plans. The NEB was formed in 1975 with powers to buy up troubled industries and provide financial assistance to firms considered to be critical for national economic health.

Only this week the NEB took a major step towards

revolutionizing Britain's computer industry by creating INSAC Data Systems, a government-sponsored consortium that would promote exports and product development for the industry. In exchange for 25 percent ownership by the NEB, selected British computer firms (still to be named) would appoint members to INSAC's board of directors to jointly plan its policies.

A critical part of the government's overall strategy is its energy policy, dominated by the important role the development of the North Sea plays in returning the country to a payments surplus by the early 1980s. Speaking this week, Energy Minister Tony Benn stressed that Britain would "take a page out of OPEC's book" and use the revenues from the North Sea — estimated to total £3.4 billion a year in the early 1980s—to boost industrial investment.

Benn's pledge that the government has "taken powers to ensure that every field is fully exploited" was made obvious by the announcement this week that the British National Oil Corporation (BNOC) would become actual operators in the North Sea for the first time following the new round of licenses to be announced early next week. Further, Chevron oil, developer of the Ninian Field (third largest in the North Sea), in which BNOC has a 20 percent stake, announced a major investment drive to develop the field's full capacity.

Most important to the government's energy drive, was British Petroleum's announcement this week that it was doubling its previous investment allocation for the next five years to £2.7 billion, to be used in both North Sea exploration and construction of increased chemical and refining capacity on the mainland. David Steel, chairman of British Petroleum, whose shares are 61 percent owned by the British government, stressed that the company's investment program "will make a major contribution not only locally in terms of jobs, but also to the health and continuing development of the national economy."

# Sadat Turns To The Right — But Can He Survive?

Egyptian President Anwar Sadat and Prime Minister Mamdouh Salem, on orders from Rockefeller's Chase Manhattan Bank, yesterday rejected a national consensus against Sadat's post-1973 "Open Door" economic policy. In a major government shake-up following nationwide riots on Jan. 18, Prime Minister Salem personally assumed charge of the feared Interior Ministry, which controls the national security forces, and appointed two high-ranking police officials as his deputies.

The intention of the new regime is to force a showdown with the opponents of the New York banks and the International Monetary Fund, whose program for Egypt — the elimination of government subsidies on fuel and oil, a 50 per cent devaluation of the Egyptian pound, and the dismantling of the state-owned industrial sector — was the target of the mass protests that almost toppled the Sadat regime a week ago.

Sadat's decision follows the visits of two key Rockefeller agents to Egypt: Trilateral Commission member J. Paul Austin, the chairman of Coca-Cola and the prime political sponsor of President Carter; and former U.S. Attorney General Edward Levi.

So far, it is impossible to tell whether the decision by Sadat to crush the domestic opposition to IMF austerity will affect the long-standing policy of Egypt to support a reconvening of the Geneva Conference on peace in the Middle East. Although the crippled Egyptian economy and poorly equipped armed forces are in no condition to sustain even a limited war mobilization, not to speak of a renewed Arab-Israeli conflict, the lack of political will within the Sadat regime to resist U.S. pressure may cause Cairo to back off its oft-stated support for Geneva and to abandon the Palestine Liberation Organization.

According to reports from Cairo, former Planning Minister Ismail Sabri Abdullah (who recently proposed the formation of a new international bank to replace the IMF), fears that the rightist trend in Egypt will shortly end in "the Brazilianization or Chileanization of Egypt, and a clear and open shift to the right."

But it is extremely doubtful that Sadat and Salem have the internal muscle to re-impose the austerity demanded

by the IMF, and any attempt to do so will likely lead to an uprising that would spark an anti-Sadat coup by Nasserists and pro-Soviet military officers. According to one observer, Sadat can only rely on the elite Security Forces, controlled by Salem, to keep order in the streets in the event of another outbreak of strikes and demonstrations. Although the Egyptian Army is tightly controlled at the top by officers who are supporters of the Sadat regime, within the junior officers' corp there is unbridled hatred of the present rule, while a former State Department official claims that deep divisions extend to the level of the General Staff.

Despite the intent of the regime to re-impose the IMF's program at the earliest opportunity, there is every indication that neither Sadat — nor any regime in Egypt — could survive another upsurge by the Egyptian working class. A number of political analysts agree that within the Egyptian population there is powerful resentment against the current Government, which has become known in Cairo as the "Royal Family" because Sadat has brought so many of his relatives into key positions in the regime.

The spokesman for the opposition is Khalid Mohieddine, the former ally of Nasser's Free Officers in the 1952 revolution who now heads the leftist National Progressive Union of the Egyptian People's Assembly. Two days ago Mohieddine held a press conference — itself almost unprecedented in Egypt — to denounce the regime's campaign against the Egyptian left. Mohieddine charged that Sadat is "a captive of Carter," and he blasted the disastrous Open Door policy as the basic cause of the crisis.

Mohieddine was the chief target of a anti-communist tirade delivered on Jan. 29 by Prime Minister Salem, who virtually called for the abolition of Mohieddine's leftist organization. It is interesting to note that Sadat, speaking the same day to trade unionists, did not support the prime minister's demand to abolish the left party, but reaffirmed his commitment to "democracy in Egypt," leading observers to wonder whether Salem and the Egyptian right are pushing Sadat into a more aggressively anti-communist stance.

## **Economist:**

### **Egyptian Security is Open to Question**

*The following is excerpted from the London weekly Economist Jan. 29, titled "Voices from Egypt's Bottomless Pit":*

One significant point about the government's handling of the riots is that in Cairo at least the ordinary police were conspicuously absent. For instance, no policemen were visible in the central area near Tahrir Square for several hours around midday on Wednesday, Jan. 19, when the rioting was at its height. Possibly their superiors did not want to test their reliability....The rioting came under control only when the central security force, a specialised group within the police, went into action.

It is also worth noting that the army was brought in only after it was decided to cancel the price rises, and was pulled out pretty sharply thereafter. Looking at the soldiers at street corners, lumpish and dishevelled, one can guess that these true sons of the Nile would not fire on their own people rioting for bread for very long. Only one regular infantry unit was used and that was stiffened by three or four battalions of military police and the brigade of the presidential guard. The fact that the rioting went on long after curfew (itself a new thing for Egypt) shows that Egyptians are no longer cowed by authority. From now on the security structure of the state is open to question.

### **The View From Cairo: Sadat is Isolated**

*The following is the evaluation on the Egyptian situation by a Princeton University specialist on Egyptian affairs recently returned from Cairo.*

I held long talks with AID (Agency for International Development) directors from the U.S., with Egyptian intellectuals and economists and this is what it looks like: for one, take the American community in Cairo. There is a great deal of apprehension among the American community about Sadat's position. People are extremely shocked by what has happened. The Americans I spoke to are distant from the pulse of the regime, they don't have an independent fact-finding apparatus, they take the word of the regime for reality, or they have done this until now, and Sadat has consistently, in channeling evaluations to them, overstated his capacity to survive. But this has changed. Now they know they have put all their eggs into one basket, but there is nowhere else to go. So there will have to be some kind of re-assessment, but what this will look like neither they nor I know....

The Egyptian Gazette late last week editorially blamed the IMF (International Monetary Fund), acknowledged IMF pressure on Egypt. At the end of last week, around Tuesday or Wednesday, editorials and news items on IMF pressure, including dispatches from

Washington on IMF pressure, began to appear for the first time. This was a change from earlier coverage. The editorials began to target the World Bank, the IMF, the Arab States, finally displaying a reasonable modicum of honesty...

Overall, this is a bad situation for Sadat. It can now be reliably spoken and reported about it in Egyptian circles that there is growing unrest in the junior officer corps level of the army. These men know the army is ill-equipped, that Sadat has whitewashed the Israeli issue. The frustration mood is reaching a crisis proportion worse than ever before. Sadat is being attacked more and more as heading a royal family. This is a hot issue, and he must purge some of them, hence the Abu Wafia affair. One Cairo rumor is that Sadat will designate his wife as Vice-President, which people believe because of the credibility of the royal family theme. Sadat had to make an official statement recently denying his wife's involvement in politics because of this.

Think about it this way: Sadat does hold meetings with Sayed Marei, and Othaman Othman, who is also in the family, and it's altogether credible that they actually discussed this. It's all very scandalous. Look at Othman, the guy's up to his neck in the most incredible real estate speculation.

After the food riots, the government's reaction is, "let's patch it up, let's impose a taxation system." But no one believes this regime has the machinery to tax the rich, the rich are involved in activities where you simply can't track them down like speculation and things like that. They are getting away with murder.

The class cleavage, one of Egypt's leading sociologists told me, is getting worse than before, the class issue is as sharp as 1952. The riots had middle class support, from government employees who actually participated. Middle-class people, professors and so on, can't get apartments, you can't buy anything at current salary rates. This is not a Brazilian-type middle class, so Sadat doesn't even have a middle class base.

Sadat himself is isolated, there is growing evidence of his personal isolation from the population, of increasing distance. Sadat has cultivated a myth, dating back from his World War II exploits, of how well he understands mass psychology, and in fact used this capability in the way he deals with close family members and those types, have left him far away from popular concerns. Maybe he believes the communist scapegoat theory. As for Salem, he definitely believes in this communist stuff. People who are close to Salem, who know him, say he really believes the communism angle.

The Egyptian right exists in the police system, the party system, the banks, those circles close to Americans, Al Akhbar, and Al Ahram, which has a right-wing tendency. As for the Saudis, they are playing it safe, they are very worried that if they encourage right-wing intransigence, the regime will falter. The Saudis know Sadat's weakness, better than the Americans do, the Americans are incapable of knowing what's going on. Ismail Sabri Abdullah, who runs the Institute of National Planning, is afraid of a right-wing coup d'état. Now, of course, the regime is a proxy for the right-wing, but what Abdullah is talking about is a clear, open shift to the right.

## The Saudi Question

*The following interview is with a U.S. Middle East strategist close to the Committee on the Present Danger.*

**Q:** Do you think the latest events in Egypt will isolate the Saudis and what do you think the Saudis will do?

**A:** It is clear by now that the Carter Administration has no clear priority for the Middle East. Obviously Carter will not go to Geneva. As a result by June the Saudis will move towards the 10 per cent increase.

**Q:** How do you know that the Saudis are considering moving with the rest of the OPEC countries?

**A:** They will have to. We are picking up rumors here, that in June if the Carter Administration does not show any signs for Geneva the Saudis will retaliate by agreement with the rest of the OPEC members. And you know what? Carter will follow his anti-Arab policy. But this will cost the U.S. the Middle East. Another thing is that an anti-U.S. Saudi Arabia means war.

**Q:** Are you serious — the Saudis will push for war?

**A:** No, Sadat will. Remember what happened in 1973. As for the Saudis they will have to take an anti-U.S. policy, or else they are finished and their tendency will be to re-ally themselves with the rest of OPEC. As far as I'm concerned the situation in the Middle East will become very sensitive by June, but the signs will start to come after Vance's trip.

## The Saudis Will Back Sadat

*The following evaluation is by John Campbell, member of the Council on Foreign Relations and specialist on Middle East affairs.*

Sadat seems to have temporarily backtracked on imposing austerity ever since the riots. The extent of the riots really surprised the world. Not only students took part, you know. You expect students to do such things. But the workers took part too, alongside the students. It was really something astonishing, something incredible. I don't know about Salem, but I do know that Kaissouni will disappear from the cabinet. He is too tainted, labeled as the proponent of the Open Door policy. He'll be out soon.

For Sadat, the whole affair was quite a setback. But it is still too soon to say if he will make any real shift one way or another. Sadat's situation depends on the army in the last analysis. So far, Sadat has been clever enough to keep the army happy, that has been his first priority. But now he is seriously weakened. It is hard to predict if and when the army will move against Sadat, but that is always a possibility.

As for the Saudis, they will support Sadat. Up to now, they have been cautious about handing money out to Egypt and have wanted guarantees. But now they see that in the long run the guarantees may be too costly in terms of Sadat's stability. I think you'll start seeing the Saudis and other oil-rich states start funneling funds back into Egypt.

## Israeli Hawks Outflank Rabin

Israeli Defense Minister Shimon Peres, in collaboration with Israel's other leading hawks, has virtually destroyed any chance moderate Prime Minister Yitzhak Rabin had to win the renomination of the Labour Party for the upcoming Israeli elections. Peres' success in outflanking Rabin brings to the fore in Israel a clique of generals committed to complying with a Carter Administration policy for a Middle East war.

Despite Rabin's pro-peace orientation, his failure to rally the Labour Party around an alternative peace program has left him vulnerable to Peres and proclaimed candidacy. The Peres operation, which is in fact under the direct command of Cyrus Vance and the Carter Administration, is specifically aimed at blocking any agreement by Rabin to reconvene the Geneva peace talks. Faced with a series of well-timed scandals which led last month to the suspicious suicide of Housing Minister Avraham Ofer, Israel's leading dove and Rabin ally, Rabin abandoned any plan he had to organize his candidacy around an overall peace settlement.

### *The Eban-Peres Axis*

Collaborating directly with Peres is former Foreign Minister and erstwhile dove, Abba Eban, who this week

withdrew from the race for the Labour Party nomination and endorsed Shimon Peres in an effort to channel some of the peace vote away from Rabin and for Peres. Said Eban: "In 1974, when the Labour Party nominated Rabin for the premiership, I thought that Mr. Shimon Peres had a greater chance of creating a unified and harmonious team, and I have not changed my views since then."

The pro-socialist Mapam party, an important pro-peace force in the current Labour Party coalition government, has threatened to break off its cooperation with the Labour Party if Peres wins the nomination. In addition, high level old-time Labour Party members are deserting the party and joining Gen. Yigal Yadin's newly formed Democratic Movement for Change, which is closely linked to the Washington-based Institute for Policy Studies. Its progressive veneer barely camouflages its pro-war orientation.

Yadin's synthetic movement is recruiting rapidly. Gen. Meir Amit, director general of the Labour Party-linked Koor Industries, the giant Histadrut conglomerate, quit the Labour Party this week to join up with Yadin, despite strong appeals by many Labour Party members to remain in the party.

### *Syria Aids Peres*

The recent move by 600 Syrian troops into southern Lebanon has provided Peres and his cohorts a timely opportunity to exert maximum pressure on the Labour Party doves. The Syrian move itself was clearly done with the backing of the U.S. State Department. Following the incursion into the south by the Syrian forces, Gen. Mordechai Gur, Israel's chief of staff, warned that "the time has come to take decisions." Foreign Minister Allon, while touring the border region, announced that Israel "would not wait long before acting if necessary." Peres immediately used the Syrian maneuver to revive the "Red Line" concept, pointing out that the Syrians, by going as far south as the town of Nabatiyeh, had transgressed the Litani River "Red Line," a move that could trigger an Israeli military response.

Peres' war games have trapped Rabin. In addition to going along with the Lebanon crisis, Rabin has begun advocating the return of the West Bank to Jordan's King Hussein, a position totally unacceptable to the Palestine Liberation Organization as well as Egypt. The Jerusalem Post reported that Rabin has met several times with West Bank anti-PLO sheikhs such as former Hebron mayor Mohammed Ali Jaabari and Bethlehem's Mayor Freij who contend that the PLO must accept King Hussein's authority on the West Bank. Such moves by Rabin only serve to build the conditions for a new Middle East war, by provoking Egypt, a strong supporter of the creation of a Palestinian state on the West Bank.

### *Brookings:*

#### The Labour Party Is In Bad Shape

*The following is the transcript of a Feb. 1 interview with a Brookings Institution policymaker:*

*Q:* How is the situation in Israel shaping up around the upcoming election?

*A:* Of all Israeli elections this one is probably the most critical. Since the 1967 war Israeli opinion has been increasingly divided...The Israeli electorate is more fluid than ever before and thinks nothing of crossing party lines.

*Q:* Peres is reported by many to have gained the upper hand in the race for the Labour Party nomination. Is this so?

*A:* In my opinion, it's 50-50, and it could go either way. In the past you would never think that an incumbent could get thrown out, but it just may happen...The Peres-Rabin division is not the crucial division, though, because no matter who gets the Labour Party nomination, the party is going to have trouble forming a government. The crucial division is the Labour-Yadin one. Yadin will get 15 to 20 votes according to Israeli polls. This may be exaggerated, but it also may be underestimated — I don't know. But I do know that Yadin's movement is growing. If Peres gets the nomination, Mapam will leave Labour and Peres will be forced to form an alliance with

the Religious Party, a very very unlikely alliance. If Rabin gets the nomination, the doves will be happy but the hawks will leave the party to join Yadin or Sharon. The Labour Party is in very bad shape.

*Q:* If Rabin were to come out strongly on a peace platform, he would probably not be in as much trouble as he finds himself in now. Do you agree?

*A:* That is true, but by coming out for peace Rabin runs the risk of alienating the hawks. So, so far he's kept silent.

*Q:* Eban, long billed as a dove, is now in collusion with Peres. What do you make of this?

*A:* Intellectually, Eban is on Rabin's side, but Rabin threw him out. Eban knows his political future depends on Peres, and that is why the two have struck a bargain and why Eban is supporting Peres.

### The Eban-Peres Deal

*The following is a transcription of an interview with a representative of the American-Israeli Public Affairs Committee:*

*Q:* There is a lot of talk that Eban and Peres are close to each other and are collaborating against Rabin. How much truth is there in that?

*A:* It's true. Eban and Peres are cooperating with each other closely. In fact — and this is known though it is not being publicized openly — Eban and Peres have made a kind of deal that if Peres is elected Eban will be appointed Deputy Prime Minister and be reestablished as head of the Foreign Ministry as Foreign Minister. Of course, Eban is not coming out in the open about this deal. But this is how it will work. The Mapai (Labour Party) nomination will be made at the end of the month.

The fact that Eban threw his hat into the race means that he will get one-sixth of the voting, in effect taking votes from Rabin. This means that Peres will probably win the nomination.

The one catch is Golda Meir who is organizing quite actively against Peres, whom she hates. Meir has strong ties to the old guard in Mapai and the Histadrut and is rallying support for Rabin. Nevertheless, I still think Peres will get the nomination, largely because of the Eban tactic. Rabin and Eban hate each other's guts. But Peres and Eban have similar attitudes about a lot of things and have been cooperating with each other since 1955.

*Q:* How is Yigal Yadin and his Democratic Movement for Change faring?

*A:* Yadin is gaining momentum. Shmuel Tamir's Free Center party has merged with the Democratic Movement for Change. Already two Knesset members have joined — Toledano, who's a cabinet member in charge of Arab affairs, and Yisrael Levi, a high-ranking Histadrut and Labour Party member.

## Chirac Counters U.S. Intervention

In a speech given in Marseilles on Jan. 28, former French premier and current Gaullist candidate for Mayor of Paris Jacques Chirac outlined a new policy for France towards Africa. Chirac stressed that France must not wait for a future "unity" of the Common Market countries, but forcefully promote its own policy of long-range economic development towards the Third World, and resist foreign interference into Africa.

Chirac's remarks assume special importance since his current mayoral campaign leads a Gaullist drive to force the resignation of the President of France, Giscard, and assume full control of French policy. In tandem, there are numerous indications that British industrial interests are about to redouble their economic pressures on the South African regime to force acceptance of the British plan for a peaceful transfer to majority rule in Rhodesia. The combined French and British efforts are an explicit counter to the announced intentions of the Carter Administration to replace the British peace plan with U.S. intervention, particularly through the upcoming Africa trip of Carter's UN Ambassador Andrew Young.

In an unusually frank statement of the British split with the U.S. over Rhodesia, the London *Economist* this week placed a good part of the blame for the breakdown of Rhodesia talks on U.S. Secretary of State Kissinger: "Kissinger cut too many corners last September... and against British advice, assumed that Smith himself should play an active role in the transitional government, which Rhodesia's black nationalists were unlikely to accept." The *Economist* also criticized the British government's failure to take greater responsibility in the African situation.

The British are apparently giving behind-the-scenes support to initiatives on the part of black African governments to slap an oil boycott on both South Africa and Rhodesia. The boycott call was recently made by Zambian President Kenneth Kaunda and has now been buttressed by Nigeria's External Affairs Minister Joseph Garba. In reporting Garba's recent warning that "retaliation will have to be considered against transnationals who want to have their cake and eat it" (i.e., trade both with South Africa and the other African states) the *Washington Post* acknowledged that it was oil-producing Nigeria which reversed the U.S. State Dept.-ordered Gulf Oil policy of withholding oil royalties owed to the Angolan government during the civil war there.

The front-line states which border on Rhodesia and South Africa are putting pressure on Western Europe now to go further and faster in efforts to avert war. Kaunda gave notice Jan. 31 that "we are only a step away from a racial war in which the superpowers cannot

but be involved," adding that the liberation movements reserve the right to accept aid from any quarter. The Patriotic Front Alliance in Rhodesia, which has just received full endorsement from the Liberation Committee of the Organization of African Unity, has refused a final meeting with British envoy Ivor Richard as "futile" unless Britain is prepared to adopt a positive...and more determined stand to effect the transfer of power..."

### Create A French Commonwealth

*The following are excerpts from a speech given by former French prime minister and leading Gaullist Jacques Chirac in Marseilles, Jan. 28. Chirac's speech was reported at length in Le Monde and Le Figaro.*

... Along the years, we knew how to develop the capital of friendship and confidence we earned when these countries (in Africa —ed.) gained independence. But today, this confidence is threatened... This threat might also originate in our own lack of clarity, authority, and coherence. One cannot pursue contradictory objectives simultaneously. One must choose the essential and subordinate the secondary aspects...

But the essential does not consist in momentary mercantile preoccupations. The essential is the future of France and Africa in the next 25 years. Everything compels us to form an alliance for liberty and development.

It is necessary to create a spirit of the French-speaking world, as there is a Commonwealth spirit. French-speaking heads of state in the world must deeply feel the ties that unite them and must express these ties clearly in a coherent and jointly devised policy... These exceptional ties between France and Africa are threatened today...

Similarly, in international bodies, France must not let its voice be drowned in the din of groups and factions. The North-South dialogue exhausted itself over a year ago, amid the confrontation of irreconcilable ideas. There is no common political will driving the industrialized countries, which are incapable of proposing the slightest compromise. The Nine (the European group of the EEC) claimed they could speak with one voice there. But when Europe divides itself in its conceptions and interests, as it does today, to want to speak with one voice in reality is to resign oneself to saying nothing.

Because it adopted this formula, France has lost all the benefits once reaped from having been the instigator of the conference.

In the final analysis, the only way to pull the North-

South dialogue from its dead-end is to conceive a new Marshall Plan, by accepting a regulation of raw materials prices, by collectively giving a new dimension and a new effectiveness to financial and technical assistance...

France must say that she can not remain indifferent to the foreign interventions that endanger its friends: France must make it known that she is ready for any cooperation reinforcing their security and their independence.

## South Africa Opts For War

South African Prime Minister John Vorster announced Jan. 28 that he is reneging on his commitment to the British to pressure Rhodesia's Premier Ian Smith back to the Geneva Conference table. Vorster ostentatiously took a principled position against forcing on Rhodesia "a solution dictated to them from outside." Vorster based his reversal on the assumption that President Carter will live up to his pre-election promise of easing credit and increasing American investment in South Africa. The new line has been accompanied by recent threats that South Africa will intervene to defend the Rhodesians if necessary.

In addition, a highly influential member of the ruling Nationalist Party in South Africa, Dr. F.A. van Jaarsveld, this week told a Cape Town news conference that he is pushing for a "conventional" military offensive against neighboring African states, in order to pre-empt a protracted guerrilla war against South Africa. Jaarsveld statement was reported in the *Christian Science Monitor* Feb. 2

South Africa's pro-war position was accompanied by the introduction of wartime type legislation in the recently convened Parliament session. Proposed bills authorized a defense budget of more than \$2 billion and full-blown wartime domestic police measures in the case of further internal unrest.

In neighboring Rhodesia, the white minority government increased its military mobilization by abolishing draft exemptions and raising the draft age limit. The Smith regime launched at least two provocations against its western neighbor, Botswana: a reported raid against the major town of Francistown last week and a spurious accusation — to be used as justification for "hot pursuit" tactics — that Botswana is harboring guerrillas who recently kidnapped 400 (!) children from Rhodesia. The Botswana government replied that the 400 children fled Rhodesia on their own, as a result of the Rhodesian army's habit of killing civilians in the border areas to maintain their "kill ratios."



# Japan's Business Community Opens Trade Deals With Iraq, USSR, Europe

In the past week the Japanese business community increased its activities toward strengthening ties with the Arab nations, the Soviet Union, and Europe in three specific areas: (1) the securing of firm Japanese technological and credit commitments to Arab nations, notably Iraq, in return for secure oil supplies; (2) the rapid expansion of Japan-Soviet economic development projects; and (3) increased Japanese-European cooperation on nuclear energy development.

## *The Middle East*

Iraqi Vice President Marouf's visit to Japan last week concluded successfully with an agreement by Japan to extend another \$1 billion credit line to Iraq. On Jan. 21 the Japan Ex-Im bank and private banks agreed to grant the new loan which will be repayable over ten years (two year grace period) at 6.3 per cent annually. The Ex-Im bank also granted a 14,539 million yen loan for the construction of a new thermal power plant to be built by Mitsubishi. This loan came from part of an earlier \$1 billion loan Japan gave Iraq in 1974. Combining both loans, Iraq now has approximately \$1.5 billion in unused Japanese credits, which it will use mainly to develop its petroleum industry, particularly its ability to produce liquified petroleum gas. Iraq is also planning to construct a 300,000 barrel-per-day oil refinery.

Now that the deals are concluded, Japan will shift its focus to improving ties with Saudi Arabia. In early February a major business mission, led by Japan Chamber of Commerce head Shigeo Nagano, will visit Riyadh to push for acquisition of new oil fields for Japan in return for Japanese economic assistance, notably in the development of Saudi Arabia's rail facilities. One such project under study would link Riyadh and another big city (possibly Jiddah) in what the Jan. 25 *Japan Economic Journal* estimates would be a "huge" project involving over 1,000 billion yen in new investments.

## *The Soviet Union*

The Japanese are learning that good manners don't necessarily pay. Both the Jan. 28 *Journal of Commerce* and the Jan. 25 *Japan Economic Journal* comment that Japan's decision at the last San Juan summit meet to enter a "gentlemen's agreement" with the West to offer the USSR export credits only at a high 7.75 per cent annual rate is getting them nowhere. While the Japanese have so far stuck to the Washington-dictated agreement, the "wiley Occidentals" have not. The Japanese have lost at least two big deals to British and French consortia

for projects in the Soviet Union because the European firms, using credits issued by their governments to the Soviets two and three years ago, offered cheaper payment terms. Now the Soviets are dangling even more tempting offers at Nippon.

A Soviet delegation will visit Japan in early February for talks with Japan's steel majors. The Soviets need steel for pipelines that will transport liquified natural gas from Siberia to Leningrad and points beyond. But the deal won't go through unless the Japanese government forks over some low-interest bank loans for the sale.

To heighten the tension, a Soviet automobile delegation is already in Japan seeing whether the Japanese can help Moscow increase its vehicle production from the present 1.9 million units to 2.3 million in Japanese equipment for cars under a deal between a Nissan Motor affiliate and the Kama truck plant.

A few weeks ago Japan's papers carried a story from Nippon Steel sources warning that unless the Ex-Im bank gave in Japan would lose the Soviet orders. Given the depressed state of the economy, particularly the steel industry where production cutbacks are already in effect for the first quarter, Prime Minister Fukuda will be under enormous pressure from business to back off from the San Juan restrictive rates. Any shift in the Ex-Im loan policy will be a signal of how much leverage the business community has over Fukuda and should be watched.

## *Europe*

A West German mission consisting of various industrial nuclear energy experts visited Japan late in January to finalize talks with the Japan Atomic Energy Research Institute for joint development of a nuclear reactor. The Japan-German agreement "will form the world's first system of international cooperation concerning studies to develop such a nuclear power reactor," reported the Jan. 18 *Japan Economic Journal*. The Tokyo meeting, however, is only one part of joint Japanese-European moves to develop nuclear power in defiance of the "conservation" policy of U.S. President Carter and his Cabinet.

Japan's electric power industry will send a mission led by Kansai Electric Power vice-president Shunichi Suzuki beginning Feb. 25 on a European tour to coordinate a joint, anti-U.S. nuclear policy before the March meeting of the nuclear nations in London.

Another mission, headed by Tokyo Electric's managing director Hiroshi Narita, will tour the U.S. and Canada starting March 15. Washington sources said that

Narita is trying to meet with U.S. energy czar James Schlesinger to voice Japanese opposition to any U.S. anti-nuclear policies. The Japanese visit to Canada will follow up on the talks concerning the transfer of nuclear technology now underway in Tokyo with Canadian officials.

The Japanese-European moves have led to a cooling off of some of the Common Market's protectionist fervor against Japan. Indications of this shift came in a document that the West German Economics Ministry is preparing as an official memorandum to the EEC in February. The West Germans, according to the Jan. 26 *Journal of Commerce*, warn that simple restrictions of Japanese exports to the EEC alone cannot solve the Europeans' problem. Since "confrontation can hardly provide desired results," the West Germans will call on the EEC nations to compete with Japan by exporting

high-technology goods to Japanese buyers. The West Germans point out that Japan has recently eased some of its tight import restrictions in response to EEC requests and that with continued pressure the Japanese will open up even more.

Finally, Japan's powerful Ministry of International Trade and Industry (MITI) is also looking West. MITI has decided to set up its own domestically financed oil major modeled after Italy's ENI. The MITI plan, which involves the creation of a federation of domestic corporations around the government-controlled Japan Petroleum Development Corporation, "is similar in nature to Italy's powerful hydrocarbon corporation ENI, or what may be alluded to as becoming an international oil company of a 'Japanese origin'," commented the Jan. 18 *Japan Economic Journal*.

## China Political Front Strangely Silent; Regime Boosts Science And Technology

Last week marked the fourth week of a political silence that settled on Peking in the aftermath of the demonstrations of Jan. 8-16 that demanded the restoration of Teng Hsiao-ping to power and the purge of additional Maoists. During this period, no high-level policy statements or significant public speeches have been made by any of China's top leaders.

The failure of Teng, who is supported by the senior Army commanders and most of the Communist Party apparatus, to appear following the popular call for his return, is regarded as mysterious, and can only mean that there is some last-ditch opposition to him within the Politburo, perhaps including Party Chairman Hua Kuo-feng himself. If the long silence means what similar silences have meant in the recent past, dramatic leadership changes may be in the offing, but so far no substantial clues have appeared to indicate what such changes might be.

In contrast to the political hiatus, press releases concerning science and the economy have continued to flow, laying out the new anti-Maoist policies. Reprinted below are excerpts from several New China News Agency (NCNA) releases on the need to upgrade the economy and to put special emphasis on advanced technology.

The degree of China's commitment to employ advanced technology in industry was revealed by Roland Berger, a British trade consultant who represents a large group of British firms doing business with China and who returned Dec. 1 from his latest visit to China. As reported in the *Christian Science Monitor*, Berger said that most of 1977 will be needed to recover from the disruption of recent years after which there will be "a rather speedy takeoff" toward modernization. Before his delegation's departure for China in November, Berger said they were instructed: "Don't bring anything we've seen before.

Bring only sophisticated equipment." The delegation brought high-technology goods that hadn't even been shown in Britain.

China had requested 29 highly specialized lectures from the British groups, and brought people from far-flung provinces to attend. More than \$3 million worth of equipment was purchased on the spot. Moreover, the Chinese minister for foreign trade answered a question on whether China would resume imports of entire plants from the West by saying, "Certainly. It is in our minds to buy complete plants." Berger said the top priority fields of the Chinese are in aerospace, petrochemicals, high-precision instruments, and certain transportation sectors.

Sketchy reports from Tokyo indicate that China cannot yet afford to increase its oil exports beyond the 6 mt in 1976, but a Japanese delegation negotiating the oil purchase said that this was because China needs the oil this year to rectify damage done to the economy; China is preparing for much larger oil sales by 1978, the delegation said, in an article in the *London Financial Times*.

Indicating a new emphasis on large-scale water control and conservation projects largely abandoned in the last 15 years, a Jan. 19 article discussed several such large projects and implied that much more was needed in this area in the future.

In a major break with the Maoist era, the *People's Daily* Jan. 21 published on its front page letters of criticism of the paper from its readers. The comments permitted indicated a commitment to revise the style and content of the paper eliminating the features that have made the press little more than a deadening thought-control instrument against the Chinese population for the past decade. One factory worker lambasted an article

about his factory as full of errors, and called for the paper to "pay attention to the accuracy of your reports and not make factual errors in future." Another letter called for news items and for more simple, straightforward writing. An editor's note confessed that up to now,

the press has been abominable. The editor promised to eliminate the "stereotyped" style used heretofore and blamed the Maoist "gang of four" for their "smelling, lengthy, and monotonous" articles.

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## 'Gang of Four' Exposed For Obstructing Research

*The following excerpts are from the NCNA's Jan. 15 article entitled, "Peking University Professor Exposes Crimes of 'Gang of Four' in Obstructing Research on Basic Theories of Natural Science."*

"Abusing the portion of power they had usurped, the "Gang of Four" tried at all times to sabotage the revolution in education and obstruct theoretical research in natural sciences...."

These are remarks from a recent article in the *Peoples Daily* by Professor Chou Pei-yuan, Vice-chairman of the Revolutionary Committee of Peking University.

Premier Chou, on his part, repeatedly stressed the importance of paying attention to the study of and research on such theories. He once told the professor: "You should run the faculties of sciences at Peking University well and raise their basic theoretical level." (*Excerpts from Professor Chou's article follow:*)

"What arguments did the 'Gang of Four' put forward to oppose premier Chou's instructions on strengthening the study of and research on the basic theories of natural sciences? Their arguments boil down to two: one, 'basic theories used to be lauded to the skies by bourgeois scholars' and 'that is a prejudice left over by old education and should be discarded'; two, with regard to theory, only 'Marxist philosophy is basic theory.'

"The first argument is empirical. It negates the leap from practice to theory and denies that theory guides practice. When referring to practice, the 'Gang of Four' laid undue stress on practice in production and ignored scientific experimentation. They wanted to substitute school-run factories for laboratories and physical labour for laboratory work. The second argument is dogmatic. They looked upon Marxist philosophy as a dogma and applied it indiscriminately everywhere without going into the depth of matters...."

"As pointed out by Chairman Mao, Marxism can only include but not replace the theories of atom and electron in physics. Both empiricism and dogmatism are revision of Marxism-Leninism."

"We must rally closely round the party central committee headed by Chairman Hua, thoroughly denounce the crime of the 'Gang of Four,' train for the party and the people large numbers of science workers who are both red and expert and strive to raise our basic

theoretical level of natural sciences, and work for the early realization of the modernization of agriculture, industry, national defence, and science and technology."

## "Chinese Scientists Of High Energy Physics Pledge To Do Job Well"

*What follows are excerpts from a Jan. 20 NCNA release entitled "Chinese Scientists of High Energy Physics Pledge to do Job Well."*

"In commemorating the first anniversary of Premier Chou's passing away, staff members of the Institute of High Energy Physics under the Academia Sinica recalled his concern for China's high energy physics research and pledged to do their work well as part of their efforts to promote the research of fundamental sciences.

"Such researches are of vital importance to modernizing China's science and technology and to catching up with and surpassing advanced world levels," they said....

In 1972, Chou told the Academia Sinica that it must take up fundamental sciences and theoretical researches and combine theoretical researches with scientific experiments and that high energy physics must be made a major subject of research....

The 'Gang of Four, however, poked their noses into the Academy of Sciences and tried in a thousand and one ways to interfere with and undermine the researches of high energy physics... They even did not allow people to mention the fundamental sciences and accused those who did so as "restorationists." They forbade the scientific workers to improve their professional proficiency and study theory and attacked those who did so as practising "the revisionist theory of productive forces" and as "devoting themselves to professional proficiency alone while giving no heed to proletarian politics." They did not allow people to mention the four modernizations, including the modernization of science and technology, let alone the drawing up of a plan for the development of sciences.

"By negating fundamental sciences," said Chang Wen-yu, a veteran scientist and a leading member of the institute, "The real purpose of the 'Gang of Four' in trying to prevent us from carrying out fundamental science researches was to force us to trail behind foreigners at a snail's pace forever and keep China's science and technology in the state of backwardness as in semi-feudal and semi-colonial old China."

## **“Foreign Trade Workers Denounce Crimes Of ‘Gang of Four’ ”**

*The following excerpts are from a NCNA release Jan. 14 entitled “Foreign Trade Workers Denounce Crimes of ‘Gang of Four’.”*

“In the course of nationwide criticism of the “Gang of Four,” China’s foreign trade workers review the country’s trade achievements and condemn the gang for attacking Chairman Mao, Premier Chou En-lai and the party central committee headed by comrade Hua Kuo-feng around the question of foreign trade, particularly the export of petroleum....

The responsible central bodies had worked out a careful plan to achieve an over-all balance in 1976 between the production of fuel and consumption. The plan had been approved by the party central committee. Even though the “Gang of Four” assented to the plan, in practice they threw a spanner in the works. Take the example of Shanghai and Liaoning province. They instructed their adherents to change over certain units that were fueled by coal to using petroleum. They then shifted responsibility for the resulting oil shortage on to others as examples of poor planning and excessive exports. One of their Liaoning placemen added more than one hundred oil-using units above the state plan; Shanghai consumed one million tons of crude oil above its allotment.

In disregard of the state plan for oil allocations, the “Gang of Four” compelled the central department concerned to allow Shanghai to intercept oil tankers and divert oil being shipped to other provinces and cities. The interference and sabotage organized by the counter-revolutionary gang deliberately disrupted the state plan

and caused a waste of huge amounts of petroleum so that some enterprises in some provinces and cities had to bring production to a halt and some rural areas had difficulties. They also affected China’s export of petroleum and jeopardized China’s international credit rating....

The time is the beginning of 1976 and the issue is the export of petroleum. This was a time when China’s crude oil output had increased very rapidly, especially during the great proletarian cultural revolution. Not only could China’s current needs be met but some export was feasible. It was in view of the overall circumstances and possibilities that the party central committee headed by Chairman Mao had arrived at the decision to export a certain amount of petroleum.

On March 2, 1976, the big careerist Chiang Ching, at a meeting that she called behind the back of Chairman Mao and the party central committee, alleged China’s Petroleum “is all being taken off to other countries” and “is being bartered away to big capitalist countries.” She went so far as to say that “China has agents of foreign capital” and “a comprador bourgeoisie....”

Chiang Ching irresponsibly declared: “By exporting petroleum China is shifting the international energy crisis on to the chinese people” and “has saved the first and second world.” Yao Wen-yuan fabricated the slander that the state council was “leasing” China’s natural resources “to foreign countries” and “is engaged in national betrayal.”

The “Gang of Four” at the conference also launched attacks on the decisions taken to import complete sets of equipment. Chang Chun-chiao contended these contracts fiercely, saying: “We are importing too many major items, a whole bunch of things all at once. You had better make a self-criticism, or you won’t satisfy us.”

# Latin America 1977: Industrialization vs. Debt

In late 1976 and the first weeks of 1977, Latin America witnessed the first signs of a deep fissuring in the continent, between those countries that are retaining their economic ties with the bankrupt Bretton Woods monetary system, and those that are shifting their alignment in favor of the emerging new monetary and trade system centered around the transfer-ruble and expanded trade ties among Comecon, Europe, and the OPEC countries in particular.

Within Latin America, it is broadly speaking the Southern Cone economies — those still most tightly linked to the dollar — that face the worst prospects for 1977-78; the Caribbean region on the other hand — the area most rapidly developing ties with the emerging new monetary system — has excellent prospects for dynamic industrial and trade growth even in the short term.

The recent meeting of the Comecon Executive Committee in Havana, Cuba, laid the institutional basis for incorporating the Caribbean region in particular into such expanded trade and development deals. (See EIR Vol. IV No. 4). Both Jamaica and Guyana have already established firm links with the Comecon. This move, along with the Venezuelan push for expanded trade within the region, and plans for rapid national industrial development, point to a strong growth potential for the Area. (See EIR Vol. IV No. 5 "1977 May Be a Boom Year for Jamaica").

In contrast, those Latin American economies still strictly tied to the dollar monetary system, are poised for a rapid plummet in real growth for 1977.

The main reasons for this are the unmanageable immediate debt burden these countries face, and the toll that meeting past debt payments — through stringent domestic austerity regimes — has taken on the viability of their respective labor forces.

### *The Chilean "Final Solution"*

In Chile we see the "final solution" that Friedmanite monetarist policies have brought about. The Chilean economy today is so de-industrialized and shrivelled by austerity that is hardly merits being called a national economy at all. Although competent figures on the state of the real economy are hard or impossible to come by, it is the case that the entire monetary superstructure of that economy collapsed like a house of cards in late 1976 and early 1977. The fly-by-night financial institutions, known in Santiago as "crocodiles", which serviced up to half of the domestic corporate credit market, went totally bankrupt — leaving the Pinochet government trying to pick up the pieces.

Chile's disastrous prospects for the coming period are perhaps the best indication of the final resting ground of all those Latin American countries that have chosen to steer clear of the New World Economic Order out of loyalty to their creditors.

## Chile: Nothing Left To Loot

*New York Times* Latin American correspondent Jonathan Kandell recently reported that there is no longer any smog over Santiago, Chile, an industrial city which was once covered daily with a thick haze produced by industry and commerce. The reason: as a result of monetarist looting policies dictated in 1973 by Milton Friedman on behalf of the New York banking community, industrial activity has virtually ceased in Chile.

There is no exaggeration in this estimate. After three years of liquidation of the Chilean economy by the Pinochet regime to meet Chile's debt servicing schedules to the New York banks, (the overthrown Allende government had declared a debt moratorium), the country is as devoid of wealth and wealth-producing activity as sixteenth century Mexico, after the Spanish conquistadors had reduced that nation's population by 90 percent in the course of extracting loot to pay Spain's creditors, the exhaustion of Mexico led to the fabled Spanish bankruptcy

which brought down all the major banking houses of continental Europe.

The situation in Chile was brought home with a vengeance to the New York financial community with the collapse of the entire Chilean banking system following the bankruptcy over the past two months of at least seven of the official loan-sharing finance companies which had been the only real source of credit in the country since 1974. The crash last month of a major bank associated with the finance companies and the ensuing panic among savers has terminated the last semblance of economic activity in Chile, providing an ironic epitaph for the nation's economic policies authored by monetarist quack Friedman, who was awarded a Nobel prize for his efforts only last fall.

Under the destructive austerity regiment prescribed by Friedman, even bread is becoming a luxury: as of December 1975, the average white collar worker had to

## Purchasing Power Of White Collar Workers In Chile

DATE	MIN. SALARY KILOS BREAD PER DAY	MIN. SALARY KILOS BREAD PER HOUR	HRS. WORK TO BUY 1 KILO BREAD
SEPT. 1973	22 k.	1.45 k.	.69 HRS.
MAY 1974	-----	.41	2.54
SEPT. 1974	11	-----	-----
NOV. 1974	9	-----	-----
FEB. 1975	-----	.17	5.78
MARCH 1975	4	-----	-----
DEC. 1975	2.84	.16	6.10

SOURCE: ANDRE GUNDER FRANK, "GENOCIDIO ECONOMICO EN CHILE:  
SEGUNDA CARTA ABIERTA A MILTON FRIEDMAN Y ARNOLD HARBERGER,"  
IN CHILE AMERICA (ROME), Nos: 19-20-21 (JUNE-JULY 1976), 39.

work more than 6 hours to earn the cost of 1 kilo (2.2 pounds) of bread (see table). According to an April 1975 study, "Whereas in 1969, fewer than 30 percent of Chile's population had incomes insufficient to meet minimum caloric and protein requirements, our results suggest that 85 percent of Chile's population are now below the poverty line and suffering from malnutrition, while 60 percent of all households (primarily blue-collar workers) are in conditions of extreme poverty and malnutrition. With the statutory minimum family income implemented by decree-law in January 1974, a family of average size, allocating *all* of its expenditure to the purchase of food could, (in terms of March 1974 prices) purchase less than half the food necessary to meet minimum caloric and protein requirements." (1)

The fascist Pinochet regime has recently announced an end to free public education as well, imposing tuition charges that will eliminate all but the wealthiest students from the nation's schools.

Under the impact of this unravelling, last month saw the first public demonstration against the Pinochet regime since it took power in the 1973 CIA-run coup against Salvador Allende — by small investors in the bankrupted finance companies who had previously been partisans of Pinochet.

### *The Crocodiles*

The now-bankrupt finance companies got their start in 1974, with Gen. Pinochet personally encouraged some of his fascist backers to establish a black market in credit. Pirating government money and student welfare funds to get off the ground and keeping almost no reserves, these fly-by-night loansharks, known as "crocodiles" among Chileans, then lent out vast multiples of cash to businesses strangled by the regime's monetarist policy of credit restriction.

Their rates were 40-60 percent per month, with the  
1. Michel Chossudovsky, "Chicago Economics, Chilean Style," *Monthly Review*, Vol. 26, No. 11 (April 1976), 16.

fascist Catholic organization, Opus Dei, running the largest of these usury rackets. At their height, they numbered 200 "informal" firms, and 24 "official," and had a monopoly on credit in the economy. The firms rapidly pyramided their meager starting capital into financial control over perhaps half the private companies in Chile, casually "eating up" industries which could not keep up with debt payments.

According to an article headlined "Money Troubles for Monetarists" in the January 19 *Financial Times* of London, their bubble burst as a result of Pinochet's "success" in cutting Chile's inflation rate to a mere 174 percent in 1976, as per Friedman's prescriptions. The crocodiles' bankrupt victims were consequently unable to repay loans granted at 500 percent interest.

### *Wall Street Banks Burned*

Top Wall Street circles are in a panic over the situation. Not only is the unravelling of the credit system a bad portent for Chile's future debt paying ability, but, according to widespread reports in the financial community, several major New York banks were heavily invested in the bankrupt finance companies.

Citibank in particular, sources reveal, was deeply into the "crocodile" firms under the table, and has taken a bad beating from their failure. Despite Citibank denials, the sources say the bank, which was the first foreign bank to resume operations in Chile following the Pinochet takeover, bet heavily on the crocodiles' operations, both because of their monopoly on credit, and in expectation of high profits from the crocodiles' usurious interest charges.

Pinochet has attempted to mollify the angry investors in the companies by promising to repay them from government funds. And the government can boast that it was able to pay off the entire \$900 million due its Wall Street creditors in 1976 without any refinancing by paying them a full 45 percent of its export earnings. But the prognosis is that there is little future for Friedman's austerity and debt-repayment gameplan in Chile.

# Depression Won't Change Cuban Commitment To Development

Comecon has announced its plans to "grant Cuba all necessary aid, considering the conjunctural problems," to accelerate its growth to reach the level of industrialization of the rest of Comecon by 1980-1981.

Before the formulation of these plans at the January Comecon meeting in Havana, the effects of the international depression, including the collapse of sugar prices, which provide 80 per cent of Cuba's foreign exchange, as well as adverse weather conditions, forced the Cuban government to announce strong austerity measures for 1977.

When Cuban President Fidel Castro outlined the measures during his Dec. 2 inauguration speech he asserted that the "devaluation" of raw material prices internationally, and the "depressed markets" outside the Comecon countries "force us to apply drastic restrictions in trade with these markets" which will limit "our acquisitions of new merchandise and industrial plants" from the West. These same conditions also restrict Cuba's ability to repay its foreign debt, which includes extensive borrowing from the Euro-dollar market. In the internal economy, Castro added, these measures are "in no way pleasant," and force Cuba to "raise the economy's efficiency, save resources, (and) reduce non essential expenses."

In his speech at the Havana Comecon meeting Castro characterized the international crisis which forced this austerity as "a depression similar to 1929," and he emphasized that the advantages of turning to Comecon were that credits would be based strictly on development. "The members of the Comecon have granted credits at low interest, totalling more than 11 billion rubles," Castro said. "There is not a single onerous demand, nor search for raw materials, nor extraction of financial profits. These characteristics represent the great difference that distinguishes Comecon policy toward the Third World from the economic practices of the advanced capitalist countries..."

## *The Comecon Road To Development*

During the 1971 to 1975 period, the Cuban economy had experienced with the help of Soviet aid an impressive yearly economic growth of over 10 per cent.

Cuba's longstanding economic goals have been to develop their industrial capacity and mechanize agriculture, especially targetting the nickel and sugar industries for this purpose. According to the final communique of the Havana meeting, Cuba will increase its industrial capacity during the coming years to boost nickel production to a yearly high of 130,000 tons, the

equivalent of one fourth of the world's nickel production. Special steel and highly resistant non-ferrous metals will be produced from the nickel, through modern steel plants with expanded capacities already in use, under construction, or planned. An accelerated supply of modern machinery and heavy equipment will be provided by the socialist countries for these industrialization efforts.

Comecon investment and technical assistance will also constitute a major factor in the projected full mechanization of the sugar industry, and the utilization of sugar derivatives, such as cane husk, for the purpose of developing the cellulose industry. The Cubans, which have already undertaken the initial steps in the development of this process, will become the first in the world to massively produce pulp, paper and boards from this non-wood fibrous material.

With the rice harvest already 100 per cent mechanized, a major effort will be launched during the coming years to replicate the same process in the sugar industry, which presently ties-up nearly 100,000 potentially skilled workers in the arduous labor intensive practices of "machete" cutting. An additional 200,000 part-time volunteer laborers would also be relieved from the fields. With the introduction of new heavy equipment, including the modern and highly efficient cane-cutters such as the M-2 and the KTP-1, both already in limited use, it is projected that by 1980, at least 80 per cent of the sugar harvest will be mechanized. The overall efficiency of sugar production will be further aided by technological innovations in the already computerized sugar industry. Through this highly proficient process, which can be easily replicated in other related areas of the economy, the free energy of thousands of Cuban workers now engaged in the administrative and field aspects of the agricultural industry, can be redirected to other areas of the economy.

The process is already being implemented as tens of thousands of low skilled Cuban workers in the cane or related industries are being provided with intense education and multiple-trade training as part of their regular-day chores. This is destined to transform them into a versatile skilled work force capable of adapting to those areas of the economy which demand their services at a given point and time.

This development of labor power, added to the major industrial drive undertaken, which also includes heavy investment in the petrochemical and livestock industries and the country's infrastructure, should guarantee the island levels of growth over and above 1971-75, by the end of the decade.

# Brazilian Industry Strangled By Debt Service

Brazil is facing a crisis of contraction in both its income producing sector and its debt payment capacity, a contraction of such proportions that only a decision to wipe the slate clean through debt moratorium would provide the basis for starting up the economy again. For the duration of its "economic miracle" Brazil has concentrated on diverting revenues from needed social investment and basic infrastructure into a small sector of cash crops and extractive industries for export. That small area of the economy has operated for over a decade at the expense of the rest of the economy. The most important economic factor, the population, has been sacrificed to this monetarist policy to the point of almost irretrievable depletion.

Freites Malman, the vice president of the National Industrialists Federation, which comprises the largest private and state sector industries in the country, remarked last December that a mere 20 per cent of the population could be considered "consumers." The other 80 per cent lives at bare subsistence levels or below, "marginalized" by national labor policies which have fundamentally operated on the concept applied by Hjalmar Schacht during his tenure as Nazi German finance minister of feeding the work force only the calories sufficient to keep it functional for one production cycle before the new shift is brought in. Malman's worried call to reverse this situation before it is too late, by investing in salary increases which would allow a "domestic market" to be born, was not an idle observation. Discontent is growing among industrialist layers who see the shrinkage of the employable work force, and the consequent withering internal markets as a question of their own survival. Their spokesman in the cabinet, Industry and Commerce Minister Severo Gomes, has expressed with increasing vehemence his concern over the ruinous consequences of the Friedmanite "economic liberalism" of Finance Minister Simonsen.

Simonsen, however, has obtained the political backing of President Geisel for a new round of belt-tightening and retrenchment measures. During his end of the year address to the nation, Geisel, reversing his previous reluctance to yield to demands by Brazil's creditors, stressed that the "economy would have to be cooled down further." Interior Minister Rangel Reis aptly described the character of 1977 as the year of the "War Economy." The main focus of the discussion so far has been to implement measures aimed at improving Brazil's \$6 billion current account deficit. That deficit is unsustainable in the context of the \$28 billion dollar national foreign debt which, despite all "cooling," will reach at least \$33 billion by the end of 1977.

As an immediate measure of the "War Economy," the government announced that the budget programmed for 1977 would be cut by 25 per cent. Such an extreme measure was offset only by the decision to increase the budget for research and development, an area which was allocated an extraordinary 65 per cent increase in funds over last year. Central to this decision is Brazil's \$12

billion deal with West Germany which would give Brazil 8 nuclear reactors. While the government has not questioned the necessity of paying its debt to international financiers this year, the determination to stick to the German nuclear deal is a direct defiance of the Carter Administration and Carter's Wall Street advisors. Simultaneously, Brazilian commitment to the nuclear program establishes strong ties with the West German government, creating a margin of independence from Washington. Internally, the determination to go ahead with the building of nuclear reactors is seen as the creation of a new area of scientific and industrial know how which will simultaneously vitalize ailing industries and establish the basis for future expansion on a more advanced technological level.

Brasilia's decision to draw the line of national sovereignty on the issue of nuclear technology however comes at a time when, as Freites Malman's statement makes clear, the vast majority of the economy is severely endangered. The fact that items such as health care and social investment programs were among the first to go in the 1977 budget, reveals a grim compromise which threatens to undo the very foundations on which a new technological order would be based.

## *Starvation Encroaches on Productive Powers of Workforce*

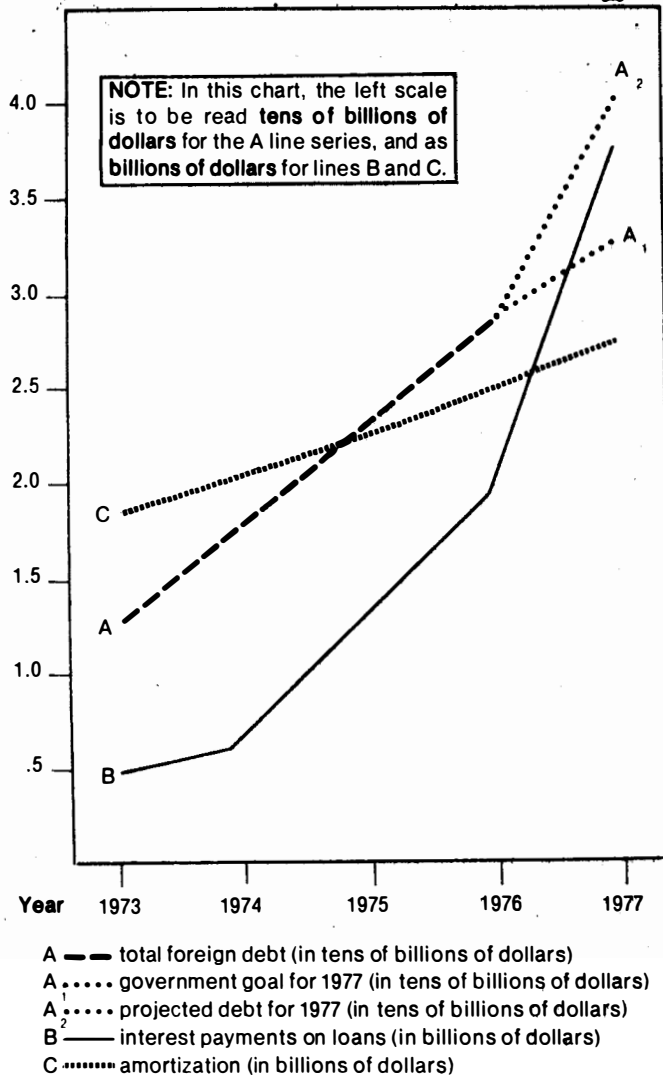
35 million people, a third of the population, are publicly acknowledge to be starving in the drought stricken northeast. Despite this degree of sacrifice, the most drastic credit restriction measures, import cuts, and de-industrialization measures have failed in regulating a computerized economy gone haywire.

Last year, the government was aware that carefully calculated indexation schemes aimed at regulating wages in such a way that they would be "non-inflationary" had crippled the capacity of the labor force to be productive. In view of that fact, president Geisel announced that he would decree an unorthodox wage increase above the level of inflation. Shortly thereafter, in the wake of the Manila IMF meeting, the government altered this decision in favor of demanding further "sacrifice" from the working population.

Finance Minister Simonsen then abandoned all pretenses of computing indexation, and introduced "negative factors" in the salary adjustment figures which brought wages below the inflation rate. Chase Manhattan's affiliate in Brazil, Banco Lar applauded this measure as a necessary means of counteracting "redistributive efforts which tend to be self-defeating, contributing... indirectly on the demand side. The recent shift as regards wages, "the bank states," reflects recognition of the inflation." According to this same source, the 10 per cent growth of the industrial sector last year, which took place through large imports of capital goods despite credit restrictions and prohibitive prior-import deposits, was also "inflationary."



## BRAZIL DEBT SERVICE 1973-1977



### New Levels of Austerity

From the standpoint of financiers holding Brazilian debt, real investment at this point threatens the country's capacity to pay those debts through austerity measures, and is therefore "inflationary." While holding on to research and development, the government has given in to bankers' pressures for austerity, which entails postponing critical areas of investment, a decision which will exacerbate the collapse spiraling into the income producing sector.

Immediately after Geisel's Dec. 29 state of the nation address, the finance minister slapped further austerity measures on the economy. In 1976, a 100 per cent prior import deposit was maintained, interest rates on internal credit were allowed to float, consumer credit was slashed in half in some cases, and travel curbs were instituted to foster internal savings. For 1977, growth will be "cooled" from 8 to 4.5 per cent per annum. Inflation is targeted to be brought down from last year's 46 per cent to 30-35 per cent, and the trade deficit is to be reduced by \$1.8 billion.

Simonsen's only proposal for accomplishing this is "export, export, export," the only activity for which credit incentives will be provided. The export drive will be coupled with a reduction in total investments, and 30 per cent overall drop in the government budget.

Such monetarist policies have already resulted in the bankruptcy of 25 per cent of Brazil's national small and medium industry by May of 1976; the end of the year figure is estimated to be close to 35 per cent. 1977 will see a wave of chain reaction bankruptcies which will hit large national industries and foreign companies as well.

Official figures on the unemployment resulting from such collapses are not available. Besides the millions fleeing from the Northeast in roving hordes the unemployed are already swelling the cities. Unhealthy conditions caused by decaying sewage and sanitation services in urban areas crammed with millions of undernourished inhabitants, are creating an environment ripe for sweeping epidemics. The condition of the population has already plummeted to such levels that local health officials have abandoned immunization programs as ineffective on human beings so weakened that they are not able to produce antibodies. The compulsory work fronts set up in the Northeast to stop labor migration to the cities are being disbanded because of budgeting cuts for food allowances for laborers.

Already Northeast sugar industry workers have begun strikes brought about by the inability of plantation owners to pay them following the sugar price collapses. Plantations that produce 40 per cent of the total Northeast sugar output are threatened with bankruptcy in the coming year. The Finance Ministry's strangulation of credit for machinery and fertilizers for agriculture has already resulted in the return to the use of work animals in many areas. Collapse of investment in fertilizers and machinery will severely lower general productivity in crops earmarked at both exports and internal consumption. A telling symptom of the deadly contradiction of the agro policy is this year's bean shortage which deprived the vast majority of the population of its main staple. Further emphasis on cheap agro production for export will only exacerbate the problem.

### The State Sector

The state owned sector of the economy is the area the military government has attempted to protect against the surrounding collapse. The 1977 budget however, shows clearly that this attempt has also been sacrificed to debt requirements. Funds for social services, health and education were drastically reduced. The already battered infrastructural projects such as railroads, highways, and ports were slashed by 10 per cent. This figure presumes an inflation rate of 30 per cent. But 1976 inflation reached 45 per cent and inflation at this level would result in a 25 per cent cut to infrastructure.

### Trade Crunch

The bulk of Brazilian export revenues depends on the highly unstable fluctuations in the agricultural commodities market. Last year's \$10 billion export revenues were obtained chiefly because of the 140 per cent rise in coffee prices. The other major earner was soy (beans and cake) which, together with coffee, brought in \$3.8

billion. Iron ore, representing another 10 per cent of exports, declined last year, and, given the difficulties of the Japanese steel sector, is expected to drop further this year. Sugar, another traditional export, dropped from representing 9 to 1.5 per cent of export revenues because of the 60 per cent drop in world prices.

Brazil's main trading partners continue to be the U.S., Europe and Japan, partners with whom they are in the red. Imports from all three sectors have declined sharply over the last year. The only region with which Brazil has shown an increased trade pattern is the Arab and African countries, to whom they sell principally assembled motor vehicles, and the Soviet Union. Over the last year, trade with the Soviets increased 45 per cent, to a value of

\$789 million, and is expected to reach \$1 billion during 1977. The main economic advantage in this trade is that Brazil has a positive balance of payments with the Soviets, and has been able to import vital petroleum from them. Although the 2.5 million tons of crude imported for \$260 million constitute only 5 per cent of Brazil's petroleum needs, this trade represents an increasingly important buffer to the collapsing economy.

For 1977 it is estimated that Brazil will need a good \$6 to 8 million in refinancing for its trade deficit and loan repayments. Although it managed to obtain close to \$10 billion last year, the tight Euromarket and overexposed New York banks will be unable to come through with this year's need.

## Venezuela 1976: Oil For Development

Despite the steady rollback of petroleum production and export revenues since the peak oil boom year on 1974, Venezuela's imports of capital goods and industrial inputs soared to a record level of close to \$4 billion in 1976, an increase of more than 20 percent over the previous year. This continued upward trend exemplifies the capital-intensive industrialization policies of President Carlos Andres Perez, and indicated that instead of continuing the 1974-75 rate of increasing its deposits of petrodollars abroad, the government is using its oil to finance development. Not only did Venezuelan deposits in the United States decrease in 1976, but all key indicators reveal that the steady rate of growth of industry recorded since 1972, approximately 10 percent per year, rose to over 12 percent in 1976, with the strategic sectors of steel, general manufacturing and construction setting the pace.

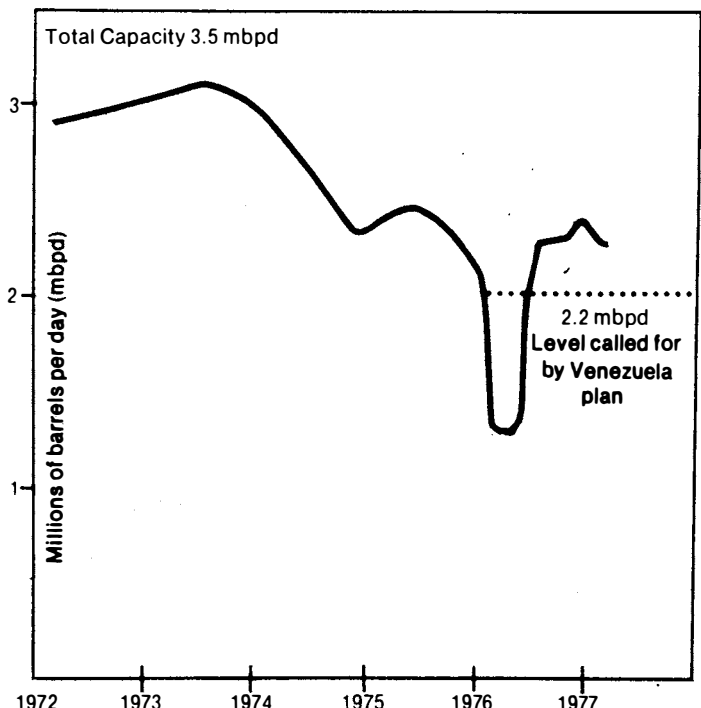
The growth of imports was crucial in allowing for the expansion of industrial output, which is now more than 100 percent above the 1970 level. Purchases of machinery, chemicals, and industrial raw materials continue to comprise about 60 percent of total imports. Although this proportion is the same as during the peak income year of 1974, its present significance is shown in the absolute increase of total imports by more than 20 percent last year to \$5.9 billion, as compared to \$3.8 billion in 1974.

The primary difference between these two years is that in 1974, the government placed more than \$3 billion of its oil revenues in the Venezuelan Investment Fund (FIV), a petrodollar holding fund consisting of about half of Venezuela's total reserves at that time. The FIV deposited over 90 percent of its assets in short-term accounts in private New York banks, U.S. Treasury notes, and on the Eurodollar market. In contrast, last year only \$581 million went into the FIV, which simultaneously began to serve as a major source of development credits for Venezuelan industry. Besides the \$415 million provided directly by the FIV to expanding state sector industries, indirect credits via FIV loans to other government funds, coupled with direct infusions of oil revenue generated during the year, resulted in the astonishing leap in

credits from public lending agencies to manufacturing by 95 percent. As an example, the Venezuelan Development Corporation (CFV), which one year ago was reportedly on the verge of shutting down, was revived and increased its lending to the manufacturing sector by 53.3 percent.

Resulting government contracts with the private sector, especially construction, spurred overall capital formation. This process began to take off in 1975, when total fixed capital investment jumped by more than 50 percent to \$7.3 billion or 25.4 percent of GDP — a very high ratio. Preliminary estimates for 1976 indicate perhaps an even higher rate of expansion. The construc-

VENEZUELAN OIL PRODUCTION 1972-76



tion sector grew by over 14 percent in 1975, and according to the president of the Chamber of Construction, the growth rate for 1976 broke all records. Figures from the Ministry of Public Works for the first semester of last year show an increase of more than 80 percent in private sector construction over the comparable period of 1975.

With this program of capital investment, the strategic industries registered booming growth last year. In the critical area of oil refining, output rose by 12.2 percent despite an overall drop in crude production of seven percent. Internal demand for petroleum products also increased by 22.4 percent. At the same time, steel production is up 48.3 percent. Although total iron output dropped 25.4 percent to 18.4 million tons due to the fall in international demand last year, internal consumption, rose more than 40 percent showing the strength of Venezuelan industry. Aluminum production expanded by over 12 percent, while a similar rate was posted by the auto industry as well as the gas and electric energy sector.

#### Labor Power

The 1976 economy witnessed a qualitative shift in policy toward the explicit development of a skilled and educated labor force as the cornerstone of the government's industrialization program. President Perez' latest policy statements to this effect are in marked contrast to the perspectives of former Planning Minister Gumersindo Rodriguez. Rodriguez, a top World Bank official, called for labor-intensive agriculture and extractive industries, President Perez last week focused on the development of labor power by stipulating high-technology manpower training as a condition for foreign

investors. Foreign companies setting up plants in Venezuela, he said, must agree to train Venezuelan personnel "at the headquarters" of the respective companies.

The Central Information Office (OCI), in a full-page announcement in the January 30 issue of the *New York Times*, echoed this perspective. The priorities for 1977, said the announcement in reviewing last year's progress, are the upgrading of "human resources and the employment of the latest technologies."

The successful conclusion of this struggle by the Perez forces will determine the development of agriculture, a particularly weak point in the economy. Last year's floods destroyed huge crops of corn, rice and other staples, forcing the government to import more than \$1 billion in agricultural produce. Despite billions of dollars channeled into the sector and significant progress made in irrigation, silo construction, and access roads, there remains a tremendous shortage of fertilizer and machinery. While President Perez will not be able to avoid sweeping agricultural debt relief, 1977 could see a significant recovery in this sector if the President and his colleagues apply the same pro-labor power policies they have announced for industry. Perez indicated this will be the case in his speech last week, when he located the problem of Venezuelan agriculture as insufficient control by man over nature.

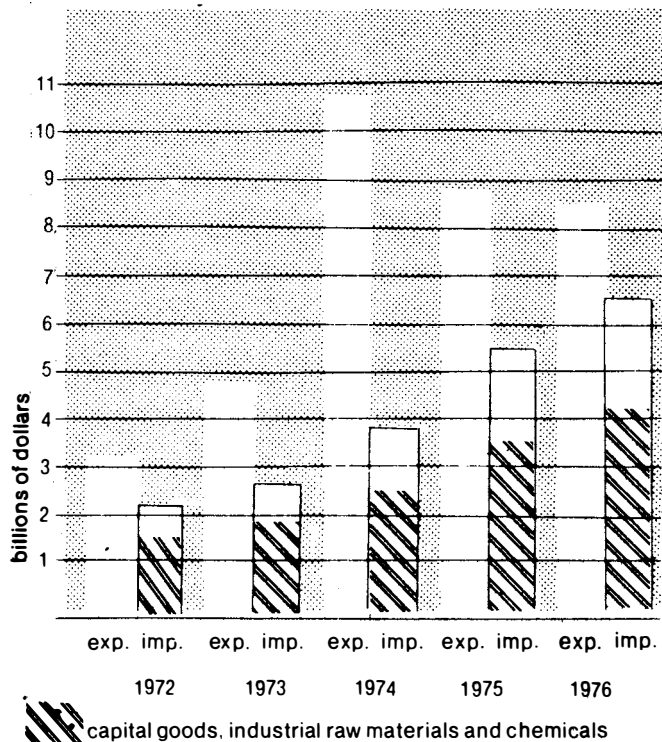
#### Trade Independence

The Perez administration is pursuing a diversified trade policy appropriate to an industrialized economy. By cultivating new trading partners and sources of technology, Perez has linked Venezuela to the developing new world trade and monetary system proposed by Western Europe, the Comecom and OPEC. Following the initial successful steps taken to this effect during his November tour of Europe and the Soviet Union, the President has continued this effort into 1977. Already discussions with representatives of the GDR have been held in Caracas on an East German proposal to help expand Venezuela's port facilities. Similarly, the GDR hopes to purchase oil from Venezuela this year for the first time. At the end of last month, a special Bulgarian mission led by Vice President Andrei Lukanov arrived in Caracas to negotiate technical assistance for modernizing Venezuela's irrigation systems.

At the same time, Venezuela is strengthening its relations with Jamaica at precisely the moment this island nation is arranging formal association with the Comecon. During Prime Minister Manley's recent visit to Caracas, both heads of state agreed to increase trade of oil for bauxite, while Venezuela offered further cooperation in developing Jamaica's aluminum industry. "We will continue to coordinate on matters of national policy," Perez stated during a joint press conference with Manley.

As a sign of growing ties with the EEC, the Credit Commercial de France recently opened up a branch office in Caracas. At a recent roundtable discussion between French and Venezuelan businessmen, it was pointed out that during the first semester last year, 34 percent of new foreign investments in Venezuela came from France. U.S. investments, once the perennial leader, fell to second place with 14 percent.

TOTAL VENEZUELAN EXPORTS AND IMPORTS 1972-76



This gradual shift in trade away from the U.S., and the potential break from the dollar system, grows with the government's firm intention to secure independence from the multinationals' technology and distribution networks. Already Venezuela controls 20 percent of its marketing, by passing the major oil companies, and by the end of this year plans to increase this figure to 30 percent, according to Mines Minister Valentin Hernandez Acosta. Although trade statistics covering the destination of exports for 1976 have not been published to date, figures for 1974 and 1975 indicate a gradual decline in the proportion of oil exports to the U.S. from 57 percent to 50 percent. Meanwhile, diplomatic efforts at the end of last year have opened up possibilities for new or expanded government-to-government sales with Great Britain, France, Italy, Brazil, and the Comecon, including Cuba.

Similarly, the Perez government is not only increasing its own refining operations, but it is vastly expanding capital investment into the industry to diversify output. A record \$700 million will be invested in 1977, twice the 1976 level. The five-year program through 1981 calls for total investment of 45 billion. During the five-year period preceding the nationalization, the multinationals invested only \$1.5 billion. Gasoline refining by 1980 will be increased four-fold. But perhaps even more importantly, the Mines Ministry has a "vast exploratory program" for the purpose of increasing the country's total known reserves. With technical aid from the EEC and the Comecon, new finds in relatively unexplored areas such as the Delta Amacuro, the continental shelf, and the Gulf of

Venezuela would open the door for a massive increase in oil output.

In 1976 the Venezuelan government also began to exert independence in monetary policy by not only using its oil revenues for industrial development, but also by diversifying its reserve holdings away from dollar deposits. According to the IMF, Venezuelan deposits in the U.S. dropped by 21.7 percent during the first two months of last year and have remained below the 1974-75 levels despite the recovery of oil exports after the initial drop at the beginning of 1976. Simultaneously, in the second semester, the government began to transfer funds into European currencies, particularly the pound sterling and the lira. Should this activity pick up in the early months of 1977, Venezuela's dependence on the dollar will be severely reduced.

Because of such a prospect, Romulo Betancourt and his protege Luis Pinerua Ordaz, the chairman of the ruling Accion Democratica party, are attempting to raise the issue of "inflation." In fact, they are promoting the World Bank and IMF argument that the economy allegedly cannot absorb further petrodollar investment, in an effort to pressure Perez into cutting back on his industrialization program and leaving the oil revenues in dollar deposits. The reality of the matter, however, is that not only does the 1976 economic performance admirably demonstrate the country's ability to handle increased investment, but the rate of increase of the Caracas cost of living index declined from 10.75 to 7.7 percent. The wholesale price index rate, meanwhile fell from 16.2 percent to only 7.3 percent.

## Mexican Economy 1977: Plenty Of Confidence, No Production

During his six-year administration former Mexican President Luis Echeverria began an ambitious program to industrialize Mexico. Since Mexico's new President Jose Lopez Portillo was inaugurated Dec. 1, he has abruptly reversed Echeverria's strategy for development and has charted an economic course of austerity which, if followed, will turn Mexico into a replica of Argentina.

During the Echeverria Administration, for the first time in history, Mexico stood at the threshold to real industrial development. State sector productive capacity was strengthened and expanded in such strategic fields as energy, steel, petrochemicals, fertilizers and mining. Hydracarbon production went up 100 per cent as compared with the previous Administration. Refining capacity by the state-controlled oil monopoly PEMEX climbed by 60 per cent since 1970, with over 70 per cent of all capital investment in secondary petrochemical areas coming from Mexican sources. Industrial state-sector capacity was strengthened through the creation and

expansion of state-sector entities known as "para-estatales," to coordinate and oversee the development projects. On-line power-generating capacity was doubled from the previous period. Combined public and private efforts led to the doubling of steel production potential. Phase I of the showcase steel complex, of Las Truchas, has been completed, with a projected steel output of 1.3 million tons; 5,500 permanent jobs were created.

In sum, state-sector contribution to Mexico's Gross Domestic Product rose three times over that of 1969 during the Echeverria Administration. The industrial sector was during this period the greatest contributor to national growth, with petrochemicals, manufacturing industries and electric power in the lead.

Echeverria's domestic development policy was tied to an active foreign policy which placed Mexico at the forefront of the international struggle for a new world economic order. This policy led to a substantial diversification of foreign markets, capped by the signing of a far-reaching trade deal between Mexico and the Socialist

countries' economic and trade bloc, the Comecon, negotiated in the summer of 1975.

By the end of August 1976, the Echeverria Administration was forced, by pressures from the International Monetary Fund and other international financial institutions, to devalue the Mexican currency, for the intended purpose of stimulating Mexico's exports to alleviate the country's balance of payments deficit. But, as IMF specialists themselves have admitted since then, such monetary measures are no longer effective for these purposes. This is certainly true in the context of an overall depressed world economy, and the lack of elasticity of import markets in the U.S., Mexico's largest trading partner. The devaluation did not "stimulate" Mexican exports, but it did force severe cutbacks in imports, mainly capital goods from the U.S.

The peso devaluation was political. This is shown by the fact, among others, that the peso plunged much deeper than expected even by those in favor of the move. The devaluation was preceded and followed by a massive flight of capital, mostly from conservative Monterrey industrialists dissatisfied with Echeverria's unwillingness to bend to their will. In the period following the devaluation, \$50 million reportedly fled Monterrey for U.S. banks in only three days. Even as Echeverria's term drew to a close, the Monterrey industrialists rocked the country with widespread rumors of an imminent coup d'etat.

The stage was thus set for Lopez Portillo to step in and "restore confidence." The point had been made: Lopez Portillo should not continue the policies of his predecessor. The effects of the campaign were immediate. Up to September, during the last leg of the Echeverria Administration, Mexico's GNP was still registering a 5-6 per cent growth rate; by year end it had reached a virtual standstill.

In his inauguration speech Dec. 1, the new President pledged almost explicit adherence to IMF policy "recommendations" for the Mexican economy. Echeverria had endeavored to develop the two necessary components for true economic expansion: maintaining and increasing the instruments for production, and development of a qualified labor force for an expanding production through social expenditures such as housing, health services, education, etc.

A summary analysis of the Lopez Portillo budget for 1977 suffices to clarify the point. Approved by Mexico's Congress, Dec. 25, the budget was presented to the public as an austere budget trimmed with a "slightly higher" real increase in public spending plus the elimination of the "fiction economy" — a euphemism coined by Lopez Portillo himself to signal the end of government subsidies to public services and development projects. These must now become "self-financing," said the President. In line with the new image, immediately after the budget's announcement, top business and industrial spokesmen began demanding a wage-freeze under the appropriate slogan of an end to "fiction-salaries."

What rapidly became clear is that the budget itself is a "fiction budget." The slightly higher increase in real public spending means at least a 10 per cent cutback in real social investment, when the enormous debt-service payments and investments are subtracted for exports. The 1977 budget—approximately \$30 billion—is a perfect

match to IMF guidelines. The only category to increase above the almost 40 per cent inflation rate is debt repayment — about \$4 billion, or almost double or last year's — besides investments for increasing exports in such areas as oil and mining. As part of the 46 per cent increase in "capital account," which was raised to over \$7 billion, investments in oil and other energy sources are expected to rise by 100 per cent; 125 per cent for mining. On the other hand, the over \$18 billion "current account" usually channeled to maintaining and enhancing the population's labor power represent an increase of only 30 per cent in contrast to the previous year — almost 10 per cent less than the inflation rate. And this is only the first stage: *The Journal of Commerce* complained Dec. 16 that, even with the drastic reduction in public spending levels, the budget was still "surprisingly hefty."

But the real "fiction" is Lopez Portillo's stated economic goal: to "get out of indebtedness" through "two years of sacrifice," after which Mexico will retake the path of economic expansion. If followed, this policy will simply reproduce in Mexico New York City's financial disaster — eightfold. After two and a half years of brutal austerity, New York has so undermined its own ability to generate income that it now faces a larger debt than before the Big MAC scheme was implemented — with much fewer resources to pay it!

According to official government figures, Mexico's public foreign debt is \$20 billion. When \$12-15 billion private debt is added to this figure, Mexico's total foreign debt adds up to \$32-35 billion — the Third World's highest. Public debt service payments for 1977 are \$4 billion of the overall Federal budget. This figure alone is higher than the entire Federal budget for Mexico in 1971. How is it possible then to cope with such high-magnitude obligations? In 1976, the total deficit on debt-payment and trade accounts was over \$5 billion. A great portion of the deficit was balanced through new Euro-dollar loans, thus adding to the country's indebtedness. The rest is still outstanding, and this year's picture is still more depressing.

IMF "recommendations" are to reduce imports, mainly capital goods and heavy machinery necessary for development projects and to "stimulate exports," which is a polite way of referring to labor-intensive exports at giveaway prices. A key target of these policies is Mexico's oil. PEMEX recently announced plans for increasing crude exports to one million barrels per day by 1982, without a significant increase in domestic use during the same period.

Hence, the net effect of Lopez Portillo's "two years of sacrifice," is the annulment of the development policies of his predecessor Luis Echeverria. "Zero subsidies" means either bankruptcy or forced production cutbacks for a large section of Mexican business and industry — as energy prices soar. Consumer demand will diminish as regressive "wage restraint" takes hold. Government revenues will decline correspondingly. As the "two years of sacrifice" go by, this revenue "deficit" will require further cutbacks in social services and domestic investments — leading to further reductions in revenue.

Already Mexico's largest private steel company, Fundidora Monterrey — the second largest in the country — is asking for a "moratorium" on its foreign debt. Textile and auto in Mexico is on the verge of bankruptcy; so is

Mexico's large shoe industry. Due to import and investment cutbacks in industry, the Las Truchas steel complex Phase II is in question, while Phase I output is being earmarked 100 per cent for export — not for internal development as planned by Echeverria. Phase II of Las Truchas was scheduled for completion during the 1976-1982 period, with a projected output of 3.5 million tons, and a capacity for sustaining 10,000 permanent jobs. In a fourth stage, programmed for completions in the 1990s, Las Truchas output would reach 10-11 million tons.

Lopez Portillo also acquiesced to, and later threw his weight behind a concerted campaign by pro-U.S. Mexican businessmen and industrialists against the large state-sector created by Echeverria. Although most of the entities which comprise it provide social services, the new Administration has declared that any of these which cannot pull its own financial weight, without government subsidies, will be eliminated or sold to private interests — all under the rubric of IMF "recommendations" to cut back on public spending.

The Mexican economy has not yet been unalterably Chileanized. The real economy can be resuscitated if the government puts a rapid end to the disastrous economic policies. The emerging Arab-Western European Socialist axis provides an alternative for Mexico, similar to the one Echeverria sought through his active foreign policy in favor of a new world economic order. Perhaps the greatest single result of this policy is the then unprecedented trade deal signed by Mexico with the Comecon; this was the second such trade arrangement to be made with a country outside of the Comecon itself. The deal is there, ready to be implemented. Latest reports are that the Italian Government — a leader in Europe's efforts for establishing a new monetary system outside of the dollar orbit — has announced plans to establish ship-building facilities in the port of Veracruz, as well as to finish the Las Truchas steel giant. Mexico's Deputy-Secretary of Foreign Trade simultaneously has announced that Mexico hopes to broaden trade with the Comecon sector and will attend its upcoming meeting in Budapest next March.

## Peru — N.Y. Banks End Revolution; Economic Degeneration Ahead

Peru, which in the first half of 1976 threatened to become the first Third World nation to declare a moratoria on its private and public foreign debt in order to maintain the right to economic development, ended 1976 firmly under the control of a bankers' dictatorship run by its New York-based commercial banking creditors. The capital-intensive industrial and agricultural development orientation of the 1968-75 so-called first phase of the "Peruvian Revolution" has been scrapped, and a severe "economic stabilization" austerity regimen imposed to meet external financial obligations — at the expense of social reforms, economic development, and the very health of the domestic economy. The severity of the economic austerity measures being imposed in Peru has provoked widespread comparison to the monetarist "shock therapy" imposed on the Chilean economy after the 1973 fascist coup d'etat.

The 180-degree turn in Peru's economic policy was the result of extreme pressure applied by its foreign (primarily Wall Street) creditors and the U.S. State Department during the first six months of 1976. Peru was subject to economic warfare comparable to that waged against Allende in the months prior to the coup: virtually no new loans were granted, existing lines of credit were frozen, and iron ore exports completely halted by a boycott arranged by the U.S. Marcona Corporation, in retaliation for the nationalization of its Peruvian mining

operation. The threat of a provoked RAND Corp. scenario regional war as well as the inaction of the rest of the Third World, were the critical political determinants of the ultimate concession to draconian austerity.

Totally bankrupt by the June 30 payments deadline for \$400 million in debt obligations, the government announced its surrender to the banks' demands, proclaiming economic measures patterned after those prescribed by Milton Friedman for Chile in 1974. The Peruvian sol was devalued by 44 per cent, subsidies on imported food products were removed, and fuel prices raised overnight by as much as 50 per cent. Prices were permitted to rise by 23 per cent in July alone, while wages were frozen for the rest of the year after a 10 per cent across-the-board increase.

A cold coup on July 16 purged the leading pro-development nationalist ministers from the cabinet and military posts. As in Chile, the implementation of these measures has required the imposition of martial law, closure of all publications which criticized the austerity dictates, and a rapid escalation since July of political repression.

### *The Debt Picture*

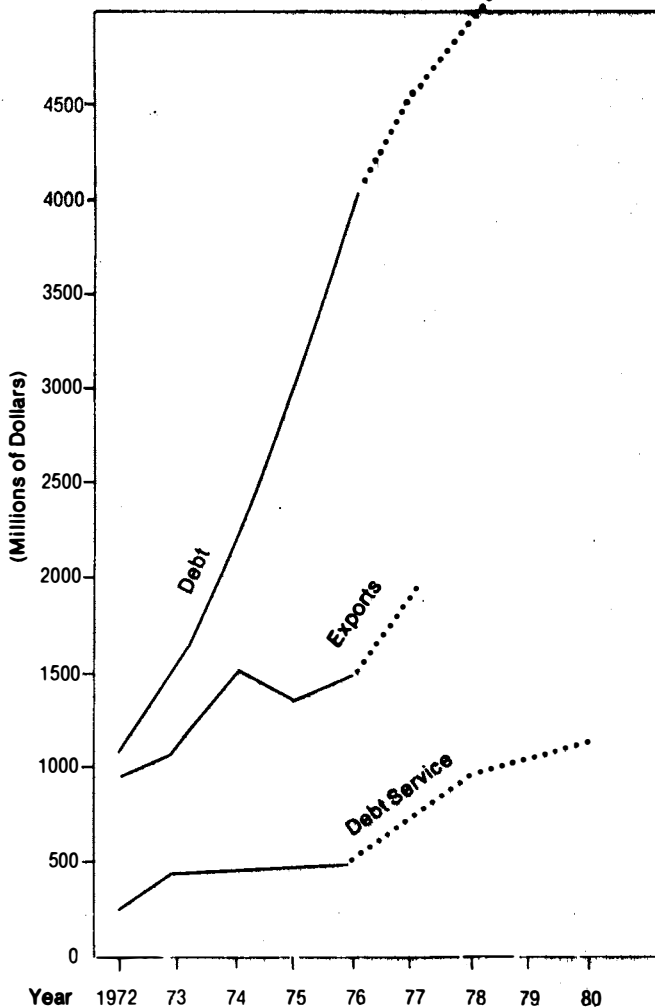
It is public knowledge that Peru went bankrupt during 1976, recording *negative* foreign reserves of \$693 million in August. Peru is unlikely to escape from bankruptcy in the foreseeable future, despite the rosy prediction by the

Central Reserve Bank (BCR) that the nation will be able to meet foreign debt obligations without need for postponements beginning in 1979.

The foreign public sector debt has doubled in the last two years (currently estimated to total \$4 billion), and service on this debt is now increasing at an annual rate of 40 per cent. To catch up with debt service payments, the BCR (reflecting the projections of the Finance Ministry) is counting on a more than 40 per cent annual increase in exports over the next two years, while holding imports at "zero growth" from 1976 and well below the level of 1975 and exercising extreme fiscal austerity. Severe cuts in public spending are already in effect, although no precise figures are yet available. State sector enterprises — the

GRAPH 1

PERUVIAN DEBT AND DEBT SERVICE



Sources: all figures from Banco Central de Reserva (BCR) except 1976 and 1977 exports which are from Commerce Ministry; dotted lines are their projections.

Note: Debt is public sector Foreign debt. Debt service is payments of interest and principle on public sector long term debt. Not included are private payments and "invisibles" such as secret military debts.

Peruvian Public Foreign Debt And Debt Service (MILLIONS OF \$)

YEAR	TOTAL DEBT AT DEC. 31	DEBT SERVICE (PRINCIPLE AND INTEREST)	NET FOREIGN RESERVES AT DEC. 31
1974	2,182	456	693
1975 (EST.)	3,066	474	116
1976 (JUNE)	N.A.	---	-500 (NEGATIVE)
1976 (AUGUST)	N.A.	---	-693 (NEGATIVE)
1976 (DEC., PROJECTED)	4,023	507	-291 (NEGATIVE)
1977 (PROJ.)	4,579	699	117
1978 (PROJ.)	4,974	941	418
1979 (PROJ.)	5,266	1,056	N.A.
1980 (PROJ.)	5,404	1,146	N.A.

Source: Banco Central de Reserva for all figures. Debt and net Foreign Reserves dated December 31 unless otherwise noted.

most dynamic, capital-intensive sector of the economy — will be weeded out, and run strictly on the basis of profitability. Major incentives, credit and import allocations, are being shifted to the private sector of the economy for the first time in eight years. The big development projects — with the exception of cement production and those few which are near completion — have all been postponed. Plans to double steel production to reach self-sufficiency have been put off for four years; while initial work is continuing on the Olmos and Zana-Jepetepeque irrigation projects, they have not yet been financed.

Another pivotal assumption of the BCR — which the International Monetary Fund has already classified "over-optimistic" — is that Peru's foreign creditors will continue to pump in an average of one billion dollars a year in new loans, primarily for key export-oriented development projects. It is far more likely that Peru's creditors will balk at encouraging an increase in outstanding debt of \$500 million per year (see Graph 1), and instead pressure for adherence to the Chilean model of reducing debt levels through ever more drastic import cutbacks.

Everything Hinges on Exports

The Finance Ministry is pinning its projections for a "recovery" in two years on projections of a fabulous 54 per cent increase (\$813 million) in exports for 1977 — a projection which has already been deflated by more sober forecasters in the Commerce Ministry. The Commerce Ministry projected in December, 1976 a more realistic goal of a 27 per cent (\$400 million) increase in export earnings to the \$1,900-2,000 million range, dependent upon moderate increases of world raw materials demand and prices though the next year. While there is a big campaign to boost "non-traditional" export products —

which have accounted for less than 10 per cent of export earnings — Peru remains dependent on minerals, fishmeal and fish products, and a few agricultural products for 90 per cent of annual export earnings.

The completion of the Cuajone copper pit last month will alone add 170,000 tons of copper, worth almost \$300 million at current prices, to Peru's export list; other metals from Cuajone, and improved prices for zinc, silver and lead would provide at least another \$120 million in export income. Traditional agricultural exports — cotton, sugar and coffee — will probably not increase over their \$320 million 1976 level. The doubling of coffee prices will be offset by the drop in world sugar prices, and the fall in both sugar and cotton production due to severe drought. The BCR is gambling heavily on an 80 per cent rise in the country's fishmeal exports (second to copper in earnings) over 1976 levels.

#### Prospects for Domestic Industry Gloomy

The "economic stabilization" program imposed on Peru has done more damage to the private sector of the economy than was ever done by the worker participation and state sector-hegemony bogeymen of the 1968-75 "first phase." While the government reorganization shifts favor to the private sector at the expense of state enterprise, the strict attention to fiscal austerity points to a continued tight credit situation internally. The capital goods import tariff was raised in early July to discourage such imports and, in the words of one banking survey, "to help promote the development of labor-intensive industries." The stabilization program has been criticized in Peru for its "excessive" cuts in capital spending.

Local Peruvian businessmen are expressing public concern over the strangulation of domestic industry and

#### Peruvian Exports And Imports (MILLIONS OF \$)

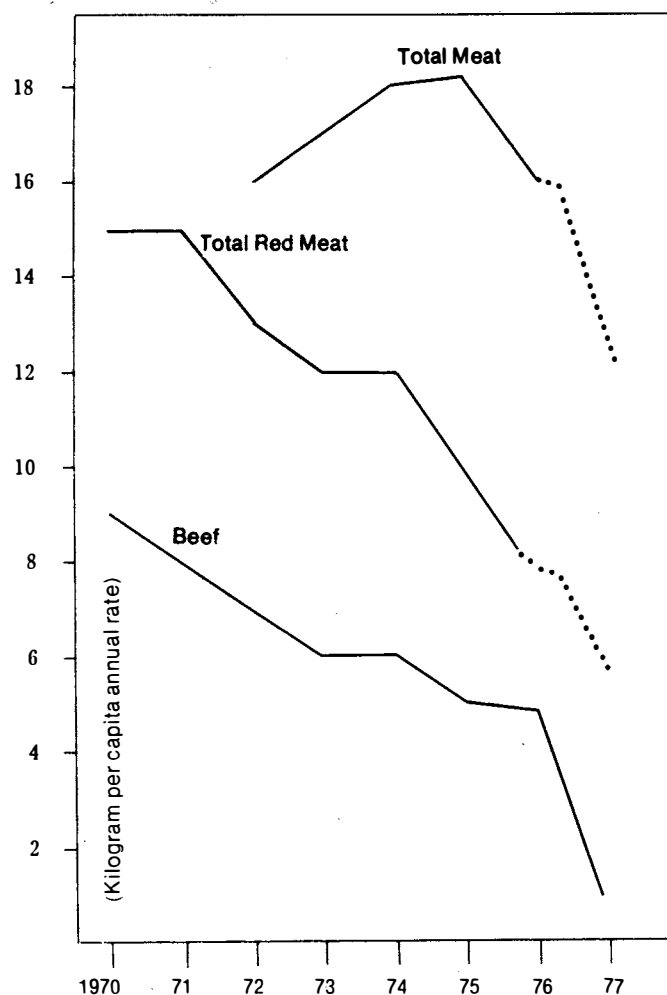
YEAR	EXPORTS	IMPORTS	TRADE BALANCE
1972	945	812	+ 133
1973	1,112	1,033	+ 79
1974	1,506	1,909	- 403
1975 (EST.)	1,378	2,491	-1,113
1976 (PROJ.)	1,586	2,197	- 611
1976 (ARIAS EST.)	1,500	2,168	- 668
1977 (PROJ.)	2,313	2,205	+ 108
1977 (ARIAS PROJ.)	1,900	2,080	- 180
1978 (PROJ.)	2,751	2,450	+ 301

Sources: Banco Central de Reserva for all figures except those marked "Arias," which are projections made by Commerce Minister Arias in December 1976.

the severe restrictions on imports of needed inputs. A "recession in industry and construction" has already resulted from the June austerity program, according to the U.S. Embassy in Lima, and one Peruvian economist, cited in the Wall Street Journal Jan. 31, predicted a 10 per cent drop in industrial production as a result of reduced public spending alone.

The government's call for a "patriotic" shift toward export production to increase the "non-traditional" component of the nation's exports is a cruel hoax. Peru's primarily import-substitution industry cannot compete on shrinking world markets, despite severe devaluations and large government export subsidies. (The CERTEX program subsidizes up to 40 per cent of the value of the product). The weakening of the Andean Pact is eliminating the one protected market left to Peruvian manufacturers.

#### PERUVIAN MEAT CONSUMPTION



Sources: 1968-74 figures from U.S. Department of Agriculture; 1975-76 figures from Peruvian Food Ministry; Jan. 1977 beef figure from Lima Butcher's Association.

Note: These figures are the number of Kilograms of carcass weight per capita per year. The actual meat consumed by the average Peruvian was thus roughly half these levels in any given year.



### *Agricultural Production*

The Peruvian government hopes to be able to eliminate most food imports through an increase in import-substitution agricultural production and a downgrading in the quality of foods consumed. Agricultural production grew slightly faster than population in 1976 — following a decade of stagnation — but only as a result of the most extraordinary inputs and incentives. Mechanization of production, critical in a country where only 2 per cent of the land is currently arable has been explicitly ruled out by the austerity regimen.

Excellent 1976 harvests of rice, potatoes and other foods were due to optimal weather in the first three quarters, and government incentives in the form of a 40 per cent reduction in fertilizer prices and permission to increase consumer food prices at a rate considerably faster than the general cost of living index. Credit was relatively abundant, and several of the “first phase” major irrigation projects came on stream. The good crop and lower world cereal prices and higher real prices of food in Peru permitted cuts of \$100 million in food import costs.

The prospects for 1977, however, are quite somber. A severe drought beginning in October devastated the potato, corn, barley, meat, and milk-producing areas of the highlands. Although the drought appeared to be easing in January, the damage was already done. The Food Ministry estimated Dec. 17 that 35 per cent of the

potatoes, 40 per cent of the corn, and 70 per cent of the southern barley (quinua) due to be harvested early in 1977 were totally destroyed, and a reported half of the cows and sheep in the southern highlands died of cold, hunger, and thirst. 40,000 hectares of rice were not planted for lack of water in the coastal valleys, and the remainder of the crop can only be saved if river levels rise in the next two weeks. Meanwhile, the new Chira-Piura irrigation project is generating foreign exchange by double-cropping cotton for export, at the expense of food production.

Even in the drought areas, the government is maintaining a rigid policy of collecting debt impoverished small farmers. Eleven of twelve cooperatives in one northern valley were subjected to government intervention after failure to meet debt payments; in anticipation of labor troubles all the agro-industrial cooperatives (like the mines and fishing ports) are now guarded by the Guardia Republicana police.

Although the situation is ameliorated by the credits readily granted by the U.S. and Argentina in order to dump unsaleable wheat and meat in Peru, consumers are beginning what will probably be their worst year since the 1930s. Meat is a luxury. Beef supplies reaching Lima are reported at one-fourth their early 1976 level, while chickens — the supposed cheap substitute for red meats — is now available only at black market prices, following the slaughter of chicks in response to a glut last year.

## Argentina 1976: Inflation Down 50%, Purchasing Power Down 58%

When the Argentine military junta took power on March 23, 1976, the International Monetary Fund allowed a temporary suspension of the country's external debt payments. Since then the IMF has effectively taken control of Argentina's economic policy dictating internal austerity, cuts in capital goods imports, and de-industrialization.

When the junta took over, the country was faced with a \$10 billion debt. From Jan. 1 to Mar. 23, internal reserves had fallen by \$64 million to \$556 million. Despite the postponement of important payments that had fallen due, the liquid funds amounted to only \$23 million. Immediately after the coup the New York banks were forced to grant a moratorium on Argentina's public debt payments due between March 24, 1976 and Sept. 24, 1976, in an attempt to rebuild the country's reserves.

By the end of August the reserves were up to \$1.295 billion, and the country began to repay the debts. At that time Argentina's debt was estimated at between \$7.6 and \$10 billion.

Since Mar. 27, 1976 the junta has received \$1.743 billion in new loans — \$694 million from international agencies and \$1.049 billion from private banks — in the U.S.,

Japan, and Europe. The loans provided by private banks were extended only for foreign debt repayment. The loans are repayable in 3-4 years at 8.5 per cent interest. The other \$694 million were used as shown in the chart on the following page.

Since the IMF loans totalling \$424 million went directly into outstanding financial liabilities, only 270 million out of the entire \$1.743 billion in loans went into investment! The Argentine debt now stands at about \$12 billion with the heaviest payments falling due in 1977 and 1978. During the first week of 1977, Argentina paid \$820 million in debt service. The country claims to have \$2 billion in foreign reserves at this time.

### *How They Did It*

The junta has succeeded in more than halving the 1975 inflation rate of 340 per cent inherited from the government of Isabel Peron, but at the expense of destroying the Argentina economy's productive base. Under the International Monetary Fund's guidelines, the junta has driven the nation's once-powerful industrial sectors into virtual bankruptcy.

The “success” of the junta's austerity program is seen

	CREDITOR AGENCY	AMOUNT (MILLIONS OF \$)	PURPOSE
MARCH 27	IMF	127.6	BALANCE OF PAYMENTS ADJUSTMENTS
AUGUST 9	IMF	296.4	STAND-BY CREDITS; \$186 M. PENDING BUDGETARY REFORM
AUGUST 12	IADB	87.0	CONSTRUCTION OF PIPELINE
SEPT. 23	WB	115.0	ELECTRICAL TRANSMISSION PROGRAM, 8.9% INTEREST
NOVEMBER 4	IADB	60.0	GRAIN STORAGE FACILITIES, 8.6% INTEREST
SEPT. ?	EXIMBANK	7.2	CONSTRUCTION OF GAS PIPELINE
OCT. 29	EXIMBANK	.8	CREDITS
TOTAL		694.0	

in Argentina's year-end cost of living index, which was up 404 per cent. When the junta seized power, the Argentine population was already suffering from a 1975 cost-of-living rate of an increase of more than 80 per cent! A junta-imposed wage freeze, the release of all price ceilings, the institution of automatic monthly rate increases for all public services and the announcement of a so-called rationalization scheme aimed at reducing the payroll of Argentina's large state sector brought about an abrupt, if temporary, halt to the galloping inflation rate but left the labor force reeling from the IMF's prescribed "shock treatment." Official 1976 statistics show that service rates for gas had increased 1300 per cent, subway fares 472 per cent, water and electricity 725 per cent. Meat, which had always been considered a staple in every Argentine worker's home, was no longer within the income reach of the large majority of working class families. Food costs generally were up by 365 per cent, clothing costs were up 290 per cent and rents, freed by the junta from the strict controls imposed by the Peron government, soared to 453.7 per cent.

The soaring cost of living, combined with the junta's strict wage freeze, led to a 58 per cent drop in consumer purchasing power by mid-1976. Within a single two-month period consumer sales reportedly fell a record 70 per cent. The effect on Argentina's consumer goods industries had already begun to show. The plastics industry was registering sales losses of up to 40 per cent, leather goods sales were down 80 per cent, and consumption of gas and diesel oil fell 30 per cent and 50 per cent respectively.

Severe production cutbacks were the unavoidable results of drastically decreased demand and government-imposed restrictions on imports to a mere 40 per cent of 1974 levels. Auto production, the largest industrial employer in the country, was reported operating at less than 60 per cent capacity. Feeder industries whose production is integrally linked to that of auto also began cutbacks in production. Only 66 per cent of the oil and coal industries were operational, basic metallurgical production fell to 72 per cent of its installed capacity and glass and ceramic plants were using only 68.5 per cent of their production capability.

#### *Dismantling Of The State Sector*

The gradual dismantling of private sector industry has been carried out with relative ease. The 1.5 million workers of the state sector are the junta's "second phase" target in the "fight against inflation." The huge public deficit, fed at regular intervals by the printing presses of the Argentine treasury to keep it "manageable", is considered by the IMF to be one of the most serious obstacles to Argentina's economic recuperation. An aggressive campaign by the government-controlled press against the "parasitic" state sector has set the stage for that sector's dismemberment.

Part of the junta's plan is to auction off entire sections of the state sector, such as the national petroleum company YPF, to the highest bidder. Most recently, the junta has trained its sights on the state-owned Argentine railroad system, the continent's largest network. A full 25 per cent of its track has been slated for the scrap heap because the continued operation of the debt-burdened company has been judged unprofitable by the junta.

Although the new 1977 budget has not yet been released, a leak to the national press reports that the Social Welfare Ministry has had its budget allocation slashed by 90 per cent!

#### *The "Profitability" Of A Rural Economy*

The IMF's determination to convert Argentina's capital-intensive technology-oriented economy to a labor intensive agricultural export economy has already scored a major success in forcing a 32 per cent reduction in Argentine imports in 1976. Argentina's traditional imports are largely capital goods. The effects of that reduction will appear later this year as factories grind to a halt for lack of replacement parts and industrial unemployment begins to rise in the cities.

Aiding the IMF's plans is Planning Minister Diaz Bessone who, fresh from taking personal charge of slashing the state sector's budget, called last month for the transference of the capital city of Buenos Aires, with its 8.5 million inhabitants, to "the interior of the country." As part of his decentralization policies, Bessone has cut federal budget allotments to the provinces by 80 per cent as a guarantor of provincial "independence."

# Coffee 'Boom' Can't Hide Colombia's Coming Bust

Colombia is being featured as one of Latin America's star performers for 1976. But its reputation is fast becoming like that of an aging actress for whom not even the most artful make up can continue to hide the reality of decay.

Only the more than 100 per cent rise in the world market price of coffee prevented a Chile-style collapse in Colombia last year. Imports are up 32 per cent, exports up 21 per cent in value. Coffee revenues are being kept as inflationary paper in the country's reserves, and there is a concomitant lack of investment in agriculture and industry. The collapse of the domestic economy has actually accelerated in 1976. Austerity has proved unhealthy indeed for the Colombian's population's living standards; and this destruction of the Andean Pact's largest and most skilled labor force may prove a severe blow to the alliance.

Without a dramatic reversal through the link-up of the Colombian economy with growing networks of regional and international trade deals, the downward spiral will rapidly accelerate. Already such diverse observers as the usually pro-government think tank Fedesarrollo and the Colombian Communist Party have blamed the 26 per cent inflation in 1976 on the government's failure to use coffee revenues for real investment. As one Fedesarrollo economist wrote: "The investment in the private sector and the importation of raw materials and capital goods doesn't even show the dynamism wanted by the government to counteract the inflationary impact on the money supply of the upward growth of the foreign reserves."

Not only is the World Bank undisturbed by these developments but it has actually proposed institutionalizing the very policies of belt tightening and no investment which are responsible for the predicament. Its latest sophistry concludes that by following the necessary monetary and economic measures, Colombia did not fare too badly last year. It adds: "It was necessary to reduce the resources available for investment and development goals." Particular praise is given to "the reduction of public and private consumption, mediated by the elimination of price supports and across the board increased in taxes and public service rates."

The subtleties of this rationale are not lost on Albert Fishlow, an advisor to Carter and a member of the Linowitz Commission on Latin America. Fishlow added to current Latin American policy discussion in the Carter circle by calling for the elimination of all aid and grants to Latin America last November, with the exception of "export diversification" projects for debt repayment. In the spirit of the Linowitz Report's "anti-paternalism," he particularly cited Colombia and its 1975 decision to avoid accepting all aid, as the "model" economy of Latin America.

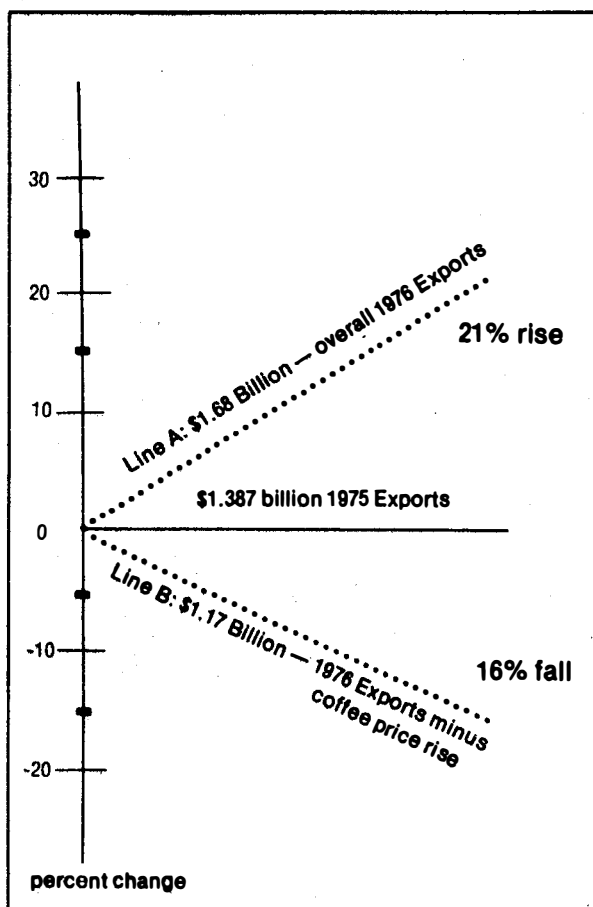
## *Taking The Coffee Boom Out Of The Economy*

The only model Colombia provides is how not to develop an economy. By removing the impact of the

coffee boom from Colombia's economic performance figures, particularly for trade, a startling picture is revealed. Deducting impact of the 120 per cent rise in the coffee price on the overall export figure of \$1.68 billion demonstrates a substantial exports drop in real terms from 1975's \$1.38 billion to \$1.17 billion for 1976 in 1975 dollar terms (the dollar peso rate was relatively stable. See Graph A). On the same basis coffee exports of \$929 million for 1976 represent a real volume of coffee which would have brought \$417 million in 1975 prices. This compares to 1975 coffee sales of \$646 million. The real picture is shown in the 16 per cent drop in volume of coffee exports.

**GRAPH A**

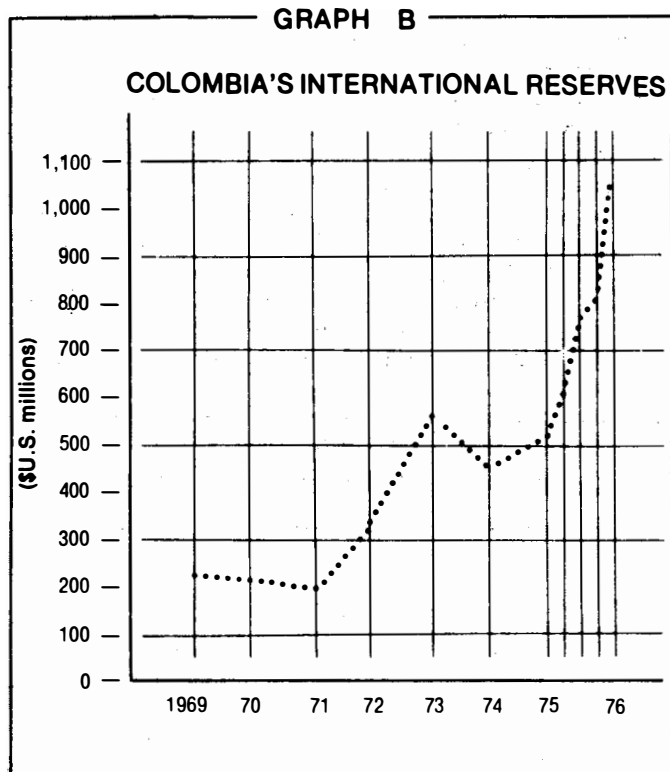
## VALUE VS: VOLUME CHANGE IN 1976 EXPORTS



**Note:** Line B represents overall 1976 exports deflated for coffee inflation only, but still including other inflation factors.

It is no mystery where the coffee boom earnings went. The coffee inflation component is approximately \$500 million, the same amount by which Colombia's foreign reserves zoomed up for the year (see Graph B). As Fedesarrollo has pointed out, the failure to invest these reserves is the source of Colombia's inflation rate.

Moreover, with a significant amount of acreage being shifted from crops and into coffee, coffee's bullish performance will prove to be that of a bull in a china shop when the market inevitably collapses.



*Industry And Agriculture*

While coffee exports were booming, manufactured exports increased only 1.4 per cent in value over 1975 levels. Similarly, coffee as a percentage of overall exports rose for the second year in a row, representing 54.1 per cent of total exports, over 46.3 per cent for 1975. This firmly reverses the trend away from coffee dominance which began in the early 1960s when coffee was over 75 per cent of exports (see Chart A).

The export picture is actually an accurate reflection of industrial growth. One, probably inflated, figure puts the increase in industrial growth for 1976 at only 7 per cent. The highest performing sectors were metals, transport equipment and machinery. However, Fedesarrollo points out that this apparent improvement in the manufacturing sector is not due to any real expansion of

productivity, but to speedup. Even this more "intensive...utilization of capacity" is based on an overall use of only 68.1 per cent of installed capacity for the first six months, significantly down from the 1975 three year low of 72.8 per cent utilization of installed capacity.

In addition the recent liberalization of import policies will have a negative long term impact on the economy's infrastructure because industrialists are failing to buy capital goods and are generally reluctant to invest. Uncertainty about the economy, which is endemic inside Colombia if not in the tranquil minds of international trade analysts, has led to tremendous stockpiling of both raw materials and finished goods.

As a result, 1976 has declined even further than 1975 when internal sales contracted by 3 per cent and the real value of production declined 2.7 per cent. Imports of capital goods are also estimated to have been down again from a 6.8 per cent drop in 1975. Imports of raw materials and intermediary products for Colombia's textile and other industries were down by 10.4 per cent in 1975. For the first two quarters of 1976, they amounted to \$273.3 million, approximately a 16 per cent drop again from 1975 levels.

At the same time Colombia's oil production, which continues to decline despite substantial reserves, dropped 7.2 per cent. Faced with having to import growing amounts of crude oil, the government is preparing for the eventual collapse in coffee prices by diversifying exports on the Fishlow model. With overall commodities, other than coffee, already up as a percentage of exports, the only new exports planned are more *commodities* — carbon, nickel and copper, to name a few — making the agricultural and raw materials drain the dominant characteristic of the economy.

The agricultural sector is indicative of the overall decline. Production for 1976 was up only 2.1 per cent, below the 3.2 per cent rate of population growth and a substantial fall from the agricultural growth of the first half of this decade. Soy, barley and sugar production sharply decreased. The late potato crop was virtually destroyed by drought and frost.

Not only is Colombian industry and agriculture being destroyed by the economy's devolution, but the skilled Colombian workforce itself, and with it the future development of the economy, is being wiped out by the government's economic policies. This is dramatically reflected by the daily 6 hour electrical blackouts in Bogota and other major cities.

**CHART A**

Value Of Colombian Exports (MILLIONS OF U.S. \$)

	1964	PER CENT	1969	PER CENT	1972	PER CENT	1975	PER CENT	1976	PER CENT
COFFEE	394.2	72	343.9	57	429.6	49	646.5	46	929.2	54
PETROLEUM (CRUDE)	74.9	14	56.7	9	31.4	4	---	--	---	--
NON-TRADITIONAL	79.0	14	206.9	34	405.0	47	740.6	54	752.7	46
TOTAL	548.1	100	607.5	100	866.0	100	1,387.1	100	1,681.9	100

# Guyana Turns To The Comecon

On Jan. 19 Guyana applied for "formal association" with the Council of Mutual Economic Assistance at the Havana executive meeting of that organization. After a year in which Guyana's long-term economic problems were drastically exacerbated by extensive flooding which devastated crops and mines, the country is looking forward to increased production and new export markets in 1977 through trade and credits from the Comecon.

To facilitate Guyana's integration into the Comecon, the government is taking steps to upgrade the population's ability to meet the challenge of an expanding economy. In a recent speech Prime Minister Forbes Burnham called on university students this week to place emphasis on science and technology "which have a direct relationship with the national reality."

Guyana will also establish a **State Planning Commission** to coordinate investment in domestic economic development projects. The government has stressed that the move for association with Comecon does not mean that Guyana is abandoning its traditional trade relations with developed capitalist countries. As a former British colony, Guyana's trade has always leaned heavily toward Britain and Canada, with the U.S. emerging in the post war period as a trading partner equal to Britain and Canada combined. The expansion of trade to Comecon countries will broadly diversify these patterns of trade.

Due to the crisis which began with this year's abnormal weather, moves to mobilize the labor force behind Guyana's development plans are being accompanied by an emphasis on consumer **austerity**. Imports, particularly consumer imports, are being cut, and the Prime Minister announced a (G)\$546 million (G2.55:U.S.\$1), austerity budget for 1977 this month which includes a reduction in capital provisions from (G)\$42.2 last year to (G)\$14.9 million this year. Current spending is cut from (G)\$14.9 million in 1976 to (G)\$9.7 million this year.

The nation is struggling to recover from the effects of the floods, which crippled production of the country's major sources of foreign exchange earnings, bauxite and sugar. Sugar output was 20 per cent below the 1976 target of 368,000 tons, and the second rice crop was virtually washed away, leaving total rice yield at 48,000 tons down from a projected 70,000 tons.

Preliminary estimates place the country's bauxite output at 30 to 40 per cent below last year's 3.2 million long tons, and alumina production is also expected to be down by about 20 per cent from 1975's 330,000 long tons.

Guyana's development program is centered around ambitious plans for expansion of its bauxite production and aluminum refining capacity. The major projects in this area are:

(1) The construction of the planned Mazaruni Dam and a major aluminum refinery in Guyana to be powered by the dam. The refinery is planned to produce .2 million tons of aluminum withh 420 megawatts of power.

(2) The development of an already planned — but not actually initiated — major expansion of the Guri Dam in Venezuela from 1,800 to 9,000 megawatts and the export of a portion of this energy to Georgetown, the capital of Guyana, to power an addition major aluminum refinery. Within five years, depending mainly on the enlargement of the skilled workforce, as much as 2,000 megawatts could be imported to Georgetown — enough to power 1 million tons of aluminum capacity and employ 20,000 workers.

In other areas, funds for a variety of projects, including a cement plant and a paper mill, are coming from such countries as Barbados and China. Typical of the government joint-ventures underway is a recent investment by Nichimo Company of Japan, which ventured 40 per cent equity participation with the government organized Small Industrial Corporation to make fish nets.

# Rockefeller As 'Unindicted Co-conspirator'

Lyndon H. LaRouche, Feb. 1, 1976

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## Wall Street and The Rise of Hitler by Anthony Sutton

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There is no serious dispute among informed historians that Adolf Hitler's principal sponsors of the 1933-1936 period (in particular) were not native German industrialist strata, but U.S. Wall Street power-brokers, with a significant portion of the Jewish financial groups consciously implicated. Nor is there any competent dispute that John D. Rockefeller II and some of his sons, notably Nelson A. Rockefeller, were up to their oily ears in this unwholesome business.

The technical problem confronting the scholar on this account is that the number of massively-implicated accomplices in the Hitler affair includes almost the entire range of Wall Street and also certain "multi-national" industrial corporate interests. As Professor Sutton, among others, demonstrates, Edsel Ford, the top executives of General Electric, General Motors forces, Warburg, and many others, as well as the U.S.-dominated I.G. Farben apparatus and I.T. and T., are all indictable offenders. Among all such choices of principal targets for scholarly indictments, which are in fact the principals, and which those generally merely fellow-accomplices? Broadly, Professor Sutton chooses Morgan as among the principal accomplices, awarding the Rockefellers the implied status of principal "unindicted co-conspirators."

This has the makings of an intriguing potential debate. We do not underrate the role of the Morgan interests in these and other matters, but we have demonstrated elsewhere that Rockefeller is the principal accomplice and Morgan (and others) plunging in competitively for whatever financial proceeds the Versailles Treaty and its aftermath offered as the "main chance" activities of that period. Shall we then debate Professor Sutton over the issue of whether Morgan or Rockefeller is to be viewed as the principal culprit? We reject such an approach to the issue as *academic* and *politically impotent*, sterile.

There are two broad methodological problems associated with Professor Sutton's otherwise useful presentation of facts. The first of these is more immediately apparent, but of lesser importance. He identifies himself, more or less accurately, with the branch-line of conservative scholarship traced from Carroll Quigley by

way of *None Dare Call It Conspiracy*. It is too tempting to Professor Sutton, among others, to run up the blind alley of attempting to link Wall Street to the accredited U.S. state adversary, the Soviet Union, and to make Stalin, Hitler, and Roosevelt ultimately all of a common bastard political parentage. That superimposed interpretation of Professor Sutton's fortunately appears only as a kind of contrapuntal (might one say, *canonical*) afterthought throughout the text, and does not unduly contaminate the other, useful material to which the text is principally devoted. It is more fruitful to give our attention here to the more serious methodological problem.

### *Negatively Considered*

As we have developed the point elsewhere, the mainstream of U.S. conservatism is by no means a "reactionary" current, the liberal press and Mr. William Buckley's cronies notwithstanding. Its historical and contemporary roots are a deep, organic commitment to the specific commitments of the American Revolution as most efficiently identified by Benjamin Franklin, George Washington, Alexander Hamilton, Tom Paine, Henry Clay and Abraham Lincoln. Mainstream conservatism expresses the deep, organic commitment of industrialist, agriculturalist and blue-collar worker to the principle of technological progress, and to the notion of the republican form of constitutional government as the suitable instrument for realizing industrial progress.

The immediate shaping of conservative institutions and semi-institutions today has two principal post-Versailles sources: the Republican Party of the 1920s and the second administration of President Dwight D. Eisenhower, the latter the most relevant for the present period. The included significance of those institutional features is that conservatism is deeply imbued with the psychology of defeatism. Franklin D. Roosevelt, a conscious fascist, not only grabbed the presidency through Wall Street backing, but the credulous majority of the U.S. population has bought, hook-line-and-sinker, the liberal Roosevelt myth. In 1960, Wall Street deserted the Eisenhower machine, arranging an election fraud by which the Rockefeller puppet, lunatic John F. Kennedy, was permitted to buy his way into the White House, and emerge as a martyred companion of F.D.R. in the liberal myth's pantheon of "sacred American figures." The conservative revolt of 1964 was given a humiliating defeat. Then, there was the liberals' vast conspiracy now

sanctified by the widespread myth of "Watergate." Understandably, if wrongly, these unhappy experiences have inculcated the habits of thought of the "professional loser" among most conservative strata.

This has been altered for the better through the 1976 activities of the U.S. Labor Party. The national image of the small, bumptious U.S. Labor Party reaching to pull effectively at the Carter campaign's "short hairs" has aroused conservatives to the wakeful perception that if the U.S. Labor Party's "march of the 10,000" could pull off such a coup against Mr. Rockefeller's "Persian Empire," perhaps there is opportunity for the larger forces of "Alexander the Great." In consequence, U.S. mainstream conservatism has begun to move away from ideologized post-war conservatism toward the Federalist outlook of Benjamin Franklin et al. There is, happily, the beginnings of an arousal of conservative forces against the immediate *fascist* threat of the Trilateraloid Carter administration.

Such happier developments in process are just that, and hence must contend against previously acquired habits of the "loser mentality." Professor Sutton's text predominantly reflects the ideology of the conservative "loser mentality." It emphasizes *moral indignation*, rather than the outlook of the strategist projecting the analysis of an adversary's profile to the purpose of winning a war.

To become embroiled in a formal dispute respecting the relatively greater guilt of Morgan or Rockefeller would be to play into the ideology of the "loser mentality." Frankly, as a matter of moral indignation we could not care less how much Edsel Ford, Gerard Swope, et al. variously contributed to the rise and consolidation of the Hitler regime. Such facts are of concern to us only as they perform an essential analytical function in respect to developing a war-winning capability against the Rockefellers today. Granted, the Nuremburg Trials were a travesty of "selective justice"; what would be accomplished by correcting that error today. Shall we dig John D. Rockefeller II out of his grave, and hang his corpse at Spandau? Similarly, Gerard Swope and scores others? Shall we correct, similarly, the error of leniency of Nuremburg judges concerning Hjalmar Horace Greeley Schacht and Alfred Speer? What would be accomplished by that? Would it not amount to a *diversionary* propitiating of the conscience? Shall we forever try the past, leaving present criminals to do their evil, pending some future Nuremburg Trials?

Adolf Hitler is dead. So is Swope, so is John D. Rockefeller II. Never again will the I.G.: Farben of the 1920s and 1930s reproduce precisely the pattern by which Hitler came to power, and so forth. History never precisely repeats itself. Just as the evil of the last inter-war period was morally illumined for popular judgment only after the fact, an excessively narrow preoccupation with precedents in detail distracts us today from the new specific evil now afoot, and so disarms us. The function of examining the post-Versailles period is to mobilize oneself and others to act against the Trilateraloids now with the ruthless energy lacking during Wall Street's earlier creation of Adolf Hitler.

The function of history is not to contemplate the battles of the past, but to win the wars of the present and future.

It is the distinction between the two, opposing outlooks so defined which leads inevitably to corresponding differences in method.

#### *Riemann and Cantor As Historians*

It is not a secret today that the extraordinary potency of the U.S. Labor Party and Labor Committees is formally based in this writer's application of crucial implications of the work of the physicist Riemann and the mathematician Cantor to eliminate potentially devastating errors in the method and economic-theoretical accomplishments of Karl Marx. The broader effect of this was to resituate Marx's actual accomplishments in a coherently conceptualized main line of development of European humanist thought and practice in the sequence typified by Averroes, the Ghibellines, Roger Bacon, Dante Alighieri, Marsilio Ficino, Thomas Gresham, Cromwell, Milton, Colbert, Descartes, Spinoza and our nation's own Federalists, Franklin, Hamilton, Paine, et al., just as Marx himself properly associated himself with that American Federalist expression of humanism in respect to Abraham Lincoln. By this informed, fresh overview of European culture's progress since the twelfth century, it was possible to definitively situate the correlatives of philosophical thought and social practice in respect to the central issue of technological progress.

The associated benefit of this approach was that of situating the principal achievements of Riemann and Cantor to the effect of definitively discrediting the blundering misconception of relativity associated with Einstein and Weyl and a sweeping exposure of the incompetence of the Vienna "energeticists" and their "Copenhagen" offshoots. The demonstration of the immediately reciprocal connection between the lawful ordering of historical development and a Riemannian relativistic physics properly conceived has had a useful consequence for contemporary theoretical physics as well as permitting a comprehensive breakthrough in the specialist domain of historiography.

The new conceptions of political economy derived and conclusively proven in this way have provided a coherent advancement in the practice of strategic analysis. This, of course, is no mere assertion, no promissory note; the decisive catalytic influence of the U.S. Labor Party and Labor Committees in contributing to the shaping of the recent several years developments, and Wall Street's increasingly hysterical respect for the U.S. Labor Party as an adversary has established the special potency of those new methods of strategic analysis and related practice as fact.

In consequence of the considerations just summarily identified, it is more than merely legitimate that we criticize the methodological errors of Professor Sutton's book from such a vantage point. The implication is not that of attacking Professor Sutton for failing to master the Labor Party's methodological apparatus, but to show him — among others — how that method must be employed to take him — and others — beyond the limitations under which they have previously labored.

We shall promptly see how this methodological point bears most directly upon the apparent problem of the Morgan-Rockefeller greater-culpability.

The notorious methodological problem of the so-called inductive sciences is that the undeniable existence of the ordering-principle underlying sequences of events in scientific practice could not be formally adduced from the experimental facts themselves. If the physical-scientific community had been competently educated in the past twenty-five hundred years of the history of European culture, the nature of the problem would have been recognized well before the turn of the present century.

“Existence is not a predicate” is one of the more famous observations to this effect. Descartes’ *Cogito ergo sum* and his outline of *universal perfection*, notions coherent with Descartes’ initial, approximate solution to the notion of a true continuum in physical processes, underline the problem and its implied solution. The retrospective application of Georg Cantor’s notion of a transfinite to the foundations afforded physics by the self-expanding n-dimensional relativistic continuum of Riemann provides the required formal reference point for a generalized solution to the problem — a perception fundamentally lacking in Einstein, Weyl and others.

The solution for physics qua physics has a direct correlative in historiography, and by no means merely a heuristic connection. The characteristic feature of human progress is that it is impossible to account for the development of technology or any other relevant feature of actual history by treating deeds and facts in relative isolation, as if they were self-evident facts. The pertinent fact of human history is the voluntary principle in human political and social behavior, precisely innovation. These innovations are not ordered as chance occurrences, but, rather, the realization of any innovation in practice determines the potential for subsequent acts of innovation. Not merely is subsequent innovation determined as such, but the epistemological ordering of advancing knowledge assumes the form of a self-elaborating progress through the mediating role of practical realization. Hence, just as lawful principles exist for physics, but *not as predicates* of physics observations, so the essential feature of history is the ordering principle expressed, but *not as a predicate*, in connection with the struggle for human progress.

This same point is the essential implication of both Descartes’ *cogito ergo sum* and his notion of *universal perfection*. The included difficulty which underlies the incompetence of most modern philosophy texts and classroom instruction concerning Descartes’ notions is twofold. First, the prevailing, Viennese-flavored mental disorders of contemporary U.S. academic philosophizing follows the evil Bertrand Russell in hysterically denying the existence of existence except as the mere opinions concerning phenomena of the late Mr. Russell and his ilk. Secondly, there is the most honorable failing of others, who can not rid themselves of the old Euclidean-Lagrangian prejudices concerning an arbitrary, linear space and time existing independently, a priori, with respect to a physical continuum. The strength of the “affine” microphysics delusion, along the lines of Weyl’s *Space, Time, Matter*, reflects the latter problem. Descartes’ notion of universal perfection can not conform to the evidence of either physics or historiography as long as “affine” delusions are not discarded. An

existent continuum must be a self-elaborating, hence, non-linear, negentropic self-subsisting basis; that is the only admissible relativistic conception for physics or historiography.

The fact that “non-linear effects” exist in energy-dense plasmas is only one, admittedly more impressive sort of crucial demonstration that the universe is primarily defined in terms of a non-linear “scaling” for a negentropic, self-subsisting relativistic basis. That demonstration for physics lends strength to a notion which ought to be already self-evident on the basis of historical evidence: that the essential features of historical processes are also “non-linear continua.”

We have shown, employing the most extensive historical evidence for a conclusive proof of this point, that the consistent, determining feature of all European culture’s history since Averroes has been the struggle of humanism, on the one side, against the continuous, contrary principle currently expressed as *monetarism*. That is the crucial fact concerning Wall Street’s role in the Hitler affair and the essential feature of the current global crisis.

The alignments of particular elements of Wall Street and multinational corporate power during the post-Versailles period are merely predicated features of the overall process. If one attempts to explain Hitler from the standpoint of the specific guilt of specific persons and groups, the result must be essentially nonsensical from the standpoint of any present practical purpose.

Of course, one can not proceed very far toward competent conclusions without such facts. However, the facts must be judged as experimental facts, through which alternative hypotheses concerning the generality are proven. Furthermore, not merely any sort of generality will be properly tolerated for this purpose. The generalities employed must be limited to those which conform to a scientifically-competent historiographical method. Otherwise, one could write a book “explaining” Wall Street’s connection to Hitler from the standpoint of astrological doctrines or the thesis that the Moon is made of green cheese.

Of course, Professor Sutton commits no such gross errors as to offer a “green cheese” interpretation of the facts he cites, but in principle he makes the sort of error belonging to the saner phase of the same general type of blunder. He starts from the fact of treason, and then arbitrarily applies a specific, wild bit of current conservative ideology (the common bastard political parentage of Stalin, Hitler, and Roosevelt), setting up the House of Morgan, among others, for a charge of “fatherhood.”

In this connection, the lack of perception of the role of scientific method respecting the advancement of hypotheses is the pertinent point. As the “null hypothesis” gropes at emphasizing, no amount of ordinary experimental fact gathering can prove an hypothesis or prevent a specious absurdity from appearing plausible to the credulous. The origin of scientific knowledge is not experience per se, not aggregations of “fact,” but the self-elaboration of a rigorous body of practice which sifts out wild hypotheses. An hypothesis is properly a necessary conclusion from the preexisting universal knowledge concerning facts, of the general



form "If....then....*must* be." The notion of "must" is crucial. Any conjecture which does not satisfy those conditions is rubbish, no matter what array of apparent facts may for a time seem to amuse the credulous.

It is inadmissible to develop specialist hypotheses for isolated bodies of investigation. Any hermetic specialization is ipso facto quackery. A professed historian who is not a qualified political economist, grounded in a competent political-economic theory, is not a competent historian...and so forth. It is as foolish to mark out isolated patches of political history for special doctrines as to divide physics up into an hermetic set of fiefdoms, each claiming special laws for its domain, with no universal lawfulness superior to such localized assumptions.

The crucial feature of Versailles was that the German war reparations and the associated structuring of the financial relations among Europe and lower Manhattan established the primacy of the monetarist faction against (in particular) the industrial-capitalist commitments inherent in the American Revolution and its Constitution. This, however, did not sort itself neatly into fixed factions, the one monetarist, the other industrialist. For example, one must ask — as Sutton does not — how Henry Ford would have conducted himself if the industrialist faction had won at Versailles? Would Morgan have preferred the victory of the pro-industrialist faction?

Sutton comes close to the relevant sort of evidence in correctly emphasizing that it was American-dominated German firms, and not native German interests which put Hitler into power. The consistent thrust of German industrial self-interest to the present day is exemplified by the Rapallo Treaty and the collaboration of DeGaulle and Adenauer. This was especially notable as the endemic tendency among German industrialists enraged at their nation's looting by a foreign (lower Manhattan) power. Relative to the Hitler affair, their behavior, and that of numerous U.S. profit-seeking corporations was dictated by the outcome of the various struggles between monetarist and industrial interest.

Sutton does not appear to look inside the mind of President John Doe of the ABC Widget Manufacturing Corporation, a closely held industrial firm. John is probably a committed industrialist, anti-monetarist by experience, instinct, and whatever else you will. However, what does John do in a world in which the monetarists are determining what is and what is not to be profitable? John, who knows that losses mean his extinction as an industrial capitalist, adapts to the economic environment and opportunities the monetarists determine.

That sort of complication must be considered, not to mention those cases in which an American agent was acting in the role of a Nazi to such purposes as aiding lower Manhattan interests in looting their British allies of petroleum and other coveted assets. Naturally, one shoots the thief raiding one's house; however, in the broader work of eliminating thievery from society, the

particular thief becomes less important; one focuses on the determining processes behind the proliferation of thievery. Whether so-and-so was a Nazi, etc., has a similar significance. The prosecuting attorney and judges are properly concerned with such specific offenses. The historian, the strategist is concerned with the other problem, of defining and extirpating the determining forces which transform all sorts of people into Nazis and Nazi accomplices.

#### *Facts Sutton Overlooks*

Once it is understood that monetarism versus industrialism is the essential feature of the ugly business of the Hitler Affair, certain facts concerning the Rockefellers are placed in their proper, crucial importance.

The Rockefeller connection to Hitler antedates World War I, not first as a connection to Hitler, but to such figures as Colonel Nikolai, the pre-war and war-time predecessor of I.G. Farben's key intelligence operations. The Chilean interface of Rockefeller and Nikolai preceding World War I obliges one to begin situating the overall facts in the proper frame of reference.

Immediately, one is obliged to study the Russell Sage Foundation's role in U.S. intelligence during and following World War I, its key role in developing the career of Admiral Canaris through the protected status of the "Marine Transport Unit" under special terms of the Versailles Treaty and the Armistice Commission. Canaris's role — and Rockefeller's role — in the assassination of Rosa Luxemburg, in the *Freikorps* enterprise, and in the creation of the Nazi organization, Interpol, have a properly-emphasized relevance.

Morgan is extremely important, of course. The National Civic Federation, Lamont's role toward Mexico and other states, and so forth, are all key pieces of the picture. However, the question is not Rockefeller nor Morgan, but *monetarism*. Once a pro-industrial capitalist current recognizes that Milton Friedman is a lunatic incompetent, recognizes as the Federalists did, that the education, social services, and conditions of workplace and household life of the labor force are an indispensable basis for the development of the productive forces, whatever that current's past history, it will tend to function in the current world situation as a positive, anti-fascist force. Vis-à-vis the House of Morgan, Edsel Ford, et al. the historian must judge whether their complicity was a result of their stupidity respecting their own interests or whether their role coincided with the determining monetarist currents producing the Hitler phenomenon. Sutton's text asks no such questions, and thus his presentation of facts, while eminently useful overall as a contribution to the historian's collection, has an accidental quality — and so prevents him from constructing a useful analysis of the facts he presents.

He is not to be specially blamed for this; it is an endemic problem, which is overdue for general correction.

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