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# **EXECUTIVE INTELLIGENCE REVIEW**

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**New Solidarity International Press Service**

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# EXECUTIVE INTELLIGENCE REVIEW

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# EXECUTIVE INTELLIGENCE REVIEW

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## IN THIS WEEK'S ISSUE —

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From naked threats against the pro-nuclear government of West Germany... to a massive Gestapo operation aimed at last weekend's Energy Development Conference in Pittsburgh, Pa... the Carter Administration is bent on creating a climate of terror against all who oppose its no-energy policies. See **International Report** for the story... including the successful counter-attack launched by the Fusion Energy Foundation which secured a court order against James Schlesinger and the FBI.

\* \* \*

The USA is now closer to World War III than at any time since the Cuban missile crisis. Carter and Peres have torpedoed Geneva peace negotiations for the Middle East... their French ally Giscard is pulling together a "south Atlantic" branch of NATO to intervene in Africa... the press is speculating about "breakaway" preemptive nuclear strikes by Israel... See **International Report** for full news coverage on the war danger.

\* \* \*

We were on the spot... for the IMF Interim Committee meeting in Washington, D.C.... and no matter what the newspapers are saying, an IMF bailout for the New York banks is not going to happen. Our **Economics** section has the details of the "Witteveen facility" negotiations...

The whopping U.S. trade deficit... steel profits down 90 percent... a meeting of business insiders agrees Carter program "is crazy..." See **Economics**. Plus special reports on West Germany's bold nuclear initiatives... what the Japanese are up to with the yen...

\* \* \*

Scientists, corporate executives, engineers, trade unionists... over 100 such representatives met at the Energy Development Conference in Pittsburgh to discuss and formulate competent energy policy for the USA. A summary account of these unique proceedings is the lead item in this week's **National Report**.

\* \* \*

16 hours for conservation... 16 seconds for thermonuclear fusion... that's about how the media has covered the energy debate so far. Last week a suit was filed against the Federal Communications Commission in Washington to compel them to enforce the so-called fairness doctrine... and award U.S. Labor Party Chairman Lyndon LaRouche national TV time to reply to Schlesinger and Carter. See **Law**.

INTER-NATIONAL
NATIONAL
ECONOMICS
SCIENCE TECHNOLOGY
SOVIET SECTOR
COUNTER-INTELLIGENCE
CANADA
EUROPE
AFRICA
ASIA
LATIN AMERICA
LAW

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A major renovation of the outmoded U.S. transport system is long overdue. Several enterprising gentlemen set out to make it happen some year ago... and then the Rockefellers took a hand. Read "The Story of Starport America"... in this week's **Science and Technology** report.

\* \* \*

Canada and South Africa are keys to Rockefeller's showdown scenarios... and he's counting on the economic squeeze on both countries to make the requisite manipulations. See **Canada** and **Africa** sections for analysis of the troubled economies.

\* \* \*

Reprinted from New Solidarity... a special report from NCLC Director of Intelligence Criton Zoakos... on Rockefeller's top agent in the Soviet Union, the notorious Georgii Arbatov. See **Soviet Sector**.

\* \* \*

Under cover of "combatting drug traffic" U.S. authorities are setting up a terrorist command and control center on the Mexico-U.S. border. See **Counterintelligence** for this shocking exposé.

Why are the Gaullists allowing Giscard to get away with his foreign and domestic provocations? Lyndon LaRouche analyzes the current state of Gaullism... points the way to a rejuvenated Gaullist movement in this week's **Europe** section. Plus excerpts from Italian press analysis of CIA terror in Italy... and a prescription for what to do to stop it.

\* \* \*

Pakistan's Prime Minister Bhutto is fighting for his political life... but more than that is at stake. See our **Asia** report for a news analysis. Plus a special report on the destruction of Indonesia's state oil company Pertamina... and its dangerous implications for the very New York banks who ordered the job...

\* \* \*

The Carter Administration is vowing to seal off the Mexican border... and begin the extermination of 30 million Mexicans advised by Rockefeller technocrat William Paddock. In Colombia a return to the blood-soaked days of the "violencia" is on the Rockefeller agenda. See **Latin America**.

# NSC Creates Int'l Climate Of Terror To Impose Carter's Energy Program

Over the past week, the Carter Administration has escalated its international campaign of terrorist violence and diplomatic thuggery to levels unknown since the immediate pre-war antics of the German Hitler regime, all part of the "selling" job on the Carter energy package.

In a direct White House blackmail move against all foreign governments pursuing nuclear power development projects, President Carter sent legislation to Congress on April 27, that would empower the Administration to take harsh "sanctions" against nations in violation of his nuclear non-proliferation rules. The "catch 22" clause authorizes Carter to renegotiate all extant non-proliferation agreements not to his liking (i.e. not in conformity with the Administration's move to establish a total embargo and U.S. monopoly over fissionable material). As a direct threat to the Schmidt government, the *New York Times* reported Carter's punitive legislation along side an article on West Germany's denunciations of Administration anti-nuclear

measures. If that didn't make Carter Administration intentions toward the Schmidt nuclear program clear enough, Interpol terrorists are reported to have recently stolen a quantity of "fissionable material" from a site in Berlin — the threat of "nuclear terrorism" is now faced by Schmidt.

High level intelligence sources said April 25 that energy czar James Rodney Schlesinger has set up an "Energy Task Force" which is operating in a "war-room environment" in Washington, gathering intelligence on response to the Carter program from all government agencies "in an organized crime manner," and deploying covertly against all opposition to the energy package.

One of the most intense targets of Administration gestapo tactics was the April 29, "Conference on Energy and Technological Development," held in Pittsburgh, Pa. under the joint sponsorship of the Three Rivers Coalition and the Fusion Energy Foundation. Sources

## Czechs Back Yugoslav Attack On Carter's Energy Sabotage

*The following article, "A Transparent Tactic of Washington: Why Construction Was Halted on a Yugoslav Nuclear Power Plant," appeared in the Czechoslovakian Communist Party daily, Rude Pravo, April 22.*

BELGRAD, April 20 — What Washington is after with its policy on supplies of nuclear technology for peaceful purposes in other countries is demonstrated by the case of Yugoslavia, which chose an American partner for the construction of its first nuclear power station.

Some years ago, the Yugoslav side agreed with the firm Westinghouse upon the construction of a nuclear power station. According to the agreement, the American company, among other obligations, agreed to deliver not only the technology for equipping the plant, but also the necessary fuel.

Start-up of electricity production was anticipated for late 1979....The planned capacity was over 600 MWe...which was to erase the energy deficit in the republics of Croatia and Slovenia. But the agreed upon deliveries of equipment have not occurred. The company traces this to the American government, which has made the export of the technology contingent upon new demands on Yugoslavia.

This maneuver of Washington is extremely transparent. As Yugoslav officials told foreign journalists several days ago, the American government was thoroughly familiar with the Westinghouse agreement before it was signed, and agreed to it. Yugoslavia has fulfilled the necessary conditions for the implementation of the deliveries. As a non-nuclear state, it adhered to guarantees in the framework of the international Non-proliferation Treaty, to insure that the technology and fissionable material would not be used for other than peaceful purposes. But Washington was not satisfied — since *it* has other purposes in this case.

According to Yugoslav officials, the U.S. began by demanding from Yugoslavia new obligations, outside the framework of the existing guarantees, and if Yugoslavia were to accept them, the United States would take "control of all utilization of nuclear energy for peaceful purposes in Yugoslavia." ...Yugoslavia properly resists such arbitrariness. The construction has been halted and the future of Yugoslavia's first nuclear power station is in doubt.

It is especially noteworthy that the American government began to dictate its conditions to Yugoslavia when the greater part of the power plant was already built.

close to the Administration confirmed early last week that the White House Task Force operating under Energy Czar Schlesinger was conducting a multi-million dollar Cointelpro operation directed at preventing the Pittsburgh event from taking place; and that this effort was drawing upon the resources of the FBI, sections of the military associated with Schlesinger, the Brookings Institution, prominent sections of the Zionist lobby, and right-wing social democratic operatives affiliated with the Committee on the Present Danger.

This particular White House initiative was dealt a setback when attorneys for the FEF sought and obtained a federal court injunction against Schlesinger, Attorney General Griffin Bell, and FBI Director Clarence Kelly barring them from further disruptions. The April 29 granting of a Temporary Restraining Order thus constitutes court-admissible evidence implicating the Carter White House in the same kind of "plumbers" operations that brought down the Nixon Administration in 1974.

Two principal factors motivate the Carter Administration in its current confrontationist drive. First, the governments of Western Europe, Japan and Saudi Arabia have categorically refused to finance any of the IMF bailout schemes put before them by representatives of lower Manhattan. However, no European or Third World bloc has yet taken the crucial step of pulling the plug on the dollar, rounding up the Interpol-Black International terrorist apparatus, and moving immediately into some form of International Development Bank alternative monetary system.

The maneuverability provided to the Carter regime and its lower Manhattan backers by this "holding pattern" has permitted the following Carter-National Security Council initiatives over the past week.

Operating principally through its surrogate Atlanticist regimes in France, Zaire, South Africa and Israel, the Carter Administration has brought the situations in central Africa and Lebanon to the "flash point" for general war (see below).

Despite a crackdown on the part of Andreotti's and (to a lesser extent) the Schmidt government, Interpol terrorist networks continue a wave of fascist terror directed against pro-development leadership on the

continent. In the past 48 hours, one judge involved in an Andreotti-initiated investigation into Interior Minister Cossiga's Interpol operations has been gunned down in broad daylight, while a colleague was kidnapped by as yet unidentified terrorists. In West Germany, the sentencing of three members of the Institute for Policy Studies-Interpol Baadher-Meinhof RAF gang to life prison terms is being touted in the U.S. press as the trigger for a new wave of bombings and assassinations of government officials there.

In parallel domestic moves aimed at bullying his Schachtian energy package into practice over tremendous congressional and popular opposition, Carter this week ordered the Federal Energy Agency to employ temporary emergency powers (legislated following the 1973-74 oil hoax) in mandating 31 industrial plants to convert to coal. Several of these facilities had just completed multi-million dollar retooling from coal to oil as the result of federal Environmental Protection Agency orders and therefore stand in danger of imminent bankruptcy if the coal order is enforced. Carter announced at the same time that he intended to take every step necessary to push his plutonium embargo bill through Congress by the end of this week — a statement that constitutes a virtual declaration of war against the majority in the House and the Senate.

Not the least significant component of the coercion campaign is the still live option to run a "nuclear Pearl Harbor" attack on a fission generator facility somewhere in the world using one of the Interpol-Institute for Policy Studies terrorist fronts. Such options are being fueled by a series of Naderite demonstrations at nuclear construction sites in the United States paralleling the recent Brokdorf riots in West Germany. Short of an outbreak of general war, such a nuclear terrorist incident represents the lowest common denominator "shock effect" through which Carter et al. can hope to sell the U.S. Congress and population at large their regimentation program.

The accompanying chronological report of the Schlesinger-directed wrecking effort against the Pittsburgh April 29 Energy Conference will provide substantial details of the domestic component of the Carter terror drive.

## Will The Pittsburgh Conference Scandal Bring Down The Carter Administration?

The week-long campaign of blackmail, libel, and psychological coercion aimed at sabotaging the April 29 Conference on Energy and Technological Development in Pittsburgh was a coordinated Cointelpro project that originated *in the White House*. The scope of this project directed against the conference and its sponsors, the Fusion Energy Foundation and the Three Rivers Coalition for Science and Technology, pales the 1973-74 Watergate revelations which brought down the Nixon Administration.

The chronologically organized report that follows represents a summary statement of the evidence gathered by FEF investigators for court action which brought a Temporary Restraining Order against White House energy advisor James Schlesinger, Attorney General Griffin Bell and FBI Director Clarence Kelley. What emerges is a picture of how the Carter White House has "learned the lessons" of Watergate and is currently employing plumbers units to silence any scientific discussion that runs counter to the Ad-

ministration's anti-energy program.

APRIL 22, 1977

By Friday, April 22 at the very latest, a White House "Energy Task Force" operating out of a war room and under the personal supervision of James Rodney Schlesinger, activated a program of disruption against the scheduled April 29 Pittsburgh Energy Conference. Highly reliable sources near the Carter Administration described the Schlesinger war room as a command center out of which activities of all groups and individuals in the U.S. opposed to the Carter Administration's "energy package" were monitored and appropriate counter-measures designed and set into motion.

The sources described the Energy Task Force as a body modeled on the Justice Department's Organized Crime Strike Forces, in that they were "action-oriented" and drew upon the resources of multiple government agencies and private resources.

The sources further reported that the FEF had been singled out by the Schlesinger Task Force as the highest priority target, and that orders had gone out to "disrupt and prevent the FEF from proceeding with a series of regional energy conferences which would lay the basis for a fusion economy."

It is known that, in preparation for the April 22 "activation" of Schlesinger's Cointelpro-type operations, at least one individual had been "planted" on the scheduled speakers' roster to both profile the legitimate participants and serve as the "inside" disruptor. This was Dr. Frederick Forscher, the director of Energy Management Consultants, Inc. — a Pittsburgh-based consulting firm known to be collaborating with the Carter Administration to break down resistance within Pittsburgh area industrial layers to the Administration's energy program.

Forscher's personal role has been to serve as a "conflict mediator" (i.e., "soft" brainwasher), manipulating corporate and union officials to give tacit support for industry-destroying environmentalist programs. At some point in the last month, Forscher was hired by Jim Smith, a United Steelworkers (USWA) official and a Regional Americans for Energy Independence (AEI) coordinator, to direct "Operation Pacesetter," a public relations stunt drafted by Schlesinger's Task Force and aimed at putting Pittsburgh forward as the "model" city for Carter's Schachtian state. It should be noted that Smith, as the chief security officer for the USWA, maintains ongoing liaison with the FBI. Forscher was later further identified as the Energy Advisor and a Regional Board member of the American Jewish Committee (the significance of this will become clear).

APRIL 23-24, 1977

During this weekend period, William Morrill, a staff member of Schlesinger's White House Task Force and a former energy advisor to then-New York Governor Nelson Rockefeller, was sent to Pittsburgh to conduct a series of meetings preparatory to Monday deployments. It is known that Morrill conferred with Paul Hammond, a former Public Affairs Director for the Rand Corporation, and currently a Professor at the University of Pittsburgh's environmental Public Policy Studies Department.

APRIL 25, 1977

A team of "consultants" including representatives of the Brookings Institution, the Department of the Army, Air Force Intelligence, the Customs Bureau, the Office of the Assistant Secretary Agency, the National Aeronautics and Space Agency, the Department of Housing and Urban Development and other government agencies arrived in Pittsburgh. The publicly stated purpose of their week-long deployment was to conduct "working seminars" with area corporate and trade union officials concerning the Carter energy program and the planned "Operation Pacesetter." Local corporate officials reported to FEF investigators that a principal "unofficial" feature of the "working seminars" was pressuring participants to stay away from the FEF.

It should be noted that as of April 23, 15 Pittsburgh area scientists, corporate officials and trade union officials had agreed to participate in the "Conference on Energy and Technological Development" as panelists and that their names had been featured in conference advertisements for several weeks. Between April 25-27, all but three of those scheduled participants contacted the FEF to withdraw their commitments. A cross-reading of the reasons revealed a uniform pattern of two approaches of attack used:

1. A number of Jewish participants profiled as being vulnerable to the "Masada complex" — an intense persecution complex that afflicts many Jews of particularly middle class upbringing — were targets of a slander campaign accusing the FEF and the U.S. Labor Party (one of three organizations in the Three Rivers Coalition) of being "anti-semitic". One participant reported that "individuals" had approached him with what were later determined as carefully excerpted articles printed in the U.S. Labor Party's official newspaper, *New Solidarity*, supporting activities of the Palestine Liberation Organization.

There are circumstantial indications that this phase of the Cointelpro project was conducted through American Jewish Committee elements including Dr. Forscher and through the B'nai B'rith's Anti-Defamation League, an outfit known for its collaboration with the FBI on some of that agency's nastier Cointelpro activities.

2. The majority of the targeted participants were more directly approached with Cointelpro slanders that the Labor Party was an organization of "violent Marxists out to overthrow the democratic government of the U.S." and that the FEF intended to "manipulate" them in a "political" attack on the Carter Administration.

Behind these psychological coersions were even more intensive blackmail and "dirty tricks." One prominent scientist reported that ERDA officials had been contacted by the FBI and advised that if the scientist did not drop his association with the FEF, his ERDA grant money would be rescinded. A leader of the Pittsburgh-area Chamber of Commerce received a Cointelpro telephone call the night before the conference, allegedly from an FEF representative, demanding that he attend the event in order to "discuss impeaching President Carter." A third scheduled panelist found that a vital business loan had been mysteriously canceled in the final stages of negotiation with a local Pittsburgh bank. All of

the reported incidents conform to FBI "dirty tricks" programs already conducted against FEF and USLP supporters as documented in government documents released under the Freedom of Information Act.

*APRIL 26, 1977*

In a telephone interview with William Martin, a Special Agent with the Pittsburgh office of the FBI, an FEF investigator was informed that the FBI was maintaining an up to the minute grid of the "drop away" of participants in the conference, and that the FBI was participating in the illegal counter-organizing effort. Special Agent Martin in particular boasted in the telephone interview that several USWA officials had "nearly committed themselves to attending the Conference, but, ha ha, they had their minds changed at the last minute." Martin retailed the slander that the FEF was out to steal scientific secrets and "was not opposed to accepting Soviet money."

One additional feature of the counter-organizing operation was a meeting of the Pittsburgh-area Americans for Energy Independence (AEI) convened Tuesday night. Regional head Jim Smith flew back from Washington, D.C. meetings to run the meeting as a staged "critical discussion" of the U.S. Labor Party — a discussion that took the form of circulating issues of *New Solidarity* countaining political attacks on the Carter energy package and using them as "proof" that the April 29 event would not be a serious scientific discussion! There are indications that at the same meeting Smith endorsed the Carter-Schlesinger energy package by proposing that the AEI sponsor a May 2 Schlesinger press conference as the kickoff to "Operation Pacesetter." It is known that Smith maintained regular contact with the Brookings team and with Dr. Forscher during this period.

In the investigations, it was further established that the Schlesinger Task Force had established direct liaison with the American Jewish Committee (AJC) through Shelly Weinstein, a Schlesinger staffer working with the AJC to prepare support rallies for the Carter energy program in 35 cities around the country. A spokesman at the AJC's New York City headquarters identified Dr. Frederick Forscher as the principle energy consultant to the AJC from within its own executive personnel.

In a telephone interview with Dr. Forscher, an FEF investigator learned that the USWA, in conjunction with the Scientists Institute for Public Information — a Naderite outfit founded by zero growther Barry Commoner and cultural relativist Margaret Mead — was suddenly sponsoring a conflicting April 29 "energy debate" in Washington, D.C. between Commoner and USWA legislative director Sheehan. Forscher not only announced that he would be attending the Washington, D.C. event, but contacted several of the scheduled Pittsburgh panelists to encourage them to attend the Washington, D.C. event instead.

*APRIL 27, 1977*

An inquiry at the Schlesinger Task Force headquarters into the status of the Pittsburgh "Energy and Technological Development" conference garnered a recommendation that the caller inquire directly with the Pittsburgh FBI offices.

*APRIL 28, 1977*

The Brookings task force held a private reception for local corporate and trade union officials in the same William Penn Plaza conference room where the "Energy and Technological Development" conference was scheduled to take place the following day.

## FEF Wins TRO Against Schlesinger Police State Tactics

The Fusion Energy Foundation April 27 filed suit in the Western District of Pennsylvania Federal Court charging White House Special Assistant James Schlesinger, FBI Director Clarence Kelley, Attorney General Griffin Bell, and the Federal Bureau of Investigation with conspiring — in violation of the First and Fourteenth Amendments to the U.S. Constitution — to harass and disrupt the FEF's national conference. The conference, "Energy and Technological Development: Solving the Energy Crisis," was held successfully in Pittsburgh April 29.

The FEF was granted a temporary restraining order forbidding Schlesinger, Kelley, and their agents from "wiretapping, eavesdropping, contacting attendees and sponsors of the conference, disseminating false information, defaming the reputation of the FEF, and interfering with the FEF's access to the media." The FEF is also seeking \$1 million in damages as a result of the illegal harassment operation directed by Schlesinger and Kelley.

The April 27 FEF complaint stated: "On or about March 1, 1977, Dr. Morris Levitt, executive director of

the FEF, announced that the FEF would sponsor and conduct a national energy conference in Pittsburgh the weekend of April 29-30.

"As part of that announcement, Dr. Levitt stated that the most important issue for the future of the United States was the energy issue and the question of industrial development; and that these would be the most important questions that would confront the incoming Administration of President Carter. Dr. Levitt stated that the FEF Pittsburgh conference would address itself precisely to those issues and the rapidly developing debate around the energy issue; and that the FEF, in the course of that conference, would be presenting its own views on how to solve the energy problems.

"Dr. Levitt further stated that this conference would be the largest event in the history of the FEF, and that it would be the culmination of all their previous organizing efforts, and would establish the FEF as the national leaders on behalf of fusion energy and industrial development.

"Upon the announcement of the FEF Pittsburgh conference, Dr. Levitt and the members of the FEF

began extensive planning and preparation for that conference. This included the contacting, by letter and telephone, of hundreds, if not thousands, of individuals, corporations, foundations, scientific and research organizations, universities, governmental officials, labor union officials and associations, business, industry and commerce associations, etc.

"Due to these extensive efforts, the FEF expected individuals and representatives of numerous organizations to be present at the April 30, 1977 FEF Pittsburgh conference. In fact, by the middle of April 1977, the FEF had confirmations from numerous individuals and organizations that they would be in attendance at the FEF conference.

"On or about April 1, Schlesinger and Kelley, defendants herein, determined that the FEF, its views and activities were having a major impact upon the scientific and industrial communities and upon the American public and that these views provided an alternative to and therefore posed a threat to the implementation of the energy, industrial, and technological views of the Administration.

"On or about April 1, Schlesinger and Kelley decided to increase the level of disruptive and unlawful activity against the FEF, and specifically the Pittsburgh conference.

"On or about April 25, Levitt and the FEF determined that a major attempt had been made to disrupt the Pittsburgh conference because during a period of time not exceeding 48 hours it had received calls from numerous individuals withdrawing their support for the conference, despite their previous expressions of great interest in attending and participating....

"The cancellation of these individuals resulted in major disruption of the conference ... and appeared to be more than coincidence or normal conference attrition....

"According to information given to the plaintiffs, immediately following the presentation of the Administration's energy program, Schlesinger compiled a list of actual and potential opponents to the Administration's program and the FEF and its Pittsburgh conference were regarded as the most important opposition....

"Conversations with individuals who have withdrawn from the FEF conference indicate that these individuals have been subjected to efforts to harass them and dissuade them from attending the FEF conference. These harassment efforts clearly conform to the pattern of harassment efforts conducted by the FBI...."

The FEF demonstrated in court that the FBI, and specifically FBI agent William Martin, a named defendant in the suit, conducted slanders of the FEF through various organizations, including the American Jewish Committee.

Also submitted as evidence in the suit were FBI documents released to the FEF under the Freedom of Information Act, showing an FBI campaign to harass and disrupt FEF events including previous FEF conferences in Chicago and New York City, and documenting a campaign against the FEF quarterly journal, the *International Journal of Fusion Energy*, which resulted in the postponement of its first issue for a period of one year.

"During 1976 the FEF planned and began arrangements for the publication of *The International Journal of Fusion Energy* as a journal that acts as a forum for and reports on theoretical and technological developments in fusion research. To that end, the FEF obtained a publisher and contacted numerous leading fusion scientists and other eminent and knowledgeable individuals to discuss their serving as editors, contributors, and promoters of the IJFE.

"Based on information and belief, and based upon certain of the abovementioned documents from the FBI's files on the FEF, it is clear that the FBI contacted numerous individuals with whom the FEF was in contact, and from whom, in fact, the FEF had commitments to establish the *IJFE* as a viable journal. The FBI disseminated false, misleading, and inaccurate information to these individuals and further committed disruptive and harassing acts, all for the purpose of preventing the FEF from creating, publishing, and producing the *IJFE*.

"As a result of the FBI's activities, the FEF was in fact prevented from publishing the *IJFE*. Moreover, numerous individuals in contact with the FEF at this time and thereafter, disassociated themselves from the FEF due to their contact with the FBI.... the potential publisher of *IJFE*, Dr. Norman Cohen of Baywood Publishing Company, stated that he was discontinuing as publisher of the *IJFE* based on information provided to him by the FBI, and that he would be contacting numerous other individuals to inform them of this fact. The cryptic message by the FBI, handwritten in the right-hand margin of this letter, is indicative of the kind of harassment complained of herein: 'No action necessary.'"

In granting the FEF a Temporary Restraining Order, Judge Knox ruled the following:

("Temporary Restraining Order and Order to Show Cause For Preliminary Injunction."):

Upon a reading of a copy of the complaint and affidavits and exhibits attached hereto and the parties having been heard, it is

ORDERED that defendants, their agents, servants, employees and, all others acting and privy or concert with them be and hereby are temporarily restrained from acting to deprive plaintiffs of their constitutional rights to free speech, assembly, political association, and equal protection of the laws of life and liberty as herein alleged and in particular:

From threatening, harassing, interfering with, disseminating false information or contacting in any way or counseling others to threaten harass, interfere with disseminate false information or contact in any way the members or associates of the Fusion Energy Foundation and or prospective participants or attendees of the Fusion Energy Foundation Pittsburgh Energy Conference to be held April 29th, 1977.

ORDERED that the defendants show cause at a hearing to be held in Courtroom 6 of the United States Courthouse in and for the Western District of Penn-

sylvania on the second day of May, 1977 at 9 a. m., why an Order pursuant to the Federal Rules of Civil Procedure 65 (a) should not be issued as a preliminary injunction herein, It is:

FURTHER ORDERED that the personal service of this order and the supporting papers thereto on the office

of the United States Attorney and upon the offices of the Federal Bureau of Investigation in Pittsburgh by 6:00 p.m. on the 29th day of April shall be good service.

/s/William Knox , U.S. District Judge, dated April 29th, 1977 issued at Pittsburgh, Pa.

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## NSC Employing Nuclear Blackmail With Israeli, South Africa Outlaws

Under orders from the U.S. National Security Council, French President Valery Giscard d'Estaing has taken the outlaw states of Israel, South Africa and Brazil under France's wing in a push to create a NATO offspring alliance spanning Europe, the Middle East, Africa, and Latin America: a "South Atlantic Treaty Organization," or SATO. The Soviet Union has made clear in their official publications that they consider the formation of a SATO as a tripwire to nuclear war.

The French are now giving support for Israel and South Africa to exercise their much-publicized "nuclear option," as Schlesinger Doctrine blackmail against the Arabs and Africa. Indications emerged this week from both Israel and South Africa that both countries are preparing to launch preemptive strikes against neighboring countries.

In Israel, Acting Prime Minister Shimon Peres — a warhawk and advocate of an Israeli nuclear defense who maintains close links with Atlanticist French circles — this week began a purge of Israeli military officials with a view toward preparing Israel for war. In a series of press statements and leaks, Peres and the Israeli military quietly let it be known that they had no intention of softening Israel's stand to allow the long-postponed Geneva Conference to take place, and instead warned that Israel was facing a "pre-October War" situation.

Carter backed the Israeli position in a meeting with Jordan's King Hussein. "Unless we see a strong possibility for substantial achievements before the Geneva Conference is convened, then I think it would be better not to have Geneva at all," said Carter bluntly, indicating a clear though unstated preference for bilateral, Kissinger-style "step-by-step" negotiations. Carter's green light for Israel was met with stony silence by the Arab states, especially Egypt, which has pinned its hopes on Geneva. Since then Israel has bombed a town 15 miles inside Lebanon, which is situated on the so-called "Red Line" for Israeli intervention into Lebanon.

### *Toward "SATO"*

The outlines of the French Atlanticist policy in Africa also became clear this week. A high-powered French military delegation arrived on April 27 in Pretoria, South Africa, for talks on arms sales. Included in the French delegation were specialists in weapons technology, communications, aviation, and atomic power. The purpose of the visit, according to the *Quotidien de Paris*,

was stated by the leader of the French group: "We must not leave Africa in the hands of the Soviets."

The British daily *The Guardian* reported that part of the French arms supplies would find their way into Rhodesia, now engaged in a low-level war with nationalist guerrillas. A top South African military man, visiting Rhodesian troops this week, told them, "Get used to new weapons."

In addition, a large Brazilian military delegation is set to arrive in France in early May, the Soviet armed forces daily *Red Star* reported this week, for discussions involving "exclusively military questions."

French efforts follow recent French actions throughout Africa, including a French-run military invasion of Zaire with Moroccan troops and an assortment of mercenaries, and a personal lobbying effort by Giscard in Dakar, Senegal, to construct a formal military pact linking the French West African puppet states of Senegal, Ivory Coast, Gabon, the Central African Republic, and others.

### Franco-African Summit Plans Imperialist Policy For Region

*The following is excerpted from an April 25, Cuban press service, Prensa Latina, release on an article in the Algerian daily, El Moudjahid.*

The Franco-African summit of Dakar made the French government the executor of the plan of destabilization conceived by the U.S. against the African continent, affirmed *El Moudjahid* today.

The editorial underlined that the mission of French President Valery Giscard D'Estaing at the conference in the Senegal capital had as its motive centralizing imperialist policy for the region.

Giscard also promoted the massive sale of arms in return for African raw materials, especially uranium, copper and oil...

Certainly...Giscard can not speak of security for Africa when he is one of the principal suppliers of arms to the enemies of the African peoples, such as the South African racist regime, concluded the Algerian national daily.

France's errands for the National Security Council represent far more than a simple attempt to oppose "Soviet penetration" of Africa. If the basic outline of the French-Brazil-South Africa axis is formalized into a working military relationship — including puppet African states like Zaire and Morocco and France's NATO partners — then the strategic correlation of forces

worldwide will shift decisively against the USSR and its allies.

Already, key African and Arab states are threatened directly by the escalating tensions in the region. Algeria, Libya, Iraq, Somalia, Angola, and Mozambique are now facing regional and-or border conflagrations.

## South Africa Readies War Drive

Last week the South African daily *Die Burger* carried a front page lead story which reported that the Vorster government "is planning some early demonstration of South Africa's military capacity" in answer to the intense international pressure being exerted on the South African government. The British *Sunday Telegraph* warned that this show of force "could come this week," and would be a warning to black Africa and a rallying point for domestic political opinion.

The newly installed South African Foreign Minister, Roelof Botha, stated recently: "We have to be prepared to lose the equivalent of a couple of fingers or an eye or an ear to get through this alive." Botha is portrayed in the South African press as knowing better than any of his cabinet colleagues what forces are building up against South Africa, and has told the white South African population not to get involved in minor issues while "our enemies are dancing on the border."

South African Defense Minister P.W. Botha announced on April 22 in Cape Town plans to construct a new air base at Hoedspruit, in the eastern Transvaal, about 100 kms from the Mozambique border. Botha spoke specifically of the possibility of war with Mozambique.

### *Southern Africa Flashpoint*

With these and other developments, the flashpoint for war on the African continent is now refocused to the Southern Africa-Rhodesia area. The Algerian newspaper *El Moudjahid* reported that a White Paper was submitted to the South African Parliament last month which said that in the context of an intensifying guerrilla war against Ian Smith's minority government in Salisbury, Rhodesia, South Africa would have to intervene in support of the Smith regime, adding that in this case "we can then expect guerrilla war to begin to be launched against South Africa also." This is the first time that South Africa has openly stated that it would come to the aid of the beleaguered Smith regime.

South Africa has begun funneling helicopters, jet aircraft and other military equipment into Rhodesia. Rhodesian Foreign Minister Pieter Van der Byl threatened that Rhodesia would unleash its growing military might, in a *London Times* interview, unless pressure for Rhodesia to grant majority rule is relaxed.

He threatened that those countries and political forces which continue to press for majority rule "will provoke a backlash within this country that nobody will be able to contain. Van der Byl made it clear that the Smith government had no intention of granting real majority rule by claiming that they were ready for "majority rule," but it would have to be a "very qualified franchise." He also denounced Patriotic Front leaders Robert Mugabe and Joshua Nkomo.

The extreme economic crisis and the squeeze play by the New York banks is putting the regime in South Africa into war as its remaining economic option. Underlining the situation confronting the South African government, there were massive demonstrations this past week by blacks against increases of 40 to 80 percent in the price of house rent, as well as sharp rises in the price of food. The government used tear gas to break up the demonstrations, but no end to the rioting is in sight. The black unemployment rate is higher than ever, as South Africa heads into its worst recession since the depression of the 1930s.

### *Blackmail*

The threat of the military might of the two minority regimes has already had its effect on the front line states. Zambian President Kenneth Kaunda reportedly said that he welcomed United States indicated willingness to participate in new British efforts towards a negotiated handover to black majority rule in Rhodesia. Kaunda's opening the door for U.S. involvement represents a capitulation to U.S.-British pressure, and opens a breach in the decision by the front line state president that the Rhodesia crisis a question concerning only the colonial power, Great Britain, and the Zimbabwe (Rhodesian) nationalists. A break in the ranks of the front line presidents exacerbates divisions in the Zimbabwe nationalist Patriotic Front, which continues to maintain that U.S. participation would serve no purpose in resolving the crisis. Patriotic Front leader Joshua Nkomo, who is closely allied to Kaunda said in Czechoslovakia at the time that British Foreign Secretary David Owen proposed U.S. involvement, that such an involvement would be "less than worthless."

# Israel Adopting 'Pre-Emptive Strike' Posture On Carter's Behalf

Israeli Chief of Staff Mordechai Gur, speaking during a cabinet meeting last week, claimed that Israel now faces a "Yom Kippur war" situation because of troop maneuvers by Syria, Jordan, and Egypt. Gur's alarmist "assessment" of troop movements which are *unconfirmed* by the Arab side, has been used to place the Israeli military on high alert. The growing consensus within the Israeli military is that Israel must adopt "pre-emptive strike" as its military posture. According to a former advisor to the State Department on Israeli affairs, the pre-emptive strike notion is quickly becoming dominant in Israeli strategic thinking.

The hardening of Israel's position towards the Arabs began to emerge immediately following the takeover of the premiership from Yitzhak Rabin by Defense Minister Shimon Peres, a well known exponent of the preemptive strike approach. The bellicose Peres put forward an unprecedented ultimatum to the Arabs last week over the volatile issue of southern Lebanon. He warned that any move against Christian villages in the border area would be met with Israeli military intervention which would most certainly result in war with Syria. Peres then issued what even the *New York Times* termed a "biting remark" against the Arab peace initiatives to reconvene the Geneva talks. "When the Arabs talk of peace their words are accompanied by a wink, nebulous phraseology or political doubletalk."

Such wreckless provocations against Arabs whose patience has already been strained by the lack of motion by the U.S. (and so Israel) on the peace front, is a calculated effort on the part of the Carter Administration to force Arab retaliation — with their oil weapon. The resultant oil crisis is just what James Schlesinger needs to buck overwhelming domestic opposition to his zero growth energy scheme.

Duped Jewish organizations in the U.S. and Israel have

already been pledged to support the Carter energy package, suggesting that this will delimit U.S. dependence on Arab oil, and thus reduce the effectiveness of oil's use by the Arabs as a political tool.

Such "spokesmen for Israel" within the U.S. have suddenly begun putting forward demands on the Arabs for peace talks which are far beyond the point of acceptability. Rita Hauser, a member of the Committee on the Present Danger editorialized in the *Washington Post* this week that the U.S. need not pressure Israel into a settlement. Hauser asserted that now the Arabs must accept Israel's term for peace since the Soviets have no presence in the Mideast any longer. Israeli Ambassador Simcha Dinitz, speaking before an AIPAC gathering, put forth the same proposition. This includes the Arabs sacrificing the centerpiece of their Mideast peace strategy — the establishment of a Palestinian state. Israeli Foreign Ministry official Shlomo Avineri similarly asserted recently that Israel will never accept a Palestinian state.

Israeli Foreign Minister Yigal Allon, promised the Defense Ministry by Peres, warned during the cabinet meeting of a confrontation between the U.S. and Israel over the terms of a Mideast peace settlement — a reference to the National Security Council's "breakaway ally" made for ordering Israel to launch a war.

The drastic turn of events in Israel since Rabin's resignation moved toward the crowning point with this week's report that the Agronaut commission, designed to watergate military personnel, was again surfacing to purge the Israeli army on indiscretions during the war of 1973. With Peres and his confidant, Dayan, in the driver's seat and the pre-emptive strike doctrine becoming hegemonic, the only remaining problem is to purge those military traditionalists who oppose Dayan's public proposal to make the pre-emptive strike a nuclear one.

## Sadat's Libya Provocations Go In Tandem With His Domestic Crackdown

As many as two divisions of Egyptian troops have been moved to the Libyan border, according to the *Washington Post*. The Soviet Union has sent a note to "a number of Arab countries," the *Post* says, warning Egypt against an attack on Libya. The note reportedly charges that "Egyptian armed forces have been concentrated on the Libyan border, where they carry out military exercises. One can clearly observe attempts of an Egyptian military pressure against Libya to stir up an armed clash and encourage domestic acts against the legitimate government of a neighboring Arab country."

Egyptian President Anwar Sadat is escalating tensions with Libya in tandem with a crackdown on swelling domestic discontent. His abject acquiescence to International Monetary Fund demands that Egypt squeeze its population yet further to pay the country's huge international debt is meeting with resistance throughout the population, and particularly in the country's armed forces security services. The perilously situated Egyptian leader is responding with "anti-communist" repression at home and belligerency against Soviet-linked Libya.

The Soviet view was further indicated in the April 24 *Red Star*, the Soviet military newspaper, which approvingly quoted the Nigerian *West African Pilot's* comment that "the possibility of Egyptian attack on Libya is connected with the recent visit of President Sadat to Washington, where he received an assurance of American support for such an action." Egypt's interference in Zaire is cited as further evidence of Sadat's "pro-American policy." The report concludes, "He has in fact abandoned the interests of his people and rejected a policy of non-alignment, and has become a defender of imperialist interests in Africa and the Arab world."

#### *"Repression Against Everyone"*

To counter his consequent growing unpopularity, Sadat has ordered a beefed-up "fight against communism." Over the past few weeks the country's bureaucracy has been terrorized. One think-tank expert on Egyptian affairs reports that "well-known Nasserists in the lower bureaucratic layers are coming under heavy attack," and that "leftists are leaving the country in large numbers — they are fleeing to Libya, Iraq, and Europe." A Rand Corporation spokesman added, "According to two of my colleagues who have just returned (from Egypt), Sadat has launched a repression campaign against everyone — inside the ministries, everywhere. Everyone is accusing everyone else of being a communist." Asked how long Sadat will be able to maintain this policy, the Rand official answered, "He is waiting to see what (Syrian President) Assad will do" in Lebanon. Assad, he said, "is waiting to take control of the Palestinian camps. Sadat has agreed to this and his union with Assad will give him some political leverage inside the Arab world."

Meanwhile, the actions of the legal leftist National Progressive Union have been limited and its funds curtailed. The Egyptian press has been muzzled through the appointment of several new editors and new laws

limiting journalistic freedoms, while the leftist weekly magazine *Rose al Youssef* — a symbol of political freedom in the Arab world — has been taken over by Sadat appointees, as has the Marxist journal *Al Talia*.

Police surveillance of trade-union and student meetings has noticeably increased in the past few months as well. As if to drive the point home, two thirds of those arrested during and after last January's food riots are now being indicted and tried, with execution awaiting those convicted. An official government paper, *Al Gomhouriya*, explains that since neither capitalism nor socialism has worked, Sadat is embarking on a new system of "democratic socialism."

#### *How Sound An Investment?*

Egyptian aggression against Libya is more than just empty window-dressing for the domestic crackdown, however. Although it received little press play, there was a recent assassination attempt on Libyan leader Qaddafi, which was carried out by Egyptian intelligence forces. U.S. intelligence sources say that a wing of the Egyptian intelligence machine is currently collaborating with their Israeli counterparts against Qaddafi and his regime.

To help bolster the shaky Sadat, the International Monetary Fund is coming through with a few much-needed handouts. Fund Middle East chief John Gunther reports that the Fund's standby loan to Egypt went through this week, complete with conditions that Sadat implement further domestic austerity. In addition, Chase Manhattan Bank's David Rockefeller, who is Sadat's official economic advisor, has scraped together a desperately needed \$350 million Eurodollar loan to help cover Egypt's short-term debt repayments. But even with Sadat's increasingly tough posture against his domestic and foreign opponents, it is doubtful that these bankers' latest investments in his regime will have any brighter future than the rest of their bankrupt portfolios.

## Carter, Giscard Heat Up Ethiopia-Somalia Tensions

Another potential flashpoint is the East African Horn region, where joint U.S. French diplomatic efforts are acting to heat up tensions between Ethiopia and Somalia.

Because the two nations jointly control the passage through the Red Sea into the Gulf of Aden and the Indian Ocean, the stability of the region is of vital concern to all the nations along the Red Sea-Gulf of Aden littoral, including Egypt (which owns the Suez Canal), Somalia, Saudi Arabia, the Yemen Arab Republic and the Peoples Democratic Republic of Yemen.

The other geographic factor in the Horn is the French protectorate of Afars and Issas, soon to receive its independence from France. The future of this territory is a major concern to both Ethiopia and Somalia. The territory's main port, Djibouti, is the sole rail terminus from central Ethiopia and controls the entrance to the

Red Sea. It's population is divided among those with ethnic ties to the Somalis and those with ties to the Ethiopians. A complicating factor is claims by some Somalis to all territory occupied by Somali nomads.

Somalia has been drawn toward the Soviet Union since the 25-member Supreme Revolutionary Council headed by President Jalle Mohamed Siad Barre assumed power in late 1969 following the assassination of previous President Abdirashid Ali Shermarke. But until last year, Ethiopia had been staunchly in the U.S. camp, and relations between the two nations had been kept on edge by Ethiopian charges that the Soviet military equipment provided to the Somali Republic posed a threat to Ethiopia's security.

Since late last year, however, Ethiopia has moved swiftly to distance itself from the U.S. as a result of

heavy-handed State Department and CIA interference in Ethiopian internal affairs, centered around activation of U.S.-backed terrorists and Maoist guerrilla bands.

Faced with a continuation of these operations under the direction of U.S. ambassador C. McMurtrey Godley and a cut-off of U.S. supplies to the wholly American-equipped Ethiopian army, Ethiopia's ruling party the Dergue last week acted to expel both the American Military Assistance Group and the U.S. Information Agency. At the same time, the Ethiopians have turned to the Soviets to re-equip their military forces.

The pro-Soviet turn by the Ethiopians has encouraged hopes that more stable and fruitful economic relations could be established in the region. In recent months, a series of non-aligned and socialist sector statesmen have visited both countries, including Cuban Premier Fidel Castro, Yugoslavian Foreign Minister Milos Minic, and delegations from Tanzania and other African countries. Soviet President Nikolai Podgorny also paid an unscheduled visit to Somalia during his tour of Africa.

Carter's response has been to order the National Security Council to take "initiatives" to counter growing Soviet influence in the region, the *Jerusalem Post* reported this week. While the U.S. was only recently — under the Defense Department stewardship of Carter's current energy czar, James Schlesinger — accusing the Somalis of becoming a center of Soviet military subversion of the region, Carter this week ostentatiously instructed Vice President Mondale in the presence of reporters: "I want you to tell Cy (Vance) and Zbig' Brzezinski that I want them to move in every possible way to get Somalia to be our friend...."

At the same time, Giscard has suddenly begun wooing the Somalis around the Djibouti issue. Giscard has shifted French policy from being pro-Ethiopian to being pro-Somali, the *Washington Post* reported April 26, allegedly in search of a peaceful transition to independence for Djibouti, in fact to win the Somalis away from the Soviets.

Saudi Arabia is being enlisted for the effort as well, the *Post* reported: "French officials believe Saudi Arabia is

having success in swinging Somalia out of the Soviet orbit and into a more moderate and possibly pro-Western position."

There are also indications that Giscard will offer the Somalis a Djibouti deal centered around a hoked up referendum which will have the population "vote" to join Somalia.

Such a development could easily be the last straw that would provoke Ethiopian military response, from fear of being surrounded by hostile states and cut off from the sea.

In addition to the perceived threat to their outside rail link through Djibouti, the Ethiopians are reportedly losing ground in their struggle against secessionist guerrillas in the province of Eritrea, which includes Ethiopia's entire coastline. Other, right-wing terrorists, backed by an Egyptian Sudanese Saudi coalition, are attacking towns in northern Ethiopia, and a Maoist group has launched a campaign of assassination of government officials and local political leaders in the capital of Addis Ababa itself.

Besides putting enormous pressure on the Ethiopian government, Giscard's blandishments toward Somalia are designed to upset the socialist leadership there. Pro-Soviet President Barre has based his country's development on a socialist model, and has recently founded a mass party in the country to organize the population. He has also made considerable efforts to restrain the ultra-nationalist elements.

Barre still has, however, serious problems with the right wing, and it is toward the Somali right that Giscard is directing his appeal. When Cuban Premier Fidel Castro suggested point-blank to Barre that he simply renounce any further territorial claims, as a peace move Barre replied, according to a highly placed source, that any Somali leader that did that would be immediately overthrown.

As a backup to his diplomatic initiative, Giscard has stationed the French aircraft carrier *Clemenceau* in Djibouti, and will maintain a French military force there after independence.

Pittsburgh Conference:

# Scientists, Industrialists, Labor Meet To 'Expand Human Resource Base'

"More important than the amount of money we recommend for fusion power is the commitment — to do the job and pay the bill," a top federal science official told the Conference on Energy and Technological Development here today. Dr. Stephen Dean, assistant director of the Energy Research and Development Administration's magnetic confinement fusion program, told the audience of over 120 industry and institutional representatives that the government's fusion budget could be at least doubled in an efficient, rapid development program. How soon the virtually limitless potential of fusion power becomes a commercial energy source, Dr. Dean stated flatly, depends on how much funding fusion research receives.

The conference, initiated by the Fusion Energy Foundation and the Pittsburgh-area Three Rivers Coalition for Science and Technology, was subtitled "Solving the Energy Crisis," and participants representing local, national, and international science and industry heard a series of high-level presentations on the only practicable solution to the energy problem — what FEF Director Dr. Morris Levitt termed "the expansion of the human resource base."

Conference sponsors which included the Pennsylvania Rural Electric Association and the Allegheny Electric Cooperative, declared the gathering an "extraordinary success" despite the Carter Administration's heavy-handed interference, through the FBI and other agencies, to prevent the attendance of previously committed industry and labor representatives. The loudest and longest applause during the day came in response to the announcement that a federal court judge had just issued a temporary restraining order against Carter's Special Assistant on Energy James Schlesinger and the FBI, ordering them to cease all such tactics against the conference's participants and sponsors.

The Carter Administration's proposed energy program was harshly criticized by many conference speakers. In the concluding session this evening, Fusion Energy Foundation Director of Research Uwe Parpart declared, "The Administration's policy is a profound political challenge, because it challenges all the reasons that the American Revolution was successfully fought 200 years ago." "We have a tremendous fight on our hands," attorney John Bradley, the co-chairman of the Three Rivers Coalition, added, "but we can win it."

The press here has given prominent coverage to the conference. Both the NBC-affiliated WIIC-TV and the local CBS television station, KDKA-TV, featured the con-

ference on their evening news shows tonight, and the FEF's Dr. Levitt will be on a two-hour KDKA radio talk show this evening. Excellent coverage also came from this city's second largest radio station, KQV. But the national press apparently proved an easy mark for the Carter Administration's counterorganizing efforts, and news of this historic conference has thus far been censored from the national media.

The international significance of the event is indicated by the range of its participants. Representatives of local industry, journalists, and scores of area physicists, nuclear engineers, and other scientists were joined by attendees from major and minor oil companies and several foreign firms and embassies. Utility companies and machine tool industries were well represented. Also present were two representatives from the offices of U.S. Rep. Dent (D-Pa.) and U.S. Rep. Gaydos (D-Pa.)

### *The Conference Sessions*

The conference's deliberations extended over a full day of presentations and panel discussions, an intensive 12 hour educational experience that the participants found remarkable both for its scientific competence and its political excitement.

The conference was welcomed by its co-chairman, George Shankey of the Three Rivers Coalition. First on the speaker's list was FEF Director Levitt, who delivered an extraordinary presentation on the proper conceptual approach to the energy problem, which he described as "the necessity to expand the human resources base."

The development of energy technologies, not "discovery" or "conservation" of natural reserves of fuel per se, actually qualitatively redefines what exists in nature for use as a resource by man, Levitt emphasized. He proceeded to summarize one million years of human evolution and its mediating role in the development of the biosphere, proving the positive connection between increased "energy consumption" and cohering increases in rates of human and ecological development — expansions in the human resource base that also represent the greater relative potential for continued development in this way. Levitt's discussion left the upside-down notions of "conservation" and "austerity" in tatters.

Levitt was followed by panelist William Simmons, a Pennsylvania construction engineer experienced in the building of nuclear plants, who posed a simple question regarding the Carter program to his audience: "Why

does the United States want to turn itself into a backward nation?" Imagine connecting solar power to our present power grid — "it would drive utilities crazy. We'd be shipping energy from one part of the country to another as the sun came up?" Solar power, he documented, is an advanced technology only if it advanced in the context of a fusion power economy.

On the same panel, Warren Lamm, Executive Assistant to the Pennsylvania State Legislature's Agricultural Committee, addressed the "terrific productivity" American agriculture has achieved on the basis of new energy technology. Other countries now gauge their own productivity as a percentage of the United States, said Lamm, who outlined the past 50 years of changes on the farm "from manpower to machines, that is, more energy-intensive," to the point that today, while 16 percent of all U.S. energy is consumed in producing and processing the U.S. food supply, only three percent of the U.S. population is required.

The morning session ended with Three Rivers Coalition co-chairman Bradley, speaking on "Energy and Law." Bradley at one point provoked a member of the environmentalist Sierra Club when he attacked "extremists" associated with Ralph Nader for filling the courts with legal suits whose purpose is "to obstruct orderly progress." The nuclear engineer from the Sierra Club was enraged — but not at the speaker. He demanded to know how safeguards could be set up against the extremists' "ridiculous Interventionism."

#### *Immediately Available Technologies*

This afternoon's session refocused the conference theme on specific, available or accessible energy technologies and the fight to realize them.

FEF nuclear engineer Jon Gilbertson spoke on technologies transitional to fusion power, the fast-breeder reactor (now banned by the Carter Administration), integrated industrial processes like the Jordan steel process, and the promise held out for that industry by the subsequent development of the "fusion torch."

"How can you exceed an apparently limited resource base?" asked Gilbertson. Uranium supplies that are "naturally" fissionable will last only 15 years, but the fast-breeder reactor and plutonium recycling process, so much more efficient than the conventional light-water reactor, overcomes this "resource limitation." He considered the similar "alarming" rate of resource exhaustion permitted by the Jordan process in steel-making, which must lead to a shortage of iron ore — this made both necessary and permissible by the subsequent application of the fusion torch, which will entirely free the steel industry of its dependence on high-grade iron ores, a total redefinition and expansion of "natural resources."

The FEF's Marsha Freeman supplemented Gilbertson's talk with a film-showing and talk on the Soviet Union's demonstration MHD (Magneto-Hydrodynamic) electricity plant. The MHD generator, by reducing coal to a plasma (of lower temperature than that required for fusion), operates with extraordinary coal-consuming efficiency, making it, and not coal gasification and the rest of the Carter package, a genuine transition technology toward fusion power.

The final afternoon panel focused on the feasibility of fusion itself, and featured ERDA's Dr. Dean. Controlled fusion "break-even" — that is, a fusion reaction producing more energy than it takes to make it — is five years away, he suggested. "We may not have a demonstration reactor until 1990," he said, but added that it will either be "funded less and be achieved more slowly, or funded more and achieved more quickly."

FEF nuclear physicist Dr. Steven Bardwell responded to Dr. Dean's presentation with a call for a \$6 billion funding program for fusion research and a more ambitious 1980s timetable. Involved are basic problems of research and development, he said, but they are problems we can solve — and quickly — if we devote sufficient resources to doing so. When Dean expressed caution about the \$6 billion figure — current funding is in the \$300 million range — a representative of an Ohio machine tool manufacturer rose and said, "How many dollars does this country spend to import oil that's been vastly inflated in price? Six billion dollars just doesn't sound like that much to me."

#### *"A Profound Challenge"*

The evening session was opened by conference co-chairman Shankey, who, noting that today is his 70th birthday, said "I've gone through two world wars; and I've seen poverty and dangerous times." But these crises, he concluded, like the crisis today, are also "the birth-pains of opportunity."

Speaker Uwe Parpart, the FEF's Research Director, began his presentation on the same note. The challenge we face today is analogous to that which gave birth to the Renaissance, he said, and future generations will look back on what we are doing much as we look back to the Renaissance which produced us.

Parpart located that challenge in terms of the alarming national security danger that the Carter Administration's energy plan and its associated programs represent. "National security has nothing whatsoever to do with military power per se," he told the conference. What is necessary is to "examine the issues that arise between nations that lead to warfare and conflict." If two nations, such as the U.S. and the Soviet Union, both operate on the basis of a general development strategy, he explained, peripheral issues may cause conflict but there remains sufficient "elbow room" for coexistence. But if development and economic expansion are seen as no longer possible, then conflict becomes unavoidable because this stagnation must necessarily lead to deadly competition over dwindling resources. "The Administration's energy policy signals a commitment such that we will necessarily arrive at an adversary position to anyone who 'gets in our way' in dealing with shrinking energy resources."

Thus the Carter policy "is not an energy policy," Parpart stressed, "—it's a policy for *control of raw materials*," that intends to make sure that no new resources can be developed to break through that control. Carter's ban on plutonium and the breeder reactor, which effectively reduces nuclear power to just another dwindling increasing high-priced resource, shows the real content of the Carter proposals. "In fact Carter's plan makes no provision for conservation at all!" Par-

part said, for it says nothing about developing technologies to more efficiently use existing resources, such as coal MHD.

"Our attitude (toward the energy problem) must be 'This is the problem we are determined to solve,' " Parpart concluded, "not, 'This is the problem we propose to cave in to.' " Historically the United States has always been a world science center, Parpart said. Now the Carter plan presents us with "a profound political challenge, because it challenges all the reasons that the American Revolution was successfully fought 200 years ago."

Following Parpart, John Bradley of the Three Rivers Coalition said, "As you may be able to tell, I'm almost completely overwhelmed. We started planning this conference in February, and we never dreamed it would be as important as it has turned out to be. The stature of the

people present here is extraordinary," he said, and the Carter Administration's efforts to stop the conference "can be considered a backhanded compliment to that importance. We've posed the only positive program."

The full proceedings of the Pittsburgh "Conference on Energy and Technological Development: Solving the Energy Crisis" will soon be available from the Fusion Energy Foundation. The cost for the booklet will be \$50. Advance orders should be sent to:

Fusion Energy Foundation  
231 West 29 Street  
New York, N.Y. 10001

## Fusion Bills Pass In Illinois And Pennsylvania

The Pennsylvania House of Representatives passed a memorial April 26 calling on Congress to adopt an expanded fusion energy program by a landslide 177-23 margin.

Passage of the memorial, a House Resolution which explicitly criticized the Carter Administration's planned cutbacks in the U.S. fusion and fast breeder fission programs, followed on the heels of approval of a similar fusion memorial in the Illinois House of Representatives April 22, by an almost-unanimous 139-1 vote, and brings to five the number of fusion memorials around the nation which have passed at least one house of a state legislature.

The use of the memorials, which advise Congress and the President of the deliberative sentiments of state lawmakers and local constituents, is an institution dating back to the early years of the U.S. republic, but which has not seen such coordinated use around a vital national issue for decades.

Fusion memorials have now been introduced in 11 states, and two, in Delaware and Pennsylvania (which required no action beyond the House) have already been sent to Carter and to the U.S. Congress. A third fusion memorial, in Maryland, has passed both Houses of the legislature, and is awaiting the signature of ailing Gov. Marvin Mandel.

### *Illinois Rips Zero Growth*

The Illinois memorial, which now requires action by the Senate, repudiates "those policymakers who through their adherence to 'zero growth' would act to subvert the historic American commitment to progress" and "demobilize the American economy."

Modeled on a similar resolution which passed the Washington State Senate last week, the Illinois bill was initiated by the U.S. Labor Party and sponsored by Reps. Theodore Meyer (R-Chicago), A.C. Bartulis (R-Beneld),

Betty Lou Reed (R-Deerfield), and LeRoy Van Dwyne (D-Joliet).

Chief sponsor and floor manager was Rep. Meyer, a veteran legislator who has advocated the development of high technology energy sources since at least 1969, when he spoke in favor of the plasma-based MHD coal process. Meyer bypassed the legislature's committee structure — where a logjam of some 3000 bills awaits consideration in the next 10 days — in order to secure its rapid passage.

The resolution calls on Congress to prevent the deindustrialization of the U.S. "by implementing policies of industrial research and development, and the development of controlled nuclear fusion power." The measure calls on the U.S. to "undertake the necessary enabling measures to accelerate and broaden the research and development of thermonuclear fusion," and to "enact complementary enabling measures to develop fossil fuel usage and nuclear energy expansion under existing technologies to bridge the period between the present and the mid-1980s, when controlled fusion energy can come on line."

It also asks measures "to foster the expansion and development of commerce and industry by the development of stable capital goods markets," and "to strengthen basic scientific education."

### *Carterites Crushed in Penna.*

The Pennsylvania memorial was passed April 26 after sponsors, led by Rep. Ivan Itkin (D-Pittsburgh), by a vote of 182-11 crushed efforts by a tiny minority of pro-Carter forces to recommit the bill to committee.

Besides attacking the Carter fission and fusion budget cuts, the Pennsylvania memorial calls for increased energy consumption by the nation as a whole, stating that "the living conditions for all of the residents of the United States are directly related to an abundance of energy for their comfort, convenience and mobility."

# U.S. Press Critical Of Carter Energy Plan From All Directions

*The Knoxville Journal*, (Tenn.), April 22,  
Editorial, "Fairytale Logic."

(With his program) Carter has drifted into never-never land...." After attacking Carter's proposals on gasoline cutbacks, etc., the editorial continues, "Combine these goals with the Administration's scuttling of the breeder reactor program and its general deemphasizing of nuclear power and its support of costly and restrictive controls on the more widely available grades of coal and (you) may reach the conclusion that the Carter Administration has its feet planted firmly in the clouds ... his concept of a remedy is akin to curing malnutrition through starvation.

*Knoxville News Sentinel*, April 22.

"Policy Called 'Fraud, Disaster' "

A spokesman for the Fusion Energy Foundation, New York City, said here yesterday (that) President Carter's announced energy policy is a disaster and a fraud.

Eric Lerner, director of physics research for the independent, non-profit educational foundation, said the President's policy is a fraud because its basic premise — that we are running out of energy — is false.

He said it is a disaster because Carter's tens of billions of dollars of energy taxes and zero energy growth goals will mean mass unemployment on a scale greater than that of the 1930s.

Mr. Lerner is on a tour of the Southeast to help build a national coalition for energy growth to demand that Congress reject President Carter's energy taxes and zero growth policy.

Mr. Lerner claims President Carter has lied to the people about an energy shortage because he is protecting the biggest "special interest" of all — the New York banks.

'As Arthur Burns stated last week, the New York banks are demanding energy cutbacks because they want the money now being spent on energy diverted to the payment of the gigantic debt owed to them,' Mr. Lerner charged.

*The Indianapolis Star*, April 24.

Editorial, "Velvet-Gloved Fist?"

(Carter's energy proposals are) an almost incomprehensible mishmash of higher taxes, lower taxes, excise taxes, incentives, punishments, rebates, credits, allocation orders, prohibitions, mandatory fuel standards, and on and on. Mr. Carter's proposals ... were ultra-heavy on energy conservation and light to non-existent on development of new energy sources....

Not once, for instance, did he refer to frontier-area oil exploration as a means to obtain enormous fresh supplies of natural gas. Nor did he point to the extraordinary progress made by other countries in such exploration — using American technology — while United States efforts are frustrated by endless government red tape and judicial meddling.

No. Instead he dwelt on a blood-curdling mixture of more government red tape ... backed by threats of all

kinds of new taxes....

The President described his program as the least expensive to cope with the nation's energy problem. To the contrary, the program could prove extremely expensive in money, in national security, in jobs.

If Mr. Carter had offered a balanced program involving both conservation and increased production, particularly of oil and natural gas, he could scarcely have been faulted. His emphasis on conservation to the virtual exclusion of increased production, however, cannot but leave doubts as to exactly what he seeks to achieve.

*Seattle Post Intelligencer*, and *Los Angeles Herald Examiner*, April 24, and *Colombus Dispatch*, April 26.

OpEd, "Positive Approach Needed," by King Features syndicated writer Jeffrey Hart.

It seems quite clear that the solution of the energy problem lies in the development of a fusion reactor able to use hydrogen as its fuel.... Experts believe ... that if a much greater investment were made a fusion generator could be a reality by the year 1990 ... in nuclear energy ... advances require the support of a vigorous nuclear power industry. For that reason Washington ... should push steadily ahead with the traditional uranium fission reactor, and should put much greater effort into the development of fusion power.

*The Washington Star*, *Chicago Sun-Times* and *Chicago Tribune*, April 25.

Lead article in all three papers entitled, "U.N. Experts See Enough Oil, Gas to Last 100 Years."

United Nations, N.Y. (AP) — Estimates compiled by experts at a U.N. conference disagreed with President Carter's televised warning that "we are now running out of gas and oil."

A newly issued summary report of last summer's conference says the dozens of specialists who attended generally agreed that oil and gas from conventional sources "would last at least until about the time period 2020-2030."...

The summary said... "additional petroleum and gas resources would most probably be available, albeit at a substantially higher cost ... during the period of transition to the use of renewable energy sources"...

The U.N. experts also took a different view of the outlook for oil than did the CIA in a report made public before Carter's TV speech last Monday....

The U.S. summary said ... that oil would remain the world's most important hydrocarbon source of energy "for many years to come."...

*St. Louis Globe-Democrat*, April 26.

Editorial, "GOP Energy Alternative."

President Carter has handed the Republican Party a golden opportunity to regain much of its lost popularity, by opting for an energy program heavily laden with punitive taxes and new federal controls....

Republican Senators Brock of Tennessee and Schmitt

of New Mexico responded to Carter's energy program on CBS TV last week by stressing the need for increased production...

The GOP would also continue to work on the fast breeder reactor, which gets sixty times as much energy from uranium as present nuclear fission methods....

Mr. Carter's proposals are taking the U.S. toward a controlled society. The Republican Party alternative would take the country toward a freer more productive and responsible society.

*St. Louis Globe-Democrat*, April 21.

Lead editorial, "Ford's Right to Free Speech."

...(Vice President) Mondale, with a crybaby attitude ill-befitting a super liberal, is annoyed because Ford has spoken out in opposition to certain economic and foreign policies of the Carter Administration....

Perhaps Carter and Mondale aren't as interested in an 'open Administration' as they pretend. Perhaps they fear that Ford's comments will cause some dip in the President's exceptionally high popularity ratings.

For his part Ford can render invaluable service to the American people by speaking out as often and as bluntly as he likes against policies that he knows to be ill-conceived or hazardous. In this way he can make the best possible contribution to openness....

*Detroit News*, April 26.

"Nader Seen Defaulting on Consumerism; Coercion Appears to be His Technique Now," column by John Peterson.

Nader and his associates stand four-square against further development of nuclear energy, although experts in both the Carter and Ford administrations see it as a vital source of clean, low cost energy. The West Germans, the Japanese, the French, the British and the Russians are all proceeding quickly to develop their nuclear energy potential with an eye to the time when petroleum supplies run out. Without nuclear energy, American consumers undoubtedly will face not only higher utility bills but greatly restricted life styles. That of course would be alright with Ralph Nader, who is proud of the fact that his own life style is already greatly restricted.... As social critic R. Emmet Tyrell, Jr., recently remarked, "In too many matters of choice and tolerance, Citizen Nader has opted for coercion. On matters of his liberalism and devotion to progress, he spoke volumes recently when he lamented in the New York Times magazine that 'we ask our people to think instead of asking them to believe ... and history has always gone to those who ask people to believe....'"

For journalists to persist in calling Nader a 'consumer advocate,' goes beyond the veil of unconscious editorializing. Given his recent record, it smacks of outright propaganda.

*Detroit News*, April 26.

Page one article by John Peterson, "Major Oil Reserves Ignored in CIA Report."

(Quotes CIA chief Stansfield Turner talking about the CIA's report) "We ignored new reserves because we don't think new reserves are part of the issue." When asked by Rep. Clarence Brown (R-Ohio), — "That means

that if you had made your report ten years ago it would undoubtedly have ignored the Alaskan oil reserves in projecting future supply, doesn't it?", Turner gave no answer.

*Detroit News*, April 27.

Page one article, "CIA Forecast of Soviet Oil Pinch Called Incorrect," by John Peterson.

(Quotes experts saying that the notion that the Soviets are on their way towards an early depletion of oil reserves is) "incredible... totally fantastic."

One of the report's most oft quoted detractors, John Luchblau of the Petroleum Industry Research Forum (says), "(the report is) questionable and not based on the superior knowledge which only the CIA has access to... You also have to understand that the Soviets have no environmental roadblocks to overcome — in addition they have coal, breeders (etc.)."

The report is incredibly unsophisticated because it makes no attempt to consider the input of other fuels ... it's amazing that Carter would invoke a CIA report just at the time when the CIA's credibility is at an all time low.

*Chicago Tribune*, April 27.

Articles, "Simon Labels Energy Plan 'Quackery' "

The article reports an April 26 speech by former Treasury Secretary William Simon at a dinner in honor of Representative Philip Crane (Rep.-Ill), Chairman of the American Conservative Union. Responding to Carter's energy program Simon declared, "This massive intrusion by government in a most critical sector of the economy would result in disaster." Simon said that the plan means the creation of a national energy police state, with less energy at higher prices, administered by those persons "who brought us Amtrak and the Post Office." Representative Crane seconded Simon's remarks and added that Carter's proposals amounted to "corporate socialism."

*Detroit News*, April 29.

Page one article, "Carter's Staff Tries to Stop Conflicting Gas Report," by John Peterson.

The White House has asked ERDA not to release a study that contends that the nation's natural gas supplies are far greater than indicated by the Carter Administration... Both the White House and Office of Federal Energy Chief James Schlesinger declined immediate comment, except to acknowledge that their conclusions were based on 1974 data. In drafting its national energy plan, the Carter Administration assumed the U.S. has only 216 trillion cubic feet of proven natural gas reserves, barely a ten year supply. But portions of the agency study leaked to newsmen show that the nation has enough available natural gas to last through the year 2000 and perhaps well beyond.

(Peterson discloses that the actual figure for economic production of natural gas based on a U.S. Geological Survey estimate, show 1800 trillion cubic feet of gas that can be cheaply tapped in the next 20 years, more at higher costs.) Enough to last for more than one thousand years at current rates of consumption.

Why is there such a large gap between ... the figures

used by the Carter Administration ... and those developed by the agency?

According to American Gas Association spokesmen, referring to a briefing they gave Schlesinger earlier this month, their officials came away "bitterly disappointed" that the Administration "chose to ignore virtually all the facts laid out to them... We basically cannot understand how Schlesinger failed to grasp what we told him at that time," said one association official.

*Seattle Post Intelligencer*, April 24.

Front page editorial, "In the Open At Last," by William Randolph Hearst.

Except for passing and casual treatment, the President neglected the subject of development of nuclear energy, which is of course anathema to some vocal environmentalists. Many leading physicists say, however, that electric power generated by the atom is one of our greatest potential energy sources. Why leave it out of our planning at this time?

## The Republican Party At The Crossroads

Republican National Committee Chairman Bill Brock told the party's National Committee conference meeting in Chicago April 29 that most of the Carter program on energy was the antithesis of the Republican philosophy. "For reasons no one has ever fully explained," Brock said, Carter's advisors have assumed that world supplies of energy are quickly running out, an assumption so pessimistic that it is not widely shared. Some people like the sound of the words 'no-growth,' but most Americans can't afford the economic stagnation that could follow adoption of the Carter energy program. In short, there is much in the President's proposals that is diametrically opposed to Republican traditions and Republican philosophy."

Brock went on to promise that Congressional Republicans would "vehemently oppose" any new taxes on gasoline, oil or automobiles, in what the Carter Administration's house organ, the *New York Times*, characterized as "a broad partisan attack on President Carter's energy program."

During the week prior to Brock's speech, leading Republicans continued to assault the Carter program; particularly noteworthy was a speech by former Treasury Secretary William Simon, who warned that the Carter policy would lead to a national energy police state, according to the *Chicago Tribune*.

However, the Senate Republican Policy Committee has so far been unable to agree on a comprehensive energy counterproposal to the Carter program, and other party leadership bodies are similarly split, according to Capitol Hill sources, between those who want to emphasize a program for increased energy production and those who want to tail the Administration on conservation.

The Administration is terrified of what the Republicans could do if they endorse a broad economic growth program. Congressional sources have revealed that when key Republicans attempted to have a strong energy development plank endorsed by the House Republican

Policy Committee, the Rockefeller Republicans allied with the Administration and threatened to "split apart the party." And when ex-President Gerald Ford made his strongest criticisms of the Carter Administration two weeks ago in California, both Vice-President Mondale and House Speaker O'Neill were quick to chastise Ford in the national media for "criticizing" the Administration so soon after leaving office.

The Rockefeller faction has also used some of its strongarm tactics to keep tabs on and stifle action by Republican leaders against the Carter program. James Cannon, former aide to New York Governor Nelson Rockefeller, and his chief assistant on the Domestic Council, began work April 18 as the Administrative Assistant to Senate Minority leader Howard Baker. And Don Kellerman, a top aide to New York Senator Jacob Javits will shortly begin working for the joint Senate-House minority leadership. The Rockefeller agents are telling the rest of the party that because the Republicans are a "minority party" they must "appeal to blacks, to labor," and so forth with modified versions of the Carter policies.

### *A Republican-Labor Alliance?*

"You can work with us, who are labelled 'anti-labor' but are 'pro-jobs'; or you can work with people like Frank Church, who is called pro-labor but is anti-jobs." With those remarks, a midwestern Republican Senator identified for a trade-union lobbyist last week of the real common interest between the Republican Party and labor. The choice presently facing the party is to back up such appeals with a comprehensive approach to expanded energy development, emphasizing that fusion power means a greatly increased standard of living for the U.S. population, or fall victim of the present "minority party" fear psychology with which the Rockefeller Republicans are attempting to beat down resistance to the Carter program, and undergo step-by-step disintegration.

# Health Cuts; Carter Followup To No-Energy Plan

Barely one week after announcing his comprehensive no-energy plan to the American people and Congress, President Carter announced April 25 a "tough cost-control" program to cut national health care by an across-the-board five percent reduction in hospital budgets. Carter's proposed legislation is calculated to reduce health care costs by \$2 billion in 1977 and by \$5.5 billion by 1978. The President has designated Health, Education and Welfare Secretary Joseph Califano, who has criticized the "voracious appetite for money" of hospital administrators and doctors, to oversee the triage of the nation's health care system.

"Patients will die because of these cuts. This makes no sense whatsoever," said the administrator of a large New York City Hospital April 26. Summing up what is probably the estimate of every competent health care specialist in the country, Dr. Leo Gehreg, the head of the American Hospital Association, told NSIPS the same day, "Our ability to render services is already hampered by inadequate and outdated facilities. The Carter bill will effectively remove vital services from those areas which need it the most." Gehreg predicted that doctors will join consumers to fight the passage of the Carter plan.

Carter will deliver his health program to Congress next week.

After Carter himself proposed skyrocketing prices for energy to discourage consumption and encourage conservation, this week he demagogically decried "extraordinary increases in health care costs." The common strand in both the energy and health packages is the Trilateral Commission's demand for the reduction in living standards and deliberate triage of the nation's population, accompanied by deindustrialization and cutbacks in technology.

In an effort to present Carter's triage package in the best light, Wall Street's house organs have portrayed his health legislation as something designed to ease the cost of health care to the consumer. In point of fact, the principle of the bill is that certain patients will have smaller hospital bills because other patients will be refused hospital admission or specialized care — resulting in their needless deaths. The Carter legislation would impose stringent limits on the services offered by general care institutions, effectively prohibiting them from building new additions or employing new technology.

Charging that hundreds of thousands of hospital beds are not utilized and totally unnecessary, Carter would restrict capital expenditures, setting an annual national limit on such capital investment. Hospitals that exceed

the approved limit would not be reimbursed by Medicare or Medicaid. The first year limit would be equal to half the current rate of increase in capital expenditures for community hospitals.

Outside of the *New York Times*, only Ralph Nader's Public Citizen Health Research Group and AFL-CIO chief George Meany have come out so far in support of this licensed mass murder. Both have criticized the bill "for not going far enough." The April 29 *New York Times* editorially remonstrated: "To do nothing about hospital cost inflation, however, is surely worse than to risk some deterioration in patient care."

Implementing a related part of Carter's domestic austerity program, HEW Secretary Califano signed regulations April 28 aimed at banning discrimination against 35 million disabled Americans, 10 million alcoholics, and 1.5 million drug addicts. The regulations, which take effect June 1, will force sweeping changes in employment practices, according to the April 29 *New York Times*, to bring drugged zombies "into the mainstream of American life." Informed sources in Washington, D.C. are speculating that the inclusion of drug addicts in the Administration order is designed to allow Peter Bourne to legally take his place in the Carter Cabinet as the President's drug advisor.

A Cabinet group, including Califano, Attorney General Bell, Labor Secretary F. Ray Marshall, and Deputy Secretary of State Warren Christopher, also recommended this week an extensive new policy to bring six to eight million illegal aliens "into the mainstream of American life" and to slow the "hidden invasion" across the nation's borders.

The new policy, if executed, would permit most illegal aliens to legalize their status, if they submitted to stringent self-policing and counterfeit-proof identification cards. But sanctions would be imposed on employers who knowingly hired future illegal aliens and more money and manpower would be allocated to guarding the nation's borders.

## Correction

The last issue of the *Executive Intelligence Review*, in its rundown of congressional response to President Carter's energy proposals, inadvertently implied that all of the quoted comments were from the Congressmen themselves. In fact many were from the Congressmen's aides and offices.

IMF Interim Committee:

## U.S. Impotence, European Incompetence

## SPECIAL REPORT

International Monetary Fund Managing Director Johannes Witteveen's claim at a press conference April 29 that his proposed multi-billion dollar kitty for financing payments imbalances would be operational by next summer represented a conscious lie. In fact, within minutes after Witteveen made this claim in response to a direct question, a senior American official, Undersecretary of the Treasury Anthony Solomon, fumblingly contradicted Witteveen. Solomon told reporters that the summer deadline is impossible given the need for Congressional appropriation of the American contribution to the so-called Witteveen Facility, and insisted that Witteveen could only have meant agreement in principle.

Witteveen's extraordinary performance, which probably did more to tarnish the IMF's shopworn credibility than any other declaration in the course of the two-day meeting of the IMF's Interim Committee last week, nonetheless had a specific motivation. A senior Witteveen aide explained privately that the Fund was trying to manage "a short-term, emergency situation," and that the money would be "useless" if the operation of the facility, which Witteveen hoped would come to SDR 16 billion, were put off very far into the future. High-level IMF, World Bank and U.S. Federal Reserve officials, who were at pains to put the best possible front on the situation, nonetheless said they hoped for actual lending through the facility by the end of this year.

These officials described the operational problem in the world monetary situation as one of "confidence," adding, in the words of a senior member of the U.S. delegation, that "the certainty of having additional funds six to eight months from now would permit us to spend the resources we have now in the intervening period."

If creating a patina of "certainty" and "confidence" was the American objective at the Interim Committee meeting, nothing remotely resembling this emerged. But if the American and IMF staff position failed, despite Mr. Witteveen's attempt to represent things otherwise, it is equally doubtful if anybody gained. The members of several European delegations freely predicted that without the infusion of the IMF's SDR 15 billion into the accounts of Third World and other debtor countries, the Eurodollar market and the most-exposed American banks would not survive the end of the Third quarter of 1977. Several European officials complained privately that their governments, some of which are supporting the U.S. position and some stolidly blocking it, have not

yet faced up to the reality of the situation.

The breakdown of negotiating positions around the Witteveen Facility is as follows:

Half of the proposed facility must come from the cash-rich oil-producing countries if the Europeans are to contribute, under the terms of the agreement reached April 19 among the finance ministers of the nine member-nations of the European Community. This condition was dictated by West Germany, the only European country with the financial resources to contribute in the first place. "The Germans are absolutely serious, they are not posturing" about their demand that the Arabs give half the money before they contribute anything. Virtually no progress was reached during the Interim Committee negotiations themselves, according to a senior member of the West German delegation, who said, "We have only just begun the negotiations, and it is impossible to say at this point how long it will be before the (Witteveen) facility becomes operational."

The Saudi Arabians, who hold the key to the success of the facility, were represented at the Interim Committee meeting in virtual observer status, with a low-level delegation that did not have authority to speak for their government. Previously, the Saudis ignored Managing Director Witteveen's request to state their attitude towards his proposed SDR 15 billion facility.

In an interview with Ray Vicker of the *Wall Street Journal* published Friday, the Saudi Finance Minister indicated that the Saudis were willing to make some contribution to the IMF, but not nearly in the range of the \$4 billion handout they must give if OPEC is to make up half of the total funds. This official Saudi view is corroborated by Western observers of Saudi affairs, who doubt whether the Saudis will part with this portion of their reserves. In addition, the Saudi Finance Minister disputed some Western claims that Saudi financial reserves are in the range of \$55 billion, half again as high as the Saudis themselves report, and warned that the Saudis intended to reduce their payments surplus sharply by spending money on infrastructural and industrial development.

In effect, the Saudis have triggered an automatic West German refusal to contribute to the Witteveen facility. In addition, the West Germans have thrown a number of objections, often contradictory ones, in the way of the bailout plan. German Bundesbank Deputy Director Otmar Emminger told the French daily *Le Monde* before he left for Washington that a large part of the world problem of payments deficits must be attributed to American oil imports, which heavily contributed to the OPEC oil surplus. The logic of Emminger's statement might seem to indicate West German sympathy for the Carter Administration's energy "conservation"

program, which is very far from the case. West German Finance Minister Hans Apel, who represented West Germany at the Interim Committee meeting, demanded that the Witteveen Facility not make loans without the type of strict austerity conditions the IMF demands in return for loans through its usual channels. This seems to contradict the basic West German interest — industrial exports — in financing Third World and weaker OECD countries, since IMF austerity conditions invariably reduce the imports of the debtor country.

Underlying West Germany's hostility to the IMF fund is an extremely clear perception that the Witteveen Facility has no particular relation to levels of world output and trade, and is exclusively directed toward refinancing the illiquid Eurodollar banks. A senior IMF official admitted, "The situation hasn't been helped by Arthur Burns's statement (at Columbia University April 12 - ed.) linking the IMF to the problems of private banks." The size of the proposed facility is roughly equal to the \$17 billion amortization payments coming due this year from Third World countries, principally during the second and third quarters. Full expenditure of the Witteveen facility would probably not even touch the merchandise trade portion of the current account deficits of LDC's and weaker OECD countries, but would be absorbed entirely into debt-service. Privately, World Bank officials are talking of an \$8 billion reduction in Third World imports, a figure several times larger than the economists of Chase Manhattan believe is physically possible (and Chase Manhattan has just as strong a motivation as the World Bank to want to reduce Third World imports). The adoption of the SDR 15 billion Witteveen facility would involve a sharp net reduction of Third World trade, and thence West German exports.

The perception of other Western European governments is less lucid. Among the EEC nations, the antipode to the West Germans' hostility to the Witteveen plan is Britain's "total enthusiasm" for it. British Chancellor of the Exchequer Denis Healey went so far in his press conference Friday morning as to lend his credibility to that of Mr. Witteveen, and predict an operational facility by the summer. The central element in current British thinking is demoralization. Their close cooperation with the U.S. authorities and the IMF staff stems from a belief that the world economic outlook will be wretched for at least the next two years *no matter what course of action world leaders take* — something that no government will admit as a matter of record, but which permeates British official thinking. Resigned, the British are playing for a "margin" of growth and output and trade which will enable them to get through an already bad situation. They are hopeful, but not blindly so, that additional financing through the IMF can give them such a margin.

To the outsider, this attitude seems in line with Britain's long tradition of using their financial cleverness to outsmart themselves on policy issues. Possibly the fact that the Callaghan government's survival appears to depend on percentage-point margins in current pay negotiations with the trade unions defines a context for this view. Reality is nonetheless bearing in on British policy. Nothing has upset the British Treasury's marginal calculations of world-economic effects on Britain so much as consideration of the impact of the

Carter energy program on the world's biggest economy.

#### *The Denouement*

During the next several weeks IMF officials will go out of their way to represent the Interim Committee meeting's limp endorsement of the Witteveen facility as a *fait accompli*, while the West Germans and other opponents of the facility will go out of their way to do and say nothing definitive. All indications are that no progress on the bailout plan will emerge, judging from the internal contents of the IC's published decisions: "Open-Endedness:" A major concern of IMF staff was to establish the facility as "open-ended," i.e., that contributions could be spent as soon as they came in, rather than wait for the entire SDR 15 billion to be assembled. Witteveen indicated in his press conference Friday, however, that no such "open-endedness" had been agreed upon. Since the three main contributors in any case would be West Germany, Saudi Arabia, and the U.S., any such arrangement would be unlikely, since the first two will not contribute until the U.S. Congress appropriates the U.S. portion. (Several Congressional sources in leading positions indicated they foresaw a grueling battle before an appropriation for the IMF could be passed, if it could be passed at all.)

**QUOTAS:** Under the 6th review of quotas (the contributions of members that make up most of the IMF's resources) the IMF is scheduled to get an additional \$11 billion, putting its total resources at \$43 billion. This increase is now stalled in the French national assembly and elsewhere. The U.S. Administration, through Assistant Secretary of Treasury C. Fred Bergsten, has proposed doubling quotas to \$86 billion, a proposal which the West Germans, Japanese and others oppose outright. IMF officials had hoped for some preliminary agreement on this issue at last week's Interim Committee meeting, on the grounds that the outcome of this issue would show how fast countries would be willing to make up the Witteveen Facility. But the Interim Committee meeting postponed the issue entirely until next year.

**SAFETY NET:** Japan warned that it could not consider participation in the Witteveen Facility until the disposition of the 1974 "safety net" plan for a \$25 billion fund among the OECD countries had been settled. But the safety net issue was also tabled until next year.

**EXCHANGE RATES SURVEILLANCE:** Although Witteveen claimed that an "agreement on principle and operation" had been reached on giving the IMF gendarme powers to monitor exchange rates of member countries, senior IMF officials admit that they have no muscle to dictate rates to erring members, and will not have for the foreseeable future. Disbelieving U.S. reporters asked Undersecretary Solomon whether the U.S. would bring (for example) Japan before the IMF board if it thought the Japanese were unfairly manipulating their exchange rate. Solomon unconvincingly answered, "Yes."

But the problems still to be faced are absolutely glaring. Peru will probably default by \$250 million by the

middle of May. Mexico will probably default on about \$3 billion of amortization payments during the fourth quarter. One senior European official predicts that capital flight from France will force a French default later this year. Big debtors, including Egypt, Zaire, and Indonesia are already in default. Without an official refinancing capability of the magnitude of the proposed Witteveen Facility, the monetary system will break down sometime this year, probably no later than the end of the third quarter, possibly much earlier.

A European central banker attending the meeting

warned that a confluence of defaults in the order of magnitude of \$10 billion could create a panic, and "empty the Eurodollar market of \$50 billion in deposits within two days." European governments, he complained bitterly, were "falsely optimistic," refusing to come to grips with the severity of the monetary situation.

Most of the burden of decision is on the West Germans. They do not have much time to decide whether they will patch together the U.S. private banking structure with their own hide, or find other ways of doing business.

— David Goldman

## Japan Pushes Yen-Based Trade As Shield Against Eurodollar Crises

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### FOREIGN EXCHANGE

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According to Japanese banking circles, the guiding feature in international financial policy at present among Japanese banks, the Bank of Japan, and the Finance Ministry is to shield Japan against the effects of what they see as a very possible Eurodollar crisis this year. One aspect of that shielding is Japan's steadfast resistance to the International Monetary Fund-Witteveen plan and similar proposals aimed at Japan's taking on some of the developing sector's insecure dollar debt.

Japanese banks are also now beginning to reduce significantly their dollar liabilities, which are presently estimated unofficially to be \$30 billion. The means chosen by Japan's authorities to effect this reduction is shifting Japan's trade financing from dollars to yen. At present, 95 percent of Japan's imports and 75-80 percent of exports are financed in dollars, the rest in yen.

#### *Seeking Protection*

This policy and its motivation were revealed in a front page leak to the *Asahi Evening News* on April 23, in itself a striking development since the Japanese usually like to conceal their motives. According to the leak, the Finance Ministry welcomes the shift to yen-based trade and will aid it, "considering the reliance upon the dollar as a vestige of the past. . . . It is also concerned about the huge dollar-based external indebtedness of Japanese foreign exchange banks which could deal a tremendous blow to the national economy in the event of a credit crisis somewhere in the world."

Most of Japan's \$30 billion external dollar debt is short-term debt, in which the principal is continually carried over and interest payments are maintained. Japanese bankers are worried that if a developing country defaults and advanced-sector bank failures produce tightness on the Eurodollar market, then the Japanese would find their existing loans called in, and have great difficulty in obtaining new loans. One Japanese banker reported that there is fear in Tokyo that such a situation might bring down one of the large Japanese international banks.

Another recalled with a shudder the post-Herstatt bankruptcy situation in the summer of 1974 when he had to submit to 16 percent interest rates.

The strategy for reducing dollar liabilities is to shift trade from dollar financing to yen financing. When the Bank of Japan (BOJ) cut the interest rate two weeks ago, the cost of borrowing yen dropped below the cost of borrowing dollars for short-term trade purposes. Thus trading companies shifted to borrowing yen and then going into the foreign exchange markets to purchase dollars to pay for imports. This process would tend to continually lower the value of the yen except for the fact that the Bank of Japan now enjoys record high foreign reserves — up to \$16.5 billion from about \$12.5 billion in November 1975. The BOJ can release these reserves to the Japanese banks which in turn supply the foreign exchange markets. However, this can continue without unduly draining the reserves only so long as Japan continues to maintain a high balance of payments surplus, a very short-term prospect.

Therefore, as a more fundamental policy the financial authorities are now urging actual payments for imports and exports in yen rather than in dollars. According to banking sources, the countries from whom Japan buys have so far been reluctant to accept payments in yen. However, these same sources felt that OPEC and the Southeast Asian countries were likely to change their view in the near future. The sources noted that these countries have sharply increased their holdings of Japanese government yen bonds as foreign exchange reserves. Total holdings of yen bonds by foreigners amounted to \$3.6 billion in September 1976 of which \$2 billion was held by OPEC and the Asian countries. By December the level had risen to \$4.4 billion and by the end of January to \$5.0 billion (all unofficial estimates). The level steadied in February and March but there was another big purchase by Arab countries following the discount rate cut. As these countries increasingly use the yen as a reserve to hedge against a depreciating dollar, it is likely that they will then want to accept yen in payment. During the dollar crisis of the summer of 1973, the governments of Saudi Arabia and Abu Dhabi initiated discussions with Japan's International Trade Minister Yasuhiro Nakasone regarding yen payments for oil.

### *A New Context*

Up until about February of this year the Bank of Japan had resisted the so-called internationalization of the yen for the same reason that Chase Manhattan, the Brookings Institution et al. had pushed it: the yen would have thus served as a buffer for the Eurodollar market. Throughout 1976 as part of its strategy for a dollar-mark-yen axis, the New York banks had pushed yen-denominated trade. They urged the BOJ to increase yen credits to enable Japanese firms to increase imports for key debt-laden developing nations, even going so far as to suggest the government finance stockpiles of redundant raw materials. Then, the developing nations could take the yen income, exchange it for dollars and pay their debts. In effect, the Japanese banks would have taken a second mortgage on the insecure dollar debt of these

nations, exactly the kind of scheme that Chase Manhattan is trying to peddle with its current Witteveen plan. Just as the BOJ opposes the Witteveen plan, so they opposed the internationalization of the yen *in that context* as inflationary and as likely to subject the yen to speculative hot money flows. In contrast, the Ministry of Finance was more willing to cooperate with the idea, as with Chase's and Brookings' reflation notions generally.

According to Japanese banking sources, this situation changed sometime in February. Intervention by Japanese bankers and industrialists persuaded the Finance Ministry to take a strong line against any kind of bailout for the New York banks. Assured that internationalization of the yen would not be used as a bailout, the BOJ then agreed to change its policy on yen-financed trade.

## Record U.S. Trade Deficit Highlights Vulnerability Of Dollar

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### FOREIGN EXCHANGE

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The Commerce Department's announcement that the U.S. economy ran a record monthly trade deficit of \$2.4 billion in March sent shivers through the international foreign exchange markets last week.

The ever-widening U.S. deficit has awakened memories of the early 1970s dollar crises and forced foreign governments, in particular Japan and the OPEC nations, to rethink their present policy of holding the bulk of their reserves in dollars or U.S. Treasury Securities.

The U.S. trade deficit is feeding the Eurodollar market — already awash with funds without any profitable investment outlet. The flood of dollar deposits into Eurodollar banks is provoking a lending rate war between these international banks, who are now competing for business from a limited and tightening group of so-called prime borrowers.

At the same time, there is a continual threat of default by major Third World debtors whose credit lines have been cut. This combination of a mushrooming mass of footloose dollars and the specter of a major banking collapse is, understandably, encouraging governments and other investors to "diversify portfolios" by branching into other currencies and gold.

On Wednesday, April 27, immediately following the release of the trade figures, the U.S. dollar nosedived against most of the major currencies, and the Bank of England was forced to buy a substantial amount of dollars to keep the pound sterling below \$1.72. The West German central bank was also enlisted in the dollar's support.

The flurry of dollar dumping allowed the Swiss franc to recoup its losses of the previous day, when news concerning the Credit Suisse financial troubles sent the franc sharply lower.

The British pound's strength, meanwhile, fed rumors that the Bank of England will slice its minimum lending rate once again, which could be a boon for the relatively stagnant British industry. The British central bank's rate has already been cut from a high of 15 percent six months ago — a draconian level which was set in order to brake the pound's then-precipitous decline — to 8.75 percent at present, as the Bank of England attempts to keep the pound artificially low to boost exports.

The U.S. trade deficit bears dramatic testimony to the failure of the Carter Administration's international economic policy — that is, a reflationary U.S. policy in conjunction with import-slashing austerity regimes in much of Western Europe and the non-oil-producing Third World.

The deficit for the first three months of 1977 totaled \$5.9 billion, greater than the entire 1976 deficit and close to the record yearly deficit of \$6.4 billion in 1972. While U.S. exports remained sluggish in March, failing to regain their December 1976 peak of \$10.4 billion, imports surged to a new record of \$12.5 billion. One-third of all U.S. imports in March, of \$4.1 billion, were petroleum or petroleum products, reflecting restocking in the wake of this winter's cold spell.

### *"Diversification"*

The current policy of the Japanese government serves as a leading example of the struggle by other countries to free themselves from the perils of the dollar.

Reflecting industrialist pressures, the Bank of Japan recently decided to deliberately encourage the internationalization of the yen for trade-financing purposes. According to one Japanese banker, the Japanese no longer look upon the creation of a yen zone as providing a "buffer" for the dollar but rather as a "safeguard" against future dollar crises.

Although the OPEC countries are not yet ready to consider the possibility of accepting large scale payments for oil in yen, Arab governments are definitely

increasing the proportion of their reserves invested in yen. This week a large Arab order was placed for medium to long-term Japanese Treasury bonds.

Arab petrofund flows have also been flowing freely into the French franc, foreign exchange traders say, based on favorable deposit agreements with the French banks. This accounts for the unusual stability of the French franc for the past several months, although the new activist and dangerous African policy of the Giscard government could endanger this inflow.

The Kuwaiti oil sheiks have been taking elaborate precautions to cover themselves in the event of a dollar collapse.

Kuwaiti loans to other governments now include a special clause, stating that should the dollar and gold be eliminated as a "unit of reference," the conditions of the loan must be renegotiated. This is a highly unusual practice and indicates the Kuwaitis are expecting a major monetary crisis.

Furthermore, gold experts believe the Kuwaitis have been accumulating a huge gold hoard through the intermediation of a leading West German bank.

The split within the ruling Saudi family — between pro and anti-Rockefeller factions — has slowed Kuwaiti-backed efforts to link the recently formed Arab Monetary Fund to the establishment of a common gold-backed Arab dinar. The Saudis are acting too much like

"lackeys of the U.S.," a well-known U.S. gold analyst remarked.

According to this analyst, the recent decline in the London gold price to the \$145 range represents a "healthy selling-off" and profit taking following a speculative surge. Large-scale Soviet and Chinese selling in order to obtain Western currencies has frightened off some investors, even though it is known that the Soviets do not sell gold below \$150.

Nevertheless, the source complained, it would be wiser for the Soviets to "make agreements with the Arabs" in the direction of a gold-backed monetary system than to continue raising cash through this method.

The gold market may also have been depressed by fears concerning a Swiss banking crisis.

On April 26, the Swiss central bank publicized the fact that an emergency \$1.2 billion standby credit had just been made available to Credit Suisse, one of the three largest Swiss banks. Since the \$1.2 billion was a much greater sum than the recently reported losses incurred by one of Credit Suisse's branches, the announcement only tended to exacerbate the flight out of Swiss bank stocks and Swiss francs.

Whatever the actual dimensions of the Credit Suisse crisis, it is undoubtedly dwarfed by the largely hidden difficulties of the New York banks — in any event, the Swiss franc bounced back later in the week.

## West Germany Pursues Growth-Oriented Economic Goals

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### SPECIAL REPORT

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The West German government will be spending \$1.9 billion on nuclear energy research during the next three years, according to a proposed budget released this week by the Ministry for Research and Technology. In contrast to the Carter Administration's energy proposals, the West German energy research budget, which totals \$2.74 billion, puts primary emphasis on the need to develop fast breeder nuclear reactors and complementary nuclear fuel reprocessing facilities.

At the same time, the program still does not express a priority commitment to the development of nuclear fusion power, allocating about \$43 million for the controversial European JET project. In addition, it makes a concession to Carter supporters within the government by earmarking \$840 million for the development of coal gasification technology. But, as is shown by a recently concluded coal gasification deal between West Germany and Poland, even this technology will be used to significantly expand East-West trade relations.

The energy research program has been hailed by the West German press as a counterattack against Carter's zero growth policies. "This report is a defense attorney's statement in favor of the reprocessing plants and

breeders that Carter wants to forbid," said the *Frankfurter Allgemeine Zeitung*. In the U.S., the *New York Times* has featured West Germany's position as diametrically opposed to Carter's.

Shortly before the program was announced, West German Foreign Minister Hans Dietrich Genscher stated in New Delhi that "West Germany favors unlimited technology transfers to the Third World with no discrimination...remember that stable economic growth in the industrial countries is the precondition for accelerated development of the Third World in order to overcome starvation and need."

West German Chancellor Helmut Schmidt met last week with Spain's King Juan Carlos to discuss expanding nuclear cooperation. According to *Der Spiegel* magazine, Spain is currently considering ordering 39 reactors from the West Germans, which would dwarf Brazil's \$4 billion deal with Kraftwerke-Union. Spain recently canceled its first order with the U.S. for eight reactors at \$1 billion each, the day after Carter announced his ban on fast breeders and plutonium.

#### *Industrial Alliance*

Behind West Germany's vigorous defense of its nuclear commitments is a growing alliance between the Social Democratic-Free Democratic governing coalition and parts of the opposition Christian Democratic Union (CDU). Minister-President Gerhard Stoltenberg of the

state of Schleswig-Holstein, spokesman for the CDU's industrial supporters, has consistently supported Chancellor Schmidt's programs. "You can discuss concepts like zero growth," Stoltenberg told the daily *Die Welt* early this week, "but you would have millions of unemployed in the 1980s along with it. An economy that lacks energy will soon lose its technological edge..."

Stoltenberg has proposed a new law which would put absolute limits on the delays and losses to industry incurred by court suits by environmentalists.

West German industry is also expressing its commitment to future economic growth through a number of large deals with CMEA countries. The Krupp steel firm and Hoeschst-Uhde have just announced a \$1 billion deal with the Soviet Union for a number of turnkey chemical

plants, to be financed solely through Dresdner Bank and Westdeutsche Landesbank. The already mentioned West German-Polish coal deal, to be carried out by Krupp and financed by a Dresdner-led consortium, is the largest single deal in the history of the two countries' trade relations. The West German commercial daily *Handelsblatt* has been rumoring that such deals will soon extend to the machine-tool and general manufacturing sector.

West German export credit insurance has been promised for all the above deals, including Spain's prospective nuclear orders. Although Finance Minister Hans Apel already announced a substantial rise in government guarantees early this year, industrialists are now demanding a further 10 percent increase.

## Steel Profits Plunge — 'They'd Be Better Off In Treasury Bills'

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### BUSINESS OUTLOOK

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No one in the U.S. manufacturing industries believes that the recent pick up in economic activity will lead anywhere except to more inflation. The recent stream of "recovery" news was, in fact, abruptly interrupted this week by the reports that the U.S. ran a \$5.9 billion first quarter trade deficit — equal to the deficit for all of 1976 — and that the first quarter earnings of the U.S. steel industry came in 93.1 percent below last year. These two statistics are far more reliable indicators of the actual plight of U.S. industry than all the auto-related fluff reported over the last few weeks.

The Carter Administration predictably seized on the large oil component in March's \$12.5 billion import bill to explain the deficit and twist the deficit to its own purposes. "Everybody recognizes the deficit is with the OPEC countries," Courtney Slater, the new chief economist at the Commerce Department commented. The deficit "underscores the importance of energy conservation and the reducing of dependence on foreign oil."

In actuality, the galloping U.S. trade deficit underscores the fact that the Carter Administration is following the Brookings Institution world reflation script and everybody else isn't. The West Germans and Japanese have resisted pressure to reflate their economies to prolong the phony consumer-based "recovery" and support Third World raw materials exports and prices. But in the U.S., the Federal Reserve, working hand-in-glove with the Brookings-controlled Administration, has allowed the money supply to grow at a 15 percent annual rate in recent weeks, fueling an inflationary expansion and an increase in U.S. imports.

And as long as this same crowd goes around imposing "command economies" on the "weaker" European countries and the developing sector, there will be no

market for U.S. exports and no basis for a real economic recovery in the U.S.

This international context — the Brookings-New York banks-International Monetary Fund imposition of conditions of economic collapse on most of the world for the sake of maintaining debt repayments — defines the predicament of the U.S. steel industry and the manufacturing sector in general. The continuing contraction of the world economy has put the U.S. steel industry in an impossible situation. The industry desperately needs across-the-board price increases of 10 to 11 percent immediately to offset chronic low capacity and productivity — due to the decrepit state of plant and equipment. However, because of the collapse of their markets, Japanese and European steel makers have been underselling U.S. steel producers in the U.S. and taking over an increasing share of the market. Thus, as far as the price increases go, U.S. producers are "damned if they do, damned if they don't." Most analysts think U.S. steel producers will go ahead with price increases of 8 to 9 percent — hoping they will only be jawboned down a percent or two — and suffer a further incursion into their markets.

Last week U.S. Steel reported a 72 percent drop in first quarter net income; its net income plunged from \$97.7 million in the first quarter of 1976 to \$27.4 million this year. Bethlehem reported a \$25.2 million loss in the first quarter, second only to the quarterly loss it reported during the 1959 steel strike. Wheeling-Pittsburgh and Lykes reported record losses in the first quarter. It's no secret that many of the smaller steel companies are simply phasing out their operations. In reporting these disastrous results, the steel makers cited the fact that the U.S. steel industry was hit hard by cold weather-related bottlenecks in January and February and that steel capacity rebounded to the 80 percent range in March; however, none of them ventured any optimistic projections.

The outlook for the steel industry is totally bleak. Steel capacity will remain chronically low, as long as capital

spending stays at such depressed levels — and this will be absolutely guaranteed by Carter's energy program. In reporting his company's miserable first quarter results, Edgar Speer, chairman of U.S. Steel, cited the industry's recent contract with the United Steel Workers and "other continuing cost increases that exceed expected gains in productivity." The real reason for the lagging productivity in the steel industry is the wretched condition of the industry's plant and equipment and the fact that it has continually postponed even desperately needed new equipment outlays because of its low earnings. Needless to say, with steel mills currently operating at around 80 percent capacity, the steel industry is scrapping its own plant expansion plans left and right. National Steel recently cancelled a \$1 billion plant in Portage, Ind. U.S. Steel said recently that it was going ahead with plans to build a new \$3 billion steel plant on Lake Erie, but after the announcement of Carter's energy program, that plan may well be put off indefinitely.

Declining productivity and rising unit labor costs are a problem for the entire manufacturing sector. No one in

industry was impressed by the Labor Department's report last week that productivity in the total private sector rebounded to a 3.2 percent annual rate in the first quarter of the year. In the manufacturing sector, productivity dipped at a 0.1 percent annual rate, following a 0.2 percent rate of decline in the fourth quarter of 1976. As a result, unit-labor costs in the manufacturing industries soared at an 11.2 percent annual rate in the first quarter, following an 8.2 percent rate in the prior quarter.

Given these conditions, Lacey Hunt, chief economist at Fidelity Bank in Philadelphia, thinks manufacturers will have to make greater equipment outlays in the coming quarters — even though business confidence is thoroughly shaken by the Carter Administration's "regulatory mentality" — the energy program, its moves to slap down price controls in health care, etc. Hunt rules out of the question any new investment in plant expansion.

At present, the most optimistic of the economic forecasters are merely predicting a continued buildup of business inventories from present low levels. However, it

## CORPORATE AFFAIRS

### 'Washington Forum' Panel Blasts Carter Energy Program

U.S. Chamber of Commerce chief economist Jack Carlson attacked Jimmy Carter's "anti-industry" Administration at an April 27 conference organized by the Washington Forum, a Washington-based consulting subsidiary of Drexel Burnham Lambert. Carlson joined other panelists in giving a unanimous thumbs-down evaluation of the Carter energy program.

"Practically every policy this Administration has offered is anti-investment," Carlson told an audience of investment managers. He warned, "Investment will be discouraged or be less productive because of higher interest rates; crowding out of private investors in good times because of higher government deficits, and more investment required for the same level of energy usage."

Carlson, a former Office of Management and Budget official, added that much of the 18 percent of industrial capacity on the books not in utilization can not be run profitably at current energy prices. A managed rise in energy costs, Carlson said, could permanently reduce capacity by a further margin.

Another panelist, Sen. McClure's energy aide Mike Hathaway, was even more emphatic. "You don't have to start off with a joke — there's already a joke built into" the Carter program, he said, attacking Carter's position on conservation as "misleading." Calling the program an "anti-energy message," Hathaway attributed the low energy growth rate perspective of the report to the Ford Foundation's statement, "A Time to Choose." He warned that "staff reports now circulating in the Carter Administration are saying that we don't

need an energy growth rate at all...a fairy-tale land of conservation promises."

*Energy Daily* editor Llewelyn King, another panelist, said that Carter's energy message "is not an energy message. Energy is a matter of supply. Carter's program does little except bring together various conservation suggestions. On the supply side there is hardly anything, and what there is is very suspect. It does nothing for the electricity industry except burden it with enormous capital costs."

Hathaway gave a flat prediction that the Carter package would "collapse" in Congress. "The House package is going to be different from the Senate package, which is going to be different from the conference package," he said.

But the panel was less sure about the Administration's motives for presenting a program that seemed so dangerous and incompetent. *Energy Daily* editor King attributed the Carter program to the fact that Carter "has institutionalized those elements who are against energy supply, the environmental movement, the consumer movement, the counterculture..."

Cocktail conversation following the panel indicated that King's explanation was not sufficient. "It's amazing how little we know about the guy," a very senior official of a very large brokerage firm said of Carter. "Maybe he's paranoid. Maybe he's got ego problems. Did you see the *Times* article comparing him to (Admiral Hyman) Rickover? I don't know what to make of it..."

is precisely the current pick up in inventory accumulation that has everyone terrified about the resurgence of inflation. Over the last two years, every time there has been a marginal pick up in economic activity — spurred by auto and other consumer purchases — manufacturers have tried to put through desperately needed price increases.

During the first quarter of the year business inventories rose at a \$7.5 billion annual rate, up significantly from the \$1.7 billion rate in the fourth quarter, when manufacturers were working off their excessive stocks. Last week the *Wall Street Journal* suggested that businesses are beginning to stockpile raw materials on expectations of inflation and shortages — stemming from “expected” strikes in the copper and coal industry.

Lacey Hunt says that inventories could be growing at a \$25 billion annual rate by the fourth quarter, second only to 1973's fourth quarter. Hunt's projection is based on the cautious assumptions that consumer spending will simply stay where it is in real terms; housing starts will maintain their current high rate; businessmen will allow the present low 1.43 inventory-to-sales ratio to rise to 1.50; and that manufacturers will increase outlays on equipment to stem the fall in productivity.

The pick up in economic activity in March was purely related to consumer purchases of autos and other consumer goods. The sharp rise in personal income in March was closely related to the production and employment gains in transportation equipment and spin off industries. The jump of housing starts to over the 2 million annual rate mark was similarly related to the increase in auto and related production and employment. Even the 42.7 percent month-to-month jump in machine tools orders was tied closely to retooling in the auto industry. Thus the new spurt of economic activity is hanging solely on the most enormous expansion of auto and all consumer installment credit since the 1973-74 “boom.”

The latest wave of “recovery” news together with the hideous long-range implications of Carter's energy

package sent the jitters through the bond market last week. The nervousness struck Thursday, April 21, on the news that the money supply (M1) had jumped another \$900 million that week, on the heels of the huge \$5 billion jump the previous week. On Monday, April 25, a \$128 million State of Wisconsin issue fell flat amid the rumors that the Fed was about to tighten interest rates to bring the accelerating money supply growth under control. By Wednesday afternoon David Jones of Aubrey Lanston and other money market economists had concluded that the Fed wanted to raise interest rates a notch and had upped the Federal funds target rate to 4.87 percent from 4.75 percent.

Thus even after the news Thursday, April 28, that the money supply dropped \$300 million last week, bond prices hardly improved.

The only thing mitigating against an immediate crisis on the bond market is the fact that the overall bond calendar is very low and there is a lot of foot-loose money around. As a result of Carter's abandonment of the \$50 tax rebate, the Treasury will actually reduce outstanding Treasury debt in the current quarter by about \$2 billion. In the July-Sept quarter, however, the Treasury will be back for \$12 to 15 billion in new money. New corporate bond issues will drop to about \$650 million in May, following an average \$2 billion monthly rate so far this year. The only sector where there is a heavy supply situation is the municipal. The market expects about \$2.2 billion of new tax-exempt bonds in the next month (public and private placements).

The market is “awash with liquidity” for one reason: money is continuing to flee out of production and capital investment. The “favorable supply conditions” in the corporate market similarly reflects the fact that corporations are now putting off capital investment plans indefinitely. Reflecting on the “pathetic” rate of return in the steel industry, one economist close to the industry says, “They'd be better off closing shop and investing in Treasury bills.”

# The Story Of Starport America

## Transport Policy Under The Third National Bank

The crusade against the supersonic Concorde jet is one more proof of the deeply felt "concern for the environment" displayed by Jimmy Carter and by the lower Manhattan financiers who put that ignoble savage into power. Specifically, what is being so assiduously protected is the environment of obsolescence and decay into which this faction is plunging U.S. industry in general and its lifeline, the nation's transport, in particular.

There could be no fitter monument to the stupidity and rapaciousness of the hegemonic Wall Street financial institutions than the antique and inefficient rat's nest that is this country's transport system. A primary victim of bankers' efforts to sap productive investment in order to buoy worthless debt and other paper, the state of the nation's ports, rails, and other transport is therefore also a telling argument for putting the Wall Street banks out of their bankrupt misery, in favor of a national public banking system devoted to restoring the nation's economic health — the Third National Bank of the United States.

A startling case in point is the story of Starport America, a plan to revolutionize U.S. transport on the basis of work done by a variety of American industrialists and planners during the last decade.

To these men and women the collapse of the ports and railways and the stagnation of the sector's already severely retarded technologies only underlined the opportunity for ground breaking improvements. By and large the industrial and financial interests involved in this and related projects, in both the initial research and development and venture capital projects for implementation, were from the South and Southwest, where industry has maintained at least partial independence from the Rockefeller-centered New York banks. Looking forward to the United States' transport needs in the 1970s — based on the perspective of an expanding economy — these capitalist interests mobilized portions of the Nixon Administration to research and fund the best technologies to meet the future's transport needs.

A program as American as apple pie — and one that the Wall Street crowd and its allies refused to invest in, refused to grant credit to, and instead buried under the scandals, firings, and frameups of the Watergate operation.

The transport plans, which call for major investment in improved transport and a worldwide computerized data exchange and scheduling system, are still awaiting implementation. Most of the research has been done. Tests and demonstrations have shown feasibility. Most of the elements could be in place almost immediately, to

transform U.S. and world transport from the chaotic maze it is today into a coordinated and centralized conveyor belt connecting every part of the world productive mechanism. But it will never get off the drawingboard until a Third National Bank cleans out New York banks and makes the nations' capital available for real economic growth.

### *The Starport Plan*

By far the most ambitious and comprehensive program put forward by this stratum of industrialists was *Starport America*. Initiated by a group that called itself the Distribution Assortiative of America, Inc., the project brought together studies done through the 1960s by corporations, the U.S. Department of Transportation, and management consulting firms, placing them in the context of international trade cooperation. Taking the best of the work done in all areas of transport facilitation, the Assortiative planned a fully containerized and intermodal transport system, to be publicized with an exposition of advanced transport technologies celebrating the U.S. Bicentennial.

It should be stressed that the Starport conception is utterly opposed to the long-standing official program of some of the nation's most important transport unions, particularly the railway workers and the East Coast longshoremens, who for decades have fought any and all technological progress in their sector in the interest of "saving jobs." Playing on the fears of their ranks, these union leaderships have succeeded not in maintaining employment, but in aiding the bankers' sabotage of allowing productively employed new technologies to expand both the number and the quality of jobs for society generally, these mis-leaders are fighting for the "right" of the ever dwindling number of "their" workers to jobs outmoded decades and even centuries ago.

Not all labor unions are so criminally shortsighted, however. The West Coast longshoremens have encouraged containerization and other modernization measures. Significantly, the powerful Teamsters Union took an active role in the trucking side of the Starport project. Such welcome sanity should be just the beginning of a labor-industry alliance for a full program of transport modernization and economic recovery under a Third National Bank umbrella.

The gist of the Starport program is the knitting together of today's heteronomic transport modes. Starport America, which was to be followed by a series of international Starports, was planned as a penta-modal facility,

characterized as a Transportation-Distribution Facilitation Center. The four standard modes of rail, truck, air, and ship would be integrated by a fifth mode, the facilitation center itself. As freight arrives from any of the four transport modes, its containerized contents are automatically routed by the center to the next connecting mode of transport. The center would be composed of a web of conveyor belts geared to hold standard sized containers, which would provide a continuous flow of freight through the center.

The original plan for Starport was sited on the Gulf of Mexico, near Houston, Texas. It called for the construction of a Jetport strictly for air cargo, and separate from

A Starport could easily achieve double the throughput of the largest port operations that now exist in the U.S.

passenger facilities. This Jetport was to be composed of ten docking modules which could each handle 15 jumbo or conventional jet freightliners simultaneously. A timetable of 15 years was projected for construction of these ten modules, as the facility reached full throughput capacity.

The Seaport would use the most advanced and efficient technology to handle 30 container ships per day. If situated in the Gulf area, the port would mainly be equipped for chemical, petroleum, and containerized freight; the use of sky cranes would make it possible to unload ships too large to enter the Starport itself.

Rail linkage was planned in terms of the most efficient developed rail system, the use of "unit trains." These trains are made up of approximately 100 cars that are permanently coupled and all have the same origin and destination point for every trip. Currently there are 30 or 40 such trains in operation, hauling mainly coal, but this arrangement would be usable for containerized freight as well. The unit train's advantage over the usual method of individual destinations for every boxcar is that it brings equipment utilization up from today's average of 10 percent to between 70 and 80 percent, and keeps the cars moving over 270 days per year, rather than the presently customary 37.

The Starport facility would also be the centralization point for truck shipments throughout the area, and provide a ready link to overseas transport by either ship or air. Most important in improving the productivity of trucking would be rationalization of freight flow through the use of a proposed American Cargo Electronic Data-Processing System and concentration of trucking operations in the Jetport area.

By using the most advanced available technology in transportation and — most critically — using computerization to link all of the five modes into a continuous flow of cargo, a Starport could easily achieve double the throughput of the largest port operations that now exist in the U.S.

### *The Challenges of Starport*

Most of the modal aspects of Starport utilize either technology that is already in limited use, such as the unit trains and shipping equipment, or off-the-shelf technology that could be readily available with adequate investment, such as the central freight terminal conveyors. The most exciting challenges for an international system of Starports lie in the areas of air cargo freight and international computerized data control.

Unlike every other mode of transportation, no strictly freight planes have ever been developed for commercial cargo transport. The small quantity of perishable goods and valuables that are shipped by air generally go in a passenger plane, or a cargo plane that is simply a converted passenger plane. By the late 1960s, airlines began to be squeezed in a pincer between their huge indebtedness, due to the capital-intensiveness of the industry, and the decline in passenger fares, due to the drop in standards of living relative to the increase in costs of operation. At this point the airlines decided to take a look at air cargo freight.

Both Pan American and Eastern Airlines did market studies to determine how the airlines' current 1.8 percent share of international transport could be increased enough to make an investment program in developing air cargo freight profitable, since billions of dollars would be required to design and produce a plane geared from the outset to cargo, not passengers. Hughes Aircraft, McDonnell Douglas, and Boeing all undertook research, development, and design projects to evaluate the cost, size and resulting efficiency required for such a program. And individuals like Edward Cole, a former president of General Motors who was looking into cheaper ways to transport the cars GM produced, began projects to study the possibilities of a massive broadening of cargo transport by air.

Two of the most promising designs are Edward Cole's Husky and the Lockheed Spanloader. The Lockheed plane was conceptualized as a huge aircraft with a payload capacity of over 600,000 pounds. (The largest existing military transport plane carries only about 250,000 pounds.) It would be designed to hold 40-foot containers, approximately 30,000 pounds each, or about triple the capacity of a converted Boeing 747.

The Husky was designed as a smaller plane, with a payload of about 285,000 pounds, which would be more economical than a Spanloader-sized aircraft. It is essentially a box-shaped plane that would not require expensive and sophisticated pressure or temperature controls, since it would not carry any passengers, and would have a cruising speed of only about 485 miles per hour. Although it has been estimated that 75-100 cars could be loaded into a Husky, the further possibilities for this kind of efficient turbo-prop plane include delivery of capital goods, food, and other materials to areas where surface transport infrastructure does not yet exist. Thus the developing countries, which need tremendous inputs of capital equipment to begin industrialization and have no ready rail or truck facilities, would have immediate use for a Husky-style air cargo operation; the plane could be linked to existing ports and used to carry materials inland.

As it became clear that the development of air cargo freight on a greatly expanded commercial level was necessary both for the financial health of the industry and for any projected increases in world trade, the U.S. Department of Transportation became involved in a joint effort with industry and the Department of Defense in a program designated Intact — Intermodal Air Cargo Test — to test the feasibility of making air freight compatible with already operating containerized transport in rail, truck and shipping. At Intact's second planning meeting in May 1974, the Department of Transportation concurred with industry that transport freight capacity would have to triple by 1990, and that air would become an important area of expansion. At that meeting, the decision was made to rent a C-5 military cargo plane, load it with standard ship containers weighing 55,000 pounds, and test and evaluate the handling equipment needed for a commercial air-container setup. Various companies lent their equipment for the test, which was conducted the following year and proved successful.

#### *Cutting the Red Tape*

In the mid-1960s, when transcontinental communication was expanding rapidly and the first Early Bird satellite was put in to use, representatives of the transportation industry began to examine the problems of simplifying and facilitating the torrents of paperwork involved in both domestic and international transport. In 1967 over 250 representatives of the trucking, rail, shipping, air, and subsidiary industries formed the National Committee on International Trade Documentation (NCITD) to study the problems and make recommendations to standardize international trade documentation procedures. A year later the Transportation Data Coordinating committee (TDCC) initiated a series of studies to answer the same kinds of questions for data coordination and standardization on a domestic scale.

At that time the Office of Facilitation at the Department of Transportation, under the guidance and initiation of Robert Redding and with contributions from other Department transport professionals like John Norris, joined the industry organizations in Project CARDIS — Cargo Data Interchange System. The ultimate goal of the program was to develop a common language data base system which would cut the cost of international paperwork in commerce in half, from the current \$8 billion to less than \$4 billion. This would require the translation of information in dozens of languages, currencies, and tariff rates into a standard computer code accessible to computer terminals in every participating country.

With financial and moral support from the Department of Transportation, TDCC had completed Phase V and by 1976 had produced a 430-page Standard Commodity Description and Coding System. This established a comprehensive master listing in machine-readable codes coherent with the various internationally established codes, which TDCC expected the Department of Transportation would publish as a thesaurus of commodity descriptions. TDCC is now working on the other aspects of transport paperwork — billing, payment, tracing, and intermodal communication in general — and has recently completed an airport coding study for the Department of Transportation which will be part of a proposal for a world-

wide coding system.

With the CARDIS program both TDCC and NCITD have constructed the framework for data base standardization, and have entered the electronic data processing stage of the project, which requires evaluation of various systems designs and the most applicable hard-and software in computer operations. As part of this evaluation, the method of data transmission must be chosen for recommendation, which could be telex, telephone cable, or satellite. The COMSAT-INTELSAT commercial satellite system holds the most interesting possibilities for such an international system since, unlike the undersea cables, even the satellites now in use have many free transmission channels. There are currently 80 countries with earth stations that are linked to the INTELSAT network, and the impressive speed of satellite transmission could become an important added advantage as trade increases in volume and geographic distribution.

The farther-reaching potential application of a global computer data base would be to coordinate *all* international shipments. If the world economy were conceptualized as one network, similar to the way domestic transport is viewed in the centrally planned economies, utilization of the world's already existing capacity would be greatly increased. By utilizing a worldwide chart of commodity flows, ships that are now "deadheading" — traveling empty — 20 to 50 percent of the time could be put into almost continuous use, with a resulting increase of 30 percent of world shipping capacity by this step alone.

Taking advantage of an approximately global conception of transport, the Japanese have developed a triangular shipping system which has reduced ships in ballast by 50 percent. The transportation cost of importing raw materials to Japan was reduced by 70 percent in some cases by extending the number of miles traveled but by keeping the ship filled to near-capacity at almost all times. The Japanese have accomplished this by conceiving of their shipping capacity as servicing a world transport network, not just Japan's domestic needs.

The application of such principles to U.S. transport, using advanced computer technologies, could have dramatic immediate results. With a computerized analysis of world trade, the most outdated and obsolete vehicles of all modes of transport could be eliminated, and all movement of goods could be consolidated and rationalized. The gains would be enormous.

#### *Teamster Support*

A third aspect of Starport is the requirement for large-scale rationalization of the trucking industry. In contrast to the tunnel vision of some transport union, International Brotherhood of Teamsters has forcefully supported proposals for a large network of inland Transportation Facilitation Centers. As reported in *Handling and Shipping* magazine of April 1976, Teamster representative Mel Nensel, Local 515 Chattanooga, told a University of Tennessee urban freight workshop that a major concern of his union was the health of the trucking industry. Although the Transportation Facilitation Centers propose to centralize and rationalize the shipment of small (under 1,000 pounds) packages, which could initially eliminate some Teamster jobs, Nensel, speaking

for the IBT national leadership, answered this objection by describing the poor current financial state of the industry. "For many carriers," he said, "the margin of profit potential from TFC-coordinated operations may be the *only* profit in years to come."

Support from the Teamsters was critical ammunition against the industry representatives who assume that the labor movement would resist any technological change. Then, as now, the Teamsters' role had the potential to galvanize and take leadership in a national fight for growth.

In sum, the basis for Starport was well laid. The international data base was ready, detailed designs for various air cargo freight systems were prepared, representatives of a potentially powerful array of political array of political forces were behind the plan. Why then weren't a series of U.S. Starports gotten underway, at least one on each of the East, West, and Gulf coasts, as models for Starports around the world?

Why then weren't a series of Starports gotten underway, at least one on each of the East, West, and Gulf Coasts?

*Rockefeller's Answer*

There are two basic reasons why the Starport conception has not yet been realized. Both are eminently political.

First is the inherent anarchism of a capitalist transport system made up of hundreds of carriers, each dealing individually with hundreds of individual customers. In order to bring national and international coherence to such a situation there must be a centralizing force, working in cooperation with industry and labor, which has the responsibility to evaluate and organize improvements in overall productivity of transportation. Because transportation is a capital-intensive proposition, this centralizing force must also be in a position to help finance demonstration projects to test the economic feasibility of programs and make long-term, low-interest credit available in coordination with an overall national investment policy. In other words, to build Starports we need the institutions broadly defined by the Third National Bank.

The Starport project's problems did not stem primarily from the clumsy "invisible hand" of capitalism, however, but the deliberate machinations of lower Manhattan. With the beginning of Wall Street's Watergate offensive in 1972 against both the Nixon Administration and Southwest industrialist strata significantly independent of Rockefeller control, those government spokesmen who had played leading roles in programs to revolutionize transport and had been the link between industry and labor for such programs found themselves under attack, directly and indirectly. As Nelson Rockefeller and his employees — Kissinger, Schlesinger, Levi and the rest — slid into the government, pro-development industry and labor forces, includ-

ing Hughes, Lockheed, and the Teamsters, came under the gun, and self-preservation became more immediately important than the best-laid plans for the future.

As part of the same operation, individuals who were directly involved with Starport were singled out for attack. For example Gordon Novel, one of the most active promoters of the Starport project, was subjected to heavy legal harassment. Novel had been both a leading organizer for Starport and the promoter of the most far-reaching idea of what Starport should be. Almost all of the studies done or supported by the Department of Transportation dealt only with fragmented aspects of what Starport would pull together as a whole. Novel's conception for Starport, on the other hand, was for an international network of computer-linked port facilities, intermodally tied to the inland transport network in any particular country, and most importantly, completely *globally integrated*.

This idea, very similar to the perspective advanced by the U.S. Labor Party in its policy statements on transportation, has the potential to coalesce an impressive coalition of organized labor and industry for economic growth. But in 1973, when the Rockefeller banks and oil interests were in the midst of destroying an American President and pulling off the Great Oil Hoax following the Mideast war, *all* potential opposition to the monetarists' domestic and international looting schemes had to be squashed. One of the victims was Starport — the work of the Department of Transportation and Starport plans were put in mothballs.

After it had showed the ready feasibility of integrating air cargo transport into an intermodal network, the Intact program was ended. The program has now come under the jurisdiction of the National Aeronautics and Space Agency which is considering various designs for a Cargo Logistics System (CLASS). However, a

The reasons behind the destruction of the Starport project are evidenced in what has happened to the Department of Transportation itself.

spokesman for the NASA program has reported that their studies will focus on a "market evaluation" for air cargo freight which will take another nine months, but that without significant financial input from the government the industry would never be able to bear the tremendous cost of designing and building a new aircraft. Representatives from Lockheed, who had worked closely with the Department of Transportation over the last few years on the Intact program, have little hope the program will bear fruit under NASA, since the Department of Transportation's participation had been critical in interest and expertise.

The CARDIS program for data interchange, after having produced (through the grants to TDCC and NCITD) the basis for a readily accessible program, has

been "put on ice," according to the Department of Transportation. TDCC has finished the work under its current grant and is pessimistic about further funding. Without the government-sponsored program to centralize and analyze the global requirements for a computerized data base, there is no likelihood it will ever come into being.

*Department of "Is This Trip Necessary?"*

The destruction of the Starport project and even less ambitious facilitation projects begun by the Department of Transportation and facets of the transport industry is most dramatically evidenced in what has happened to the Department of transportation itself. In 1975 the Department announced a change in policy. All Research and Development and work on new transport technologies was scrapped, and only work that was immediately "cost effective" would be funded. The resulting demoralization in the Department led many of the transport professionals to leave their posts. A major reason for the death of the Intact program was the resignation of the Undersecretary of Transportation.

This process of disintegration has culminated in the Department's current state of unbridled paranoia. Since the swearing-in of Brock Adams, a member of the Rockefellers' Trilateral Commission, as Secretary of Transportation, the Department's work has been com-

pletely put under wraps. Recognizing that a "conservationist" Transportation Secretary is akin to having an undertaker as Secretary of Health, Education, and Welfare, many of the best qualified and most experienced transport experts have left the Department. People like Robert Redding who had been the initiators of the Department's most ambitious programs and had decided to stay and make the best of a bad situation were fired. Secretary Adams has issued strict instructions that *none* of the Department's business be discussed with the press or any "outsiders," a dictum that, as the *Washington Star* noted, accurately indicates the sincerity the Carter Administration's cries of "open government." The handful of competent transport professionals still left in the Department, will undoubtedly soon be driven out as Carter's transport policies continue to unfold.

An immediate task of the Third National Bank will be to clean up this environment of conscious sabotage so that the work that has already been done in transport, including Starport, can finally be brought to realization. It is all too clear that the Carter alternative will be a return to the good old days of the horse, the ox, and bare feet.

— *Marsha Freeman*

# Open The Arbatov File

*The following was written by Criton Zoakos, NCLC Director of Intelligence, and is reprinted from New Solidarity.*

It is no secret among professional circles that this organization's assessment of Mr. Georgi Arbatov's politics is unflattering, to say the least. However, this is only *the least* that intelligence professionals in the socialist sector may choose to infer from the charges we have leveled against the director of the USA-Canada Institute of Moscow.

In reality, Georgi Arbatov, a recent addition to the Central Committee of the Communist Party of the Soviet Union, and a foreign service functionary of that body since 1960-62, is a conscious agent of the Rockefeller-Morgan private political intelligence networks. Despite our organization's understandably extremely limited access to primary evidentiary documents pertaining to the Aratov case, we have been able to conclude firmly that the subject was contacted and recruited at some point during 1960 and 1968. Hence, this writer's professional recommendation to the appropriate Soviet agencies and authorities would be to open the Arbatov file for the appropriate period of time, examine the relevant evidentiary record, and determine the precise circumstances in which the subject was recruited by the Rockefeller networks.

We have no doubt that others are going to be involved in the case; Mr. Arbatov's political promoters, his administrative superiors at various times, political colleagues, collaborators and so forth. If pursued to its conclusion, the unraveling of the Arbatov case will once and for all cleanse the Soviet intelligence and security agencies of all major sources of contamination, and thus for the first time in history will allow for a Soviet political intelligence establishment to be founded on a sound scientific basis rather than the prevailing incompetence and cloak-and-dagger chamber of horrors.

The litmus test used for determining conclusions in the Arbatov case was the historical role that Arbatov and his Institute have played in disseminating the myth of the "military-industrial" complex. This piece of modern psychological warfare went a long way in shaping world events from the Summit at Camp David in 1959 to the Soviet leadership's blunders up until Secretary of State Cyrus Vance's recent trip to Moscow.

## *The Tale of the Military-Industrial Complex*

Of all the celebrated operations of strategic deception recorded in the annals of transactions among states during the 20th century, one of the most stunningly successful will remain the myth that the legendary military-industrial complex of the United States is a group of warmongers and nuclear provocateurs bent on perpetuating aggression against the socialist camp.

The so-called military-industrial complex emerged in the folklore of the 1960s as the image of a sinister, all-

powerful conspiracy of "conservative," "right-wing," "militarists," "fascists," industrialists and generals, a conspiracy that provides the impetus for aggression and imperialist adventurism in American foreign policy.

Georgi Arbatov's entire political career and the *raison d'être* of his USA-Canada Institute is dedicated to the proposition that the American conservative "right-wing" is the source of danger for world war *while the Eastern Establishment of the Rockefeller family and its liberal adjuncts are the "realistic forces" seeking a peaceful accomodation with the Soviet Union.*

The entirety of this analysis was manufactured in the United States during the Kennedy administration by think tanks of the Rockefeller family, and it was disseminated massively by President Kennedy's National Security Council as a priority project of national security. Arbatov and his associates in the Soviet establishment at no point had any hand in producing this piece of analytical atrocity. However, they adopted this thesis fully and, since 1967-68 they have been the principal conduits for spreading and cultivating it in the Soviet Union. One may thus assert that Georgi Arbatov, as an exceptionally successful "agent of influence," has played an instrumental role, in fact an absolutely indispensable role, in making effective the most ambitious strategic deception project of post-war finance capitalism.

Even though the phrase military-industrial complex presumably was coined at President Eisenhower's farewell address Jan. 17, 1961, the story of the deception operation has earlier roots in the 1957, 1958 and 1959 fits of hysteria that Nelson Rockefeller threw in reaction to the first initiatives toward detente and economic cooperation with the Soviet Union undertaken by Republican conservative-traditionalists around President Eisenhower.

These Republican-conservative efforts were sufficiently strong at the time to have made the 1959 Camp David Summit between Premier Khrushchev and President Eisenhower a resounding success. That meeting, opening the way for the 1960 Paris Summit, represented the maximum threat to the Wall Street-Rockefeller interests of the entire post-war era, with the sole exception of post-March 1977. The 1960 Paris summit would have brought together the heads of every major anti-Rockefeller grouping in the political world: General de Gaulle, in charge of a reconsolidated France; Chancellor Konrad Adenauer, the old industrialist-allied Rhinelander who was shaping an anti-monetarist Europe with de Gaulle; Nikita Khrushchev, who was preoccupied with the tasks of Soviet industrialization; and President Eisenhower, a spokesman of the anti-monetarist, traditional industrialist interests of the United States.

Had that summit succeeded in shaping the basis for broad-ranging cooperation among these leaders, the Rockefellers and the whole Lower Manhattan crowd

would have been destroyed right then and there at the tail-end of the 1957-58 recession. De Gaulle's and Adenauer's "Europe from the Atlantic to the Urals" would have taken the place of the European Economic Community, American troops eventually would have withdrawn from European soil, and the multi-billion dollar swindle of the Eurodollar market never would have emerged to rescue New York's financiers.

All this was destroyed by the famous U-2 incident, a political destabilization operation of the Rockefellers simultaneously aimed at President Eisenhower and the Soviet leadership.

Of what is known of the U-2 incident, the following assertions can be made with certainty: (1) the U-2 had been sabotaged on the ground before takeoff so that it could not receive incoming communications and would have to make a forced landing in the Soviet Union; (2) the sabotage was carried out neither by the normal CIA channels nor by Pentagon channels (the most likely hypothesis is that Allen Dulles utilized his authority as director of Central Intelligence to order the sabotage outside of agency channels); (3) Soviet intelligence blundered colossally in attempting to analyse the incident to the point where Khrushchev, repeatedly embarrassed by his defense officials, stated "we are justified to wonder publicly, who are we dealing with really?"

In short, Rockefeller succeeded in blowing the Paris Summit sky high without Khrushchev and Eisenhower knowing what really hit them!

From that time on, Walter Lippmann led the whole pack of Atlanticist psywarriors spinning tall tales about how Pentagon militarists and "defense industry interests" had pulled off the U-2 caper and about how badly they had miscalculated because that provocation would now give Soviet "hawks" and other such Soviet equivalents of the "military industrial complex" the opportunity to go after the unfortunate Mr. Khrushchev. The Soviet party paper, *Pravda* even published one Lippmann column to this effect, completely unedited. Mr. Lippmann's reputation as a "realistic force" started rising in certain Soviet circles, while he himself was preparing to become Nelson Rockefeller's speech writer for the upcoming Republican primaries.

At any rate, the Rockefellers and their Lower Manhattan faction began stabilizing their position only after they installed John F. Kennedy in the White House via considerable vote fraud. The U-2 affair had only delayed the potential threat of the combination of forces represented at the Paris meeting. It was decisively contained only after the watergating of West German Chancellor Konrad Adenauer, a wave of assassinations (including that of anti-Rockefeller Italian industrialist Enrico Mattei), and the Cuban Missile Crisis.

Whatever the detailed arrangements were between Kennedy and Khrushchev, the deal that defused the thermonuclear confrontation over Cuba involved the following strategic exchange:

The Soviet Union undertook to oppose any scheme for a Gaullist Europe and the United States would give guarantees for the continued existence of the Cuban state (and would also withdraw certain missiles from Turkey and Italy).

After that affair, the Rockefellers' consolidation for the remainder of the decade depended on (1) destroying

the threat posed to monetarist interests by American traditionalist-industrial capitalists; (2) keeping Western Europe under monetarist hegemony or, failing that, keeping it destabilized; and (3) keeping, to the extent possible, the Soviet Rapallo-oriented, heavy-industry, high-technology factions away from policy making in the Kremlin.

For these objectives, the Rockefellers and their monetarist allies launched and promoted a far-reaching array of projects that comprise most of the history of the 1960s. In 1963 Kennedy's National Security Council under McGeorge Bundy launched the Institute for Policy Studies to coordinate a broad range of operations known as "The New Left" with vast funding from such philanthropic organizations as the Ford Foundation, the J.M. Kaplan Fund, the Rockefeller Brothers Fund, the Rabinowitz Foundation, and so on. This "New Left" operation created a synthetic lumpen and petit bourgeois "movement" directed against the Rockefellers' traditionalist-conservative opponents, both Republican and Democratic.

The Vietnam War itself, initiated by President Kennedy, was rapidly transformed into a project primarily aimed at destroying the Rockefellers' domestic political opposition. The myth of the military industrial complex was relaunched by the Institute for Policy Studies and by such Rockefeller agents in the Communist Party USA as Victor Perlo and Herbert Aptheker, among others!

A cursory review of events during the first five years of the 1960s indicates that the propaganda channeling sequence that manufactured and spread the military industrial complex myth was National Security Council — Institute for Policy Studies — CPUSA — *World Marxist Review* — *International Affairs*, with many other parallel and overlapping conduits and institutions suckered into the operation.

Victor Perlo — an agent of Morgan Guaranty since at least 1938, who "joined" the CPUSA after that party's complete takeover by the FBI in 1957-58 — played a key role in disorienting Soviet political leaders during the time when de Gaulle and Adenauer were attempting to organize an effective opposition to Rockefeller. In an article published in Moscow's *International Affairs* entitled "The Alliance of German and American Militarists," Perlo presented the notorious thesis that Adenauer and the German industrialists he represented are incorrigible Nazi revanchists bent on war against the Soviet Union.

This was merely one of a barrage of analyses with which the CPUSA flooded Soviet publications, on orders from the National Security Council. Since "Rockefeller" and "finance capital" had disappeared from party jargon, writers such as Art Shields, in *International Affairs* (No. 1, 1962) wrote gems like: "The shadow of the Pentagon hangs over the United States as 1962 begins. Its power has mushroomed to enormous size behind the fog of cold war...."

Doctor Herbert Aptheker himself, the party's most egregious case of constipation, contributed an auspicious analysis late in 1963 where he definitively identified two currents in United States foreign policy — one the horrible militarist right wing and the other the group forced to recognize reality (à la Lippman) and seeking compromise by negotiation....

## Arbatov: Some Substance To Charges

Georgii Arbatov closed out a three-week U.S. tour April 27 with a speech before the American Association of Scientists in Washington, D.C. While during his trip he had retailed a version of the Carter Administration's fraudulent "sleeping giant" threat of a U.S. military-technological take-off should Strategic Arms Limitation Talks (SALT) completely fail (see EIR No. 16), Arbatov was apparently overcome with the realization that if Carter's provocative policy and the definitive Soviet response continue, he and his services on behalf of "détente" will be rendered superfluous. "Détente" is now "in danger," Arbatov announced, and U.S.-Soviet relations are moving into a "cold war pattern."

Concurrent reports that the Soviet Union is making it known through numerous channels that the USSR is unimpressed with the "sleeping giant" claim in particular suggest that Arbatov has come under strong pressure from Moscow as well. In his Washington speech, he stuck closely to the formulations of Soviet Foreign Minister Gromyko in describing Carter's SALT packages as unacceptable. The arms proposals of Carter and Vance would have given the U.S. a unilateral advantage, he said.

Arbatov also followed the Soviet party line on the

"dissidents" question, where he stressed three points. First, that the Soviet "dissidents" are financed by powerful foreign institutions. Second that these institutions are working in collaboration with the U.S. government. And finally, that these activities are endorsed by the President of the United States.

Turning to potential "areas for agreement," Arbatov returned to his usual amiability vis-à-vis particular Carter proposals. Three areas for speedy agreement are a total test ban treaty, an Indian Ocean demilitarization plan, and a ban on development of new weapons systems, he said. Carter's Indian Ocean scheme has been denounced roundly in the Soviet military daily *Red Star* and the "no new weapons" proposal, although one version has been put forward by Soviet leader Brezhnev, has been the framework for the U.S. demanding curtailment of Soviet Research and Development.

Following his presentation, Arbatov was presented with a copy of "Open the Arbatov File," the exposé printed here. Professing his own innocence of its charges, Arbatov admitted that "there may be some substance" to what it has to say about Victor Perlo and Gus Hall of the Communist Party USA.

### *The Gullibility of the Soviet Union*

Georgi Arbatov, who served on the board of the *World Marxist Review* from 1960 to 1962 played an instrumental role in helping disseminate the Kennedy-National Security Council line on the military industrial complex. So did many others whose careers were launched by Nikita Khrushchev's efforts to get the Soviet Union out of its isolation into the world arena. According to all available indications, up to the very end of his life Khrushchev retained that particular blind spot that never allowed him to see "whom he was dealing with." We have no reason to believe that Khrushchev solved the U-2 riddle, nor that he ever understood that Kennedy was nothing more than an instrument of Rockefeller interests; to the end Khrushchev believed that Kennedy meant well, that he wanted peace but he was pressured by certain "dark forces," perhaps the "military industrial complex," perhaps others.

The intelligence that Khrushchev was getting on the United States was downright lousy. However, much of this incompetence in Soviet intelligence was of his own making. His single biggest mistake was probably his purge of Marshal Georgi Zhukov in 1957. There is little doubt that Marshal Zhukov's personal friendship with General Eisenhower was the fruit of a keen Clausewitzian tradition in the Soviet General Staff, from Tukhachevsky, to Zhukov himself, to Admiral Gorshkov today. This tradition, embedded in a profound, humanist-scientific conception of national interest as it applies to the USSR and national interest in general, has identified the Rockefellers and the monetarist faction as their "probable adversary."

There should be no doubt at this time that the Soviet General Staff perceives as its enemy not the United States as a nation, but the Rockefellers as an international faction. This is crucial.

In the days of Khrushchev, however, the factional clout of this tendency in the Soviet leadership was under intense pressure. From the 20th Congress onward, Khrushchev was pushing intensely for a drastic de-emphasis of heavy industry in favor of the agricultural and chemical sector. His immediate opponents turned out to be those sophisticated political layers associated with the high-technology, capital-intensive industries related to defense production.

Contrary to naive opinion, the opposition of these layers to Khrushchev's perspectives was not the result of bureaucratic intradepartmental rivalries but rather of more sophisticated outlook of economic organization and international political realities imparted to them as a result of their special responsibilities. Their weakness was that their more viable public spokesmen tended to be from the military — a result of historical circumstances and also an indication of their weak political cohesion.

Khrushchev's most convenient expedient for curbing this opposition was to go after its most organized and numerically more limited core, the military. Marshal Zhukov's removal was followed by the Yuri Popov affair in the GRU, the Intelligence Directorate of the Soviet General Staff. The exposure of Lieutenant Colonel Popov as a presumed CIA agent opened the GRU to a massive purge under Ivan Serov, a high KGB official whom Khrushchev had placed at the head of the GRU. The notorious Penkovsky Affair that preceded and followed

the Cuban Missile Crisis in 1962 helped remove the exceptionally incompetent General I. Serov. Serov was replaced by Khrushchev's special "de-Stalinizer," General Ivashutin, who is presumed to have totally crippled the GRU's ability for impartial professional evaluation untainted by the political expediencies of the moment.

The Penkovsky affair still remains a highly dubious proposition. Whether Colonel Oleg Penkovsky was really a CIA-MI6 agent or merely a politically manipulated pawn is unknown to us, as is his ultimate fate. What is very well known, however, is much more significant in terms of political impact. The Penskovsky Affair put an enormous amount of pressure on the Soviet General Staff at precisely the time when Khrushchev was consummating his agreement with Kennedy to betray the West European Rapalloist factions.

Viewed from this light, one is justified in asking certain questions about Dzherman Gvishiani, the chairman of the State Committee on Science and Technology, who at the time was Penkovsky's superior.

Khrushchev's dilemma of "guns-versus-butter" was only *relatively* a real one. In a sense the dilemma had existed since the formation of the Soviet Republic and it exists even today. Khrushchev's mistake during his tenure was identical with that committed today by the "agricultural faction" that is opposed to the transferable strategy proposed by the Labor Committees. Khrushchev confined his range of choices exclusively within the realm of *available Soviet resources*. Hence, he was compelled to opt for constraint in the rate of growth of heavy industry in order to speed up growth in agriculture and the consumer sector generally. This was self-defeating then, as it is today.

To justify laxity in defense production, Khrushchev had to seek international detente. This is a laudible objective only if it is pursued by seasoned professionals who know whom they are dealing with. Khrushchev, when it came to knowing whom he is dealing with among the world's capitalist factions, was a helpless babe-in-the-woods. The havoc he wrought in the Soviet intelligence establishment further aggravated his special shortcoming.

The end result was the continuing myth, to this day, of the military-industrial complex bogeyman.

It should be noted, however, that toward the end of 1964 when Khrushchev was removed, he was removed by the currently ruling coalition, a group representing a balanced emphasis on heavy capital construction, vigorous pursuit of a war-winning strategic capability, a moderate emphasis on chemical industry and agriculture, and a reemphasis of special detente relations with Western Europe to remedy the damage done by Khrushchev's "harebrained scheming."

The key difference between Khrushchev and his successors on defense and industrial strategy was that he ultimately had no idea of the unique function of sustained technological renewal in a modern economy. His defense policy was once and for all to achieve a credible deterrent and leave it there, he staunchly opposed the pursuit of marginal, war-winning capabilities. His economic policy was to inhibit the further growth of high-technology, capital-intensive sectors in favor of the

consumer sector.

Khrushchev's successors, in their commitment to continuing, deliberate emphasis on technological innovation, properly identified the solution to both the butter-versus-guns dilemma and to their pursuit of the marginal strategic advantages that ultimately account for nuclear war-winning. Contrary to popular prejudices, nuclear war-winning capabilities are attainable only as by-products of a serious commitment to broad-based, general theoretical scientific research — a point very well understood both by the late Marshal Grechko and by U.S. General Keegan.

The Soviet leadership after Khrushchev, however, had to apply their relatively sophisticated solution to the combined resources-and-defense problem to a political situation severely constrained by one exceptionally limiting factor: their own primitive understanding of capitalist factional politics!

A case in point is the Brandt-Brezhnev deal. In the years following Khrushchev's fall, the Soviets opened a series of very positive initiatives toward Western Europe. They launched their proposals for a Conference on Security and Cooperation in Europe (CSCE) and for special economic cooperation between the European Economic Community and the CMEA, the socialist sector economic trade group, as blocs. The proposals included such sophisticated initiatives as the offer of the transfer ruble for interbloc transactions!

Things ultimately fell apart when the Rockefellers ordered then West German Chancellor Willy Brandt to launch his Ostpolitik as a way of containing the Soviet initiatives. Brandt's Ostpolitik was nothing but a filibustering set of counterproposals intended to be taken by the Soviets as a starting-point for a bargaining process that led nowhere. The Soviets took the bait and things remained static until the Rockefellers' October 1973 Oil Hoax; from there they deteriorated to the present point.

#### *The Inconspicuous Mr. Arbatov*

Through all the post-Khrushchev years the Soviet leadership operated under the handicap of being victims of the grand strategic deception of the "military industrial complex." Granted that certain leadership groupings probably knew better. The fact that the issue was not contested in party ranks, however, created new priorities and new loyalties in the various ministries and agencies, to the point where any real knowledge of the actual state of factional affairs in the United States had no bearing on reality. The Soviets have been hopelessly naive about American politics in the last 17 years — and before that they were worse than naive!

This naivete and ignorance was never a natural state of affairs. It was systematically induced and cultivated, from the very birth of the Soviet Republic. This is something well known not only among intelligence specialists but among many oldtimers and leaders of the CPSU. The party was contaminated by monetarist agents from its October days. The cases of monetarist agents Bukharin, Ryazanov, and Radek are merely exemplary of the special circumstances in which Lenin's voluntarist revolutionary impulse subverted the infamous Parvus plan and made the Russian Revolution a success.

The Kirov assassination, the Tukhachevsky Purge instigated by the German British-American agent Admiral Canaris, and the post-World War II Operation Splinter Factor are merely case studies of how imperialist agencies have manipulated the isolated Soviet Republic into fits of self-induced destabilizations. More generally, every communist and workers' party outside of the socialist sector historically has been penetrated by imperialist intelligence agencies, often more than one per party.

In point of fact, as part of imperialism's historical policy of containment, any Soviet agency and institution that had dealings with the outside world, either by way of party relations or for business of state, was sure to have to deal with agent-contaminated institutions. Ironically, the only institution of the Soviet Republic which by profession had to concern itself with the world situation but which did not have to come in direct contact with contaminated foreign institutions has been the armed forces and their general staff.

This is one of the reasons why the general tendency of this layer is to vacillate between the military hard line of crude (but otherwise effective) confrontation and commitment to war-winning, and the more sophisticated commitment to utilize all resources — political, economic, military — to destroy the international Rockefeller-monetarist faction, what East German Defense Minister Hoffmann has identified as the faction of international finance.

Georgi Arbatov exemplifies the general ambiance of mushheads in the international affairs department of the Central Committee and in the lower rungs of the Foreign Ministry-bureaucrats and careerists highly susceptible to imperialist psywar.

His years at the *World Marxist Review* indicate that he was a participant of the strategic deception operation aimed at the Soviet leadership. After that he was transferred to the Central Committee's Secretariat for International Relations under Boris Ponomarev where, in his contacts with Western communist parties, he could not help but be incessantly in contact with enemy agents. With respect to the CPUSA, his particular area of specialty, he could have contact only with Rockefeller agents. It is a matter of record that they brought him into contact with personnel from the Institute for Policy Studies, founded and functioning under U.S. National Security Council supervision. In point of fact, most of Arbatov's most authoritative reports to the Soviet press do not fail to include quotes from Institute founder Richard Barnet and other agents of the National Security Council — especially when it comes to "exposing" the military industrial complex.

When Arbatov's USA-Canada Institute was founded in 1967-68, it made its primary task to rely heavily and exclusively on Rockefeller-controlled sources of information about the United States. Later on, this practice was supplemented by regular meetings between Arbatov, Richard Barnet and David Rockefeller. Arbatov also considers himself a proud participant in the so-called Pugwash Movement organized by McGeorge Bundy, the

National Security Council director who founded the Institute for Policy Studies.

It was somewhere in the context of these meetings that Arbatov was directly recruited. This is something that the appropriate Soviet agencies must conclusively determine.

Justifiably, the question arises, isn't it possible that Mr. Arbatov is simply a foolish dupe who has naively fallen for the military industrial complex line? Can it be that a man with such a personal stake in the Soviet order is an outright agent? After all, he is a member of the Central Committee of the CPSU.

Our conclusion is *yes, Arbatov is a conscious agent*. The criteria we have used are his personal intellectual qualifications, his moral quality as it is known to us from his public record, the special functions to which he owes his post-academic career and, most important, the litmus test of certain well-timed political interventions during the current period.

With respect to his current behavior, Arbatov personally, and his institute generally, have presented to the Soviet public a highly and especially distorted picture of what the Carter Administration is. Of all the information available in the American press about Jimmy Carter and David Rockefeller's Trilateral Commission, Arbatov's institute has edited out everything and presented only the Trilateral Commission's line on Carter.

Any knowledgeable observer of the United States since Nov. 2, 1976 knows that this country is in the clutches of a fascist beast that is struggling to impose fascist economics. Yet, Arbatov, in his recent appearance in Boston, actually sided with Jimmy Carter to call for an end of technological progress. During his present stay in the United States, he is actively aiding and abetting this nation's fascist enemy. The struggle of the American working class and U.S. industrialists for industrial progress, against Carter's fascist energy program is systematically edited out of the analyses of Arbatov's Institute or is distorted to appear as "right-wing reaction."

The consequences of his activities are not inconsiderable. If the Soviet government, for example, is fooled into not aiding the West Europeans to build their nuclear energy industry despite Carter's sabotage, this by itself could guarantee ultimate Rockefeller control of that continent this year and imposition of fascist economies before the end of the year. The strategic implications of such an eventuality for the Soviet Union need not be spelled out here.

Arbatov's present meddling in the international situation is no tomfoolery. He is actively contributing to the enemy's ongoing deployments. This alone is sufficient evidence of his agency.

This does not necessarily make him an extremely dangerous man. It is more than possible at this time that the Soviet leadership is deliberately allowing him to run around in this fashion in order to achieve a deception effect at the Rockefellers' expense. Just as in the case of classic espionage agency, among the modern craft of "agents of influence," there is such a thing as a "play-back agent."

We do not think that Arbatov is useful as a "play-back

agent. More useful would be an official investigation of his role and his treasonous activities.

One of the more useful features of such an investigation would be the establishment of rigorous rules and political criteria for the practice of reliable political intelligence.

If such criteria had been in force, no person responsible for authoring such a book as Mr. Arbatov's amoral *The War of Ideas in Contemporary International Relations* would even be allowed to get near the doorsteps of the CPSU's Central Committee.

—Criton Zoakos

# 'Command Control' Unit In Place In El Paso

A month ago, one of the nation's top terror scenario writers proposed that the Carter Administration set up a "command organization" to coordinate the government's response to terrorism here and internationally. The command unit proposed by Brian Jenkins, the Director of Research on International Terrorism at the Rand Corporation and a consultant to the State Department's Office for Combating Terrorism, would supersede all existing police and intelligence agency operations, with ultimate authority resting in the hands of Zbigniew Brzezinski and the National Security Council.

The Jenkins plan, as he laid it out in the March 27 *Washington Post* was to create a command organization that could develop and carry out Entebbe-style military contingency plans to deal with international terrorism. The primary thrust of the Jenkins plan is *designed to institutionalize the 1976 Entebbe Raid precedent of "limited sovereignty."* All of the government forces to be involved in the proposed operations however, the CIA, FBI, and other specialized enforcement agencies, are known not only to "monitor" terrorism — their official capacity — but to manufacture and control terrorists and terror scenarios (as well as gun and drug running) on a global basis.

A prototype "command organization" is now being implemented by the Carter Administration along the Mexican border. As the following report documents, the El Paso Intelligence Center, or EPIC, run under the aegis of the Drug Enforcement Administration (DEA), is being geared up exactly along the lines Jenkins proposed, supposedly to monitor illegal drug traffic and illegal aliens. In actuality, as is evident from the exposé, EPIC will use this extensive intelligence capability as a cover to run terrorism within Mexico and into the United States.

### "A Tool of Awesome Capacity"

EPIC, hailed in the U.S. press as "a tool of awesome capacity," was created in August 1974 by the DEA Intelligence Division as the first integrated intelligence center in the annals of federal law enforcement. The center came into full bloom a year later, after the installation of Rockefeller's Edward Levi as Attorney General and Levi's nephew Peter Bensinger became DEA Director in 1975. At that time the center was equipped with elaborate computer facilities and a war room to monitor its activities.

According to DEA officials, EPIC has become "an increasingly sophisticated intelligence sharing

operation," staffed round-the-clock to "provide *actionable* intelligence for the immediate use of federal, state, and local law enforcement agencies." In addition to being what DEA officials refer to as the intelligence "nerve center" of the DEA's poppy eradication program, EPIC's joint work with Mexican officials in this program has given it access to and control of relevant Mexican military and police intelligence agencies.

EPIC's headquarters in El Paso, Texas are staffed by agents of the DEA, the Immigration and Naturalization Service, the Treasury Department's Bureau of Alcohol, Tobacco and Firearms, the U.S. Customs Service, the Coast Guard, the Federal Aviation Administration (FAA), and the State Department's Cabinet Committee on International Narcotics Control (CCINC). Also included is the State Department's Munitions Control Office which handles all foreign weapons and munitions sales licensing. All of these agencies have documented links to the terrorists, drug runners, and gun runners they are supposed to control.

The *Christian Science Monitor* reported April 19 that EPIC will expand its "awesome capacity" through a new computer system, code-named Pathfinder, which was developed in collaboration with the CIA and the Pentagon. Pathfinder is scheduled to go into operation no later than mid-May and allows EPIC to "gain access to classified intelligence from such exotic sources as the Pentagon's defense mapping service" as well as to upgrade its existing access to classified data from the participating Justice and Treasury Departments. EPIC, it should be noted, is not subject to claims for disclosure of files under the Freedom of Information Act.

The Justice and Treasury Department data bank systems which now interface with EPIC — and Interpol — include those systems engaged in collection-analysis regarding terrorism, domestic security, and weapons and drug smuggling.

### EPIC and the Border Scenario

The upgrading of the EPIC intelligence capacity means that it is now fully integrated into the terrorist operations planned for Mexico by the New York banks' financier faction and their allied private intelligence agencies like Interpol — and it will all be under the cover of the Carter program to police illegal aliens and his supposed war against drugs.

As an interagency center, EPIC will subsume the Interpol coordination of the activities of terrorists within Mexico — most notably the 23rd of September League

that is run by agents of Interpol and the Institute for Policy Studies. And because it will control the border, EPIC can at will cause such terrorist outbursts to spill over across the border into the United States.

There has already been pressure to make the Pentagon interface with EPIC action oriented from the Senate Government Operations Subcommittee on Permanent Investigations. Subcommittee members Sam Nunn (D-Ga.) and Charles Percy (R-Ill.) sent a letter to Defense Department Secretary Harold Brown recently stating that: "the Defense Department alone possesses the air and land vehicles needed to pursue and overtake drug traffickers." The Senators said that agencies within EPIC "lack sufficient planes, radar sensors, and other equipment to adequately protect our borders; the equipment it does have largely consists of second generation or ill-equipped models." Controlling the border, they write, will take "resources comparable in sophistication to those used by the smugglers themselves."

The Senators' worries about equipment are entirely unwarranted.

#### *EPIC's Capabilities*

EPIC's present capabilities are formidable:

\* Former EPIC Director Jacques Kiere, as of August 1975, was dispatched to the U.S. Embassy in Mexico City as DEA regional station chief. The Kiere assignment coincided with a significant increase of DEA "advisors" into Mexico to oversee the training and paramilitary actions of Mexican forces engaged in the DEA's so-called poppy eradication program.

Funding for the DEA-EPIC "war on drugs" training programs are primarily provided by the U.S. Agency for International Development aid, channeled through the State Department's CCINC.

In keeping with the counterinsurgency models developed in Vietnam by AID and the police experts from Michigan State University, former Senior Advisor and CCINC Director Sheldon B. Vance stated in his July 28, 1975 congressional testimony that the purpose of the AID overseas narcotics enforcement training program was "institution building." Vance said it was essential "for the U.S. government to build up a cadre of narcotics enforcement agents abroad to expeditiously set up cooperative projects with foreign enforcement officials to make cases, assist in seizures, and develop joint techniques for penetrating and breaking up major trafficking organizations."

Indeed, declared Vance, "by far the greatest portion of expenditures has gone into institution building," and "in many instances, ... the institution building had to begin from the ground floor."

Mexico has been subjected to this "institution building" under EPIC's anti-drug plan. The personnel for this virtual takeover operation are EPIC's elite, most of whom were trained at the Treasury-run Consolidated Federal Law Enforcement Training Center in Glynco, Georgia. The Glynco training operation is under the directorship of Arthur Brandstetter, a top police expert from Michigan State University who has made his career on building AID's reputation — from creating police units like the Brazilian "Death Squads," the South Vietnamese domestic security units, and the post-World War II West German Bundeskriminalamt. Equipment developed and used in Vietnam's DMZ has already been transported to the 2,000 mile U.S.-Mexican border.

\* A high level EPIC official described Interpol's role in these operations as being focused on "fugitives from justice" and those "fairly active in the terrorist areas." Both DEA and EPIC have identified many of the major heroin and weapons traffickers operating inside Mexico as "fugitives from U.S. justice."

In an unguarded moment, the State Department's official liaison to Latin America on narcotics matters confirmed that the plan mapped out by the "American Escape Committee" during a spring 1976 meeting in California for the dramatic freeing of American drug and gun smugglers held in Mexican jails (under the cover of a "human rights" protest), was actually carried out by the Interpol-Institute for Policy Studies 23rd of September League terrorists.

\* The Carter Administration has given EPIC the authority to "seal the border" under the pretext of controlling the "uncontrollable flow of illegal aliens." Deputy Director of EPIC, Gerald O'Connor also serves as the National Chief of the Immigration and Naturalization Service Border Patrol, an outfit being beefed up by Carter's newly appointed INS Commissioner Lionel J. Castillo. According to the State Department official mentioned above, Carter will go for full "control" of the border, rather than "sealing the border completely" since this latter option would only "lead to total chaos inside Mexico and the United States."

\* EPIC will have full jurisdiction over weapons and munitions smuggling operations. As recent DEA and ATF reports indicate, the bulk of illegal weapons seized from terrorists and smugglers inside Mexico are from U.S. military installations.

\* The center will also assume the responsibility for averting interagency conflicts, to ensure that any resistance to Carter-NSC terrorist plans from within the law enforcement agencies is aborted.

— by Marilyn James

## Trudeau Outflanking Rockefeller — So Far

Former Progressive Conservative Party leadership contender Jack Horner crossed the floor of the Canadian House of Commons this week to join the ruling Liberal Party. According to press reports, Prime Minister Trudeau lauded the move as a significant strengthening of the Liberal Party's relationship to western Canada and indicated he would award Horner a cabinet post as Minister without Portfolio.

Trudeau has been on a "national unity" organizing tour of the western provinces in an effort to outflank Rockefeller-Trilateral Commission organizing to balkanize Canada. Horner, until now an Alberta-based Conservative MP, is a longstanding opponent to zero-growth Joe Clark, the head of the PC, and led the PC opposition to Robert Stanfield, who elbowed former

Prime Minister John Diefenbaker out of the party's top post in 1967.

The Trudeau tour and Horner's appointment mark a significant shift in focus in Canada's fight for "national unity" — away from Quebec and toward the western provinces — which took shape in the weeks following the Toronto Liberal Party conference. Trudeau is demanding that Parti Quebecois (PQ) be turned away by provincial leaders unless the provincial leaders agree to frame discussions within a context of a united Canada. Trudeau's tour follows an adjacent tour through the Western provinces by PQ spokesman Morin who promised PQ support to western francophones demanding language rights and independence. Morin's address to one Manitoba group prompted a demand for an official

### CSIS: Terrorism Could Bring Canadian Unity

*The following is an exclusive interview with a representative of the Georgetown Center for Strategic and International Studies Canada desk.*

**Q:** What do you anticipate developing out of the current situation around Quebec?

**A:** I never talk about Quebec! Actually each side, Ottawa and Quebec, are waiting for the other side to trigger the confrontation. Quebec can find nothing in the November vote to indicate strong support for separation and Ottawa isn't biting. The language policy has upset a number of people, but Levesque, in order to win the referendum must first have the confrontation.

**Q:** But has there not been concern within the Liberal Party ranks that Trudeau was not flexible enough in his response to the Quebec situation?

**A:** There was some concern that his speech in Washington would be used to lay down the gauntlet, but in fact there is nothing which Trudeau can gain by the Quebec issue. Also, the Progressive Conservatives really have no alternative to what Trudeau is putting forward.

**Q:** What about the possibility of someone like John Turner taking over the reins from Trudeau?

**A:** Liberal Party people will tell you that the best course of action for Trudeau is to resign now and let the party select a leader to run in the next election. On the other hand there is no indication that he will do this. He showed that in one visit to D.C. he could raise his popularity by 8 percent — if he can do that then — well, the situation may be much more flexible than we anticipated!

**Q:** What if Levesque holds back — will he lose control?

**A:** The popularity of the PQ currently depends upon Levesque's personal appeal and will dip if extreme elements come to the fore.

**Q:** What about the possibility of a Belfast-type situation developing, independently of the PQ per se?

**A:** Terrorism would be the best of all circumstances for Ottawa — then Ottawa *has* to act to reinstate the 1970 war measures action. There is always the possibility of radical elements — but that could be the thing that moves Quebec and Ottawa back together. It is a qualitatively different situation now than in 1969-70. A number of conservatives would like to see such an eventuality — a reinstatement of military rule unifying the country.

**Q:** If not Quebec, what *is* the most important problem in connection with the Canadian dollar?

**A:** There are many factors: inflation, the number of strikes, the labor movement, the growing U.S.-Canadian gap. The latter is a psychological problem, in great part due to the perceived needs of "sovereignty" some years ago, but "sovereignty" has a high cost! You may find a greater push for autonomy in the western provinces than in Quebec in the near term. You have the possibility of the "Ottawa-provincial-Washington triangle confrontation." No one wants to talk about it here. If you do, you are accused of interfering into the internal affairs of Canada or of advocating separation!

"White Paper" on language and culture from the provincial New Democratic Party government.

Horner's move has solidified factional alignments within the Conservative Party, centering precisely around the West and national unity. Former Prime Minister John Diefenbaker, speaking in Regina this week, called for a Parliament-centered unity conference in which all MPs would be urged to determine, through their constituents, the proper course to a strengthened confederacy. He urged all Canadians to make it known to French Canadians that they are a part of a united Canada. At least one western conservative MP has already made known the results of his constituency poll — overwhelmingly in favor of a united Canada.

On the other side, Alberta PC Premier Peter Lougheed, tied to the Rockefeller-controlled Imperial Oil (Exxon) Canada Ltd. has called for a decentralization of power and a significant shift of economic decision-making power away from Ottawa.

Cross-party factional alliances characterize the altered political line-up in Canada.

Relatively pro-federalist forces, including the Liberal Party's Trudeau wing, the PC's Diefenbaker-Horner factions and such forces as the Social Credit machine behind British Columbia Premier William Bennett, who is now pushing a pro-nuclear energy development policy, are pitted against the Trilateral Commission wing of the Liberals currently fronting John Turner from Vancouver as their prospective replacement for Trudeau, the Trilateral's PQ, the Clark leadership of the conservatives linked to Rockefeller through Imperial Oil, and the environmentalist swamp of the NDP. The shift from the issue of Quebec separatism to the fight for control of the western provinces was identified by Georgetown Center for Strategic and International Studies spokesmen last week as resulting from Trudeau's successful sidestepping of the confrontation course initially established by the Quebec PQ victory last November.

Conspicuously missing from the pro-federalist side, however, is a defined economic policy initiative which could unite the anti-Rockefeller factions in a coordinated offensive.

## A Lull In The Currency Warfare Against Canada

For the last month the Canadian dollar has been stable at about \$.95, following the series of sharp attacks earlier in the year, which pushed the currency below \$.95 for the first time in years. The Canadian dollar's temporary respite reflects the present standoff between the Trudeau government — in particular, Canadian industrialist interests represented in the government — and the New York banks, who have not-so-hidden designs on Canada.

The Canadian dollar came under sudden attack earlier this year as Wall Street's way of telling Canada, the largest borrower on the international markets last year, to put its economy through a harsh "adjustment" process and simultaneously to back up the Carter regime in the U.S. in its economic warfare against the rest of the world.

To date, the beleaguered Mr. Trudeau has declared his allegiance to Carter in announcing on April 5 that Canada would continue to embargo uranium shipments to countries that refuse to sign Canada's impossibly restrictive safeguard agreements. However, Hean Chretien, Canada's Industry, Trade, and Commerce Minister immediately after the announcement called for an aggressive research and development effort within Canada; and opposition to U.S. Secretary Bergland's U.S.-Canadian wheat cartel scheme is so great among Canadian wheat producers that Otto Lang, the Brookings Institution-linked Canadian Wheat Board Minister, who supports Bergland's "food as a weapon" scheme, may be out a cabinet post at any time.

Canada's fiscal 1978 \$42 billion budget, which went into effect April 1, is another standoff. The Trudeau government clearly rejected Chase Manhattan Bank's late-March instructions to the country to follow a more stimulative course — the same unwanted instructions David Rockefeller has been giving West Germany and Japan, — even though such a course would hasten the Canadian dollar's demise. Chase argued that a cheaper

dollar would enhance Canada's export competitiveness. Similarly, Finance Minister McDonald and Prime Minister Trudeau rejected heavy pressure from Canadian corporatist layers to replace Canada's wage and price controls with tripartite economic planning. The budget, however, certainly doesn't represent a positive economic program and is at best a holding action awaiting a joint U.S.-Canadian economic development program.

The present vulnerability of the Canadian dollar stems from its "special" relationship to the U.S. credit system. Of course, in typical fashion Wall Street commentators blamed the series of runs on the Canadian dollar on the country's chronic current accounts deficit, its enormous foreign debt, the loss of competitiveness of its exports due to high wages and low productivity, political uncertainties in Quebec, and other "Latin American" problems. A feature article in Business Week in March singled out Canada's trade deficit in manufactured goods as the main problem and recommended that the manufacturing sector be deliberately phased out through mergers and shutdowns and that Canada be reduced promptly to the status of a Third World raw materials exporter. This is the identical policy which the Tories tried to impose on the young American republic two hundred years ago.

The sudden attack on the Canadian dollar last winter is actually largely explained by the fact that Canada was the single largest borrower in the international markets in 1976. In December, preceding the onslaught against the Canadian dollar, Morgan Guaranty's World Financial Markets ominously warned that Canada was one of several countries whose deficits had widened since 1974 which "appear to be achieving inadequate current-account adjustments on the basis of present policies and exchange rates." The screws have been put on Canada not because of any inherent problem in the Canadian economy, but because the U.S. dollar-based international

monetary system is hopelessly overstretched. Canada, like Mexico and Zaire, has been told by its creditors — through the runs on its currency and other tactics destabilizing the Trudeau government — to cut its borrowings and bite the bullet.

But even Canada's huge foreign debt, which amounted to over \$43 billion at the end of 1976, is solely the product of the financial environment in which the Canadian economy has been forced to operate for decades. Despite the highly visible, manipulated French-British antagonisms, Canada has had a colonial relation to the U.S. dollar credit system since right after World War I.

Canada's balance of payments problems principally derive from the fact that Canada has historically run a large deficit on its invisibles account — interest, dividends, shipping, insurance, etc. — which is the mirror image of the U.S.' invisibles surplus with Canada. Although historically Canada has run a sizeable surplus on its merchandise trade account with the U.S. (by far the Canada's main trading partner), Canada's large services deficit outweighed the surplus. Canada's invisibles deficit mushroomed in 1974-76 because of ever-rising interest payments on loans undertaken to close the current account deficit!

Canada's huge external debt and interest payments, larger than any Third World country's, is only half of the story. Canada is beset with the worst of both worlds. Its commercial banking system, dominated by the five large chartered banks, is more overexposed in the area of high-risk loans than their senior partners in the U.S. In January 1975 Lafferty, Harwood, the Montreal-based brokerage house, pointed out that the large Canadian banks were even more undercapitalized than their U.S. counterparts. Hence, the Canadian chartered banks were undertaking major, high-risk Euromarket lending from an even narrower capital base than the U.S. banks. As of the end of its 1974 fiscal year, the Bank of Montreal, ranking third among the chartered banks with assets of 417.7 billion, had an assets to equity ratio of 44 percent, compared to Morgan Guaranty's 18 percent. Lafferty, Harwood, concluded that with 27.6 percent of its assets in foreign loans, the ratio of loans subject to criticism to the bank's equity capital at the Bank of Montreal — and probably at all the chartered banks — was considerable in excess of 40 percent, the point at which the U.S. Comptroller of the Currency puts U.S. banks on its "watch list."

By the end of 1976 foreign assets accounted for 29.8 percent of all chartered bank assets, compared to 20 percent a decade earlier. At the end of 1976 only about 10 percent of the chartered banks' foreign assets represented loans to Canadian residents; over 50 percent were deposits with other banks (the volatile Eurodollar and Cayman Island interbank markets) and about 35 percent were unstable international loans in U.S. dollars and other foreign currencies.

Thus, the chartered banks, acting as adjuncts to the foreign lending operations of the New York banks, are not an inconsiderable part of the "balance of payments" problem. The chartered banks have increasingly shipped capital out of Canada and into Eurodollar and Cayman Island loans to Zaire, Peru, and other high risk areas as part of U.S. led consortia. This arrangement was given

added impetus in early 1974 when Canada was encouraged to follow the U.S. in lifting all the remaining controls on capital outflows.

Shipment of capital abroad by the chartered banks, especially since 1973, has been a drag of the capital account surplus, which has traditionally offset the current account deficit, and has been compensated for by increasing borrowings by Canadian corporations and provincial entities on the New York and Eurobond markets. These borrowings, in turn, have led to a steady worsening of the current account deficit.

In 1976 Canada chalked up a \$4,870 million deficit on current account. The \$1,482 million deficit in the fourth quarter was a new record. The reason for the deterioration in the fourth quarter was the exponential increase in payments of interest and dividends to foreigners, as well as a spurt in the travel deficit. Canada's invisibles deficit more than doubled from \$2,991 million in 1973 to \$6,002 million in 1976.

The minimal improvement from 1975's \$5,371 million in Canada's current account deficit was attributable to the \$1,132 million surplus on merchandise trade account, compared to a deficit on that account in the recession year of 1975. But with the trade surplus Canada was still left with a whopping current account deficit.

Last year Canada's current account deficit was more than offset by a net capital inflow of \$5,103 million. Following the pattern of most of the year, the net inflow of \$1,275 million in the fourth quarter was buoyed up by a record \$1,849 million of new issues of Canadian securities on foreign markets. However, the tenuous arrangement under which Canada's balance of payments deficit was papered over and under which Canada corporations were enabled to make ends meet has reached the breaking point. Wall street is now saying that the level of Canadian borrowing in 1976 is "unsustainable." Simultaneously, fastening on the excuse of the Quebec separatist movement, direct foreign investment in Canada (primarily U.S. investment) has dropped and threatens to drop even more sharply. In 1976 Canadian direct investment abroad actually exceeded foreign direct investment in Canada. This was due almost entirely to the fact that between 1975 and 1976 U.S. direct investment in Canada dropped sharply from a positive \$535 million to a negative \$576 million, reversing a long-term trend.

The February-March issue of International Currency Review, the City of London publication attributed the depreciation of the Canadian dollar in the first quarter to the series of reductions of the Bank rate (the sort of stimulative measure Chase Manhattan was recommending wholeheartedly), much diminished borrowing abroad, and the political uncertainties since the Quebec election. The second reason seems paradoxical until one remembers Canada's "special" relation with the U.S. The Bank of Canada has traditionally kept interest rates higher in Canada than in the U.S. to encourage Canadian corporations and provinces to borrow in New York to offset the current accounts deficit.

Now as a result of diminished borrowing abroad, everyone is expecting Canada's first quarter balance of payments figures to show a deterioration in the capital account, and the Canadian dollar has gotten creamed.

Provisional figures show that Canadian entities came

to the U.S. for only \$650 million in the first quarter of 1977, compared to \$5.7 billion during all of 1976. Last year Canadian borrowing on the U.S. private placement market grew 385 percent! — the entire market grew 375 percent. The private placement borrowings included the mammoth \$1 billion Hydro Quebec issue, the \$650 million Ontario Hydro issue, and the \$500 million British Columbia Hydro and Power issue. Total international borrowing by Canadian entities last year amounted to more than \$9 billion, according to a Morgan Guaranty survey.

After a difficult period earlier this year, when Canadian entities were faced with higher interest rates, rates have recently come down for Canadian borrowers along with everyone else. Also mitigating against the threat that Canada would be shut out of the market is the fact that if the New York banks were now to cut off credit to Canada, it would be tantamount to their declaring open war on U.S. industrialists, Canada's natural allies in its fight against the New York banks' designs.

# How To End Terrorism In Italy

## ITALY

*The following is a statement issued by the Executive Committee of the International Caucus of Labor Committees in Wiesbaden, West Germany April 29.*

Unless the following program is immediately put into effect in Italy, the current wave of terrorism will continue and will escalate.

First, all childish parliamentary and diplomatic evasions of the nature of terrorism must stop. The sources of terrorism must be correctly identified, otherwise all efforts to halt terrorism will fail.

There is currently an international wave of terrorism coordinated by Zbigniew Brzezinski from the U.S. White House. The principal networks involved are, first, the Interpol organization, second, elements of Israeli intelligence, and third, the U.S.-based "neo-Fabian" network. The most important bases for the terrorism in Italy are: The Tyrol-Austria-Southern Germany fascist bastion, Paris Interpol and its safe-houses in (especially) Southern France, and the Madrid Skorzeny-OAS-Opus Dei focal point. All principal terrorist deployments involve these organizations and those official and private networks which directly interface them.

Second, the only method for rooting out terrorism is a special application of "seal and search."

1. The "borders must be sealed" by the following and related measures: Interpol must be expelled from Italy, and Interpol-interfacing agencies closed down, and all

police and intelligence relationships with nations and with NATO which continue to cooperate with Interpol must be treated as contaminated and placed under intensive control and surveillance for this purpose; the Tyrol must be cleaned up, and a tight security maintained on the Austrian border connection to fascist organizations in Austria and Southern Germany; the French border must be controlled for the same purpose; all Italian conduits for certain Rockefeller-allied think-tanks must be treated as principal conduits for coordination and auxiliary assistance to terrorist operations; all neo-Fabian networks — Maoist and allied types of "countercultural" groupuscles supporting "zero growth" must be under close surveillance as well as analogous youth organizations of a fascist profession; *certain persons* attached to U.S. embassy "covers" for Brzezinski's purposes must be surveilled as Interpol-related operatives.

2. Intensive and extensive pursuit of terrorist connections and their covers and conduits must be conducted.

These measures will not, of course, root out every terrorist or prevent operations from being deployed. However, these measures will massively disrupt the command and control of the terrorist networks. By disrupting the command and control, the cleaning up of terrorism can be conducted as a systematic mopping-up operation.

Every day's vacillation and delay in taking such measures means more deaths of friends, family members and so forth. No consideration is sufficiently powerful to prevent the government and people of Italy from exerting national sovereignty to protect the nation and its people from the Brzezinski-Interpol-Israeli terror wave.

## How The CIA 'Left' Sent Terrorists Against The PCI

*The article which is excerpted below, by Guido Capato, appeared in Giorni Vie Nuove, an Italian cooperatively-owned weekly close to the Communist Party.*

*The article, the first of a five-part series, fingers the National Student Association and Johns Hopkins University — which operates a branch in Bologna — as having worked for one faction of the U.S. Central Intelligence Agency in creating the anti-communist "left" student movement which caused the riots throughout Italy and killings in Bologna last month. Such a sophisticated analysis of the divisions in the "intelligence community" and the "left-wing" deployments of its anti-traditionalist wing has never before appeared in the Italian press.*

It is no secret to anyone that since way back in 1962, the CIA has attempted by all possible means to impose a hard line in our country, and in substance, its agents have taken measures to unleash chaos in order to justify

the intervention of tanks. Thus the war in Alto Adige (South Tyrol terrorism, 1960s — ed.), where our army had to intervene as an occupation force. Then the various coup attempts under the patronage of the SIFAR and SID (Italian military intelligence services — ed.) and the neo-fascist groups ("Year Zero", MAR, "Mussolini Action Squads," etc.; then the "Red Brigades," the "Armed Proletarian Nuclei," the "New Partisans," "Combatants for Communism," and so forth. The results have been bombings, massacres, kidnappings, robberies. The state never caved in even though public opinion has remained extremely upset. At this point, the CIA's imagination directed its attention to all these little extreme-left grouplets who protest everything and everybody just on principle. At Langley (Virginia: CIA headquarters — ed.) they thought that was the sector to operate on. And so, that is just what they did.

### *How "Worker Autonomy" Was Born*

Having verified that most of the grouplets were made up of students, they hatched an operation which the leaders of the National Students Association would be just crazy about. In fact a massive recruiting operation of students began to send them into Italy after a due period of training to infiltrate the protest groups who did not limit themselves to attacking the DC (the Christian Democrats —ed.) and MSI (neofascist party —ed.) but turned their rage principally against the PCI (Communist Party), considered the political force which is the most organized and determined to guard democratic institutions. Anyway even in the USA the papers have spoken of the PCI in these terms, dwelling on the model of Emilian and Romagna. It was clear that they had to intervene in this reality. It was not to be the DC and the fascists who would hammer away at the government but the extra-parliamentary left, so as to make it appear that in the model region the left was contesting the regime. After an attentive examination of the profiles of the existing protest groups in Langley, the conclusion was reached that they had to create these groups out of whole cloth, with particular anticommunist traits. And so a few agents provocateur recruited in the Californian (sic) University of Johns Hopkins set off for Italy, with the task of organizing and directing the new provocateur organism. And thus "Worker Autonomy" was born. As we have said, the goal of the new extremists was Bologna, beginning with the malcontents in the university environment.

For this purpose, two years ago, a secure base was also created under the shadow of a well known multinational company, which started operating all over the Emilia Romagna region. Into Worker Autonomy went the fascist lumpenproletariat, such as the members of Remo Casagrande's "New Order" (blackshirt terror outfit —ed.) of Quarto Oggiaro, the "Volsci Street Collective" among whom are arrayed former Pariolini (fascist hoodlums from a wealthy Rome suburb —ed.) formerly in Junius Valerius Borghese's "National Vanguard." In Bologna, the tune is the same: Worker Autonomy is split between

the Tuti group of fascists and the Nazimaoists of "People's War." Phase One was the strategy of verbal terror; then Phase Two violence, "Radio Alice" and finally killings.

As we know, it went badly — the Covert Operations Section of Langley repeated in appropriate proportions the fiasco of the Bay of Pigs. And now, from the USA, here come the revelations of the National Students Association. Our security services had been apprised of this matter for some time, but were physically prevented from acting by a hidden force which quashed any attempt at reacting the minute it was brought up.

In interviews, Worker Autonomy did not deny getting money from the CIA or that there are Nazis acting in their ranks.

What is the most frightening is the fact that the American revelations arrive just at the point when President Carter has decided to reduce the CIA's powers. Why, for example, if the NSA knew for two years about the student recruitment, did it not think of unmasking the maneuver until now? It looks to us as though the current leaders of this organization are the same as before, which means that previously they were not authorized to do it. Their maneuver falls into the game of the new government. It is not a moral action to defeat the negative power of the CIA in the world, but has a "clientelistic" significance.

The fact that the NSA has always worked for the CIA is no mystery to anyone in the USA. Hence, one deduces that in this instance as well it is playing the CIA's game and that of its masters. But which group? We are witnessing a ruthless war between top level spies, and that is demonstrated by the fact that the NSA revelations on the strategy of tension in Italy, directed to discredit a certain sector of the CIA, have received from the old foxes in Langley rooted in their armchairs a response in rhymes. They let us know that inside the CIA there is a second CIA, one which operates in favor of the world's leftist governments. For example, this parallel CIA, according to the traditionalists, was what in 1960-63 favored the left shift in Italy (the process by which the first center-left coalition was brought into being under then-Premier Aldo Moro —ed.) . . .

## What's Wrong In France?

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### FRANCE

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With the aid of some most inopportune opportunism within the Gaullist RPR leadership, France's President Valéry Giscard d'Estaing is leading that nation back toward a strategically imbecilic thermonuclear parody of the worst colonialist policies of the Fourth Republic. Overall, it must be said that French Gaullism is not dead, but dozing — like a silly calf dreamingly sprawled in a pasture.

The crux of the matter is that up to the end of the recent Paris mayoralty election campaign, the Gaullist RPR

led by Michel Debré was for the moment very much in the ascendancy. It was short-sighted and overconfident. Gaullists of the RPR deluded themselves that they could use the financially well-supported careerist Chirac as their Paris mayoral candidate, and with an election victory be on their way to an early reform of the Giscard government. Lawfully, with the inauguration of Chirac as Paris mayor, the Gaullist RPR found itself launched into a wretched rout.

That is the gist of the matter. The point is to understand what those simple facts portend.

Any analysis of Gaullism demands an understanding of four basic facts: the nature of Gaullism itself, the social composition of Gaullism, the critical significance of the petit-bourgeois in French politics and thought generally,

and the fundamental discrepancy between the social composition of Gaullism and the social composition of the so-called Gaullist organizations and their base.

The axiomatic Hegelian distinction of Gaullism in France is that it takes the nation France as an entirety as a primary reality. It rejects the notion of France as either an aggregation of individual Frenchmen or as the average Frenchman. It is correct to restate Gaullism's point of view ironically: that *France is not French*, and that *whenever France attempts to become French, the nation is headed for disaster*.

Gaullism is obliged to locate the primary interest of France in technological progress in terms of industry, agriculture and levels of culture. Gaullism is obliged to address the fact that the social classes which represent that self-interest are the industrialists, the industrial workers, and the technologically oriented farmers. It also must address the fact that none of the three classes by itself is presently capable of assembling itself as a competently oriented programmatic expression of that self-interest. The universalizing catalyst and leadership of those three classes must be supplied from outside those classes themselves, by a political intelligentsia organized as a political force. Such an intelligentsia — with a strong Gaullist military flavor, leading an alliance of industrialists, industrial workers, and progressive farmers — is the present social composition of Gaullism for practice.

The problem of France remains today as Karl Marx defined it in the *Eighteenth Brumaire*: shopkeeper France, the French petit-bourgeois, and petit-bourgeoisified French people.

The irony of the Gaullist *formations* is that they serve as a social catch-basin for the sheep-like petit-bourgeois elements drawn toward Gaullism *in the wake of* the industrialists and industrial workers. Hence, whenever Gaullism is cut off from an active orientation toward its natural social composition, cut off from a programmatic alliance with the CGT, Gaullism is isolated, and thus trapped in the grip of its own petit-bourgeois following. In this grip, Gaullist formations tend to become French, *petit-bourgeois French*.

Chirac is the essence of this petit-bourgeois aspect of the isolated Gaullist formations. He is a careerist, caught up in the Gaullist movement, who finds defeated, isolated Gaullist formations an agreeable launching pad for the advancement of his career.

#### *The Chirac Mayoral Campaign*

The current role of Chirac is properly examined first from two aspects, and then both properly integrated. First, the Chirac campaign should be considered in the light of the way it, at least temporarily, wrecked the Gaullist RPR. Second, the significance of Chirac's role should be located in the Rockefellers' overall "left-right" game-plan for internal French politics, e.g., Mutt and Jeff, Giscard and Mitterrand. The integration of both points provides the correct insight into the matter.

The problems of France are, immediately, collapsing industrial development, retreating agriculture, and the consequences of those erosions under conditions of cancerously expanded financial overhangs in the internal and foreign debt. The task for France is to

mobilize the industrialists, industrial workers and progressive farmers as a leading force around a program of monetary reforms directed to get France's industrial exports and internal industrial levels of output moving along lines of technological progress. M. Debré and other Gaullist "old guard" leaders have persistently

The Gaullist "old guard" clings to its nominal asset, Chirac, like a drowning man attempting to retain possession of an anchor.

threatened to move in that direction. It is that impulse within the "old guard," in the environment of Andreotti's Italy, Schmidt's West Germany, and the Arab dinar bloc, which put the Gaullists on the ascendancy prior to the end of the Paris elections.

Chirac's mayoral campaign was a blob of anti-Communism floating in a tub of stinking dishwater. Basing himself on the natural constituency of Louis Napoleon, Chirac stuck to the Rockefeller game-plan for Europe: splitting political forces along so-called ideological lines of "left" and "right." Gaullist support of Chirac drove the CGT Communist-led trade union from the Gaullists. This, in turn, undermined the ability of the Gaullists to negotiate a program with the French industrialists, and left the Gaullists isolated in the grip of their petit-bourgeois constituencies. It strengthened the grip of Chirac and other modern potential Louis Napoleons on the Gaullist "old guard."

The remedy for this mess ought to be obvious. Yet, the Gaullist "old guard" clings to its nominal asset, Chirac, like a drowning man attempting to retain possession of an anchor.

The Zaire issue appeared to be the downward-turning-point for the RPR. In reality, the Zaire issue merely forced to the surface the crushing rout which Chirac's election to the Paris mayoralty had already accomplished. To be specific: leading Gaullists have developed a perception of the U.S. Labor Party as a natural ally. Although the relationship is complicated by massive Rockefeller pressures to disrupt such communications, whenever the Gaullists are in fact in the ascendancy, their communications with the Labor Party tends to be open and frequent. Whenever they are severely set back and frightened, being pressed to violate their consciences, the communications invariably dwindle to a relative trickle. All the crucial signs — cancelled appointments and so forth — had been given to us significantly prior to April 4. Within a week following Chirac's inauguration, the RPR was in a state of self-induced rout.

#### *The Mitterrand Connection*

It was the emphatic perception of the circles of Rockefeller, Margaret Thatcher, Franz-Josef Strauss and others early during 1976 that François Mitterrand was securely in place, with adequate back-up (Rocard et al.).

Mitterrand was the Rockefeller network's "coming man" in France. Various combinations of the "right-left" game could now be played at suitable crisis-points in French internal politics. On the right there was Giscard, Chirac, and so forth, and on the "left" the neo-Fabian operatives, with Mitterrand heading the list.

For example, if the Barre government falls, Mitterrand can be pushed into the premiership. If Giscard stumbles, Mitterrand can be maneuvered into the presidency even before 1978. If Mitterrand et al. stumble, Chirac et al. step in as replacements. The essentials of Rockefeller's policy for France will not change in either variation; the packaging will be different, but the contents of the package will be identical.

It is exemplary of this that Chirac is not unknown to Austria's Bruno Kreisky. Kreisky is not the brains of the Kreisky-Brandt-Palme-Craxi-Mitterrand formation within the Socialist International. It is also exemplary of this that Franz Josef Strauss has esteemed Chirac as a prospective member of a little circle inclusive of Strauss, Margaret Thatcher, and similar figures.

The special significance of Chirac's Paris mayoral campaign is that at the same time Chirac drove a wedge between the Gaullists and the CGT, he drove the CGT into the grip of Mitterrand's political bed-partner, Georges Marchais. The followers of Louis Napoléon are no doubt delighted; they consider it a violation of the laws of nature to be obliged to give a tourist fair change or an employee a living wage. Hence, they can tolerate Marchais the pink shopkeeper of the French Communist Party (PCF) quite nicely, but the CGT never!

What is Mitterrand? He was a war-time protégé of Jacques Doriot, the Nazis' pet fascist of occupied France. He was a decorated part of the fascist kernel within the Pétain Vichy regime. Subsequently, he performed a self-laundering activity publicly, emerging as a self-proclaimed socialist.

To understand Mitterrand more exactly, one must know two principal facts concerning the Socialist Party of France (PSF); its kernel and its recent development with the aid of the Marchais-led Communist Party (PCF).

The kernel of the PSF is an Anglo-American intelligence network consolidated during the 1943-1949 period. Raymond Aron, Jean-Paul Sartre, Lévi-Strauss, Louis Althusser, Michel Foucault, Bosquet (André Gorz), the late Serge Mallet, and the French "Trotskyists" are key elements of the networks emplaced partly within and partly outside such formations as the Unified Socialist Party (PSU). Through such Trotskyists as Ernest Mandel and Pierre Frank, the French network overlapped the Gerlach-von Oertzen *Socialistische Politik* editorial board network in West Germany. This also intersected such French formations as Marseilles' Defferre, Force Ouvrière, and the networks of Irving Brown and similar types.

During the U.S. Kennedy Administration, there was a sweeping reorganization, emphasizing U.S.-based Rockefeller control at the relative expense of British influences — although potentially independent British influences were not eliminated. This latter is a complication to be kept in mind, especially in the post-1974 period. This shift, coinciding with the establishment of

the neo-Fabian Institute for Policy Studies (Marcus Raskin, Richard Barnet) as the center of the "left" Rockefeller international intelligence networks, coincided with a successful deception operation against the Soviet leadership, in which Richard Barnet and other David Rockefeller agents established a growing penetration of Soviet leadership circles — and enhanced penetration of Communist parties.

Under the PCF leadership of Marchais, the process leading to the establishment of the "Programme Commun" was openly launched. This transformed the PSF from a tiny splinter organization into what is nominally the largest political party in France today. Although the PSF was rebuilt to its present seize chiefly under the direction of Rockefeller and allied intelligence networks, the Marchais leadership of the PCF supplied the organizational muscle by which this was accomplished. The PSF grew as the kept companion of the PCF.

This project was deliberate. Although various analysts and observers choose, for varied reasons, to overlook and discount that fact, the CGT — and therefore also the

Move by move, the Mitterrand-Giscard objectives come closer to the endgame positions Rockefeller desires. The foolish Gaullists move according to scenario, at each move professing that progression to be an exercise of their independent will!

PCF — was one of the pillars of the founding and consolidation of de Gaulle's Fifth Republic. Creating today's petit-bourgeois, agent-controlled PSF, and tying the PCF leadership to the PSF, is a primary tactical objective of the Rockefeller interests for France. However, that alliance of Marchais and Mitterrand depends upon the PCF's ability to keep the CGT captive.

This game-plan, for keeping the Gaullists isolated from the CGT — and hence impotent — depends upon forces inside the Gaullist formations playing into the "right-left" game according to Rockefeller plans.

Thus, Chirac's Paris mayoral campaign was in fact a campaign on behalf of François Mitterrand. Was this Chirac's intent? We can not read his mind by means presently available to us — although under appropriate clinical conditions we could. However, there are certain features of the RPR which conclusively demonstrate that Chirac's campaign in behalf of Mitterrand was in fact the conscious intent of certain forces behind Chirac. We write most emphatically of the networks of the Paris office of the Hudson Institute, which have a marginally controlling influence within the RPR, which represent the hard-core of Chirac's immediate support, and which push precisely the Rockefeller line.

These are the same forces within the RPR which

levered the vacillating RPR into the support of Giscard's adventure. Anyone who opposed that strategically imbecilic adventure was attacked as adopting "The Kremlin Line."

Will Mitterrand, then, support the Zairean adventure? Probably not, or if so, with minimal visible enthusiasm and a minimal self-implication in the affair. Mitterrand and the PSF-PCF "left" must capture the potential opposition to an African adventure for Rockefeller — in case Rockefeller, Giscard, Chirac and the "right" should stumble in this affair.

At the moment of last report, the Gaullists and the CGT were being manipulated like so many pawns on a chessboard — the CGT less so. Each time the player moved a Gaullist pawn, the pawn proudly insisted, "I made this move because I wished to do so." In fact, the politics they are playing is a game, a charade, a farce. There is not exactly a script, but there is a controlling scenario. The Gaullists — for the moment — are merely actors in a scenario directed according to the principles of modern countercultural cinema and stage.

Move by move, the Mitterrand-Giscard objective comes closer to the end-game positions Rockefeller desires. The foolish Gaullists move according to scenario, at each move professing that progression to be an exercise of their independent will!

#### *The British Complication*

The Western European opposition to Rockefeller's Carter has arisen in the circumstances of a post-1974 factional division between Rockefeller forces and certain important sections of British interests. Since post-war Europe was predominantly under the control of Anglo-American-Dutch networks, a split between a significant section of British interests and Rockefeller interests has created maneuvering-room for other, more independent forces.

This is most relevant to the present situation in France and to the situation of the Gaullists in particular. Mention of the name Rothschild evokes some of the relevant points.

Although British perception of its opposition to Rockefeller is colored by actual British industrialist self-interests, monetarism and associated ideology have been an ingrained feature of British political life since 1688. The same British thinking which compelled the political forebears of today's United States to wage a revolutionary war against England is still a governing flaw in the British character today.

Currently, the British outlook is fairly described thus. On the one side, informed British circles see the need for an International Development Bank. Yet, at the same time — almost in the same breath — they propose some form of bailout of the IMF. This peculiar variant upon the old, discredited doctrines of "bimetallism" is by no means accidental. They wish the IDB to come into existence to support the remains of the IMF!

The predominating City of London's point of view is that from Versailles onwards, Rockefeller and Company continued the British form of monetary order while robbing the City of London of its majority shares. Now that lower Manhattan has put itself into an insoluble fix, the City spokesmen of the City of London would like to do

to Rockefeller what Rockefeller did to them. They view the IDB as a parallel engine of world-trade expansion, to prop up a perhaps British-dominated world monetary order based on a reorganization of the IMF.

The fallacy in their conception is analogous to the case of a man who proposes to reduce the fire-hazard in his home by setting fire to only half of the gasoline covering the floor of his basement. When the British elect to be stupid, they can be wonderfully stubborn about it.

The point under consideration here is not, however, to elaborate on that problem as such, but merely to define it to the point one can appreciate its relevance for France.

It is a significant fact that the Gaullist formations depend significantly on the financial and political environment represented by certain Rothschild and analogous interests. One has but to consider the implications of the monetary reforms which must be undertaken urgently within France to discover the implications of this association.

Although the general problem of France is a product of the collapsing old, dollar-denominated monetary system, no economic recovery of France could occur without rather drastic reforms of the internal monetary system. Going down a short list of categories of existing debt and related financial holdings identifies the problem under consideration.

No industrialized nation can unilaterally repudiate or discount its own national government's debt. At least, not under the kinds of conditions in which we currently undertake to establish a new monetary system. Nor can debt be discounted in such a way as to impair the economic integrity of essential industrial and agricultural institutions. Nor can the state fail to protect ordinary savings of individuals up to a certain minimal level. This prescribes that monetary reorganization is accomplished chiefly by bringing protected categories of financial holdings into the national banking system's orbit, leaving other paper to float on the free market, to reach its own level without aid of state intervention.

This floating creates no real problem for industrial firms. Since any monetary reform must be defined to direct credit into production and useful real capital formation, equities can float down to almost any level over the short-to-intermediate term, with a general understanding that they will float up to whatever levels economic recovery establishes. Corporate and farm integrity protection from foreclosures by debt-holders can — and must — be provided by law, forcing stalled, excess debt-holdings onto the market at appropriately discounted prices — a circumstance which a U.S. Third National Bank under the writer's Presidency of the U.S. would know exactly how to exploit to national advantage.

The procedures required are no substantial net hardship for anyone but the holders of the relatively most-fictitious paper, such as real estate and other speculation. In fact, it is desirable, necessary that large volumes of book values in this area be wiped out, creating room for generation of credit for capital formation.

The internal overhang of speculative paper is a monstrous problem within France. Tracing the hereditary features of such paper — as in real estate — to the more notable financial interests, one discovers how relevant the problem is for Gaullist formations. The

Gaullists may pride themselves on their instinctual disposition to represent the humanist interests of France, but no workable program consistent with vital French national interests can be put forward unless it includes, at least implicitly, the kind of monetary reforms indicated. Unless the Gaullists are willing to abandon Chirac et al. for an alliance with the industrialists and CGT, they are organically impotent.

No party can represent the vital interests of France unless it solves the problem of creating masses of capital for full-capacity utilization of existing industrial and agricultural capacity, and continues beyond that to accelerated technological development of industry and agriculture. Anything else is crap, useless verbal posturing.

This requires a basic orientation of France toward high-technology exports in collaboration with other Common Market (EEC) countries, and in a division of labor for this purpose among the EEC countries, Japan, North America and the CMEA bloc. This also requires a new monetary system, the International Development Bank. These two measures can not succeed unless they include commitment to accelerated fission-fusion development on a global scale. Any party which does not commit itself openly to that program is a useless collection of windbags.

No foreign export program can succeed without a viable internal mechanism of generating credit for capital formation in agriculture and industry. That can not be done without cleaning up the internal financial mess. Any party which does not commit itself to that is a useless collection of windbags.

Other measures are needed. Political and economic security agreements with other nations are needed. Within the national framework, the summarized principles permit certain alternative approaches to fulfilling those principles. Such additional matters are therefore debatable among responsible forces. The principles we have cited here are not debatable.

In short, by tying themselves opportunistically to certain imagined political assets, the Gaullists prevent themselves from advancing consistently a program which any sensible person in France would seriously support. To that extent, the Gaullists have abandoned de Gaulle's notion of France in favor of counting individual Frenchmen's noses. They are attempting to practice Gaullism by parliamentary methods appropriate to perpetuating the Fourth Republic.

#### *The Road to Recovery*

No matter how decayed a nation becomes it includes a portion of its population which is capable of abruptly freeing itself from the mental shackles of narrowness, to recognize both the existence of a positive general interest and a positive connection between that general interest and individual interest. It is upon that principle of modern, industrialized nations that the conception of a democratic republic depends. That is the key to France.

In that respect, my own position in the United States is categorically analogous to the position of Charles de Gaulle in 1957-58. To pull the nation back together, to make it efficiently conscious of its real self-interest, crises demand a special kind of national leader. I must

therefore aspire to be President of the United States — as soon as the present administration is impeached — not out of personal ambition, but because no one else is yet visible as a candidate with the precise sort of categorical qualifications required. That is the way de Gaulle rightly saw himself in the establishment of the Fifth Republic; that is the way I rightly view myself in the task of restoring the United States to a Constitutional Republic conforming to the intent of its establishment.

The immediately relevant point is that I consequently look at my own nation and other nations from a special sort of vantage-point. My specific outlook is de Gaulle's, Benjamin Franklin's, Alexander Hamilton's, and so forth. This special way of looking at one's own nation is complemented by the mental habit of considering other nations by the same standard. Hence, speaking broadly, I look at France or West Germany in much the same way as de Gaulle looked at Adenauer's BRD. I look at it as if it were my own nation, seeing it simultaneously from the inside and outside.

Hence, in respect of what distinguished de Gaulle from Frenchmen, I see France in the same kind of distinguishing way that de Gaulle came to view it. From this same standpoint, meeting leading Gaullists of the "old guard," I can see their virtues, and can also see why de Gaulle had no successor. With a leader of the requisite qualities, the Gaullists can be kept firm, unvacillating, a marvellous political striking-force. Without such leadership, without some authority outside themselves, they vacillate.

The potentially fatal weakness of Gaullism as a political force is that it does not have a concrete, transmittable form of existence. It was essentially the mind of Charles de Gaulle, which radiated its influence, but which provided de Gaulle's collaborators with no conscious, coherent body of knowledge. Gaullism has no coherent theory, but had only a set of humanist principles and de Gaulle.

I do not mean a *doctrine!* I mean a theory, an epistemology, a self-conscious epistemology. Such an epistemologically grounded theory represents an instrument by which one mind can directly assimilate and master the crucial-hypothesis-generating creative processes of another. Without that instrument, science

It is the limitation of the Gaullists, that they lack the reproduction of the equivalent of de Gaulles's creative qualities, and are therefore not de Gaulles but Gaullist performers.

features isolated leading individuals who exert their influence fruitfully among others, but do not reproduce their creative qualities in others.

Hence, the political importance of the Beethoven project. It is not satisfactory to have masters who can

perform Beethoven's music: it is essential to have composers who can replicate the kind of music-creating process Beethoven most essentially represented. In the case of France, de Gaulle was the modern "Beethoven" of French politics — whatever, at the same time, he was not. Either because he was not self-conscious of his own relevant creative processes as something communicable, or for other reasons, he left behind him Gaullist performers, but not Charles de Gaulles.

Creativity is not a quality properly restricted to exceptional individuals. It is a quality which can be reproduced wilfully through the medium of self-conscious epistemology. It is the limitation of the Gaullists, that they lack the reproduction of the equivalent of de Gaulle's creative qualities, and are therefore not de Gaulles, but Gaullist performers.

What this means in practice is that the Gaullists lack the developed special qualities of powers of conception necessary to discover by themselves what must be done. Their advantage of training, experience and institutionalized moral standing in France is that they have a superior capability for assimilating and acting upon the required conceptions — on the included condition that the "old guard" ceases running about in skew directions,

and, instead, deploys itself as a concerted political force.

This requires that they cease poking about for viable combinations in this or that nook and cranny of the PSF sheep-pen, or other opportunist enterprises of that sort.

One starts properly from knowing what is to be done and which forces are suited to that purpose. I and my associates have given to France what France needs to know in its self-interests. We have defined the intelligentsia mobilized around that program as the key social force, which must unite the industrialists, industrial workers (CGT), and progressive farmers behind that program and intelligentsia. (As for the rest of the Frenchmen, petit-bourgeois sheep *follow*; one does not build a leading political force with sheep.) That conception is a principle; if the Gaullists deviate from it, they are lost among the sheep — and perhaps France, too, is doomed.

France has several times gone to the hard school of military defeat or near-defeat, thus sometimes to discover once again that France exists as a nation with a national self-interest. This time, the thermonuclear tuition fees are too costly to permit such past lessons. This time, reason must rule before war begins.

— by Lyndon H. LaRouche, Jr.

## Callaghan Government Endangered By Erosion Of Union Base

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### BRITAIN

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The attempt by the Callaghan government to stall the creation of an International Development Bank-type alternative monetary system in favor of various "pro-development" schemes to reform the International Monetary Fund has exacerbated the already touchy relationship between the government and the trade unions who form the traditional base of the Labour Party.

While apparently embroiled in a debate over the form of a Phase III agreement on wage and price controls, the real subject behind the intensive government-union discussions is the success of the government's so-called industrial strategy, the blueprint by which the Callaghan government is intending to reverse the steady decline of industrial capacity and production in the recent past. If the government is unable to convince not only trade union leaders but their rank-and-file as well that the industrial strategy is the only course open to the country by the time the current Phase II agreement expires July 31, the chances of the Callaghan government remaining in office past early fall are remote.

The magnitude of the task facing the Callaghan government is already clear from the amount of opposition to the continuation of the social contract that has

surfaced from the trade unions. Major strikes at British Leyland, British Steel, and British Airways, all around demands from skilled workers for the reinstatement of wage differentials, are indicative of the general unrest within the trade union movement after two years of wage controls have effectively reduced living standards by 5-10 percent each year. The government has promised that revenues from North Sea oil, the effect of spending cuts already made, plus a significant investment strategy for key industries will combine to turn around the economic decline and allow for increasing living standards. But unions faced with negotiating next year's pay increases now are showing little interest in such promises.

Major defeats for the continuation of the social contract have been only narrowly averted in the past week at the first of the summer months' trade union conferences. Resolutions from the miners' union and other major unions at both the Scottish and Welsh Trades Union Congress meetings called for the complete rejection of the social contract and a return to free collective bargaining. These were defeated by small margins after warnings from government and trade union leaders that such a tactic would immediately threaten the existence of the Labour government. Nonetheless, clear warning was given to the government that continued depression of wages without sounder policy for massive investment in industry would not long be tolerated by the unions. As the delegates to the Scottish TUC conference said in their major resolution:

"We hold that neither the effect of wage rises on inflation, nor the steady rise until recently in public expenditure, are major root causes of Britain's economic problems. The central problem has been a failure of private 'enterprise' to invest in British industry."

The sincere uneasiness of many trade unionists about the government's strategy has been further exacerbated by the open attempts of a "broad left" coalition made up of the British Communist Party (CPGB) and various so-called "Trotskyist" groups to tear up the social contract, and the Callaghan government with it, even if it means a return to a Conservative government. British Airways officials have charged that the "International Socialist" group is the primary cause of the union's hardline stance during negotiations on the settlement of the strike at Heathrow airport. But attempts by this left coalition to stage a mass demonstration in London of 10,000-20,000 people on April 20 drew only 3,000 demonstrators.

In an attempt to avert a complete breach between itself and its trade union base, the government is coordinating closely with top trade union leaders such as Jack Jones of the Transport workers union, to broaden the meaning of the social contract beyond pay policy and to educate union members in the government's longer-term

industrial strategy.

Prime Minister Callaghan initiated the campaign during a speech to the Welsh TUC conference in which he warned union members against hyperinflation if all wage demands arising from a return to free collective bargaining were met by "increasing the supply of confetti money, printing pound notes again." Rejecting the possibility of an immediate "deal" on Phase III wage policies between the union leadership and the government exclusively, Callaghan pledged to spend the next three months of trade union conferences making clear to trade union members the details of the government's economic strategy and their responsibility in implementing it. Already, Cabinet ministers have been deployed to smaller trade union conferences and local trade union council meetings to discuss economic strategy with participants.

Callaghan's strategy not only has the support of trade union leaders like Jones; John Methven, the head of the Confederation of British Industry, the industrial organization which forms the third part of the government's tripartite discussion on economic policy, has called on the government to take a more positive initiative in selling its program.

## New Northern Ireland Destabilization Aimed At Callaghan

Rockefeller private intelligence networks operating through the Provisional IRA (Irish Republican Army) and local Protestant "loyalist" groups in Northern Ireland have threatened new terrorist actions in the strife-torn province aimed at undermining Callaghan's government in Britain.

Militant Protestants announced last week that they would begin a campaign of economic disruption if the government did not introduce stricter security measures within seven days and take action to restore Protestant control of the provincial Parliament, suspending proposals for power-sharing with Catholics. If the British government acquiesced to either of these demands, the IRA would mount fresh terrorist attacks in Northern Ireland and probably Britain as well. (The IRA's number one assassination targets recently have been prominent Northern Ireland industrialists.)

On the other hand, if the Callaghan government refuses to meet the deadline, the United Unionist Action Council, an umbrella grouping of loyalist bodies, has threatened a province-wide general strike similar to the 15-day shutdown in May 1974 which toppled the first Northern Ireland Administration in which the Catholics shared power.

The Protestant ultimatum was addressed to Britain's Northern Ireland Secretary, Roy Mason as a half-page advertisement in the *Belfast Newsletter* April 25. Mason, who has consistently made economic reconstruction the major plank of his Northern Ireland policy, has moved to defuse the explosive situation. Warning that a general strike would not only have "disastrous effects" on the pro-

vince's economy but would help the IRA in its attempts to make the province ungovernable, Mason has tried to mobilize public opinion against the threatened Protestant protest and has indicated to local politicians that the government is ready to adopt a more forceful approach against the strikers than that taken in 1974.

Because most top jobs in Northern Ireland's crucial industries are held by Protestants who will presumably strike, a substantial increase in government troop levels would be required to maintain essential services, particularly electricity (there are now 14,000 soldiers in Northern Ireland, compared with 17,500 in May, 1974).

Not only would military intervention cause a reaction from the IRA, it would tear apart the British Parliament: the reason the Rockefeller networks have undertaken this operation now. Strike-breaking action by the Army could arouse British workers against cooperation with the government under the "social contract," central to success of British Prime Minister Callaghan's industrial growth program. This Rockefeller network offensive is being mounted just as Callaghan has scored one of his most important victories toward boosting employment in the province. According to the *Journal of Commerce*, Shell Oil cancelled negotiations with the Japanese shipbuilding firm of Mitsubishi — although their prices were 20 percent lower — in order to place orders for two liquid gas tankers with the Northern Ireland shipbuilders, Harland and Wolff. The contracts will provide 2000 jobs for two years in high unemployment districts of Belfast, and had been a personal objective of Callaghan's.

# Excerpts From Italian Conference On European-Arab Cooperation

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## SPECIAL REPORT

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*The excerpts and summaries of speeches which appear below are from an April 23-24 meeting at the Palazzo Vecchio in Florence, Italy on European-Arab cooperation. The meeting was one of a continuing series begun in 1973 between representatives of the nine EEC countries and the 21 member countries of the League of Arab States. The theme of the Florence meeting was European-Arab collaboration on economic and political issues. Third World and European leaders attended including former Mexican President Luis Echeverria Alvarez.*

*Couve de Murville, former French prime minister and foreign minister under De Gaulle: Couve de Murville expressed pessimism about the prospects for the European-Arab dialogue, saying that there is little political cooperation now, and that all that can be expected is to continue to carry on a dialogue.*

*Giancarlo Pajetta, member of the Secretariat of the Italian Communist Party (PCI): "We cannot content ourselves with bilateral relations between Europeans and Arabs, because the unity of the Arab world is important for Europe. For this reason, the Arabs must overcome their divergences, like that between Libya and Tunisia, on the definition of a continentwide platform."*

*Jaker, vice-president of the Algerian National Assembly: "It is necessary to see the European-Arab dialogue in the context of the new world economic order of (Algerian president) Boumedienne. The real danger is recession, for the West as well." Jaker then attacked Italian Foreign Trade Minister, Rinaldo Ossola, who had given a speech calling for Arab support of the Witteveen*

plan, the proposal for the Oil Producing and Exporting Countries to increase their financial support of the International Monetary Fund: "Ossola wants to put a limit on the development of the Third World," Jaker said.

*Cardia, PCI representative: "It is necessary to place the dialogue in the context of the North-South Conference. Political relations with the Arabs are necessary; the PCI will continue to press the matter."*

*Granelli, Christian Democrat parliamentarian expert on foreign relations and member of the party's Directorate: "The first point to be resolved if one wants to talk of dialogue is that of the Middle East war...It is necessary to develop a political dialogue...One cannot make a polemic on a multilateral or bilateral approach, because both are necessary. The first point is to resolve the Middle East war that threatens to destabilize not only the Mideast, but also central Europe. Europe must be more aggressively at the window. Israel must retire from occupied territories, recognize the Palestinian state and in this regard must take note of the agreement signed in London by the EEC ministers. Italy appreciates the interests of the Arabs at Belgrade who can support detente and European cooperation if there is a hot situation in the Mediterranean...It is necessary to change the international order to depart from the International Monetary Fund toward commercial agreements, without forgetting the construction of the new world economic order."*

*Fracanzani, Christian Democrat Deputy: Fracanzani called for the creation of a Palestinian state, and said that Israel must understand the dangers of aggravating the situation and Europe must refuse to submit to alliances that would render it impotent. It is necessary to censure France for its initiative in Zaire, he said, but it is realistic to speak of initiatives to gradually demilitarize the Mediterranean.*

EXCLUSIVE

# Economic Squeeze Propelling South Africa To War

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## SOUTH AFRICA

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The Union of South Africa is now finding itself in an economic squeeze which is quickly forcing it to look for an answer in a march against its neighboring African nations. Since last spring, the New York banks have shut South Africa out of the Eurobond market and out of private lending avenues. Throughout the summer riots provoked by networks linked to the Washington, D.C.-based Institute for Policy Studies frightened off investment. The South African budget of March 30 makes it official that the country is now effectively cut off from the international money market with no new borrowing planned despite a desperate need for credit.

While South Africa's economy reaches a point of negative growth, the budget calls for large increases in military spending and debt service payment to be met with the issue of low interest government stock for compulsory purchase by pension funds and insurance companies, draining the private sector of scarce capital. An import charge of 15 percent is now crippling production as well as consumption. The combined measures are a formula for an early bout of intense stagflation, driving South Africa into war as the sole means to recoup in spoils what its economy can no longer produce as profit.

What this means strategically is that the internal logic of the South African economy now dovetails with the policy of the Trilateral Commission's Carter Administration policy: the use of southern Africa as a flash-point for a nuclear showdown with the Soviet Union. Spurred to an *anschluss* policy, South Africa would drive into Tanzania, Zambia, Mozambique and / or Zambia, all countries which would readily gain the support of the Soviet Union under attack.

Rockefeller interests have also been specific on their domestic policy for South Africa: the policy of the *bantustan*. The vast bulk of the black population in the country is being shipped to underdeveloped tribal homelands where they will be used for labor-intensive industry under state control. In terms of such population's prospects for survival it is not an exaggeration to characterize the *bantustans* as concentration camps modeled on those of the Krupp slave works.

Rockefeller policy for the country's mining and industrial sector involves a turning away from productive industrialization to pure military production and increased extraction of raw materials to be carried out by

a recycled force of semi-skilled black workers who would replace highly-skilled white workers. Many tasks now performed by skilled white workers would be broken down into two or three jobs performed by semi-skilled black workers who would earn 15 times less the pay. This is the crux of the liberalization campaign against *apartheid*.

This policy was put to South African Prime Minister Vorster last spring by then Secretary of State Henry Kissinger as the country's foreign reserves were falling by one-third in an eight-week slide. In June, instigated riots, easy to stir up in the social tinder of South Africa's "coloured sections," were launched by Institute for Policy Studies networks. With riots raging in Soweto and foreign reserves continuing to slide, Finance Minister Horwood flew to New York and Washington in July to negotiate a loan from a Citibank-Morgan-Bank of America consortium and a standby agreement with the IMF. As a condition to the loan he was told to "improve the condition of urban Africans" with labor-intensive jobs, and to cut imports. More recently, a dozen U.S. corporations — including Citicorp, Mobil, Caltex, Ford, General Motors, and IBW — have issued a joint Statement of Principle for improving the conditions of urban black workers to the same ends.

### *Apartheid Economy*

A brief review of the development of South Africa's apartheid economy helps to explain the extreme vulnerability of the country to a financial operation which leaves no other options but war.

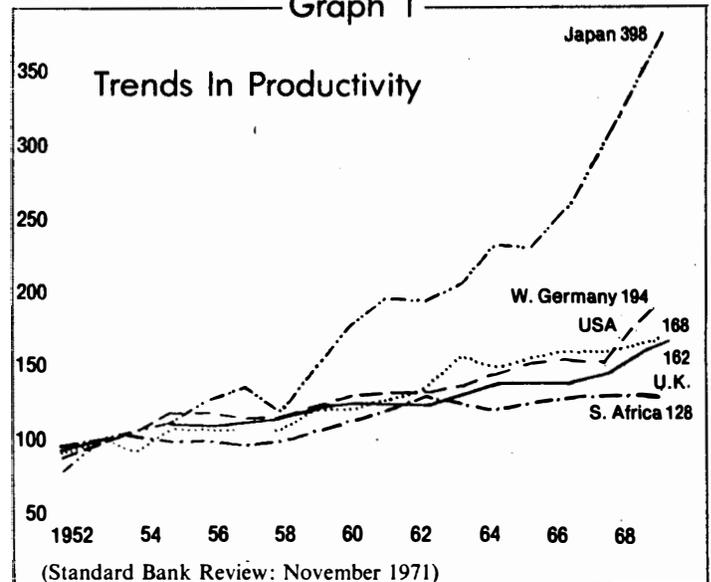
Exceptionally low wage and living standards have historically been built into the economy for almost all of the 80 percent of the workforce which is African, Indian, and Coloured. Until World War II, South Africa was viewed from London and New York as nothing more than the location of some highly profitable mine shafts. Profitability was maintained at the highest level by restricting "social overhead capital" as far as possible to the small white population by means of racial segregation — since formalized as *apartheid*. Meanwhile the African workforce was compelled to sustain itself with a combination of wages insufficient to produce a new generation of workers more advanced than itself culturally and technically, and the social overhead capital afforded by the peasant-tribal subsistence agriculture of the African reserves. In short, the young, the old, the childbearing, and otherwise unemployed elements of the African population lived on these reserves with the help of whatever portion of working family members' wages might be remitted to them. Black townships outside the white cities provided

nominal social services and all-male compounds on the mines provided dormitory residence for those Africans permitted to work in the cities and mines for the duration of their contracts.

The reserves became increasingly overcrowded and overgrazed given the economic function they performed without the benefit of any capital formation process. The report of the government's Tomlinson Commission (1955) called living conditions in the reserves subsistence, as indeed they had been for years before that. In the period after World War II, when the Nationalist Party — the party of the Dutch-descended Afrikaners — wrested power from the English-speakers and proceeded to develop state-sector industry, both the labor requirements of that industry and the exhaustion of the reserves dictated that minimal improvements in the conditions of the townships be made. Otherwise, the system has not been changed except to curtail political liberties and enforce apartheid with greater rigor. A crippling shortage of skilled labor has therefore developed. For the mines, recruitment was done from a catchment area extending further and further into adjoining countries, apparently as a result of the dwindling proportion of total labor power need which the reserves could support.

In the postwar period South Africa carved out markets with goods that were cheap because African labor costs were kept low, while Japan was gaining markets with goods that were cheap because the overall production process used was advanced. As a result South African productivity in the 1950s and 1960s not only failed to take the leaps experienced in Japan, but trailed well behind the undramatic increases in productivity registered in West Germany, Britain, and the U.S. (see Graph 1).

Graph 1



African productivity was calculated in 1961 at roughly 25 percent of white.

Under these conditions, there has been very little margin of "fat" in the South African economy — even in the white population — with which to postpone a political drive for war in the absence of foreign investment. Now with the South African economy reaching a point of negative growth, war is on the agenda.

#### Negative Growth

Although real GDP still registered an increase of 1.5 percent in 1976, manufacturing output showed zero

### Manufacturing And Mining Output

	(PHYSICAL VOLUME, 1970=100)							
	1969	1970	1971	1972	1973	1974	1975	1976
MANUFACTURING OUTPUT	95.6	100.0	102.1	105.2	114.4	121.2	123.7	123.5
PERCENT CHANGE OVER PREVIOUS YEAR		4.6	2.1	3.0	8.7	5.9	2.1	- 0.1
MINING OUTPUT*	96.4	100.0	97.4	90.6	85.4	75.8	71.2	71.1***
PERCENT CHANGE OVER PREVIOUS YEAR		3.7	- 2.6	- 7.0	- 5.7	- 11.2	- 6.1	- 0.1
MINING OUTPUT**	87.7	100.0	101.4	100.3	115.7	127.9	132.0	136.0***
PERCENT CHANGE OVER PREVIOUS YEAR		14.0	1.4	- 1.1	15.4	10.5	3.2	3.0

\* GOLD ONLY \*\*\* FIRST NINE MONTHS ONLY (1976)

\*\* NONGOLD

SOURCE: SOUTH AFRICAN RESERVE BANK, QUARTERLY BULLETIN, DECEMBER 1976

FINANCIAL MAIL, "FINGERTIP FACTS," NOVEMBER 5, 1976; APRIL 15, 1977

growth and fixed investment fell 5 percent. Real per capita income has dropped by 10 percent over the past two years.

The manufacturing sector is nearing an "impending disaster" with "no signs of an upswing," South Africa's leading business weekly the *Financial Mail* justly observed March 18. The Manufacturing Production Index — which had climbed from a 2 percent annual growth rate after the September 1975 devaluation to a 4-5 percent level for a few months — slid into negative growth throughout the second half of 1976. The last quarter of 1976 shows a 5 percent contraction on the same quarter of 1975.

**\*\*In steel and engineering,** the Steel and Engineering Industries Federation of South Africa reports new orders as "exceptionally slow" in January, with some sectors reporting production or demand touching new lows. Crude steel production in 1976 showed only a 3.4 percent growth over 1975, and some of this growth represents a buildup of inventory to postpone layoffs. The figure is distinctly unfavorable compared with an average annual growth in output of over 5 percent in the period 1968-74. Production for Jan.-Nov. 1976 was 6.4 million tons; Jan.-Nov. 1975, 6.2 million tons.

**\*\*Commercial vehicle sales** dropped throughout most of 1976. The three months ending February 1977 show a 21 percent contraction on the same period in 1976.

**\*\*The value of building starts** expanded during the first half of 1976 and began to contract in the second half. The three months ending February 1977 show a 22 percent contraction on the same period a year earlier, unadjusted for inflation.

**\*\*Cement production,** which continued its expansion through the first half of 1976, dropped during the second half. The quarter ending February 1977 shows a 12 percent contraction on the same period a year earlier.

In contrast to manufacturing, mining production has turned up. Both gold and non-gold mining sectors, stagnant through the first quarter of 1976, moved to higher levels thereafter. This was especially true of non-gold production; diamonds, coal, and copper are the leading foreign exchanges earners. Non-gold mining production was up 4 percent in the quarter ending January 1977 on the same period a year earlier, based on sales of diamonds and coal especially, while mining production including gold was up 3 percent over the same period.

Real per capita income has dropped by 10 percent over the past two years. The flesh and blood meaning of that drop in living standards is made clear by noting that the average African household in South Africa was living for below the breadline two years ago. According to a study carried out by Market Research Africa in the second half of 1975, the average African household had an income of 74 percent of the lowest Household Subsistence Level (HSL) and 60 percent of the Johannesburg HSL. The HSL, calculated at the University of Port Elizabeth's Institute for Planning Research, includes bare minimum allowances for food, clothing, rent, soap, transport, and fuel. As average figures, they reflect an incalculable degree of brutalization of that half of the population below the average income. The 10 percent drop has occurred since the study.

Unemployment is estimated by the *Financial Mail* Feb. 25 to have doubled over the past two years to a figure exceeding one million, almost all of it African, out of a total workforce of 10 million. (The government maintains no mechanism for enumerating the number of Africans unemployed, although 70 percent of the workforce is African.) There are now reports of Africans breaking into white homes in rural areas to steal food.

White trade unions in the state sector were taken by surprise to learn, just before the new budget was announced at the end of March, that there would be no salary increases in government employment in the budget. This amounts in effect to a wage cut in excess of 11 percent, since the Consumer Price Index rose by 11 percent last year and is expected to rise more rapidly as a result of the budget.

Most South African workers were bound until now by the Anti-Inflation Manifesto of October 1975, under which labor and management agreed to limit wage and price increases to 70 percent of inflation. The agreement was allowed to expire at the end of the first quarter of this year, as wage demands could no longer be contained.

The budget is not going to inhibit these unions from pressing substantial wage demands when several labor agreements expire around June. The white state-sector workers represent an important pillar of political support for the ruling Nationalist Party; the danger of the wage-cut policy to the government lies more in the erosion of this support than in economic damage through strikes. Nevertheless, the government is preparing broad no-strike legislation.

In the private sector, the Garment Workers Union and the National Union of Clothing Workers, representing 22,000 workers combined, recently won wage increases of 17-27 percent for machine operators, 21 percent for laborers, and 10 percent for the highest-paid skilled workers already earning over \$34.50 per week. Ten unions representing 100,000 metal workers are now in negotiations for increases between 8 and 20 percent for different skill levels. Seifsa's initial response to the demands is that there can be no increases until the economy improves.

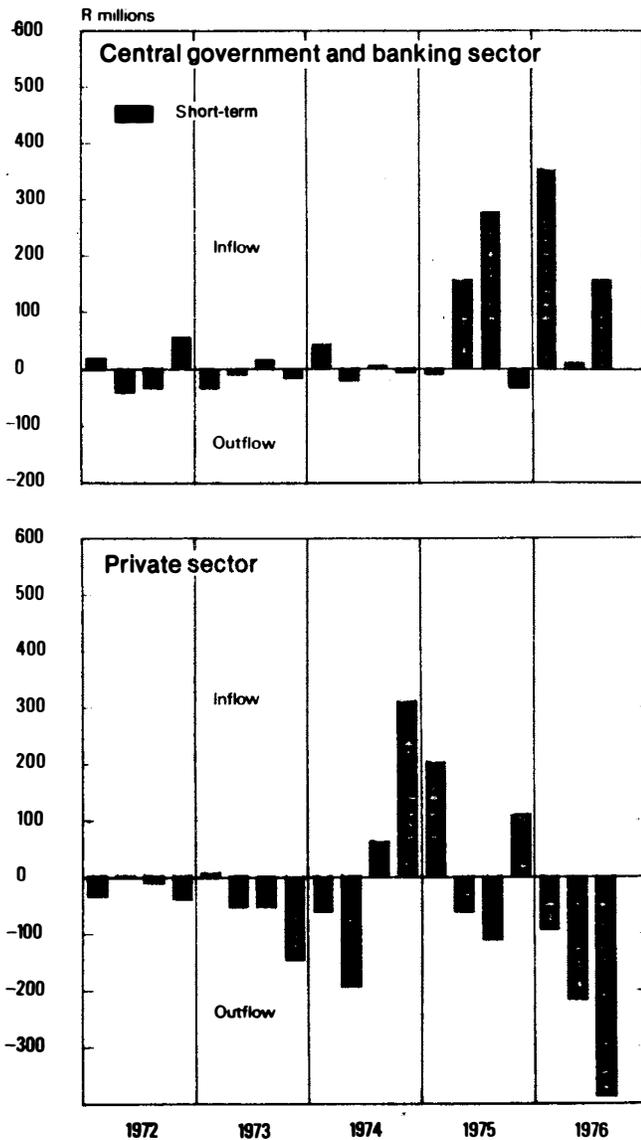
#### *Foreign Reserves and the Debt*

South Africa's foreign reserves have just dropped to their lowest point since 1971, (\$754 million) as of April 1, or just six weeks' imports *excluding* the substantial categories of oil and arms imports. Imports have been dropping at an accelerating rate since last September. Imports for the three months ending February 1977 are 14 percent down from February 1976, but imports still exceed exports by an average \$68 million per month for the three months ending February 1977. The prospects for South Africa to increase its exports are distinctly poor as governments the world over come under increasing pressure to resort to protectionism. An ambitious export drive for South Africa's iron and steel begun last autumn had largely collapsed by February.

Government and bank sector short-term foreign debt has almost quadrupled in the two years from the end of 1974 to the end of 1976, and the balance of payments deficit is now on the order of \$2 billion. Yet there was a net outflow of "short-term capital not related to

reserves" of \$752 million in 1976, according to Finance Minister Owen Horwood. South Africa had a net inflow of long-term capital in 1975 of \$2 billion, a typical sum in recent years, but in 1976 the taps were turned off at midyear.

### Net Foreign Capital Movements By Sector



Source: South African Reserve Bank. *Quarterly Bulletin* Dec. 1976.

#### Attack on State Sector Industry

As in the case of other developing countries such as Turkey and Mexico, Rockefeller policy toward South Africa demands the dismantling of state-sector industry, the sector of the economy whose development would lead to economic recovery. State-sector industry has been the leading edge of the tendency for capitalist development in South Africa, with a commitment to capital formation unmatched in the private sector (about 9 percent per annum as against about 4.5 percent, 1960-1970). As in the case of other developing countries, state-sector industry

also represents the tendency for national independence. It has been built in the period since World War II as a bulwark against the mining and banking sectors dominated by British and U.S. interests, led by the Rockefeller family.

State-sector industry — both government-owned and government-aided enterprises — consists of an extensive network of companies with interlocking directorates whose leading figures adhere to the ruling Nationalist Party. Exemplifying this relationship, the chairman of Iscor, the state iron and steel company, is the brother of Hilgard Muller, South Africa's foreign minister from 1964 until earlier this year, who launched an Outward Strategy of especially agricultural, mining and medical cooperation with the black-ruled states. State-sector industry includes iron and steel, engineering and heavy engineering, oil refining, industrial chemicals and armaments, among others. Iscor is the flagship of state-sector industry and produces 80 percent of domestic iron and steel consumption. The country's total production of crude steel in 1975 was roughly equal to that of Sweden, Western Europe's seventh largest producer, while its 1975 output of pig iron exceeded that of the Netherlands, again Western Europe's seventh largest producer.

The local representatives of the Rockefeller and Rothschild interests such as liberals Harry Oppenheimer and Jan Marais have badgered the government increasingly in the past two years for a larger private-sector role in government economic planning. But the drive against state-sector industry only picked up steam this past January with the launching of a trojan horse operation from the "right" led by a major figure from within the state-sector itself, Dr. A.D. Wassenaar, chairman of South African National Life Assurance, the giant of state-sector financial institutions. In January, Wassenaar published a book attacking "huge capital outlays we can ill afford" while unashamedly defending the mining interests: He complained that gold, and the wealthy personalities associated with gold (the Oppenheimers, popularly called "Hoggenheimers") continue to be identified as the enemy by state-sector forces. In his *The Assault on Private Enterprise*, Wassenaar went so far as to accuse the Vorster government of setting up "a communist state" by developing state industry, and demanded that the government appoint top men from the private sector to economic and financial ministries. Vorster charged in Parliament that Wassenaar's book was part of "an English-speaking capitalist plot to subvert Government and a plea from the Progressive Reform Party (controlled by Rockefeller and Rothschild interests — ed.) for an equal distribution of wealth."

The government responded defensively to Wassenaar's demand that Iscor be sold off. Minister of Economic Affairs Chris Heunis announced February 15 that the government would retain enough equity in Iscor to assure government control and management, and that Iscor had appointed a committee to advise which component companies could be sold without interfering with Iscor's primary objective of producing steel. The attack on the state sector also includes demands for the shutting down of oil exploration — carried out by the government-owned Southern Oil Exploration Corp. (Soekor) in partnership with U.S. independents — and an end to

government plans for a nuclear power plant planned for Koeberg near Cape Town.

*"Pick and Shovel" Jobs*

Following hard on the attack on state-sector industry, the General Secretary of the 220,000 member Trade Union Council, Arthur Grobbelaar, issued a call in mid-February for "public works schemes with low capital outlay to keep unemployed men occupied, and provide them with means to ward off starvation." Funds for the "pick and shovel" jobs, he said, could come from the Unemployment Insurance Fund. The president of the Transvaal Chamber of Industries, representing the core of the country's private-sector manufacturing, has opposed the liquidation of unemployment insurance and the inflation which the scheme would generate, but has conceded that selective steps to create jobs should be taken, such as funding the labor-intensive construction of housing for urban Africans.

Intense debate behind closed doors in government, business and labor circles on the question of capital-versus labor-intensity has gone on for months. Opposition in much of private sector industry and government has been strong, yet this resistance is eroding. The

*Johannesburg Star* leaked March 5 that a majority of the Prime Minister's Economic Advisory Council was now in agreement on providing special incentives to encourage employers to shift from capital- to labor-intensity, and was shaping the forthcoming five-year *Economic Development Programme* to promote the same objective.

*The 1977-78 Budget*

The budget for 1977-78 presented to the House of Assembly March 30 is a compromise austerity budget to meet the demands of Wall Street and the IMF, while doing as little damage as possible to the government apparatus and the needs of state-sector industry. But the consequences of the strategy will be much higher: inflation, the heavy diversion of funds from the private sector, and the relegation of further tens of thousands of Africans to starvation.

At \$10.3 billion — 20 percent above last year's budget estimate — it is a record budget even after allowing for inflation. Debt redemption takes \$1.1 billion (up 72 percent over last year) — an amount over and above the \$10.3 billion called Expenditure. More than \$1.9 billion goes for military spending, up more than 21 percent. The

**Debt Service, Military Expenditure As Proportions Of Total Government Spending**

BUDGET ESTIMATES: (IN MILLIONS OF RANDS; ONE RAND = \$1.15)

	71-72	72-73	73-74	74-75	75-76	76-77	77-78
EXPENDITURE	3352	3603	4447	5502	6562	7534	8989
LOAN REDEMPTION	320	597	360	513	827	576	991
TOTAL SPENDING*	3672	4200	4807	6015	7389	8110	9976
DEFENSE EXPENDITURE***	CA. 300	335	447	754	971	1350	1650
LOAN REDEMPTION**	8.9	14.2	7.5	8.6	11.2	7.1	9.9
DEFENSE EXPENDITURE**	8.2	8.0	9.3	12.6	13.1	16.7	16.5
COMBINED PERCENT	17.1	22.2	16.8	21.2	24.3	23.8	26.4

\* EXPENDITURE PLUS LOAN REDEMPTION

\*\* AS PERCENT OF TOTAL SPENDING

\*\*\* NOT INCLUDING MILITARY EXPENDITURE IN OTHER DEPARTMENTS

SOURCE: FINANCIAL MAIL MARCH 27, 1975; APRIL 2, 1976; APRIL 1 AND 8, 1977

SA FINANCIAL GAZETTE APRIL 2, 1976

SURVEY OF RACE RELATIONS IN SA 1973

budget will cut living standards sharply by denying any pay increase to government employees and cutting subsidies on bread, dairy products, and other staples by \$52 million. Revenue will be raised by further cuts in living standards in the form of a 15 percent surcharge on all imports except for products bound by the General Agreement on Tariffs and Trade, government purchases and oil. The 15 percent import surcharge, which is expected to raise \$460 million, is in effect a partial devaluation. With recent, hefty increases in the price of electricity, steel, and rail transport on the order of 20 percent — yet to have their full impact — the combined effect of all measures could be a rise in the consumer price index from 10.9 percent for 1976 to as high as 17 percent, according to the chief economist of South Africa's Ned-bank.

Although the government borrowed \$427 million net abroad in fiscal 1976-77 — most of it from the IMF — the new budget assumes no new international borrowings. Instead some \$598 million will be siphoned from pension funds and insurance companies through compulsory low-interest government and semi-government stock. Another \$276 million will be raised from banks and building societies, and \$184 million from the sale of defense bonds. The repatriation of profits and dividends to parent companies abroad also will be put under tighter limitations. The diversion of such large sums from the private sector is causing anxiety and even some alarm in that quarter, and the institutions are now being assured that the government will take no more than 50 percent of the expected increase in assets in the next year.

The strategy implicit in the budget with respect to the African, Indian and Coloured race groups is one of intensifying the existing policy of bantustan triage. Those layers of the non-European population which are already most advanced in skills and material standard of living are more or less favored *relative to the non-European population as a whole*, while those at the bottom of the scale are being ground down as never before. The budget provides \$141 million to build housing for the most-favored, Coloured group (2.4 of South Africa's 25 million population), and about half that much per capita for Asians (0.7 million persons), but an insignificant \$9 million for urban Africans (about 10 million) and nothing for Africans in the backward, rural homelands (about 8 million). For Africans, there is a 51 percent increase in spending on education to a still very small total of \$135 million, with a strong emphasis on funding at the university level, to benefit that tiny minority of the black population which is enabled to qualify for university training. Subsidies on staple foods have also been cut.

The triage policy of dumping unemployable sections of the African population in overpopulated homelands is in full gear. Shortly before Budget Day Prime Minister Vorster announced that the criminal penalties for infractions of the pass law (i.e., being in an urban area without proof of official permission) would be doubled. Meanwhile, the Transkei — the one homeland to accept a dubious "independence" as a result of government pressure — has just announced its tax policy which confirms that a successful homeland is a death camp.

Local taxes are to increase by 900 percent. The hut tax will increase from R1 to R10 per year; the tax on livestock to R10 each, R10 per donkey, R5 per horse or mule, and so on.

In gearing up the dumping of unemployed Africans in the homelands, the government has the support of such companies as Mobil Oil and Citibank, both Rockefeller firms, and liberal South African Rockefeller agent Jan Marais. William F. de la Beck, chairman of Mobil Oil South Africa Ltd. told *Business Week* Feb. 14, "The homelands policy is absolutely correct. ...It is a good development concept." *Business Week* described Beck as an outspoken opponent of racial discrimination. The same week that the Transkei announced tax increases of 900 percent, Jan Marais, outgoing president of the South Africa Foundation, suggested in his annual report in Cape Town that an impartial body be established to determine which urban blacks would be willing or could "justifiably be expected to assume citizenship of a homeland." South Africa's most powerful mining magnate and Wall Street ally Harry Oppenheimer publicly declared in May 1976 that he was suspending his opposition to the homelands policy.

South Africa's economic policy is explicitly premised on the notion that the country need only hold on tight until it, too, is swept into a recovery which is already 18 months old. No such global recovery exists.

#### *An Industrial Strategy*

A faction of South African industrialists has formulated an industrial strategy oriented toward Europe and black Africa. Last August Massey-Ferguson, South Africa's Deputy Chairman Dr. Leon Knoll, a member of the Prime Minister's Economic Advisory council, proposed a pro-industrial strategy in a talk on state radio. Because of rapid population growth, he said, the developing countries — of which South Africa and its homelands are a part — will have to increase their agricultural production of food and fibre faster than ever before, while increasing employment possibilities — also as fast as possible. He proposed rapid but planned mechanization of agriculture, which would free quantities of manpower to be absorbed in turn by the industrialization of those countries. Knoll's collaborators organized an international agricultural conference on the theme, "Production for a Growing Population" to promote the idea of gearing up capital-intensive agriculture to revive and extend industry, and ensure peace in southern Africa. South Africa's State President Nicholas Diederichs, who was Finance Minister until 1975, associated himself with the proposal when he addressed the conference at the University of Pretoria in mid-January. Minister of Agriculture Henrik Schoeman and the then Foreign Minister Dr. Hilgard Muller also proposed versions of the industrial strategy in their addresses to the 1,000 scientists gathered from many parts of the world. The conference was blacked out in the U.S. and British press and in the South African *Financial Mail*.

Also in August the Transvaal Chamber of Industries (TCI), representing the bulk of the country's industry,

formulated a program for improving the living standards of the urban African population in the form of a lengthy memorandum delivered to the Prime Minister. The TCI Memorandum demanded that urban Africans be recognized as permanent and no longer liable to deportation to the homelands; that a large-scale housing program be launched to tackle six and seven year waiting lists, that urgent attention be given to the electrification of homes, street lighting, paving of roads, and expansion of shopping, sports and childcare facilities; that there must be free, compulsory education to age 16 with free books and materials; and that Africans be admitted to skill levels in the occupational structure higher than semi-skilled work. Prime Minister Vorster reacted with anger at the TCI demanding a break with *apartheid*, and

told a meeting of businessmen to keep out of politics.

Indeed, the industrial strategy is strictly a minority position within the cabinet and the Nationalist Party leadership, since it carries the implication that *apartheid* would be destroyed. It is not accidental that its advocate, Foreign Minister Muller's retirement was announced by Vorster February 11.

While the actual political and economic success of such an industrial strategy depends on a more favorable correlation of forces internationally, the domestic renunciation of the policy signifies that South Africa is fast burning its bridges behind it in a march toward inevitable war.

— by David Cherry

# Truce Under Discussion Between Bhutto And Opposition

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## PAKISTAN

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The detained leaders of the Pakistan National Alliance (PNA), a seven-party opposition coalition, have begun final deliberations of a new set of proposals submitted to them by Prime Minister Zulfikar Ali Bhutto to arrive at a political truce to end the mass civil disobedience, bloody confrontations between demonstrators and police, and general chaos that has plagued the country since the March 7 national assembly elections. While neither party has disclosed the actual contents of the new proposals, it is believed that discussions between Bhutto and the PNA center on two critical issues: one, whether the PNA will withdraw its demand that Prime Minister Bhutto resign from office to take responsibility for electoral irregularities conducted by his victorious Peoples' Party and if it withdraws such a demand what its conditions will be; and two, the time schedule for new provincial and national assembly elections, which the PNA is believed to want sooner than Bhutto himself.

Should the deliberations by civilians fail, a de facto military rule will be effective, with the very real possibility that the partial martial law now imposed over many Pakistani cities be extended over the entire country. The joint chiefs of staff released a statement today indicating commitment "to discharge its constitutional obligations to the legally constituted government." Significantly, however, this statement came *after* Gen. Tikka Khan, the commander of the Pakistani forces which fought in the 1971 Bangladesh war, was appointed Minister of State for Defense and National Security Affairs, a portfolio relinquished by Bhutto himself.

The stability of the entire Indian subcontinent-Persian Gulf region is at stake in the precarious Pakistani political power struggle. The Pakistani military ruled the country for over a decade prior to Bhutto's coming to power in 1971, at which time it defined policies in tight military and political coordination with the U.S. Cold War toward the Soviets — including involvement in such pacts as the Central Treaty Organization (CENTO). Bhutto has tried to break this environment with a policy of détente toward India and is hence seen with great uneasiness by the ravanichist tendencies in the military. His own distrust towards current U.S. policymaking has been heightened by a concerted black propaganda campaign launched against him by the Carter Administration-linked *New York Times*, culminating in a column by C.L. Sulzberger published April 27 on the

editorial feature pages. Sulzberger dismissed Pakistan as nothing but an amalgam of provinces, not a country or even an important strategic element in the region. Sulzberger then cites the Shah of Iran's fears that Pakistan could become another Vietnam if secessionist movements have their way!

### *The U.S. Side*

Bhutto himself has expressed significant misgivings over what is generally perceived as a concerted effort by the Carter Administration to undercut his political position and is said to be reconsidering U.S.-Pakistan relations. In the past six months, the U.S. has threatened to cut off aid should Pakistan go ahead and acquire French nuclear technology. One top policymaker who visited Pakistan on this issue indicated that a package of arms sales of A-7 jet fighters was tied to the Pakistani withdrawal of its deal with France. "But after we agreed on this, the U.S. side went ahead and blocked the arms package and the French-Pakistan deal. This certainly did not help Bhutto much at home." In mid-April the State Department blocked a commercial shipment of tear gas to the Punjab state government citing the "sensitive" political situation in that country.

The contradictions in U.S. policy are best seen in the press, as exemplified by the *Washington Post*. On April 22, in an editorial, the paper blasted the Carter Administration for "self-indulgent pseudo-idealism" on the tear gas issue. "This is absurd. Pakistan has been a good friend. Mr. Bhutto has been credited with genuine achievements, and yes, with even enhancing human rights. This move is designed to not give pro-Bhutto signs, but it in fact looks like an anti-Bhutto move." On April 25, *Post* columnist Lewis Simons carried out a character assassination of Bhutto, painting the opposition PNA as a victim of Bhutto's oppression, along the lines of the Carter human rights crusade. He depicted Bhutto as having had a "near nervous breakdown and under sedation for several weeks." Simons then took the "Watergate" approach to the Bhutto cabinet charging it with receiving financial and sexual favors from lobbying industrialist groups, a totally unsubstantiated slander. Small wonder that the Peoples Party demonstrations in Pakistan this week carried slogans such as "Down with Jimmy Carter" in a mass defense of the Prime Minister. The PPP has also charged the CIA with funding the PNA.

### *PNA Strategy*

The PNA has shrewdly capitalized on Bhutto's troubles. Being a party of no coherent ideology, sociologically composed of a conglomeration of retired

generals, leftists and Islamic parties, its strength in actual fact is quite accidental. In preparations for the March 7 elections, Peoples Party election organizers disregarded predictions that the party would be voted back to office handily for its record of restoring civilian rule and stable economic and political conditions after the devastating 1971 war. The PNA, despite the large crowds it drew in campaigns, had a program to decentralize and feudalize the country, and return to Islamic social practices. All predictions were that the PPP would win at least 125 out of the 200 seats contested for the national assembly and fare perhaps not as well in provincial assembly elections, mainly because of sectarian tendencies in each region. In final count, the PPP won all seats except 30, with reports circulating that several cabinet ministers had shown up at polling stations brandishing pistols and intimidating voters.

The PNA subsequently refused to take up the seats it did win, calling for a new election and taking to the streets in protest. Bhutto initially miscalculated, perceiving the PNA demands as unworthy of response. The deployment of federal police to put down demonstrators, particularly in the Karachi industrial region, has resulted up to now in over 200 deaths. With this death toll, every concession Bhutto has made has backfired. His reshuffling of the cabinet, removing all those involved in election irregularities, produced little except an outburst of infighting in his own party that gave the military

leverage to dictate its terms for backing Bhutto. His offer to formulate an Islamic legal code and to ban whisky, and even his previous offer to hold provincial elections as a test for possible new elections at national assembly level was met with scorn with one PNA source saying it was "a little too little, too late."

Failing up to now to reach a political agreement with the PNA, Bhutto has moved strongly for administrative order. Major opposition leaders have been detained, martial law enforced in five major cities and press censorship imposed. Bhutto's own ability to break the deadlock and maintain his own political strength has been significantly undermined. His reliance on Gen. Tikka Khan to keep troops faithful to the government is great, but this loyalty remains to be tested in the event of any big confrontation in the Punjab region, the largest source of military recruitment. Significant confrontations here between PNA supporters and Punjabi soldiers have yet to occur. This could well take place if the PNA carries out its plans for a national march on Bhutto's residence April 30 to obtain his resignation, breaking both the martial law and the ban on demonstrations ordered by the government. However, the *London Times* April 28 reports that significant sections of the PNA, particularly its leftist component, would much prefer a political agreement with Bhutto to military law and order. The opposing faction of the PNA is led by right-wing retired air marshall Asghar Khan, who up to now has adhered to a position of non-negotiation.

## Indonesia Aid Cut By \$1 Billion; New York Banks Overexposed

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### INDONESIA

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The April 5-7 meeting of the Inter-Governmental Group on Indonesia — the World Bank-sponsored aid consortium comprising the governments of North America, Western Europe and Japan — approved loans and aid nearly \$1 billion less than last year's \$3 billion. Of this amount, \$600 million will be in hard export and commercial credits and the remainder in bilateral development assistance (see chart).

The dramatic downturn in aid commitments signals a realization that Indonesia lacks the ability to absorb additional substantial credits for expanded production and at the same time continue its heavy debt service payments.

For fiscal year 1976-77 Bank Indonesia, the central bank, made official debt service payments of \$727 million and projected payments for fiscal year 1977-78 of approximately \$1.1 billion. Although Indonesia's financial advisors from the investment house of Kuhn Loeb and Co. project this \$1.1 billion in debt service as only 16.3 percent of combined net oil and non-oil exports, they

apparently fail to take into account the severe financial crisis lying below the positive-looking balance of payments figures and outside of the official government debt figures.

The April 9 issue of the *New York Times* revealed that the financial collapse of the Indonesia state oil company, Pertamina, has shattered a large portion of the country's business community, particularly the state banking sector. As a result of the Pertamina collapse, as much as \$1 billion in bad debts has been left standing over and above official government debt. The Times reports that the top New York banks — including Citicorp, Chase Manhattan and American Express International Banking Corporation — as well as the Hong Kong-based Overseas Union Bank and Hong Kong and Shanghai Bank, hold most of this credit.

According to the Times as well as other sources, the Indonesian state banking sector, which accounts for 90 percent of the internal credit, is in serious trouble because of several hundred millions in bad loans. Bank Indonesia sources indicate that over 150 companies have gone bankrupt. Bank Bumi Daya, a state commercial bank, has over \$400 million in bad loans, nearly a third of its loan portfolio. The bank's board of directors has recently been purged by the Bank Indonesia. Bank

Chart 1

The Inter-Governmental Group  
on Indonesia Aid Program \*  
(in millions of dollars)

Total Commitments for Fiscal Year 1977-78 .....		2,100.0.
Non-concessionary export and commercial credit .....	600.0	
World Bank .....	550.0	
Asian Development Bank .....	150.0	
Japan .....	189.6	
United States .....	147.6	
West Germany .....	58.6	
France .....	38.3	
Netherlands .....	54.0	
Australia .....	35.5	
Canada .....	33.1	
Belgium .....	14.7	
Britain .....	9.8	
New Zealand .....	5.0	
Eastern Europe and Middle East ** .....	230.0	

\*Members include Australia, Austria, Belgium, Canada, France, the Federal Republic of Germany, Indonesia, Italy, Japan, the Netherlands, New Zealand, the International Monetary Fund, the World Bank, the Asian Development Bank. Observers at the April 5-6, 1977 meeting included the Organization for Economic Cooperation and Development, the European Economic Community, the United Nations Children's Fund and Denmark.

\*\*Neither countries of Eastern Europe nor the Middle East are members of the IGGI nor are the aid commitments given under formal auspices of the IGGI.

Negara-Indonesia 1946, the country's oldest state bank, is said to be in worse shape, with nearly a \$100 million in bad loans.

The situation leaves Bank Indonesia, the central bank with regulatory control over the state banking system, little choice except to cut credit to Indonesian businessmen for fear that any expansion of liquidity will spur a new round of inflation. The 1975 bailout of Pertamina's short-term debts expanded liquidity by 40 percent and drove inflation to over 20 percent.

Large corporations, like the giant P.T. Astra Corporation, which were heavily involved in Pertamina-related projects, particularly in the speculative real estate market, are in very serious trouble. P.T. Astra, a company with assets of over \$200 million, is the sole distributor of Toyota, Peugeot, Renault, and Alfa Romeo automobiles and said to be close to government circles. It is also close to foreign banks who have lent substantial funds to stave off bankruptcy. Credit lines were recently extended from top banks including \$26 million from Hong Kong and Shanghai Banking Corporation and two lines of \$2 million and \$11 million from Citibank. American Express International Banking Corporation and Overseas Union Bank have already sunk in substantial funds. An article in *Business Week* April 18 reported foreign

investors were being "frightened away from Indonesia" because of the general economic crisis, rising nationalism and alleged corruption.

Foreign investment was said to have dropped from \$2 billion in 1975 to \$423 million in 1976. Only one new U.S. joint venture was approved last year. In addition \$145 million in approved U.S. investments were being abandoned.

*Who Pays Whose Debts*

The timing of the *New York Times* and *Business Week* articles is significant. They coincide with a push by the New York banking community to seek IMF and Federal Reserve help in preventing them from losing their shirts on, among other things, their Indonesian portfolios.

The New York banks say they are not worried about their loans to the state banking sector, which are said to be substantial because they are classified as "sovereign risk" loans. This means they are guaranteed by the central bank and will be paid back as long as the Indonesian government sees fit to honor their payment. But loans to the private sector have no such guarantee, since businessmen may simply file for bankruptcy. Foreign banks operating from branch offices or representative offices in Jakarta are said to have from \$3 to \$4 billion booked out of Singapore.

It is difficult to make an accurate assessment of how much the debt situation has retarded development efforts, but most observers say by about five years. This perception is shared by bankers and investors outside the New York financial community. These bankers are growing more and more leery of syndicated lending arrangements. The consensus among Japanese banks is to steer clear of syndicated loans for pure debt rollover and lend only to specific infrastructural and industrial projects. A recent syndicated loan proposal for Cilicap oil refinery expansion by Citicorp, Bank of Montreal and Bankers Trust found no subscribers; it was later revealed that the loan was merely for debt rollover. Others of the more conservative banking community, such as Mellon Bank or European-American Bank, remain highly cautious; some have even liquidated their Indonesian portfolios.

*Mad Export Drive*

In an effort to honor its debts the Indonesian government has moved to rapidly expand exports in order to generate foreign exchange. They have cut export taxes and increased check prices for exports up to 25 percent. Check prices are normally pegged at market prices and exporters can not sell below them. Exports have expanded substantially, particularly in the non-oil sector.

Rubber increased by 46 percent to \$534.3 million; coffee by 99.7 percent to \$141 million; pepper by 102.8 percent to \$46.2 million; and animal products by 55.5 percent to \$141.1 million. Oil production at 1.7 million barrels a day for March is at a record high. Total exports increased from \$5.01 billion in 1976-77 to a preliminary estimate of \$6.2 billion for fiscal year 1976-77. But none of this is going to the development budget. Ironically, the increase in exports, \$1.19 billion, equals almost exactly the debt service payments of \$1.1 billion.

# The Rise Of A Third World Super-Corporation And Its Fall By The Hand Of Wall Street

A bitter irony is being played out in Indonesia today. A coterie of the most prestigious international banking houses, including Kuhn Loeb and Co., Lazard Frères et Cie., and S.G. Warburg and Company Ltd., joined by the World Bank and the International Monetary Fund, are now busily upholding the honor and good name of the Indonesian government against an array of "profit hungry" oil companies and "predatory" tanker charterers who seek to attach over \$1 billion worth of Indonesia's national assets in lieu of contract payments said to be in default by the Indonesian State Oil Company, Pertamina. But, of course, the banking firms are upholding more than Indonesia's national honor. At stake is \$12-15 billion in foreign debts owed to them and their clients by Pertamina and the Indonesian Government and Central Bank, a sum that otherwise appears less and less collectable with every passing week. The issue is *who gets paid* — at Indonesia's expense.

The irony is made the bitterer by the fact that these bankers and their clients such as Morgan Guaranty, Indonesia's principal banker, are directly responsible for the (probably) uncollectable status of these loans. They began financial warfare against the Pertamina industrial empire in the early 1970s, which culminated in a forced default of the conglomerate in March, 1975. (See Chart 1 for partial listing of Pertamina's partners and subsidiaries.) This had the effect of transforming a situation of a few billions in debts backed by industrial projects (whose eventual commercial operation would repay the loans), into one in which many more billions in debt stand unsecured by anything except the Indonesian government's ability to gut what remains of those industrial projects.

This bankrupting of Pertamina was no error on the part of Messrs. Wall Street usurers. Pertamina represented a dangerous — they might say "cancerous" — political current within Indonesia which was insisting on industrial development, and this in collaboration with the Japanese and Western Europeans, free of the control of Rockefeller's Caltex oil company and the banks, "bears" on the Indonesian economy who have seen little potential there for anything but petroleum extraction and debt collection. Most dangerous of all was Pertamina's president, Ibnu Sutowo. As the driving genius of the company, he was the leading symbol of the industrial development faction in Indonesia.

In 1973 and 1974, Sutowo, joined by other leaders of the nationalist faction in the military, including top presidential aide Ali Murtopo and even President Suharto himself, engaged in a flurry of official visits abroad — to other countries in the region. Japan and Europe, and even the United States — seeking to consolidate agreements by which Indonesia would receive high-technology

plants for its industrialization drive, in return for guaranteeing oil supplies to Europe, Japan and U.S. independent oil companies. Sutowo also began arranging the tanker deals now being used against him, in order to prevent potential sabotage of the new contracts and bypass the control of Caltex and the U.S. majors over the carrying trade in Indonesian crude.

Sutowo pushed full steam ahead on the multi-billion dollar Krakatau steel project, and on many others in

## Chart 1

### Projects and Pertamina Subsidiaries and Joint Ventures

- P.T. Elnusa*— Integrated oil communications system to link offshore oil operators with mainland, as well as overseas.
- P.T. Pelita*— Pertamina airline with air fields ranging from Darwin, Australia to North Sumatra.
- P.T. Permina Tonkang and Ocean Petrol Ltd.* — Handles Pertamina's tanker fleet.
- Far East Oil Trading Company*—Handles oil marketing, 50% owned by Pertamina and 50% by Japanese independent oil companies, utilities and industrial users.
- Japan Indonesia Petroleum Co. Ltd.*— Oil marketing company. 50% owned by Pertamina and 26% by Toyota and 24% by Japanese Utilities and refiners.
- Tugu Insurance*— 50-50 joint venture between Pertamina and several private investors to handle insurance for Pertamina, its contractors and others.
- Perama Oil Marketing Company*— Joint venture with private American investors for marketing Indonesian oil on the West Coast of the U.S., with ties to former Calif. Gov. Edmund Brown, Sr.
- P.T. Pertamina Gulf Industrial Processing*— Joint venture with Gulf oil for processing fertilizer.
- Indonesian LNG Project*— The largest liquified natural gas project in the world jointly with Japanese utility companies. Involves Badak field in East Kalimantan under production sharing contract with Huffco and the Arun field in Aceh, Sumatra, under production sharing agreement with Mobil. The Japanese utilities include Chubu Electric Power Co., Kyushu Electric Co., Kansai Electric Power Company, Nippon Steel, Osaka Gas Company.

petrochemicals, oil refining, and related industries. His activities became a focal point for Indonesian resistance to the World Bank, the New York banks, and their so-called "technocrat" faction within Indonesia.

For these activities, Sutowo and Pertamina were intolerable to Indonesia's New York bankers, posing the threat of nationalization of the oil as soon as Indonesia had built up the expertise to run the industry itself. Pertamina thus came to represent a form of "state sector," private in form, but strongly nationalist and dedicated to the rapid development of the national economy. It so thoroughly belied the platitude that "non-Western peoples lack a flair for entrepreneurship" that it threatened to become a model for emulation by Third World nationalists and capitalists on three continents.

#### *The Dismantling of Pertamina...*

A half-decade of intense financial warfare coordinated by the International Monetary Fund finally bore fruit in March 1975. Pertamina, which had been forced onto the short-term capital markets by IMF barring of medium-term loans, was trapped in a liquidity squeeze exacerbated by the 1974 recession, and fell behind on its payment schedule on some loans. Undoubtedly with backing from New York and Washington, the First Republic Bank of Dallas announced that Pertamina had defaulted on \$40 million in loans. That was the signal for massive calling

in of loans, which pulled the plug on the company.

The progressive dismantling of the conglomerate proceeded in several stages. (See Chart 2.) After several weeks of uncertainty, the Central Bank of Indonesia, under "technocrat" control, announced it would assume all of Pertamina's debt as obligations of the government. The Central Bank then drew down the nation's reserves from \$1.8 billion to under \$500 million to make the debts good, and to reassure Morgan and the others of Indonesia's "good faith." In January, 1976 the World Bank, which ran the Intergovernmental Group on Indonesia (IGGI), providing nearly \$2 billion in aid a year, threatened a total aid cutoff if Sutowo stayed on. This culminated a year of intensive pressures from the "technocrats" inside and the banks outside, forcing Suharto to fire Sutowo as president of the company in March, 1976. Since then, a massive "Watergating" of the company, focusing particularly on the tanker deals, has attempted to portray Pertamina as nothing but a hollow shell of speculation and shady deals, and Ibnu Sutowo as a fast-talking shyster with his hands in the till. The March placing of Sutowo under house arrest along with his former Pertamina associates for alleged financial malfeasance, marks the latest victory of the banks in their campaign to restore Indonesia's honor — and "credit-worthiness."

Remarks made by Sutowo in mid-March, two days before his arrest, in an interview with the monthly *Le Laki*,

### Chart 2

## Dismantling Of Pertamina 1975-77

*March 1975*— Financial collapse of Pertamina forced when First Republic of Dallas brought default charges against Pertamina for \$40 million in loans. Creditors began calling in most of Pertamina's outstanding loans.

*April 1974*— Bank of Indonesia took responsibility for Pertamina's debts, eventually causing Indonesia's reserves to plummet from \$1.4 billion in Dec. 1974 to a low of \$441.9 million in Sept. 1975.

*1975*— The Central Bank took over the finances of most other state enterprises.

*1975*— Technocrats were called in to reorganize Pertamina.

*1975*— The Indonesian government engaged merchant bankers Kuhn Loeb and Co., Lazard Frères et Cie., and S.G. Warburg and Co. Ltd. as financial advisors. The Arthur Young accounting firm was engaged to prepare Pertamina financial statements.

*June 1975*— Morgan Guaranty organized a consortium of North American, European and Australian banks for a loan of \$425 million. Bank of Tokyo organized a consortium of Japanese banks for a \$150 million loan.

*Sept. 1975*— General Piet Harjono became Pertamina Finance Director and Technocrat Wijarso became General Affairs Director. Sutowo forced to "vacation" in the U.S.

*Nov. 1975*— Morgan Guaranty organized a second

\$425 million consortium loan. Bank of Tokyo organized a second consortium for \$50 million.

*Jan. 1976*— The World Bank threatened to cut off all aid if Ibnu Sutowo was not fired as Pertamina President Director.

*Feb. 1976*— The then Vice-President Nelson Rockefeller visited Indonesia while the Sutowo scandal probe went into high gear.

*March 1976*— Sutowo was dismissed as Pertamina head, replaced by General Piet Harjono. Pertamina was put under "tutelage" of technocrat Mining Minister Mohammed Sadli.

*March 1976*— The World Bank issued a confidential report for the April meeting of the Inter-Governmental Group on Indonesia calling for "implementation of appropriate foreign debt management policies" and retrenchment of state sector industries.

*June 1976*— Under IMF initiative, the Indonesian Government renegotiated production sharing contracts with foreign oil companies that cut the profit split from 65/35 to 85/15 and eliminated the 40 percent write-off for company production costs.

*July 1976*— Exploration collapsed as the oil companies withdrew their rigs.

*March 1977*— Ibnu Sutowo was put under house arrest with 30 other Pertamina officials for allegedly illegal business practices concerning Pertamina's tanker chartering.

demonstrate why Sutowo is still considered dangerous. He said that he disagreed with "(Economic Affairs Minister) Widjojo and company and believed that Indonesia was still in the age of assembling and packeting, not that of real industrialization... If we want to develop and make headway we must have a strategy and set intermediate and final targets." Sutowo made the statement while on a visit to one of Pertamina's capital-intensive rice estates, in the course of organizing support for his concept of industrial development.

*...and the Demise of the Development Program*

The economic effects on Indonesia have been catastrophic.

Most of the projects directly sponsored by Pertamina have been either drastically scaled down, such as Krakatau steel (reduced 67 percent to half a million tons capacity), or cancelled outright such as the mechanized rice estate and the oil transshipment terminal. (See Chart 3.)

Pertamina's collapse has absorbed a major portion of the development funds the Government was to have allocated to its Five-Year Plan. (See companion article in this issue.)

Moreover, as Table 1 shows, by conservative estimate, Indonesia will have a rapidly dwindling net inflow of foreign development capital. The sharp jump in debt service payments results from the expiration of the debt moratoria from the late 1960s, which places a rising burden of debt repayment on the years beginning 1978. On top of that, the Government incurred \$4-6 billion in additional official debt, most with a five-year grace period that is now running out.

Pertamina's default, representing an additional \$10

Table 1  
Indonesia:  
Capital Aid and Debt Service\*

	Development Loans** in \$ Billions	Debt Service in \$ Billions	As %***	Net Capital Imports in \$ Billions
1976	3.4	0.81	13.8	1.90
1977	2.1	1.19	16.6	0.64
1978	2.0	1.60	18.6	0.20
1979	2.4	1.89	19.5	0.13
1980	2.9	1.98	18.5	0.33
1985	5.8	3.16	16.4	1.66

\*Government and State Enterprises.

\*\*Still to be approved.

\*\*\*Debt service as percentage of export earnings.

Source: *Neue Zuercher Zeitung*, Oct. 31, 1976.

billion burden, is seriously worsening even this gloomy picture. Of the \$10 billion, \$3-4 billion in short-term loans have been paid off, rolled over or converted into medium-term loans to the debit of the Central Bank. About \$2 billion is owed domestically, some to internal creditors, the rest in royalties past due to the government. Upwards of \$3 billion is nominally due a host of tanker charterers on contracts now being contested by the Government — with the full support of the New York banks.

An oil-rich but wretchedly poor country receiving sub-

Chart 3

## Pertamina Projects Either Cancelled Or Stripped From Its Control

**P.T. Krakatau Steel**— Southeast Asia's first steel mill, to be built with West German financing. Scaled down from 2 million tons to 500,000 tons. Siemens of West Germany, to construct 400 megawatt station; Ferrostaal of Gutehoffnungshuette, to build the steel smelter; Japanese engineering companies to construct a gas pipeline from the Pertamina Jatibarang field in West Java to fuel the smelter.

**Rice Estates**— Fully mechanized 20,000 hectare rice estates in South Sumatra with a capacity of 200,000 tons annually. Cancelled.

**Fertilizer Plants**— A fertilizer project in South Sumatra and a floating fertilizer plant in Kalimantan to have used British financing and British and West German machinery. The former was transferred to the Ministry of Industry; the latter has been cancelled and replaced with a proposal for a conventional land-based plant.

**Petrochemicals**— A petrochemical complex with emphasis on synthetic fibers and plastics in Gresik, East Java, has been transferred to the

Ministry of Industry. Other complexes have had West German backing; also cancelled.

**Aromatics Plants**— To have been built in South Sumatra with Japanese backing; cancelled.

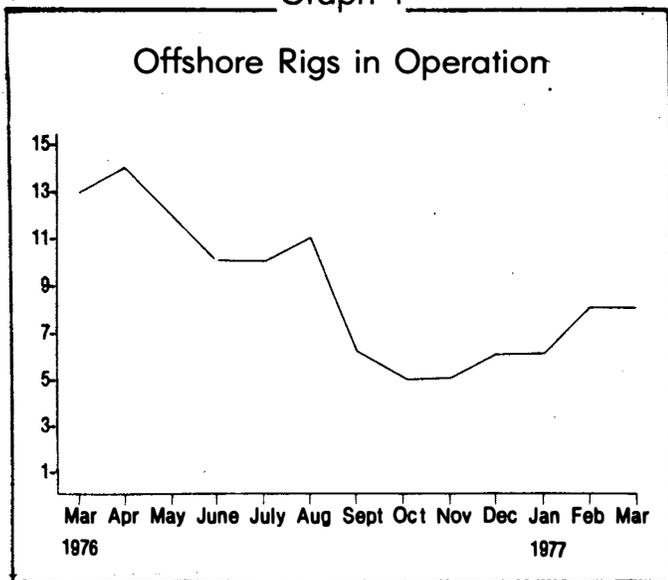
**Batam Island Development**— Project was to have been a regional center for oil related industries, including metal fabricating industries or rig building; a Japanese backed oil refinery, shipbuilding repair facilities, oil transshipment center. A city of 100,000 was planned. Its chief executive, Colonel Abihasan Said forced into retirement, entire project sealed down.

**Oil Transshipment Terminal**— A \$1 billion crude transshipment station in the Gulf of Semangka, South Sumatra to have been built with Saudi and Japanese financing: Cancelled.

**Tanker Fleet**— An international tanker fleet involving \$2 billion worth of charters involving European and Japanese interests. It is now the major point of controversy in Indonesia. The Government refuses to recognize the validity of the bulk of the charters made with Geneva-based tanker charterer and friend of Ibnu Sutowo, Bruce Rappaport.

stantial outside aid has been reduced to the role of debt guarantor, with its oil as security — but even its oil production is in jeopardy. The prime thrust of Pertamina and Sutowo's efforts from the 1950s to build oil production up was to tremendously increase production and exploration for new fields. Since Caltex refused to explore, being content to scoop out the profits from its existing, very rich fields in Sumatra, Sutowo brought in U.S., Canadian and European independents who became the mainstay of the country's exploration efforts. But since 1975, under "technocrat" control, the former encouragement to these companies has been turned into official roadblocks. In order to reap higher rates of return to ensure payment of the debts, the production-sharing contracts with the independents were renegotiated and a 65-35 government-company percentage split became 85-15. Worse, the cost recovery plan by which the independents could rapidly write off exploration costs — the only way they could profitably explore at all — was scrapped. The number of operating rigs plummeted from 15 last year to six or eight now (see Graph 1). Natomas, one of the top indepen-

Graph 1



dents, slashed its exploration budget to a nominal \$700,000, enough for 2 weeks' drilling. Oil production, at over 1.6 mil. barrels per day, is the highest in the country's history, but without new exploration, this will soon start falling off, insuring that the 1980s will be increasingly barren for the industry.

That's not the end. Indonesia's industrial sector, already a midget in global terms, is being hit very hard. To avoid runaway inflation while paying the debt, the Central Bank has maintained a very tight policy for internal lending. Even so inflation has topped 20 percent. The private sector is now capital-starved.

A recent New York Times article revealed that default on payment of revenues owed by Pertamina to domestic companies and banks is threatening to cause the collapse of many of these. Added to this is the direct contraction of industrial activity associated with cancellation or reduction of most of Pertamina's direct enterprises. (See Chart 1).

A final irony to this situation is that the New York banks who caused it may yet lose their shirt because of it. According to the New York Times, many of endangered Indonesia's firms hold large loans from the U.S. banking houses among others. They are so shaky that Chase Manhattan and other New York banks are now rolling over millions in order to forestall otherwise certain defaults. Other sources indicate that these banks are seeking to syndicate up to a billion or more in further rollovers in Europe and Japan — so far without takers. The extraordinarily precarious situation of the Wall Street banks means that a major default by Indonesia could pull the plug on Chase, Morgan, etc., and begin a chain collapse of the entire speculative bubble of Eurodollar finance.

#### The Real Battle of Pertamina

The real story behind the myths and half-truths now being disseminated about the fall of Pertamina and Sutowo's personal responsibility for the disaster lies hidden in the events of the crucial years 1973-74 when Sutowo's expanding organizing activities ran up against the Rockefellers' world-wide manipulation of the oil price and supply to break up an emerging Europe-Japan-Third World economic and political alliance free of Wall Street control.

In 1973, Indonesian nationalist leaders made a series of trips within the region, to Japan and to Europe to firm their economic ties. In June 1973, Sutowo traveled to Malaysia where he advised government officials on how to establish a state oil company on the Pertamina model. Later that year he traveled to the Philippines, Burma, India and Bangladesh to explain the method of joint oil company-government cooperation called *production sharing*, which he pioneered in Indonesia and by which oil companies take the exploration risks in return for a portion of the oil pumped as payment (the remainder of the oil being under government control). He also invited additional U.S., European and Japanese independents to search for oil under such arrangements.

During the same year, President Suharto paid a visit to Japan to strengthen the traditional ties between Indonesia and Japan, while Ali Murtopo, Suharto's top aide visited Australian Prime Minister Gough Whitlam in October of 1973 to explore the possibility of closer economic ties. (Whitlam was just beginning to define his break with the anti-Third World, Rockefeller-influenced policies of the former government, including asserting control over the country's natural resources.) Indonesian Foreign Minister Adam Malik toured the Soviet Union and Eastern Europe to renew dormant ties with the socialist countries predating 1965, enhancing Indonesia's non-aligned status and increasing the nation's independence from the U.S.

On November 6, 1973, speaking in New York on the sixth anniversary of the opening of Pertamina's New York office, Sutowo spelled out his oil policy: to double production of the high quality Indonesian oil so badly needed in the West.

In this time of shortage, I want you to know that Indonesia is endeavoring to increase its petroleum production and exports... Indonesia, the 8th largest oil exporting country in the world, one of the oldest oil producing countries in the world, is largely over-

looked. Indonesian crude, with its particularly low sulphur content that is so urgently sought in your country for environmental reasons, is largely forgotten. Indonesia's capacity to more than double production and exports of petroleum the next several years and its capacity to supply your petrochemical producers and consumers with critically short products are all largely ignored... For reasons I cannot comprehend, almost no one in all these studies, speeches and reports ever thinks of Indonesia.

During the same year, Sutowo made known his plans to create a nuclear power industry to provide for the day when the country's oil would run out. Sutowo envisioned that nuclear energy might eventually provide up to 30 percent of domestic energy requirements. In the meantime, he aimed to export oil as fast as possible, up to a rate of 3 million barrels per day.

Then came the manipulation of the Arab OPEC nations by the Rockefeller controlled majors in the Great Oil Hoax of late 1973-early 1974, which quadrupled oil prices and sent world consumption levels plunging. Pertamina's project to increase production was a threat to this Rockefeller's rigging of the oil trade. In January 1974, before the full effects of the oil hoax were comprehended, Sutowo made a visit to West Germany preparing to sign a deal for West German technology to construct a petrochemical complex, in return for a guarantee of five million barrels a month of crude for Germany. This was the sort of cooperation that the oil hoax was intended to forestall; the deal was not concluded.

However, the increase in oil prices also promised to give both Pertamina and the Indonesian government a great deal more revenue to continue development projects. To forestall this, the Indonesian government itself was destabilized through an operation conducted by the CIA-associated agents and the "technocrat" faction. In January, on the occasion of the visit of Japanese Prime Minister Kakuei Tanaka, a mass riot broke out in Jakarta that was later shown to have been prepared by an agent of the "technocrats" in the military, General Sumitro, and carried out by students under the influence of the banned Masjumi (Moslem) and Socialist (PSI) parties, both with ties to the CIA dating from before 1957.

In response to the riots, which served both to poison Japanese-Indonesian relations and set back efforts toward joint economic projects, Indonesian "Mufakat" (consensus) politics, where substance is lost in the shadows of byzantine maneuver, were replaced with open attacks by the nationalists on their opponents at home and abroad.

Ali Murtopo, leader of Suharto's Council of Special Assistants (ASPRI), Suharto's counter to the technocrats in the Cabinet, charged in the weekly Ekspres that the riots reflected "the well-known hand of the CIA" whose other recent activities included riots in Thailand, Korea and Chile; he pointed the finger at the Masjumi and PSI. B.M. Diah, editor of the pro-nationalist Merdeke, denounced "the clever executives from the western nations" who were forcing Indonesia to drive down its population's living standards. IMF-World Bank meddling was so apparent that the Far Eastern Economic Review reported on February 4 that "a number of close observers" attributed the student decision to attack the ASPRI "to a

visit to Jakarta in early December of IGGI head Jan Pronk." And Murtopo's Ekspres made the argument explicit on January 8: "One road for Indonesia leads via the technocrats to a free flight and laissez faire pattern of development in the Western and American fashion, and another trend takes the form of cooperation with Japan on the basis of one's own strength without loans from the IGGI and the world bank with Pertamina as a guarantee."

The battle lines were drawn. No amount of post hoc "revelations" about Pertamina can alter the real substance of what was at stake, as presented by the participants themselves at the time — two diametrically opposed development strategies, one tied to IGGI-World Bank-IMF-Wall Street banks based on debt collection, the other based on Pertamina, rapid industrial expansion, and cooperation with Japan, Europe, etc.

Throughout 1974, Sutowo battled to survive. The world recession severely damaged his development projects and simultaneously caused oil demand to stagnate. It also doomed his project to develop an independent tanker fleet. The IMF edict to the world financial community banning any loans with durations between 1 year and 15 years forced Pertamina to take out large numbers of very dangerous short-term loans.

More broadly, the retreat of Europe and Japan before Rockefeller's oil hoax doomed the nationalists' ability to sustain the open fight begun in early 1974, and began a process of slow retreat that continues to this day. Nonetheless, most of Suharto's top aides except for Sutowo remain in position, headed by Ali Murtopo, and the fight continues. A debt moratorium for the Third World, and a renewal of the strong European push for cooperative deals that has been in partial abeyance since 1973, can instantly restore nationalist strength.

*Pertamina:  
Epitome of "Generation of 45"  
Nationalism*

As late as the spring of 1975, just after the default of Pertamina, an embattled Lt.-Gen. Ibnu Sutowo related to the *Far Eastern Economic Review's* Derek Davies his conception of development and the way to go about it:

I believe in private enterprise... The Japanese miracle is a good example of how a government has extended facilities and banking to private enterprise — which has wrought an economic miracle. Some people lay much too much stress on control and planning and not enough on building up the country. What would there be to control if nobody built anything? Some say corruption must be eradicated. But unfortunately corruption infests every society to some degree or other. You cannot stop working because of it. Build something first.

For the leaders of the nationalist movement, Japan had been something of a model as far back as World War II, at least in respect to Japan's anti-Western nationalism and promise to liberate Indonesia from the Dutch. But even after gaining independence in 1949, Indonesia remained tied for years to Dutch and later Wall Street interests. The resounding defeat of the two pro-Western

and CIA-linked parties, Masjumi and the PSI, in the 1956 elections brought to power an uneasy alliance of nationalist officers, the Communist Party and the Indonesian Nationalist Party (PNI). In 1957 the government nationalized the Dutch holdings in the country, a shipping company, plantations and other investments worth over \$1 billion — and most of them were taken over by the army. Pertamina was born in 1957 when Dr. Sutowo, then a colonel, was assigned to take over the oil fields abandoned by Royal Dutch Shell after World War II. The crushing of the CIA-sponsored “Outer Islands Rebellion” in 1958 was followed by the creation of the Ministry of Oil and Natural Gas to begin a nationalist resources program. The national oil industry was split into three companies, Permina under Sutowo and the Army, Permigan under the Indonesian Communist Party (PKI), and Pertiman under the control of the technocrat “civil servants” — a division reflecting the political realities of the day.

Indonesia's oil industry has been dominated since the 1950s by Caltex, a joint operation of Texaco and Standard of California. Stanvac (Standard Oil of New Jersey, i.e., Exxon, and Socony Vacuum Oil, i.e., Mobil of New York) were a distant second, followed by Royal Dutch Shell. To ensure their total control over Indonesia's oil Caltex and Stanvac conspired to deny the country its own refining capacity. Indonesia's crude is waxy, with a pour point of 100°; it must be transported through heated pipelines and on heated tankers and refined in special refineries. In 25 years, Stanvac has yet to increase the capacity of its pre-war refinery, and Caltex has yet to build one, despite intense government pressure to do so. *Many* were built, but in Japan, Malaysia, Singapore, the Philippines and the Caribbean.

Sutowo set to work after 1957 to develop a national oil industry. In 1957 he made contact with one Harold Hutton, and signed a contract with Hutton's Refining Associated of Canada in 1958. Japanese oilmen, including several people who had been stationed in Indonesia during the War, were invited in. One Mr. Nishijima and Sutowo formed the North Sumatra Oil Development Company, along with other Japanese interests, to start shipping oil from North Sumatra.

The government passed a law in the early 1960s stating that the state companies had sole authority to exploit oil; foreign companies would have to become contractors to the state. Caltex resisted signing a new contract on this basis until 1963, when then-President Sukarno issued an ultimatum. The oil companies were terrified of the implications for their operations in the Middle East if this practice were to spread. The situation was so tense that President Kennedy had to send top Rockefeller oil lawyer J. Walter Levy as a personal emissary to resolve the issue in 1963 — and the companies gave in.

Their fears were realized when Sutowo went on a tour of Saudi Arabia, Venezuela, Iraq and Iran in 1961, and voiced his production-sharing idea to receptive ears. One year later, Indonesia joined OPEC.

Sutowo continued his international organizing. In 1962 he signed a contract with Asamara of Canada, and in 1963 a preliminary agreement with Union Oil of California. He also attempted to set up a marketing company in Japan

to circumvent the multinational oil companies, and made contact with the independent Japanese power companies who wanted Indonesia's low sulphur crude.

In response both to Sukarno's increasingly anti-IMF stance, which culminated in his March 1965 declaration of a debt moratorium and withdrawal from the IMF, and to Sutowo's independent oil organizing, the CIA organized the October 1965 coup-counter-coup scenario and the subsequent bloodbath against the Indonesian Communist Party (PKI). The hope was to install the “technocrat” faction to manage an austerity economy, restore the nation's credit-worthiness, and run a Brazil-style looting operation.

However, by 1967, nationalist general Suharto assumed full control over the Government with the downfall of Sukarno, denying the technocrats a free hand. The technocrats, largely the “Berkeley Mafia” of economists trained at Berkeley, Harvard and Cornell, were led by Ali Wardhana, Widjojo Nitisastro, Mohammad Sadli and others who took over most economic posts in the cabinet. They immediately called in the Harvard Development Advisory Service to design the government's budget and development program — to be implemented after an IMF austerity regimen. But the Army faction also gained added leverage over the economy, and took over the extensive economic assets of the PKI.

Sutowo stepped up his own organizing. In 1966, he signed his first production-sharing contract with the Independent Indonesian American Petroleum Company (IIAPCO). This was followed by a second contract in October, and a third with the Japanese independent Kyushu Oil Company, led by a leader of Japan's nationalist “resource faction,” in November.

In 1968, Sutowo, having taken over the PKI's Permigan in 1965, forced a merger with the technocrat-run Pertamina under his own control. Pertamina was born.

In 1968, the new Pertamina acquired the remainder of the facilities of Royal Dutch Shell, making Pertamina a fully integrated national oil company. Contracts were signed with more independents, including Italy's ENI, Petromer Trend, and many others. Distribution facilities were acquired, while Pertamina began operating its own shipping fleet for domestic inter-island transport, and its own airline for company and related business.

By 1970, Pertamina under Sutowo had caused a revolution in the Indonesian oil industry. Total oil production had skyrocketed to almost 900,000 barrels per day and was still rising (reaching 1.4 million by 1974). (See Table 2.) The share held by the independents had grown to sizeable magnitudes from nothing (see Table 3 for 1976 breakdown.) Caltex had been pressured into more than tripling its 200,000 barrels per day (b-d) which rose to a high of one million b-d in 1974 (see Table 4.) Several dozen independent oil companies had begun operations in the country (see Chart 4). And Pertamina had already developed a substantial refining capacity, which reached over half a million b-d by 1976 (see Table 5).

In 1971 Suharto's top aides Ali Murtopo, Sudjono Humardani and Panglaykin, set up their own “thinktank,” the Center for Strategic and International Studies (CSIS), and immediately began turning out studies on the programs necessary to speed the country's development, all

Table 2  
Oil Production in Indonesia

	Total (barrels per day)	Pertamina's Oil Production (barrels per day)
1965	482,600	34,695
1966	467,221	104,169
1967	510,221	100,578
1968	602,498	101,805
1969	742,331	96,706
1970	853,567	87,013
1971	892,186	88,164
1972	1,083,726	84,821
1973	1,338,457	100,320
1974	1,374,898	109,980
1975	1,306,452	89,590

Source: Indonesian Industry of Mines.

Table 3  
1976 Oil Output, by Company  
(in barrels per day)

Pertamina	85,118
Caltex	850,000*
ARCO	114,745
IIAPCO	140,000
Union	127,870
Petromer Trend	68,394
Total—Japex	80,839
Other	63,034**
<b>Total</b>	<b>1,530,000*</b>

\*Estimate

\*\*Interpolated, exact figures not available

Source: Oil And Gas Journal, Dec. 27, 1976

Table 4  
Caltex Production  
(barrels per day)

1952	Began exporting nominal amounts
1954	43,000
1960	200,000
1969	600,000
1973	879,911
1974	1,000,000

Source: Oil And Gas Journal, Dec. 27, 1976

Chart 4  
Oil Companies in Indonesia Linked  
to the Major Oil Companies

*P.T. Caltex Pacific Indonesia*— Joint venture between Standard Oil of California and Texaco  
*P.T. Stanvac*— Joint Venture between Mobil and Exxon  
*Shell*— Royal Dutch Shell group

European State Oil Companies

*AGIP Spa. Indonesia*..... Italian  
*BP Petroleum Development of Indonesia* . Britain  
*Total Indonesia - CFP*..... French

Independents

*American Indonesia Inc.*.....USA  
*AMOCO Indonesia Petroleum Co.* .....USA  
*ARCO* .....USA  
*Asamera Oil Ltd.*.....Canada  
*Ashland Petroleum Indonesia Inc.*.....USA  
*Associated Australian Resources N.L.* . . . .Australia  
*Continental Oil Co. Of Indonesia* .....USA  
*IIAPCO* .....USA  
*Cities Service* .....USA  
*Sun Oil Co.* .....USA  
*International Oil Ltd.* ..... USA  
*JAPEX* ..... Japan  
*North Sumatra Oil Company* ..... Japan  
*Petromer Trend* ..... USA  
*Phillips Petroleum Co.* ..... USA  
*Refining Associates* ..... Canada  
*Roy M. Huffington Inc.* ..... Canada  
*Union Oil Co.* ..... USA  
*Gulf Oil* ..... USA

Table 5  
Pertamina Refineries

(barrels per day)

Balikpapan, Kalimantan	75,000
Dumai, Central Sumatra	100,000
Pangakalan Brandan, North Sumatra	4,500
Plaju, South Sumatra	111,200
Sungei Gerong, South Sumatra	79,000
Sungei Pakning, Central Sumatra	50,000
Wonokromo, East Java	4,000
Cilacap, Central Java	100,000

in strong contrast to the DAS-World Bank labor-intensive schemes pushed by the technocrats. The expansion of Sutowo's activities in the 1970s primarily involved implementation of the CSIS-developed conceptions.

The Soviet-aided Krakatau steel project, begun under Sukarno and abandoned in 1965, was taken over, and started up again with a target capacity of 1.5 million tons based on estimated domestic demand by 1975. West German financing was secured for the project, and West German companies began engineering work on it. Far from an "extravagance" for an underdeveloped country like Indonesia, the project was to serve as the central point for an entire industrial city, "Kota Baja," where the steel plant would have been the basis of an entire metallurgical industry.

A similarly conceived super-project on Bataam Island was to be centered around an oil refining and petrochemical complex, serviced by a city of 100,000 and a work force of 40,000. Sutowo also began construction or planning of projects for LNG production, and for a huge aluminum complex at Asahan in North Sumatra. This

project is still on the books, with funding provided by the Japanese. And in stark contrast to the World Bank's labor-intensive agricultural and transmigration plans, Pertamina began setting up several huge rice estates, to be fully mechanized, highly efficient and productive super-farms in virgin land on Sumatra. Pertamina also contracted for construction of hundreds of millions of dollars in infrastructure, mainly roads, to service the projects.

Today, these projects are under attack as boondoggles, pork barrels and extravagances, or worse. Such criticism suspiciously overlooks the fact that Chase Manhattan Bank is today intrinsically more unsound in financial terms than Pertamina ever was. That is why Pertamina is being sucked dry by Chase.

Had Pertamina, say, received a debt moratorium in 1975 instead of forced collapse, some of its industrial projects would already be starting to pay for themselves. A debt moratorium and a new start on a crash development program is still the only answer for Indonesia. Without that, today's economic contraction will become tomorrow's famine and total collapse.

# Carter Administration To Unveil New Immigration Policy: Militarize U.S.-Mexico Border

## MEXICO

The Carter Administration is expected shortly to release a series of legislative proposals for stopping the flow of illegal aliens across the U.S.-Mexico border. The proposals are the outcome of a special, cabinet-level task force that began to map out a new immigration policy three weeks ago. According to Labor Secretary Ray Marshall, a member of the task force, the new immigration policy ranks second on the Carter Administration's agenda: "No issue, with the possible exception of energy, has been studied as long and as intensely in this Administration as immigration."

Details of the new policy have remained concealed behind a facade of "concern for human rights of illegal aliens" — a line most frequently voiced by Labor Secretary Marshall and by the recently appointed head of the Immigration and Naturalization Service (INS), Leonel J. Castillo. But a series of statements by Carter spokesmen and press outlets have made clear that the central aspect of the policy will be the militarization of the border between Mexico and the U.S.

This militarization operation is slated to be run by the El Paso Intelligence Center (EPIC), the prototype of the National Security Council-controlled "command organization" for international terrorism and drug-running now being pushed by Brian Jenkins, the Director of Research on International Terrorism at California's Rand Corporation (See Counter Intelligence report). Secondary aspects of the plan, including an "amnesty for illegal aliens" program and fines on employers of illegal aliens, will have serious repercussions within both the U.S. and Mexico.

### *South of the Barbed Wire*

Carter's plan to militarize the U.S.-Mexican border was presented by Attorney General Bell to the National Border Crime Conference in San Diego, California April 21. Directly contradicting previous reports by Secretary of Labor Marshall that "we have never considered closing off the border with Mexico," Bell emphasized that "stopping an unlawful entrant from coming in and working is better than deterring employers or deporting the employees." The Administration, Bell added, plans to "make the border more secure."

Administration plans to this end are no secret. The day after Bell's speech, columnist Jack Anderson revealed that Senators Sam Nunn (D-Ga.) and Charles Percy (R-Ill.), in a letter to Defense Secretary Harold Brown, had

asked for the intervention of the Pentagon with "airplanes, radar, detectors and other equipment to adequately protect our border" from illicit drug traffic with Mexico. This call for deployment of U.S. armed forces hardware to "protect the border" has been echoed by other Carter spokesmen and press outlets. A *New York Times* article which appeared one day prior to the first of the Cabinet-level meetings emphatically presented the Administration's view of the border with Mexico in a quote by Congressman Lester Wolff (D-N.Y.): "We really have a Maginot Line. It is outflanked, overflowed, and infiltrated. And you know what happened to the French." The article — the first in a series by the *Times* — outlined in detail how agents of the U.S. Border Patrol, the Drug Enforcement Administration, the U.S. Customs Service and other agencies are "fighting a futile holding action against a flood of Mexican aliens, brown heroin, marijuana, manufactured goods, plant and animal pests, and human diseases streaming across the sparsely patrolled Mexican frontier."

As Carter's INS chief, Leonel J. Castillo made clear in an interview in the April 25 *New York Times*, this new immigration policy does not stop at the border. Castillo was quoted as saying, "You could put 10 divisions of marines along the border and not seal it . . . we can improve and streamline border enforcement efforts, but we must do much more than that."

### *Implications for Mexico*

In fact, the border question has become a point of pressure against the Mexican government of President López Portillo. A direct threat will be posed to Mexico's sovereignty by the presence of U.S. troops along a 2,000 mile border. Moreover, the plan to stop the emigration of unemployed workers and peasants to the U.S. — viewed as a "safety valve" for social tensions within the country — could quickly intensify the existing explosive situation in the countryside. William Paddock, a Rockefeller-linked agronomist who called for "reducing Mexico's population by one-half" two years ago, has stated that an essential part of his plan is "sealing the border and watching them scream." The *New York Times* article April 3 which presented images of Mexicans "streaming across the border" has stressed that the "most pressing long-term problem for both nations is Mexico's population growth."

Administration officials have announced that the Administration's proposals will also call for direct sanctions against employers who hire illegal aliens and for a special amnesty program.

Despite widespread opposition to the fines on employers, an article in the *Wall Street Journal* April 26 makes

clear that the plan will include some provision of this sort.

On the amnesty question, the initial calls for adoption of a lenient measure granting legal resident status to all aliens residing in the U.S. for the last two to six years, have been replaced by a tough, restrictive policy. Attorney General Bell in his statements to the San Diego conference announced that an amnesty plan would apply only to "undocumented aliens who have built up substantial equities during extended residence in this country. They would be persons who have, in effect, been woven into the nation's economic and social fabric."

In light of expected resistance within the U.S. to the new immigration policies, the Administration has attempted to push through its program as part of the effort

to lower unemployment within the U.S. The *Wall Street Journal* this week revealed that at the first Carter Cabinet meeting in December of 1976 Marshall "warned that failure to act on the issue (of "illegals") could undermine the new Administration's programs to create jobs and reduce unemployment." The connection between the Administration's immigration policy and the Carter plan for "creating" labor-intensive jobs, however, was driven home by Castillo two weeks ago. If the several million illegal aliens in the U.S. were rounded up, Castillo stated, "You'd have to find U.S. workers willing to take many menial, low-paying jobs. You'd have to relocate a lot of them. Would an unemployed iron worker in the East want to come and pick cabbages in Texas?"

## New 'Violencia' Touted For Colombia

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### COLOMBIA

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Colombian President Alfonso López Michelsen acknowledged on April 22 that his collapsing government is in desperate political straits, in a warning that "the political fighting in Colombia is extremely cruel and, until now, dormant... (but)... *physical violence* has begun to reappear." López's choice of words was deliberately intended to evoke the bloody civil war of the 1950s between Liberals and Conservatives popularly known as "La Violencia" (The Violence).

López's warnings of a new Violencia were more than a simple commentary; they were brandished as an open threat against stubborn political opposition to his World Bank policies of triage and deindustrialization in which working class and industrialist layers have increasingly made common cause. In an address to the nation earlier this month, López identified this pro-industrial cross-party alliance in a twisted fashion, charging that "Today there is class warfare rather than party warfare. Thus, we are divided between those who want to overthrow the system and those who want to preserve it... (those who are) friends of the status quo and those who aspire to a different order."

The preparation of a new Violencia has been in increasing evidence during, especially, the last two weeks. The prominent national daily *El Tiempo* has repeatedly editorialized about the imminence of a new Violencia outbreak. On April 22 its lead editorial noted that "(parliamentary aggressions) contribute to the fomenting of extra-Congressional passions, at times — and we have lamentable experience with this — causing physical violence in the cities and in the countryside as easy to provoke as it is difficult to eradicate." Newspaper coverage of criminal incidents has become increasingly sensationalist as well, with *El Tiempo* running shock headlines such as "Violence in the Countryside," to capitalize on the terrifying memories of the Violencia.

This psychological warfare is part of a deliberate and coordinated plan. Finance Minister Espinosa Valderrama this week announced that Liberal youth were arming themselves to prevent a Conservative electoral victory from replacing the Liberal government now in power. This declaration was calculated to aggravate the historic tensions between Liberals and Conservatives, and on cue Conservative spokesmen responded that they had lost all confidence in the government's claims of "impartiality" in next year's presidential elections.

#### *Violencia Against Whom?*

The 1950s Violencia — while nominally a civil war between the two major parties in Colombia, Liberals and Conservatives — was actually a stage-managed decade-long terror scenario designed to exterminate all real and potential opposition within the working class and progressive capitalist layers, and to thereby institutionalize World Bank control over the Colombian economy. Bands of fascist goon squads joined with police and military assassins under the Conservative banner to rove the country, massacring thousands of peasants and workers and executing Liberal and Communist Party leaders wherever they could be found. When the Violencia ended, estimated deaths were 300,000 and higher.

The unleashing of a new Violencia in Colombia certainly poses no *sane* political option for anyone. And yet the failure of López and his World Bank backers to find *any* workable political combination capable of imposing severe austerity has underlined the urgent need for even such drastic "solutions." A Chile-style military coup in Colombia, under active consideration earlier this month by the World Bank and its friends, had to be put aside for the time being when major factional splits within the military itself and a visible strengthening of the Colombian Communist Party's organizational capacity became evident.

The splintering of both Liberal and Conservative Parties around the issue of economic policy for Colombia has prompted an hysterical López to resort to blackmail

and red-baiting to try to force rebellious industrialist layers back into the World Bank fold. Charges of "con-sorting with Communists" and "coup-plotting" have been thrown at particularly the Ospino-Pastranista "Unionist" faction of the Conservative Party, whose industrialist base has drawn the line on dismantling the country's industry under the government's World Bank-dictated orders. The Communist Party and the Ospino-Pastranistas in Cali, a major industrial city, have recently allied to overturn government funding for a military-government food control center and replace it with a much-needed industrial park. The "Unionists" have responded to the government's red-baiting tactics with statements like the following, judiciously worded to play upon the susceptibilities of their factional enemies: "Although we have radical ideological discrepancies (with the Communists), we have very good friends among them...and they appear to us as morally superior to the bourgeoisie of other political sectors."

*Left-Right Violencia*

The simultaneous activation of both "left" and "right" terrorism during the last several weeks has paralleled López's threats and significantly heightened the "Violencia" atmosphere in Colombia. The airing last week of a television serial (actually prepared years ago) by Colombian author Gabriel García Márquez on the

story of the Violencia was followed by the surfacing of a fascist terrorist creation calling itself the "Falange Conservadora," which bombed a mobile television unit involved in the filming of the serial. The new Falange declared that its goals were to seek the "moral restoration" of the country, a Conservative watchword of the Violencia period.

Also last week, the capital city of Bogota was heavily militarized when hooded provocateurs triggered a car-burning and rock-throwing spree at the National University — allegedly to commemorate the anniversary of the creation of the M-19, a CIA synthetic "leftist" terrorist creation. During the week, a young policeman guarding the Paraguayan embassy in Bogotá was gunned down by terrorists calling themselves the "Liberation Army of the People," and a group claiming to represent an "urban cell" of the Communist-linked peasant self-defense organization, the FARC, threatened a rash of kidnappings of political leaders in the heavily Conservative city of Popayan.

The first shots of a possible new Violencia were fired this week when a dissident Conservative leader in the department of Boyaca was assassinated in a political feud with an opposing faction. Charges and counter-charges on responsibility for the murder have already echoed in the National Congress.

# Fairness Doctrine Complaint On Energy Policy Filed With FEC

The U.S. Labor Party, the Fusion Energy Foundation, and Colonel Thomas McCrary, a prominent Georgia conservative, filed a complaint April 27 with the Federal Communications Commission against the National Broadcasting Corporation and its New York local affiliate WNBC-TV. The complaint, filed under the Fairness Doctrine, charges that NBC has given issue "favoring conservation as a response to an energy shortage and neglecting to report on the possibilities of advanced nuclear technologies to rapidly expand the energy supply and relieve the relative shortages."

The complaint was filed when NBC and WNBC-TV after stalling for 11 days, flatly refused to allow Labor Party chairman Lyndon LaRouche, Jr. — or for that matter any other well-informed spokesman for controlled fusion energy development — air time to respond to the series of prime-time TV energy policy statements by President Carter during the week of April 20.

NBC has essentially taken the position that there is *no debate* in this country around whether the United States is to devolve into a "conservor society" as proposed by the recent Rockefeller Brothers Fund Report "Unfinished Agenda" put out by the Environmental Agenda Task Force which states: "...and above all, nuclear power is dying. Dying not only because in economic terms it is too capital intensive...but because the more debate that surrounds it, the less viable it becomes as a political reality..."

Despite its policy of "non-debate" on Carter's suicidal national economic austerity policy under the guise of energy "conservation," NBC has unabashedly stated in writing to Labor Party attorneys that in fact it did present "numerous points of views on this subject" (nuclear power).

The facts show otherwise. The USLP complaint cites extensive and exhaustive monitoring of virtually *all* NBC coverage of energy-related questions over the last six months and concludes with regard to the past week's coverage alone that "It would be stretching the imagination far indeed to propose that 35 seconds of news coverage on fusion and no documentary news special coverage on the potential of advanced nuclear technologies could balance against the 23 minutes of news coverage directly devoted to conservation in the same time period or the ten hours of documentary and news special coverage which presented conservation as the necessary response to the energy shortage."

In a related development, Carl Walske, President of the Atomic Industrial Forum, has filed complaints against NBC for highly inaccurate and inflammatory coverage of nuclear power presented in special features like "Danger! Radioactive Waste." Walske also wrote to

NBC stating: "But NBC did not pretend to present a balanced discussion of the facts, experience and plans for handling radioactive waste; instead it resorted to emotionalism, show-biz gimmicks and heavy handed editing to create a classic propaganda piece in the guise of news."

Is NBC biased in favor of Carter's and Schlesinger's energy program? A look at a WNBC-TV editorial on Monday April 25 demonstrates that it is: "We think his (President Carter's) proposals are basically sound and they have our *enthusiastic* support...We need to conserve...There is a danger though. And the danger is us..."

The FCC is now considering the complaint.

The complaint is excerpted below.

## *Fairness Doctrine Complaint*

This complaint has been drawn up pursuant to the guidelines established by the Federal Communications Commission in its 1974 Fairness Report.

1. The petitioners' complaint will demonstrate that the National Broadcasting Corporation, hereinafter referred to as NBC, and WNBC-TV have not met their obligations under the fairness doctrine to air the controversial debate on energy policy in a way which provides balanced coverage to both sides in the debate.

The petitioners are aware that debate on energy policy is currently extremely heated, that the outcome of this debate will shape the future energy and economic policies of the nation as well as having a significant impact on international relations, and have acted with dispatch to insure a timely hearing of their complaint and a resolution of this vital issue....

6. NBC responded, after a number of telephone conversations, with a letter from Mrs. Barbara Hering denying the fairness doctrine request for the following reasons: "First, President Carter recognized the need for nuclear power, the position which you appear to favor. Second, NBC has presented numerous points of view on this subject, in compliance with the Fairness Doctrine."

7. WNBC-TV, replying through Mr. Carl Trunk of their legal department, stated that they would adopt the response of Mrs. Hering.

8. The petitioners have filed fairness doctrine requests with the American Broadcasting Corporation and Columbia Broadcasting Systems and reserve the right to file formal complaints dependent on the responses they receive.

9. The controversial issue defined by President Carter three times on national prime-time television during the week of April 18-24, in a similar prime-time address to the nation (fireside chat) on Feb. 2, 1977, in the

featuring spokesmen for the conservation argument or spokesmen opposing nuclear technologies and urging they be limited or abolished....

The major requirement of the fairness doctrine is that the public be informed. All evidence shows that, although NBC and WNBC may not have chosen to present the controversy in the words we have chosen, the basis of the controversy is as we have stated above. Therefore the NBC and WNBC-responses to the requests of petitioners plainly indicate that they do not intend to fulfill their obligations under the fairness doctrine. The U.S. Labor Party request quite explicitly stated the issue the petitioners felt at controversy. That NBC and WNBC did not choose to address themselves directly to that controversy and instead claim, as did NBC, that "President Carter mentioned nuclear energy, which is presumably the position you favor" indicates nothing less than either a totally unreasonable view of the issue in question or bad faith. Given that at least 15 telephone calls and three personal visits were required to elicit any response from NBC over a period of 11 days, one might, not without basis, consider the latter as possible.... While NBC made every effort not to make available records of their programming, as is their right by law, supposedly inaccessible files are freely made available to the public if the individual requesting to see them is not researching a fairness doctrine complaint. It was on the basis of their public availability that our analysis was done.

It should further be emphasized that petitioners fairness doctrine request, did not, as NBC claims, insist upon selecting a spokesman to balance the network and station programming. Instead the petitioner USLP suggested a competent spokesman in order to urge upon the networks their responsibilities to present the other side of the debate....

The petitioners are reasonably confident that NBC and WNBC plan no immediate coverage to remedy the unbalanced coverage they have presented to date. For example, Tom Pettit, a reporter for the Today Show proposed to air the debate as discussed in this complaint by presenting a "face-off" between Carter energy advisor Schlesinger and Lyndon H. LaRouche, Jr., USLP Chairman, on the Today Show April 20. His producer, Jim Courtney, refused to schedule such a debate, stating to USLP press coordinator Fay Sober that he would not permit this because "there is no significant debate on the Carter energy policy."

These responses appear even more unreasonable when contrasted with the considerable public support for fair network and local station coverage of the actual possibilities advanced nuclear technologies offer for the resolution of the energy crisis....

Therefore, petitioners ask that the FCC order NBC and WNBC to remedy the deficits in their programming as soon as possible following the receipt of this complaint.

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