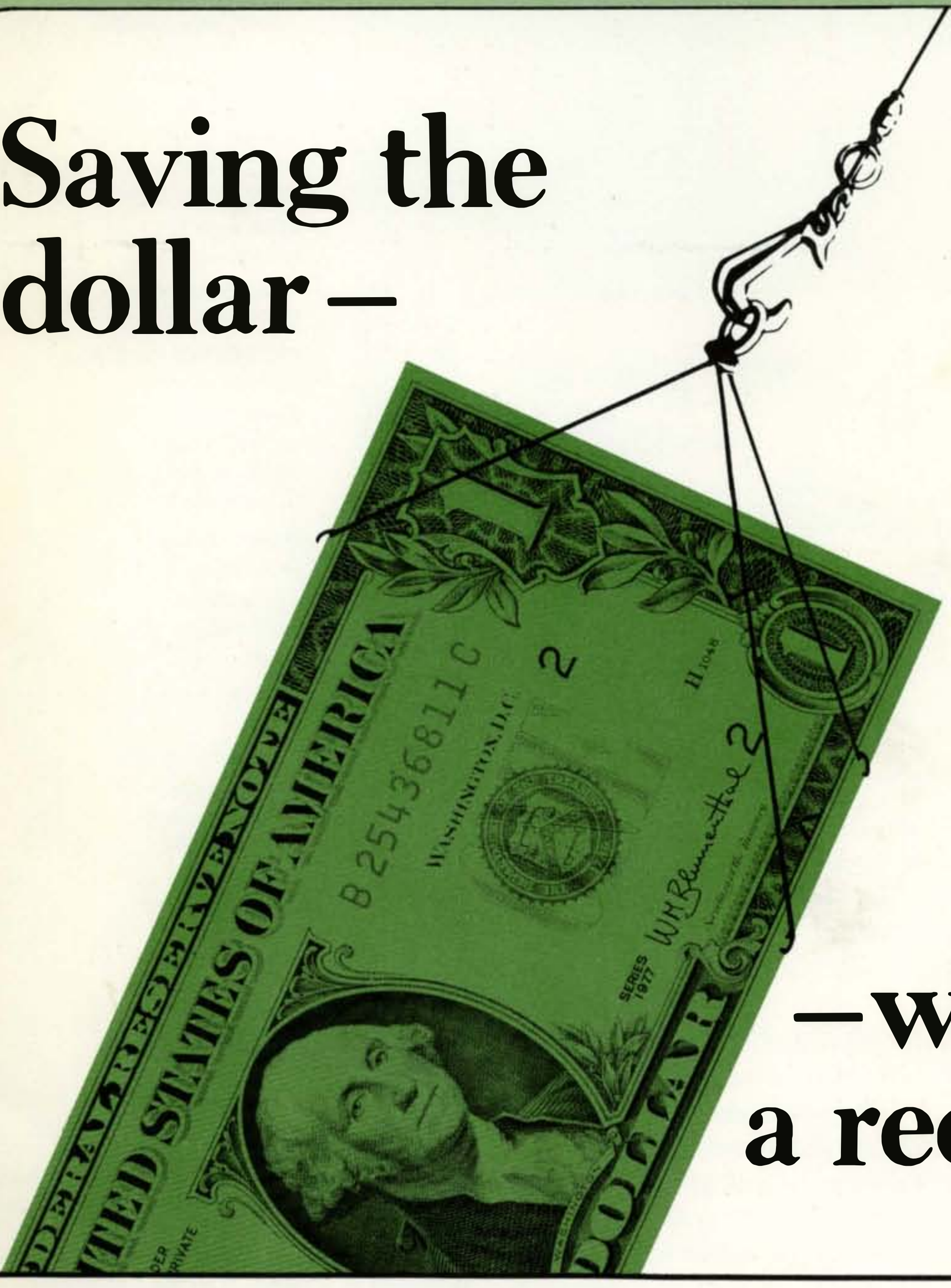
EXECUTIVE INTELLIGENCE REVIEW

November 7-13, 1978

Saving the dollar—



—without a recession

- London plots U.S. financial panic
- The new world monetary system's prodollar coup

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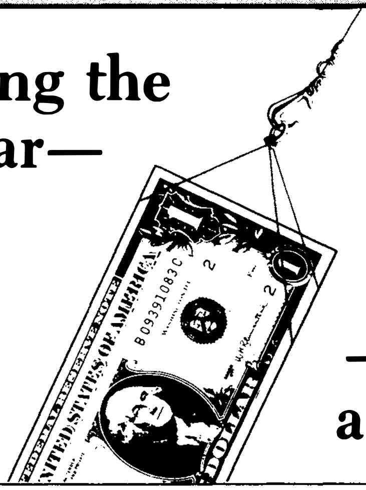


—without a recession

Most Americans don't know it yet, but the package that President Carter presented Nov. 1 to stop the dollar's nosedive was actually the handiwork of European, Japanese, and other forces behind the new European Monetary System — now explicitly the new *world* monetary system.

Our cover story, in ECONOMICS, outlines how this EMS coup happened, and highlights what leverage the City of London and its antidollar allies in the U.S. still have, with international commentary, public and private, from both sides — including a scathing satire of certain U.S. Administration officials.

And in our follow-up SPECIAL REPORT, there's a more detailed analysis of London's intentions, by U.S. Labor Party chairman Lyndon H. LaRouche, who also spells out the steps the U.S. must take to break the British nexus and turn the short-tèrm breather for the dollar into permanent global prosperity.

IN THIS ISSUE

Massive development ahead for Mideast

The real story of the Baghdad summit of Arab nations is rapid and very concrete moves toward a region-wide reflorescence of the Middle East's historic Fertile Crescent. Reported in our THIRD WORLD section, key components of the new development plans include the dramatic reconciliation between Syria and Iraq, heavy inputs of capital and technology from the member-nations of the European Monetary System, and support for a gold-backed monetary system from Saudi Arabia. **page 39**

Also in line to play a major role in Middle Eastern developments is embattled Shah Mohammed Rezi Pahlavi of Iran, whose domestic position improved this week thanks to strong expressions of support from some unexpected quarters. But the Shah's gains may be British Petroleum's loss. The full story on what's happening in Iran and the prospects for the nation's development program — in our INTERNATIONAL report. **page 23**

Who killed Italian oil-man Mattei?

In COUNTERINTELLIGENCE, part three of our exclusive serialized translation of the Soviet youth magazine *Ogonyok's* investigation of the international politics behind the killing of JFK. This week author Julian Semyonov traces the ties between Maoist Peking's "opium war" and the Mafia, U.S. intelligence services, and the world politics of oil. **page 33**

EXECUTIVE INTELLIGENCE REVIEW

THIS WEEK

ECONOMICS

SPECIAL REPORT

INTERNATIONAL

Vol. V, No. 43
November 7-13, 1978

Administration's trade war against the U.S.

The Soviet Union recently declared that $10 billion in trade deals is waiting for U.S. firms — but the Carter Administration's record so far indicates that the Kissinger-Brzezinski-Schlesinger trio will make sure America never gets those billions in orders and jobs. For our ECONOMIC SURVEY this issue, Soviet Sector desk chief Rachel Berthoff, Maureen Manning of our U.S. desk, and Richard Freeman of Economics have joined forces to bring you the whole story: what the Soviets are offering, how and why the Administration is turning those offers down, what the cost to the U.S. economy has been so far, why the Brookings Institution is purveying wildly untrue scare stories about East bloc debt. **page 46**

Schlesinger's legacy: America's R&D in ruins

James Schlesinger is reported getting ready to leave the helm at the Department of Energy; but even after he's gone, will U.S. basic scientific research be able to recover? Our ENERGY report details the shocking dismantling of the once-proud American nuclear research machine under Schlesinger's tenure at the DOE, to the point that the Department had no funds to send a representative to a major plasma physics meeting in Colorado Springs last week. The net result confronts the United States with the prospect of becoming a fourth-rate scientific power in the near future. **page 29**

Schmidt deploys EMS for peace

U.S. forced into alignment with new monetary system

In highly coordinated political moves over the past week, the European-Japanese-Soviet bloc which has been organizing rapid implementation of the European Monetary System took major steps to force the U.S. into alignment with this new economic order and to defuse major global tension spots.

Primary in this was West German and Japanese extension of a combined $30 billion currency support package to bolster the sliding U.S. dollar. This practical demonstration of the pro-dollar nature of the EMS has had the effect of shifting control of U.S. economic policy making away from the "austerity planners" and has provoked leading industrial layers to demand a followup on these financial actions through expansion of U.S. high-technology exports.

Italy, another until now weak link in the EMS ranks, has been strengthened over the past two weeks by visits of both French President Giscard and West German Chancellor Helmut Schmidt. After meeting with Schmidt, Italian Prime Minister Andreotti on Nov. 1 announced Italy's intention to join the EMS at its inception in January.

Meetings last week between Soviet officials and the two leading representatives of the French government resulted in comprehensive agreement on an international policy for arms and disarmament, a program for peace in the Middle East, and a plan for the stabilization through development of the volatile southern African region. This package, representing a degree of collaboration matching that which produced the groundbreaking Schmidt-Brezhnev accords of May, is a major advance in the war-avoidance strategy of the pro-EMS forces.

At the same time, European initiatives toward West Africa opened up a new front in the war for development under an EMS umbrella. This week, ahead of an upcoming conference between EMS leaders and West African governments, an agreement emerged in Bonn to build a billion dollar irrigation project in the Sahel "starvation belt." Chief financing will come from the EC and Saudi Arabia. The project, formalized in a meeting among the heads of state of Mali, Senegal, Mauritania and West German Foreign Minister Genscher, reflects ongoing planning between the now established Arab Monetary Fund and the EMS.

On the basis of these policy successes, Chancellor Schmidt was fully justified when he told the West German Bankers Association on Oct. 23 that the European Monetary Fund is to be made "the basis for a new *world* monetary system."

—Norman Solowey

What will happen at the polls

The real issues of the 1978 elections

As this issue of the *Executive Intelligence Review* goes to press, campaign activity in local, state and congressional contests across the country is entering high gear. The Nov. 7 balloting is expected to deal reeling blows to the Republican Party, which has been sabotaged and discredited from within since the late-summer consolidation of former Secretary of State Henry Kissinger's control over its national leadership. A second result of the elections can be reliably predicted. This is the emergence of a new U.S. political geometry which will be dominated by the consistent spokesman for the policies of U.S. economic recovery now being forced upon the Carter Administration, the U.S. Labor Party.

With the July 1978 release by USLP National Chairman Lyndon H. LaRouche of the party's "100 Days" legislative program for a nuclear-energy and high-technology exports-based U.S. economic recovery, over 50 leading Labor Party spokesmen entered the field as challengers in state and federal election contests. The Labor Party electoral drive has been active in New York, Virginia, Pennsylvania, Connecticut, Illinois, Michigan, New Jersey, blanketing these, and other of the nation's most heavily industrialized states, with a three-point program for pulling the U.S. back from the brink of national suicide.

With one voice across the U.S., Labor Party candidates have called on voters, constituency leaders, and elected officials to endorse an American link-up with the new world monetary system consolidating around the core of the European Monetary Fund, to join in the war on drugs by dismantling the British Crown-controlled international drug-banking apparatus, and to speak out for a U.S. crash program of thermonuclear fusion power development in collaboration with the USSR and Japan.

The August announcement by researchers at the Princeton University Plasma Physics Laboratory of a breakthrough in confined plasma temperature in the PLT Tokamak device rallied the U.S. scientific community around the promise of fusion power development, and proved a benchmark in USLP campaigns. This week, President Carter announced that West Germany's Helmut Schmidt, the European leader of the European Monetary Fund, will commit his nation's central bank, in coordination with Japan, to a multi-billion dollar support operation for the collapsing U.S. currency. This Administration policy turn has opened the eyes of many informed observers to the urgency of USLP proposals for full national collaboration with the EMF.

On the constituency level, the Labor Party's exposure of Britain's opium war against the U.S. has most dramatically augmented the party's political currency. Parents, teachers, clergymen, medical professionals, law enforcement officials, local and state chapters of the World Community of al-Islam in the West, Republicans and others have coalesced into a broad antidrug coalition mobilized to make their views against the proliferation of marijuana and other drugs heard at the polls on election day.

This is the base of support for U.S. economic growth in a drug-free new world economic order that the U.S. Labor Party will be arming with the full details of how the Hong Kong and Shanghai Bank and other British-Crown financial institutions run the $200 billion annual drug trade. In December, a comprehensive report by USLP researchers will be released as a book titled *Dope, Inc. the World's Biggest Business.*

The British Crown is so alarmed by this front-line aspect of the USLP national electoral drive that its premier press outlet in the U.S., *the Washington Post,* slandered the party candidates in a shoddily constructed feature on Oct. 30. The destabilizing effect of the USLP's campaign thrust against HongShang and its associates has gone much further. Prominent liberal labor lawyer Joe Rauh, encountering USLP District of Columbia mayoral candidate Susan Pennington on a city street Nov. 1, shouted before witnesses "We are going to kill LaRouche. We are going to shoot him!" Rauh's threatening outburst against the USLP chairman was prompted by a reference to a recent Hong Kong meeting of the Mt. Pelerin Society, an economic warfare think-tank of the British Crown, which reportedly was dominated by discussion of the U.S. Labor Party's anti-drug campaign.

—Christina Nelson

Expand the conspiracy

An open letter to our readers

The editors of *Executive Intelligence Review* would like to share with readers a recent incident which we think pinpoints the current state of public information in the United States, and its remedy.

An executive from one of the country's top corporations told us that he had been sent to Western Europe by his president, to investigate the discrepancy between our statements that the European Monetary System and European Monetary Fund would soon replace the IMF-World Bank system with a new, gold-backed world economic order — and contrary reports from other media and private sources that the EMS was "unimportant."

His conclusion: everything this *Review* had claimed about the scale, aims, and timetable of the West European "grand design" was correct; everything our opponents were dispensing on that subject, including British-originated claims that the EMS is antidollar, was disinformation.

Even more importantly, the executive acknowledged the preciseness of our overall method: "You're right that the world is run by two opposing conspiracies," he said. "Helmut Schmidt is heading the conspiracy to bring about the new monetary system, and Denis Healey runs the conspiracy to stop it."

To be more on target, British Chancellor of the Exchequer Healey is fronting for the conspiracy centered in the British crown and its related financial oligarchy, to maintain their global financial power; and Chancellor Schmidt is the most active Western head of state promoting a conspiracy of reason whose foremost U.S. exponents are the institutions and publications associated with Lyndon H. LaRouche, Jr. — notably, this *Review.*

This admission from a member of the American business elite, coinciding with brief, trembling flickers of reality in such outlets as the *Journal of Commerce,* the *Christian Science Monitor,* the Baltimore *Sun* and so forth, prompted us, and should prompt you, to look back six months and review our coverage of the Schmidt-linked "grand design" and its British-centered opposition. On every critical issue, the *EIR* has been right. If the U.S. business community, and others, had subscribed and listened, it would have saved the nation from near-disaster, and business a lot of money as well.

• **In our first two issues in May,** we revealed French-West German plans to go for a gold-backed monetary system, with the U.S. economy as its centerpiece. These plans subsequently led to the July 6 Bremen summit launching of the European Monetary System by the European Community and, most recently, the EMS-originated intervention on behalf of the dollar this past week.

We reported the comprehensive 25-year economic collaboration accords between Bonn and Moscow *before* they were officially announced at the Brezhnev-Schmidt summit of early May, connecting these to the plans for a new world economic order and to West European resistance to a dangerous NATO buildup — resistance which is *only now* being covered in the rest of the U.S. press.

And we delineated the role of Mexico in mediating the grand design to the rest of the developing sector — a role later underlined by Mexican President Lopez Portillo's trips to the Soviet Union and Asia.

• **In that same, early May issue** Lyndon LaRouche unveiled a two-sided conspiracy to boost U.S. Federal Reserve Chairman William Miller, while dumping UN Ambassador Andrew Young. He linked these plans to a U.S. sabotage of Italian antiterror initiatives and the unfolding of a "Thirty Years War" holocaust in southern Africa, reversing Young's policies of buying time for a peaceful solution to that region's problems. He also stated that Miller's "fiscal conservatism" policy would precipitate a 1929-style crash in the U.S. economy.

LaRouche's forecast was borne out in full. In Africa, the May "Shaba province invasion" hoax sealed control over President Carter's intelligence sources by British agents-of-influence Stansfield Turner and Zbigniew Brzezinski, leading directly to the drastic misassessments which went into Camp David. We praised the positive potential of French intervention into the NATO-originated Shaba II affair, and ruthlessly scored that faction within the Soviet Union that was attempting to undermine collaboration with "capitalist" Western Europe in the area. Last week, six months later, Soviet-French collaboration reached an unprecedented level in joint plans to implement the "grand design" in Africa and the Middle East — again, proving how right we were.

• **During May and June, Executive Intelligence Review** campaigned to expand U.S. high-technology exports into productive development projects, especially in the Third World, as the key to restoring the real economic base of the dollar. We detailed how legislation such as the Jackson-Vanik Amendment is costing American industry millions of dollars in export revenues. Now, following Carter's announcement of a dollar defense action on Nov. 1, leading Chicago banker Robert Abboud has called for high-technology capital formation and a geared-up export program as the key to consolidating the dollar — *Exactly as we said all along.*

• **In mid-June**, we surveyed the status of fusion energy research and reviewed the two, little-publicized offers to the U.S. by Japan and the USSR for joint work in this area as a key part of the grand design. We reminded readers that back in January the Department of Energy's Stephen Dean had announced that Princeton's PLT reactor had achieved the highest temperatures ever in experimental work, and we predicted a series of further experimental breakthroughs. In August, when the news that the PLT had reached "breakeven" temperatures exploded into the world press. *policy makers started to take fusion seriously as the uniquely viable solution to the energy crisis.*

It was with the fusion cover story that *Executive Intelligence Review* inaugurated a new, handsome format and expanded our sales at selected newsstands. Shortly thereafter, we spoke out for reason on the eve of the Camp David summit. We warned President Carter that the U.S. must use cold-blooded, credible threats to force Israeli acceptance of minimum concessions demanded by the Arab states, including an independent Palestinian state, and be ready to work with the USSR, Western Europe and Japan in bringing forward a massive regional economic development package to ensure the security of all the Mideast states.

As you know, Carter did not listen to reason, but to Henry Kissinger — a leading representative of the other conspiracy. Now, the President's Camp David "Munich Pact" is in a shambles, and the Europeans and Japanese have had to intervene to give the U.S. economy some breathing space in which Carter can turn around.

Appropriately, the *Executive Intelligence Review* will be expanding its advertising and editorial pages and is launching a drive to vastly expand its subscribership. Our readers' role in this is key.

You can help us to get the *EIR* into the hands of every business, labor, research, press and education leader you know whose responsibilities require an alternative to the sententious blather that passes as "coverage" in the media. We represent more than an information service; our information is right, because we stand for a conspiracy of reason that searches out and publishes what is crucial for policy makers to know. We think regular readers will concur that the time has come for this conspiracy to get much bigger — quickly.

— Nora Hamerman

Saving the dollar — without

Carter's dollar package is an EMS coup

The $32.5 billion emergency package for international dollar support announced Nov. 1 in Washington is an extraordinary deployment. It signals that U.S. allies in Western Europe and Japan, along with a cluster of American business leaders looking toward the emerging European Monetary System (EMS), have now seized substantial control of U.S. economic policy, with all that that implies for policy in general.

"Carter's move today was a 180-degree policy turn forced from the outside. It was a coup by Schmidt and Giscard," said a senior investment banker at Lazard Freres investment house in New York. "The EMS is calling the shots for the U.S.," an International Economic Policy Association analyst concluded happily the afternoon of Carter's move. West German Chancellor Helmut Schmidt himself stated Nov. 1 that his government had played an active role in shaping the new U.S. policy.

Credit lines of over $30 billion represent a formidable armamentarium against speculators. But the package's bad elements — a humiliating resort to the deathdealing International Monetary Fund (IMF), which everyone knows is run by Great Britain, and a further increase in interest rates — allow asset-strippers G. William Miller at the Federal Reserve and Michael Blumenthal at Treasury to maintain a foothold in the policy arena. The dangers of the "buy America cheap" scenario are still very real.

Carter's package is no mere bureaucratic compromise between positive dollar support internationally and recessionary strangulation at home. The package is more than the sum of its parts. As the French Economics Ministry put it, this means a return to the concerted strategy mapped out during last summer's Bonn summit to ensure economic recovery and stability — the July summit at which President Carter endorsed the EMS.

To cast the potentialities in terms of Carter's own position: having made the strongest move of his Presidency in acting on the principle that a weak dollar is not good for the country, he now has what West German Finance Minister Hans Matthoefer called Nov. 1 "vast financial resources" to deal with the essential task of upvaluing the dollar."

As active dollar defense shows self-feeding success, Carter can triumphantly lay aside the current shutdown "anti-inflation" policy, and pursue the next steps laid out on CBS networks Nov. 1 by the chairman of the First National Chicago Bank, Robert Abboud. Just back from a tour of the technology-hungry Mideast, Democratic Party supporter Abboud stated that the followup to the dollar package must be serious capital formation and an aggressive export policy — "U.S. business has to learn that it's export or die." This emphatically does not mean trade war: as Schmidt's deputy Dieter Hiss has explained, the EMS sees a U.S. export drive as strengthening the dollar's reserve role and thus serving Europe's self-interest. (For details, see below.)

How it happened

Executive Intelligence Review readers will remember our reports late this summer that a joint "bull" operation was in the works between the EMS founders and certain U.S. multinationals. According to Midwestern industrial sources, the operation was set up at the end of September, and hammered through the Administration during October.

Various oil-company executives, whose quarterly profits have been devastated by dollar depreciation, were involved on the American end. Also represented was Chase Manhattan Chairman David Rockefeller, whose recent statement to the American Bankers Association convention that the main U.S. need is investment for technological modernization was accompanied by personal pressures on Blumenthal. Sources close to Chancellor Schmidt told this news service's West German bureau Nov. 2 that David Rockefeller has a positive plan for the U.S. economy which he is now in a position to push for.

The Treasury Secretary and other IMF adherents had anticipated full well that the "anti-inflation program" would wreck the dollar and the securities markets — but evidently not that this crash would provide the final opening for their opponents, including elements at the State Department, to push through a real recovery policy.

The essential development is the fact that U.S. businessmen are in the middle of gaining a grasp on

a recession

what a real recovery policy *is*. The senior economist for one of the Big Three auto companies was sent to Europe by the chairman to see if something as big as the EMS could really be on track, with so much U.S. ignorance about it. He returned at the end of October and told both his corporation and his regional U.S. Labor Party contacts that USLP Chairman Lyndon LaRouche's account of the EMS as a full-speed credit generator for world development was a "thousand percent confirmed" by his lengthy briefings from the heads of the Bundesbank. Briefings from the Bank of England, he added, spelled out Britain's alignment with the IMF against the EMS — and also London bankers' "crazy" preoccupation with paper instead of output. The Administration has to address the EMS, he said, and get rid of its wage-price control mode as "immoral, unconstitutional madness."

The credit-crunch question

The response to the dollar package from the U.S. advocates of "a British policy" of economic self-cannibalization was to play up the Fed's biggest discount-rate increase since 1933, by 1 percent, to 9.5 percent and the $300 million drained from banking liquidity through higher reserve requirements on large time deposits, as (1) the core of the new program and (2) a further step toward the industrial deep-freeze allegedly needed to cure inflation.

The Wall Street Journal headlined Nov. 2, "Dollar Dilemma: Bold Currency Support Announcement by U.S. Raises Recession Risk;" the *New York Post* devoted its entire news lead Nov. 1 to the interest rate hikes alone, in a rather ham-handed effort to queer the markets.

The same view came from European Commission President Roy Jenkins's headquarters in Brussels, where an official told the wire services: "I would stress that these new measures are technical. There still must be continuing strong measures to cut inflation in the U.S. and especially to reduce its enormous energy consumption, which is unconscionable." The Brookings Institution's Philip Tresize, damp with pity for trapped antidollar bears, hoped that recessionary potentials will outweigh the

What's in the support package?

$15 billion

Swap lines: Available U.S. government borrowings of deutschemarks, Swiss francs, and yen increase from $7.6 billion total, to $6 billion from the Bundesbank, $4 billion from the Swiss National Bank, and the rest from the Bank of Japan.

$10 billion

Foreign-denominated Treasury Securities: Treasury notes expressed in Swiss francs and deutschemarks, as a surety to lenders against further dollar depreciation, to be marketed, according to the Treasury, to foreign private holders. The notes provide U.S. authorities with additional foreign exchange reserves. Before the first Nixon Administration's "benign neglect" dollar policy was introduced, this support measure was used successfully.

$2 billion

Sales of Special Drawing Rights: Divesting SDRs held for the U.S. at the IMF will bring in further foreign exchange.

$2.5 billion

Sales of Treasury gold: The increase in the Treasury's monthly sales of gold from 300,000 ounces per sale to 1.5 million can be expected to earn this range of funds.

$2 billion

Drawings on IMF reserves: This is a withdrawal of yen and marks from U.S. reserve assets deposited with the IMF, not a loan. It has no conditions attached.

$1 billion

IMF withdrawal under the General Agreement to Borrow: Should the U.S. draw another $1 billion in reserves from the IMF, the advanced-sector "rich countries' " General Agreement to Borrow would have to be activated to provide the cash from West Germany, Switzerland, Japan and others. Note that if these General Agreement to Borrow countries then decline to replenish their standby credits, the IMF's lack of ready cash could become acute.

"enormous" intervention credit package. And House Banking Committee chairman Henry Reuss, an open opponent of any significant market interventions whatever, said, "Even if it works for a while, it's just a bandaid to cover an inadequate anti-inflation program."

However, the strong upward response to the package Nov. 1 from markets that had previously plunged with each new credit-tightening announcement indicates that investors — especially U.S. banks reportedly filling their portfolios with corporate stocks — had at least as much horse sense as the "shorts." The latter (also largely American) ran for cover, and could sniff the international breakthrough achieved in Washington.

Lazard's expects Europe and Japan to press lowered interest rates on the U.S. very soon, once the dollar is preliminarily straightened out. This is undoubtedly the intention, since, as within Europe itself, they view currency stabilization not as a standstill goal but as a prerequisite for the trade and investment — through suitably low-interest financing — which the EMS is designed to expand worldwide.

—*Susan Johnson*

The responses to Carter's move

President of the Bank of Japan, Teiichiro Morinaga:
We are sure that joint intervention by the Japanese, U.S. and other governments will help stabilize the international monetary situation.

Deutsche Bundesbank press release:
These measures underscore in an impressive way the determination of the American partners to fight inflation, to strengthen the position of the dollar, and to consolidate the situation on the foreign exchange market.

Swiss National Bank
(We note) with great satisfaction the impressive package of the measures taken by the U.S. . . . We are convinced that the action program will achieve the intended effect.

French Premier Raymond Barre:
Courageous measures (by President Carter) have every chance of contributing to the restoration of the U.S. currency (which) will allow a return to monetary stability and security, which are indispensable for the improvement of world economic activity and employment.

"Schmidt-Giscard coup in Washington"

The chief Lazard Frères economist had this reaction to the $30 billion dollar-support package announced by President Carter Nov. 1:

Q: Do you think this was a European-run plan?
A: Yes, absolutely, it's a Schmidt-Giscard coup in Washington. It's a 180-degree policy turn in Washington, forced from the outside. Thirty billion dollars is enough to scare the pants off the speculators, all of whom lost their shirts today.

Q: What about the high interest rate problem? Aren't Schmidt and Giscard unwilling to see a U.S. recession?
A: Yes; it's like the 1976 UK drawing at the IMF, with one difference. Here, the price for the $30 billion is high rates in the very short term; but it is hoped that the size of the loans and the interest rate shock will be so effective at jacking up the dollar that rates will be able to be lowered in the short term — and there need be no recession.

Q: So the EMS is considered the new boy on the block?
A: Yes, there is a new boy on the block who wants the dollar as the world currency and is arguing to do it by minimizing the possibility of recession.

Brookings: "Many people will be caught"

Made available to Executive Intelligence Review *is this Nov. 1 interview with Philip Tresize, fellow of the Brookings Institution in Washington, D.C.*

Q: What do you think of the Administration's new economic proposal?
A: I would be very surprised if it did not strengthen the dollar. It sounds very powerful; the numbers they said are enormous; this is an enormous intervention. The people who have played the dollar short will have to cover very quickly. The decision to raise the discount rate shows that America is willing to risk a recession to strengthen the dollar. . . . I don't think Carter will implement it (the credit package) all — such a large amount — it's just for show.

Q: Who in the Administration was responsible for this and why now?
A: Blumenthal, Miller and their staffs. . . but actually it was the President directly. He was given the various options and said let's do them all — it was a political decision, because Carter looked bad.

Q: Do you agree with the package? What would you have done?
A: Had I been asked I would have suggested something like it. My only surprise was at how large it was. I would have done the gold sales, the discount rate hike, the funds rate — that would have been enough. I was surprised that the Treasury will sell issues for foreign currency. A good many people will be caught badly on this. . . .

Pravda looks at America's 'Monetary Fever'

Treasury Secretary Blumenthal's monetary theories have not impressed economists in Moscow. Writing the "Feuilleton" column in Pravda *last week, O. Ignatyev discussed the U.S.'s apparent long-term strategy.*

. . . In the capitalist world today, everything is so tangled up with huckstering that the most experienced man of commerce can be tripped up. Budget deficits, discount rates, promissory notes. What haven't they thought of? But the most important of all is the constant fluctuation of currency exchange rates. For the English, the Swiss, the Japanese and other businessmen, this monetary fever brings with it a mass of unpleasantness. The only people, in my view, who can maintain their tranquility in the midst of such financial bedlam are the North American bankers. Proof? Just observe.

As is well known, the dollar's exchange rate is constantly falling. A fact? A fact.

Officials in the Washington administration are giving increasingly frequent assurances regarding the brilliant future of the American economy, based on the might of none other than that very (falling) dollar. A fact? A fact.

That is to say, the faster the dollar rate falls, the sooner the American economy will rise to unassailable heights of stability.

A paradox? Only at first glance. Let us drop in on one of the offices of the U.S. Department of the Treasury and see how they are preparing there to get untangled from this most tangled situation.

. . . With a Hollywood smile on his lips, a clerk enters his chief's office.

— Chief, you are always content when you hear about a fall in the dollar rate. I can make you happy. Today on the Tokyo market they were paying only 186 Japanese yen for one American dollar.

— Wonderful! A new record! I hope tomorrow they'll be giving no higher than 170. Everything is going according to plan.

— It is prognosticated that by the end of the year, the dollar will go for no more than 100 yen.

— I don't doubt it. At this rate, we will soon reach our target, when for a dollar we are offered not one single yen, or franc either, for that matter. And that will be the point from which we will reckon the beginning of the golden age of the American economy.

— I rejoice with you sir, but, excuse me, I don't quite understand why, if the dollar becomes equal to zero, things will be better for us. I mean, the hole of a bagel is not exactly tastier than the bagel, is it?

— Ah, my boy, do you really not know that everything in this world is in constant motion?

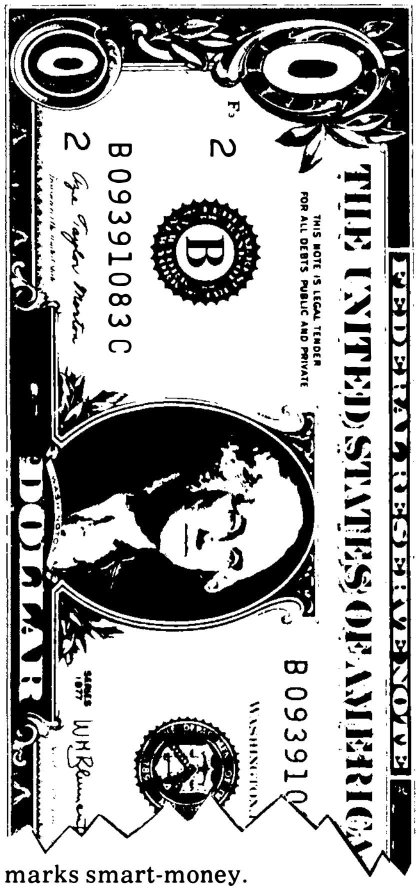
— Indeed I do, sir. I know from my own case. I'm spinning around like a squirrel on a wheel.

— Well that means the dollar can't stop either. It will keep on falling, even after reaching zero.

— But chief, I don't understand. How is anyone going to buy it, if it starts being quoted at less than zero?

— That's the whole secret. No one will buy the dollar. They'll start paying us off, so as not to have to take dollars.

— Chief, that's a stroke of genius! We offer a hundred million dollars to a West German bank, and they, not wanting to take them, shell out a hundred thousand



marks smart-money.

— Precisely right! We offer them a billion . . .

— And they pay us off a million!

— And we offer them . . .

— . . . and they give us! Now, I hope, you understand the beauty of our plan?

— Absolutely, sir. I congratulate you on such a refined strategy. And say, for such a happy occasion as today's plunge of the rate, could I have an advance and something of a raise?

— Shame on you, young man! You mean you don't want to wait until the beginning of our economy's rise to the heights of stability?

— Why sir! I have been taught all my life to expect the coming onset of the golden age in America. But . . . will it start tomorrow?

—I promise nothing for tomorrow. What's the problem?

—The problem is, sir, that due to the fall of the dollar, my landlord is asking for the rent in advance.

Schmidt makes the EMS global

A triumphant Helmut Schmidt told the press Nov. 1 that with Italy officially slated to join the European Monetary System (EMS) following the talks he had just held with Italian Prime Minister Guilio Andreotti, and the new U.S. resolve to strengthen the dollar he had helped to shape, prospects are "rosier than ever" for the EMS to be officially instituted at the Dec. 4-5 meeting of the European Community heads of state.

These developments shows the leaps in the past several days in the scope of the EMS and the velocity of its dollar-stabilization plans. Italy received a $500 million loan to its state industrial sector from a group of Swiss and West German banks, headed by the development spokesman Dresdner Bank to facilitate EMS entry, plus a slight easing of the lira's "grid" peg to other currencies. Expressing his "delight" at Italian membership, Schmidt said, "I came to Italy to see the great monuments of Italian humanism."

There is more: new EC technological-development negotiations with Western Africa and the ASEAN group of Southeast Asian countries. The whole point of consolidating Europe behind the U.S. and drawing in the U.S. is precisely to launch top-down, coordinated, long-term development of the world as a whole.

Schmidt said in so many words to the German Banking Association Oct. 27 that the EMS is "the basis for a new *world* monetary system." It was extremely important that Gerhard Stoltenberg, governor of Schleswig-Holstein, followed Nov. 1 with a call for worldwide negotiations to extend the EMS globally in the interests of monetary stability. Stoltenberg, interviewed in the *Kölner Rundschau*, is a key leader of the opposition Christian Democrats and industrial spokesman.

West German financial figures including emeritus Deutsche Bank head Hermann Abs and senior development spokesman Alex Moeller, a former Social Democratic finance minister, have been in the U.S. in recent weeks privately informing U.S. businessmen about this fundamental EMS direction and insisting on dollar support. Fortune 500 corporations and business associations have quickly

Schmidt on the EMS, detente, and the Atlantic Alliance

These excerpts from an interview with West German Chancellor Helmut Schmidt that appeared in the Oct. 31 Christian Science Monitor *show Schmidt diplomatically outlining the dramatic EMS-U.S. dollar recovery package announced the next day. Schmidt also indicated his desire for "a strong Atlantic alliance" that would draw the U.S. into the Grand Design for East-West, North-South economic and political entente.*

A: My basic aim has been and will be to keep the ship of state on a steady course. The top priorities in foreign policy are four: 1. Maintenance and further development of a strong Atlantic Alliance. 2. Further evolution of the European Community. 3. Enhancing peaceful East-West relations. 4. Contributing to better economic and political partnership in relations between industrialized countries and the Third World.

Q: What do you see as the cause of the continuing drop of the dollar?. . .

A: I think we should not concentrate on the spot movements of dollar exchange rates just over the last couple of days. I think the problem needs judgment in a wider context. . . .

The one benevolent effect I am hoping for in the future is that the greater volume of the combined European currencies will help to flatten out the most volatile movements of the dollar.

Q: How soon would you expect this effect? In the short or the long term?

A: The flattening out of the most volatile movements will occur rather quickly after the new European scheme has become operable.

Q: Would you be willing to see a higher inflation rate in Germany to try to harmonize European countries?

A: No. I would like to have the economies harmonized by lower inflation rates in other countries. All these governments in Europe are now striving for lower inflation rates, and they all have had some success in that field. I welcome this.

Q: Do you think that Europeans understand Mr. Carter now better than they did a year ago, and vice versa?

A:. . . I would subscribe to the whole sentence. But don't delete the words 'vice versa'. . . .

dispatched representatives to West Germany, in turn, to get an accurate picture of the EMS.

Toward an International Development Bank

The EC-ASEAN meeting is intended to sign up an economic development alliance between Europe and Southeast Asia, an alliance already implicit in Japan's associate EMS membership as of last month's summit talks between Schmidt and Japanese Premier Takeo Fukuda. Tokyo weight gives the impetus for progress in the region, and the scope of EMS trade and investment will permit Thailand and Singapore in particular to dispense with their drug-money financial channels.

Europe's West African initiatives now open a second front in the war for development. Yesterday, ahead of the upcoming conference, an unexpected agreement emerged in Bonn to build a billion-dollar irrigation project in the Sahel "starvation belt." Chief financing will come from Saudi Arabia and the EC.

The project was clinched at a meeting of Senegalese President Leopold Senghor, Mali's President Moussa Traore, and the Planning and Finance Minister of Mauritania, Mohammed el Moktar Zamel, with Chancellor Schmidt, West German President Scheel, Foreign Minister Genscher, and Development Minister Offergeld. This marks the first real technological contribution ever toward reversing the region's famine and backwardness; it is a moving lesson to Washington, D.C. on what the EMS is and how African policy should be conducted.

The Saudis made a political choice to participate publicly and jointly with the EC in a large-scale development project, rather than the quiet charities they have performed in the past. This sort of action reflects the ongoing planning between the Arab Monetary Fund and the EMS's emerging European Monetary Fund, now projected to administer as much as $200 billion in European reserves alone. And as the THIRD WORLD section of this journal reports, Saudi Arabia has for the first time openly announced its support for a gold-backed world monetary system with fixed currency exchange rates.

Nixing the 'invisible hand'

The following comments on international economics, which appeared in the West German business weekly Wirtschaftswoche *were originally delivered in an Oct. 3 speech to the Economic Administration Society by Dr. Dieter Hiss, president of the West Berlin regional central bank and an EMS implementor for Chancellor Schmidt.*

... The fastest aid against exaggerated dollar weakness can assuredly come from the realm of so-called bridging measures. These include cooperation among central banks in the currency markets and the readiness of the American Administration to responsibly stand up and defend the dollar in the markets, as well as a policy of appropriate reductions in the interest-rate differentials between the major currencies.

... Improvement of the international competitive position of the U.S. in international trade (is required to improve the dollar "fundamentals") on the basis of exchange rates and special export promotion.... Along with every partner in the world economy, we will have the advantage that such a development will renew confidence in the international monetary system. More significant than any tougher competition in world markets would be if the functioning of its key currency were halted by the constant erosion of the world monetary system. This would also mean that other currencies, even against their will, have to take over a greater and greater portion of the dollar's function as an international currency. The evolution would accelerate toward a system of multiple national reserve currencies.... Those who expect a return to the days of control not by governments but by the "invisible hand" will therefore have to reconcile themselves to waiting.

West Germany: U.S. had better follow through

Handelsblatt, (West German financial daily), editorial, Nov. 3:

... The resulting dollar rise is surely unprecedented, but it does not mean trust has been restored in the U.S. administration. Unfortunately, the program is not a significant shift in U.S. economic policy thinking, but more likely a result of high-level BRD, Swiss and Japanese pressure on the Carter Administration and Blumenthal. ... The danger is that if the U.S. doesn't use the funds supplied through the swap, the Federal Republic and others would be forced into acting on the Swiss example, using all available funds to set a dollar-deutschemark rate. But this would also be a capitulation on (West German) monetary growth policy, causing terrible inflation.

Britain pins its hopes on the fine print

"Who would have thought a few years ago that we would envy the British" — Columnist Lindley Clarke, *Wall Street Journal*, Oct. 31.

Even as the U.S. Administration was forced to reverse its commitment to destroy the dollar and accept a European-organized thirty-billion-dollar support package — a "temporary change in policy," Treasury Undersecretary Anthony Solomon sulked to the *Wall Street Journal* — the City of London and its offshore drug-money operation in the United States kept up a dogged assault against the American economy. Seizing on the IMF borrowing and interest rate-hike aspects of the dollar support package, these networks are gunning for U.S. national suicide via the "British model" of depression austerity, their chosen "fall back" option against the consolidation of the Europe-based Grand Design.

In recent days, rabid calls for IMF surveillance over the U.S. and with it, every variety of austerity and bloodletting, have reverberated first in the British press and then echoed in the U.S. financial press, highlighting an ongoing lunatics' debate over whether we should have mandatory wage price controls or a deep recession.

The British press unanimously smirked at the Carter anti-inflation program announced in last week's "fireside chat," quoting Milton Friedman on the necessity of "economic witchcraft," and "pure Healeyism," charging Carter with, in the *Daily Telegraph's* words, "plagiarism from British experience." The UK tried that kind of thing, they waxed, but nobody took it seriously until Britain appealed to the IMF for help and guidance. That's the only way to insure the approval of international opinion.

On Sunday, Oct. 29, London *Times* Washington correspondent Henry Brandon, the gentleman who became famous promoting the decline of American power and otherwise handling the official UK coverup of Britain's direct role in bringing down the dollar on Aug. 15, 1971, announced front-page that Carter was going to the IMF for a bailout loan. Significantly, on Oct. 31, amid increasing rumors of imminent U.S. government action on the dollar, outgoing Manufacturers Hanover president Gabriel Hauge told the West German press that the solution to the dollar crisis lay in IMF-administered austerity. "In an efficient monetary system," Hauge told the daily *Handelsblatt*, "the IMF must have full influence on national economic policy for the benefit of the world community, including limiting national sovereignty."

As soon as the dollar support package was announced on Wednesday morning, House Banking Committee Chairman Henry Reuss (not coincidentally another London-linked principal in the 1971 dollar debacle) denounced the agreement, called instead for more brutal austerity. Reuss charged that the package was "but a band-aid to cover an inadequate anti-inflation program." Large scale interventions "to shore up the international value of the dollar," he intoned, "fly in the face of previous government policy" and contravene the IMF's "equilibrium" policy — that is, the free-enterprise monstrosity of "freely floating exchange rates."

The push for IMF surveillance is just the front end of the British model austerity drive. In an interview with NSIPS on Oct. 31, Barry Bosworth, the Brookings Institution's boy wonder currently heading up the Council on Wage and Price Stability, acknowledged the Anglophile crowd's preference for austerity. The London-dominated international hot money flows

'Applying to the IMF would be splendid'

From the Wall Street Journal*'s Nov. 1 editorial, "The IMF Option":*

The Treasury has officially denied it, but there is a certain ring of authenticity to Henry Brandon's report in London's Sunday Times that the U.S. is negotiating for a loan from the International Monetary Fund. At least, we are impressed by Mr. Brandon's description of the attitudes of the Carter team—shocked at the way the financial world has spurned the anti-inflation program, and deeply disappointed that markets haven't noticed the good news that they've finally dealt with the fundamentals.

Whether or not the report of actual negotiations is true, we think applying to the IMF would be a splendid idea. In fact, an IMF loan may be the only way to make the Carter program work. The only wage-price guidelines that can be asserted to have worked are those only now starting to come unraveled in Great Britain. The key element in this success was the British IMF loan in 1976, which came attached to such conditions as public spending cuts of 2.5 billion pounds, restrictions on domestic credit expansion and a private pledge of tax cuts. If we could get ourselves an IMF loan with those conditions, the voluntary wage-price guidelines would work so well we wouldn't even need them..

have had a lot to do with U.S. inflation, Bosworth admitted, but he insisted, "We can deal with the inflation problem here at home — by holding down wages and profits."

Fellow Brookings creature Otto Eckstein, speaking as a private consultant, told the *Washington Post* the same day, "The odds for a recession now are even" — adding a shrill call for immediate trade war: "We need massive intervention on international trade. We need sharp restrictions on trade. We're being done in by our friends."

On the same day, Bernard Nossiter, *Washington Post* London correspondent (and author of a forthcoming obscenity, *Britain: The Future that Works*), reported that London markets, in reviewing the response to Carter's anti-inflation package, were urging the U.S. to impose a prime one-time interest rate hike of 3 percent — into the 14 percent range! Wall Street firms have been retailing the same treasonous gospel at fever pitch.

In a speech to the Royal Institute of International Affairs, also on Oct. 31, Lloyds Bank chief and former Bank of England governor Jeremey Morse outlined one lurid implication of the British model scenario — the plan to "buy America cheap." European banks should prepare to "diversify" out of the dollar, he told the oligarchist group, puffing up continued dollar collapse. Over the "longer term," he then explained, the dollar would improve as foreign investors invade the prostrated U.S. markets, snapping up depressed stocks with cheap dollars at bargain basement prices.

By doubtful coincidence, principals of several of the major brokerage firms on Wall Street went into a knee-jerk euphoria over the dollar support package, convinced that the opening to the IMF and the interest rate hikes would set the U.S. on just this road to suicide.

Perhaps the most telling commentary was the coy reference to Hitler's economics offered by the *Christian Science Monitor* on Oct. 31:

> ". . . But how many Americans as of today are ready for the kind of measures which could stop the inflation in its tracks and restore the dollar to its once-customary soundness?
>
> "Only once in history has an inflation been stopped like that, and that was done only after it had reached the runaway stage. In Germany in 1923 the mark had dropped to the value of four billionths of a dollar. At that point the German people were desperate, and ready for Herculean measures. A new bank was set up which issued a new currency, called a Rentenmark. The new money was issued to government departments, to banks, to industries and to businesses in rigidly controlled amounts on a basis of their real assets. There was no padding anywhere. Everyone's budget was balanced ruthlessly.
>
> "The instant result was unemployment, a lot of it. But within a year Germany was humming again and employment going up steadily. The Germans have been hard-working people ever since. . . ."

— Susan Cohen

London plots an early U.S. financial

Lyndon H. LaRouche, Jr. tells U.S. banks and corporations how to

If leading banking and political figures would perform the following simple chore, they would immediately begin to pose questions to themselves, questions which would guide them to discovering the British plot to bring down the U.S. banking system through what would be the biggest financial panic in U.S. history.

We outline basic elements of information, stressing political-intelligence mode of identification inclusively, needed to understand the workings of this British plot. We then outline the countermeasures available to save the U.S. banking system.

The first, simple chore is this. Each banker, each key political figure should instruct his or her personal secretary to secure copies of **all leading London press** for the past fortnight, and to also assemble a collection of **AP, UPI, Reuters, Washington Post, Newsweek, Business Week**, and other British-influenced, **U.S.-circulated national news media** for the corresponding period. If that executive also instructs his staff to prepare a graphic summary of the comparative editorial lines of the London and British-influenced U.S. national news media, that executive will find a consistent pattern along the following lines.

The central, typifying point of this comparison is coverage of the European Monetary System. Up to Carter's Oct. 24 "anti-inflation" address, **the British-influenced U.S. national media** has either insisted that the EMS is nonoperational, merely speculative, or has presented the EMS as some sort of a regional currency bloc or an anti-U.S. or pro-IMF arrangement. ***The British press stresses, painfully and even hysterically, that the British government miscalculated and bungled in its spring-summer-fall efforts to wreck the EMS, and that the British pound is on the verge of collapse.*** The London press insists, correctly, that ***the EMS will become the dominant world monetary system as of Jan. 1, 1979.*** The ***British-influenced U.S. press has taken no notice, until today, of such an imminent global reality,*** but rather insisted that the London-centered Eurodollar market and IMF "floating rate system" will be the dominant realities through the months ahead.

In other words, ***the British-influenced U.S. national news media have been consistently lying from May 1978*** until today.

If one examines the policy postures of leading U.S. bankers and other officials generally in the light of this comparison, one discovers that the overwhelming majority of the U.S. officials are either liars or merely dupes of British disinformation.

We shall now examine three points of British-intelligence control of influential political, financial, and corporate elements of policy-making in the USA. This will typify the channels of dupes and blackmail victims, through which the City of London is using U.S. Trojan horses to effect the projected U.S. financial panic. The exemplary points of control considered here are the two nominally Rockefeller banks, Citibank and Chase Manhattan, the cases of Senator **Jacob Javits** and New York **Governor Hugh Carey**, and the **illegal-drug-traffic-tied Mont Pelerin Society.**

In this section

In our special report, U.S. Labor Party Chairman Lyndon H. LaRouche, Jr. gives U.S. readers the key evidence — mostly blacked out in the U.S. press — of Britain's strategy to bring down the dollar as leverage against the European Monetary System. And, LaRouche spells out the point-by-point program to save the dollar and the U.S. economy that his party is presenting to the voters on Nov. 7.

Chase and Citibank

One component of Chase Manhattan Bank has a long and treasonous history. **The Bank of Manhattan** was created as a City of London covert operation under the direction of **Benedict Arnold's personal protégé, indicted traitor Aaron Burr**, the same Burr who headed up the New York Democratic Party machine, who was Thomas Jefferson's Vice-President, and who was a co-conspirator in British-directed treason with later-to-be-President **Andrew Jackson.** (Jackson pulled out of the Burr plot just in time to avoid subsequent indictment for treason.)

The Burr control of the New York Democratic Party machine was later taken over by Jackson's patron, **Martin Van Buren.** Through the election (by means of massive vote-fraud) of Andrew Jackson, U.S. credit was taken from the control of the Second Bank of the United States, and placed at the mercy of **the British-controlled Manhattan banks** — launching the process leading into the Panic of 1837.

The discrediting of the Jackson-Van Buren forces by the 1837 Panic was "remedied" by a direct Rothschild takeover of New York banking and of the controlling machinery of the national Democratic Party. **August Belmont** ran both into the late 1860s; August Belmont became Democratic Party king-maker during that period, was the foremost official London Rothschild agent for the USA, and was a traitor. Unfortunately, **Seligman** interests, equally treasonous, controlled Secretary of War **Edwin Stanton** from **inside the Republican Party's New York machine,** so Stanton acted to cover up Belmont's treason generally, and Belmont's implications in the assassination of Lincoln in particular.

This tradition of treason was thus represented in the merger of Rockefeller's Chase National Bank with the Burr-created Bank of Manhattan, the centerpiece of the creation of Chase Manhattan Bank.

We are not considering directly here the long, relevant, treasonous record of **the Astor family.**

The most visible foreign control of Walter Wriston's Citibank is typified by Citibank's links to the drug-linked **Bank of Nova Scotia,** and **to the drug-linked Canadian national banking system generally.** It was these Canadian banks which performed the crucial role in luring Manhattan finance into the post-1971 Eurodollar-market lunacy.

At Chase Manhattan, the nominal British intelligence control is aggregately represented chiefly by the competing interests of **Lehman Bros.-Kuhn, Loeb (Warburg)** and **Lazard Freres.** The fact that **Henry Kissinger** is paid consultant simultaneously to Chase Manhattan, Lehman-Warburg, and **the Zionist lobby-controlled NBC-TV News** is by no means coincidental.

The problems of David Rockefeller are also most relevant. David participated with such figures as organized crime's **Meyer Lansky** and **Israeli intelligence's Tibor Rosenbaum** in founding **Resorts International.** This involved the Lansky-Rosenbaum connection to **IOS's Bernie Cornfeld and Robert Vesco,** and of course, involves Resorts International's alliance to **Max Jacobs's Sports Service** organization as well as organized crime's control of **James Jesus Angleton's** current employer, **Intertel.**

Through two of his progeny, **David, Jr., and Abby,** David Rockefeller is directly represented in those facets of the **Institute for Policy Studies (IPS)** most closely connected to **international terrorism.** Rockefeller family funding has been repeatedly tapped in the past to aid terrorist-linked and other projects of IPS. The historic connections of Henry A. Kissinger to such IPS, **proterrorist circles** as those of **Daniel Ellsberg** and **Morton Halperin** is by no means irrelevant.

Although Governor Nelson A. Rockefeller has rejected the lunacy of the rabid-environmentalist **Unfinished Agenda,** his personal links to **Henry A. Kissinger** are clearly exemplary elements of a controlled environment around his family, with powerful influences exerted by British intelligence.

The Rockefeller interests find each of their patriotic impulses blocked by British threats and pressures: "You can't bust loose, buddy," the British insist, "you've been part of too many of the operations you would have to expose to get at us."

Javits and Carey

The picture becomes clearer as we extend the number of elements considered to include the **New York Council on Foreign Relations** and also **Senator Jacob Javits** and **Governor Hugh Carey.** Although the CFR has coopted many neutral or patriotic individuals, to the purpose of increasing the CFR's influence over U.S. policy-making, it was founded as a resident agency of British secret intelligence in Manhattan, and within the CFR is a handful of approximately a score of persons which manipulates the rest of the crowd as a gang of manipulable dupes. This is the same inner core which controls Lehman-Warburg and Lazard Freres. Jake Javits and Hugh Carey are stooges for the same inner circle, as is also Henry A. Kissinger.

As a leading figure of the **B'nai B'rith's Anti-Defamation League,** Javits, like the **Arnold Forster** once caught painting swastikas on synagogues, is not only nominally but operationally involved in "black operations" run through the ADL. **Javits's office** was caught red-handed, for example, aiding coordination of the ongoing British assassination plot against this writer. Javits is, not accidentally, the original principal sponsor of "drug-decriminalization" legislation, and is generally closely associated with efforts to legalize the activities of organized crime networks. Javits's public postures and policies are fine-tuned on no less frequently than a weekly basis by the same gang of gray men who actually run Lehman-Warburg, Lazard, and the CFR. Javits is a crook, but also merely a stooge for the British intelligence networks which have "guided" his career since World War II.

Javits was key in Governor Hugh Carey's Gestapo-like orchestration of *the passage of "drug-decriminalization" legislation through the Albany legislature.* The legislature had previously voted down the proposal. Javits, *on orders from the gray men who control him,* acted to blackmail key Republican legislators into voting up "decriminalization." Carey deployed the New York State Police to dragoon the legislature into passing the foul bill. As a result, **Bronfman** came up with $350,000 in aid for Carey's held-over campaign debts.

The same corrupt character of Hugh Carey surfaced again recently. After receiving massive "loans" from Bronfman, Carey switched from opposing **legalized gambling** in New York to joining with **Mayor Koch** in promoting the project. *Javits, Carey, and Koch propose to solve the crime problem by legalizing organized crime.* Not strangely, their campaigns are substantially funded and controlled by those forces which have controlled organized crime in the U.S. and Caribbean since **Arnold Rothstein**'s creation of U.S. organized crime at the outset of Prohibition.

Public Service Television recently broadcast a series on the drug problem. The theme of the series was provided by the **Hong Kong police,** whose interviewed representatives repeatedly insisted that the drug problem cannot be controlled as long as drug consumers exist. It happens that *the Hong Kong police force is bribed to the aggregate amount of $1 billion annually,* from top officials down to the lowest ranks, by the international drug cartel. It is, similarly, not accidental that Senators Jake Javits and **Ted Kennedy** should echo the same line as the corrupt Hong Kong police.

The Heritage Foundation

Otherwise, the keystone organization in the plot to wreck the U.S. banking system is the **Heritage Foundation.** It is the Heritage Foundation's "free enterprise" campaign, a multibillion-dollar campaign overall, first launched as a libel against the U.S. Labor Party this past May and June, which has been the key ideological factor in swinging pressured Midwestern and other bankers into tolerating the Republican National Committee's switch from a pro-capital-formation to an anti-industry line. *The links of the Heritage Foundation to the illegal drug traffic* are instructive on this point.

The Heritage Foundation is a joint intelligence operation of British intelligence and the intelligence arm of the British-centered forces of the Order of Malta, the Mont Pelerin Society. Exemplary, the frau-

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The British and British-American press: two ways of 'covering' the EMS

In the U.S., scant, "EMF is anti-dollar" coverage of the new European Monetary Fund was to serve the purpose of keeping the U.S. entirely away from the EMF. What little commentary did appear is typified by the following excerpts from the Oct. 2 Newsweek*:*

"The U.S. of course does want a close look at the fine print to make certain that the scheme will not be used to attack the dollar, to remonetize gold, or to subvert the central role of the International Monetary Fund. . . .

"Despite . . . official reassurances, the currency markets have reacted to the recent news that the new union is likely to be formed by pushing the dollar down."

And from the prestigious Journal of Commerce *of Oct. 10:*

"There is probably nothing all that wrong about the two countries with the most economic power, Germany and France, fixing up a deal. But the spirit in which their proposals are presented to the other member countries doesn't augur well for third countries like the U.S., Japan, or the developing world.

"The third largest country, Britain, has been too lukewarm about the proposal, and, accordingly lost influence. . . .

"A successful system could mean more dramatic swings in exchange rates between the European bloc and the dollar. . . . There are dangers here and the U.S. should be alert to their implications."

While the U.S. was kept in the dark about the new monetary system, what one commentator called a "consensus of despair" began to appear in Britain, notably kicked off by the Sept. 24 Observer:

"So far the British government has been completely outflanked in discussions about EMS. Although official sources emphasize that discussions have a long way to go, one cannot help but notice that they seem to be going a long way in a very short time, and they are not going the way the British would like. . . .

"The uncomfortable truth is that. . . the British are dithering, have no clear policy, and merely want to delay those who will not be delayed. It is the classic preparation for being routed."

Or, later in the Oct. 8 Observer:

"Mr. Callaghan and Mr. Healey have come to the conclusion that Britain which at first tried to dulent libel against the U.S. Labor Party bears the "I.D. format" of proterrorist operatives such as **Harvey Kahn** of the Morton Halperin, IPS-linked proterrorist organization **CounterSpy**.

The connection of the Heritage Foundation to illegal drug interests is most immediately and conclusively exposed by examining British and Canadian banking. In Canada, the keystones of the Zionist lobby, the **Bronfmans** and **Montefiores**, are incestuously interpenetrated with the **British Order of Malta**. Internationally, it is the British Order of Malta and allied networks which jointly run the world's illegal drug traffic. It is not surprising that the Order of Malta in the USA is overtly deployed in behalf of "drug decriminalization." The Mont Pelerin Society is the intelligence arm of this prodrug network of the Order of Malta.

The British factions of the Order of Malta are, interestingly enough, composed of the **European and Mediterranean "black nobility,"** a force which overtly professes an anticapitalist, profeudal, as well as (often) promonarchist line. It is not properly astonishing that Senator Kennedy should be on an anti-industry kick, together with the profeudalist Mont Pelerin crowd. What is ironical in that connection is the fact that Senator Ted Kennedy is working as an agent of those forces which organized the assassination of his older brother, John F. Kennedy. (One wonders whether stupidity or immorality is the greater vector in Kennedy's political profile.)

Past and present plots

This is by no means the first time the British intelligence service has used the "free enterprise" hoax as a means for plunging the U.S. economy into a depression. In the 19th century, the term used was not "free enterprise" but "free trade." This was the doctrine set forth by **British intelligence agent Adam Smith** in his *Wealth of Nations*, the Smith colonialist policy against which the American Revolution was fought.

Through the influence of **such British agents as the Gallatins**, the United States' financial and economic growth — as well as military readiness — were sabotaged under President Thomas Jefferson. Although the U.S. economy enjoyed a dirigist economic recovery during the War of 1812, at the close of that war a "free trade" policy was introduced into the USA through British agents and agents of influence. From 1815 to 1818, the U.S. economy was plunged into a depression. A return to dirigist policies under Monroe and John Quincy Adams effected both economic recovery and one of the greatest periods of technological progress and general growth in our nation's history.

Through the election of Van Buren puppet Andrew Jackson to the presidency, the Second Bank of the United States was nullified in practice and then disbanded. The control of U.S. credit was placed at the

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sabotage the scheme (EMS — ed.), cannot afford to be left isolated from the new arrangement. . . . At the last meeting with the Germans. . . the British aim was to undermine the scheme. . . . When that failed, Britain tried to turn the EMS to its advantage. . . ."

Consider the entry in the Daily Telegraph *of Oct. 21:*

"British Ministers seem to have gone to Bonn clinging to the illusion that the Germans would pay a handsome price for our involvement. They came home sadder and wiser."

And the pitch accelerated with the appearance of the Oct. 25 Financial Times *"stiff upper lip" column:*

"The proposed European Monetary System is worthless as presently formulated and of no advantage to Britain, according to Lord Armstrong, the chairman of Midland Bank and former head of the Civil Service and of the Treasury.

". . . I see no advantage in hitching ourselves to a European currency bloc. It does nothing for us against the dollar or yen."

The Oct. 22 Sunday Times *was clearly shaken:*

". . . Britain's Prime Minister made it painfully clear to his German friends at Thursday's summit meeting in Bonn that he no longer expects to join the European monetary system on Jan. 1. The meeting dripped with goodwill and unctuous expressions of mutual sympathy and understanding. In hard facts, the cleavage was plain, so much so that Germany has already reacted to the new situation. . . ."

A financial call to arms was issued by Peter Jenkins in the Oct. 23 Guardian:

"The Cabinet is yet to make a formal decision but Ministers have come to regard the EMS as little more than a thinly disguised version of the old German dominated currency snake.

"To this end the Government will be trying to preserve the ability to influence — from the outside — any developments by the snake in the direction of a genuine 'European' currency system. . . ."

mercy of the Manhattan private bankers. Jackson and Van Buren followed "free trade" policies of hostility to technological progress, and permitted the London-linked New York private banks to engage in the wildest sort of speculations, resulting in the Panic of 1837.

There were similar operations following the assassination of Lincoln. President Grant became a pawn of the **B'nai B'rith, the Seligmans of Grand Street,** New York, the Rothschild-linked element within the Republican Party. The bankrupting of Jay Cooke was a British financial warfare operation against the United States conducted through **Rothschild** and **Seligman** interests on the scene.

The crucial British success was the success of **British Rothschild-centered and Morgan interests** in getting through the **Specie Resumption Act of 1879,** by which the U.S. lost control of its own credit to the City of London. The 1890s and 1907 panics were British operations, made possible by British control of the spigot of U.S. national credit through London-linked New York private banking interests.

The 1929 crash was also a British operation against the Administration of the "great engineer," Herbert Hoover. Key to this crash, overall, was British **(Warburg, Schroeder's)** agent **Hjalmar Schacht,** who unleashed a chain-reaction in international finance by his opposition to the Young Plan, and his associated destabilization of the de facto alliance of the Catholic Center Party and Social Democracy in Germany — paving the way for Schacht's later appointment of Adolf Hitler to the Chancellory in consort with the **Dulles-linked, Seligman-linked Schroeder's bank.** The "free trade" manipulation of Mellon, combined with operations of the key New York private banks complicit with the British in this affair, ran up the "bull market" speculation-bubble which the British then triggered into a panic from London.

The riddle solved

That background enables us to focus directly on the problem represented by the gross discrepancies between the British leading press in London and the British-controlled or British-influenced national news media in the U.S. Why should the British push, with equal energy, one line in London and another in the USA?

The issue can be summed up as follows.

- The strategic objective behind both versions of the British line is the same: the wrecking of the new world monetary system to become operational Jan. 1, 1979.
- The same objective demands a different tactical approach within Britain and within the U.S. respectively.
- In the USA, the objectives are as follows:
- Keep the U.S. ignorant of the EMS, long enough to prevent the U.S. from eagerly joining the EMS, which all key forces in the U.S. would tend to do were the facts known to them.
- Weaken the EMS by wrecking the value of the key reserve-currency on which the EMS is based, the U.S. dollar.
- Wreck the EMS militarily, by promoting a thermonuclear confrontation between the U.S. and the Soviet Union over hot spots developed in the Middle East and-or Africa.
- Compensate for the ruined state of the British economy by enabling a British-Canadian-Bahamian-Hong Kong takeover of the U.S. economy and banking system.
- Such a takeover must be of the asset-stripping, or fascist-economic form. The nomination of an avowed admirer of Hitler's economics, Kennedy-machine creature Alfred "Ghengis" Kahn, to the position of Carter Administration "inflation-fighter" is exemplary. A real U.S. economic recovery would be effected through increased high-technology capital-goods exports either into the developing sector or to European, Comecon, or Japanese exporters. This would be possible only through U.S. participation in the new monetary system. Hence, autocannibalistic, Schachtian-fascist measures are projected as the looting operation against the capital and bodies of Americans to provide British financial interests a new source of profits.
- Burglary and pocket-picking are intrinsically deception operations: deluding leading U.S. circles concerning the facts of the EMS is indispensable to looting the USA, whereas the British population must be given a modicum of the truth concerning the EMS, to mobilize it against the EMS "threat" to continued London domination of world debt-financing.

European alternatives

Key European circles have confided to this writer and his immediate associates that any protracted fall of the U.S. dollar would be dealt with by accelerating the role of monetary gold. During the past fortnight, the key Europeans committed to the EMS have moved out of continued support for the U.S. dollar, and are now moving into the gold option. Gold will now be pegged close to its open market price (which should rise toward 720 deutschemarks over the months ahead), such that *the combined currency and gold reserves of the European Monetary Fund at the outset of 1979 will be in the order of $160 billion.*

European leaders are also alert to the British plot to create a U.S.-Soviet thermonuclear confrontation as the last-gasp effort to wreck the EMS before Jan. 1, 1979. This awareness is reflected in the current NATO crisis. West Germany has forcefully asserted its national sovereignty as a member of NATO. France, Germany, Greece, Norway, and Turkey have already *signaled their policy in this connection. Europe will* *not permit the Carter Administration and London to commit Europe to NATO participation in a Carter thermonuclear confrontation.*

In other words, Europe will act to neutralize and nullify any Carter Administration efforts to generate a thermonuclear confrontation, and will oppose Carter Middle East and Africa policies (i.e., Kissinger Middle East and Africa policies) with increasing show of resolution and practical effectiveness. At the same time, the acceleration of the gold reserve feature of the new monetary system by continental Europe, the Arabs, and Tokyo will enable the principals of the new system to ride out any short-to-medium-term collapse of the dollar's value. Gold purchases banked at between 500 and 600 deutschemarks parity-valuation will convert excess dollars into gold at a future gain and satisfactory interim yield to the holder.

Any U.S. bank or corporation looking for a suitable hedge should hedge with gold purchases in relatively large proportions. (Drastic political action should also be taken against all supporters of Kissinger's Africa policies.) *Once the U.S. enters the new monetary system, levels of monetary gold purchases will bring the open-market monetary gold price necessarily to about 720 D-marks an ounce.*

Sanity's open conspiracy

The only sensible option for U.S. bankers and others is what I term an "open conspiracy." An open conspiracy is a general circulation of truth concerning a situation such that at some point in the near future action is taken in a concerted way on the basis of that shared knowledge. In the interim, the British adversary is unable to predetermine exactly who will jump which way at the impending decision-point.

This writer is the center of this open conspiracy. My function is to set forth the spectrum of policies we can put rapidly into effect, in a concerted way, on the appropriate D-Day. It is necessary that these options be openly mooted, so that the digested knowledge exists to enable concerted, rapid agreement for decision at the D-Day point.

Therefore, I now lay out in summary a partial, exemplary list of the crucial decisions to be made.

For the leading circles, the essential theory to be mastered is set forth in my *The Theory of the European Monetary Fund,** which is the appropriate successor to my earlier *International Development Bank* (Spring 1975) and the updating of that, *The Private IDB* (1977).

It is necessary to emphasize, for a broader audience, two crucial points of policy-making.

1. The rate of credit expansion or size of monetary aggregates has nothing to do in and of itself with inflation. Inflation is the result of a flow of monetary aggregates away from productive capital-formation and tangible-product output, into debt-refinancing and other forms of speculation. **The issue of inflation is whether monetary aggregates flow predominantly into capital-intensive productive capital formation, or into speculation and other forms of monetary recycling.** This determines, in turn, the ratio of the growth of national taxable base to that of the national debt, and other crucial secondary features of inflation.

2. Since gold is a produced tangible product, whose cost is determined jointly by marginal-resource richness and general levels of technological progress reflected into gold extraction and refinement, **a gold-based monetary system is the only conceivable anti-inflationary system.** This does not require a gold-coin circulation, but rather a settlement of imbalances in national accounts on the basis of gold valued at its open-market price-of-production in volumes adequate to monetary requirements. A gold-based monetary system is a low-interest-rate system, keeping interest rates within ranges such that venture capital for productive output has a significantly higher yield than appropriately secured loan capital. Thus, a gold-based system is appropriate for fostering a predominant flow of credit expansion into productive capital formation, and is the anti-inflationary system required to keep basic interest rates low.

That taken into account, **the following are highlights of policy:**

1. What the U.S. economy requires is an **inflow of dollars held overseas** back into the USA as relatively low-interest, gold-denominated credit both for capital-goods exports and capital formation, and for related hard-commodity credit in aid of production of such exports.

2. What the major U.S. commercial banks require most urgently is **a conversion of nonperforming and doubtful debt paper into low-yield but highly negotiable prime paper** which can be discounted in the new world monetary system to secure new loan-capital for use within the U.S. (principally). (It is, therefore, partly true that U.S. internal credit expansion through Federal Reserve action can be checked, but only because a massive supply of dollar credit will be available after Jan. 1, 1979 through the up to three-quarter-trillion dollars credit offshore which can be drawn into the inflation-proof vortex of the new monetary system.) This conversion of nonperforming and otherwise marginal paper in New York (and other U.S.) commercial banks' portfolios can be effected under the **new world monetary system**, through a **Hamilton-**

**The Theory of the European Monetary Fund,* by Lyndon H. LaRouche, Jr., *Executive Intelligence Review* Supplement, October 1978.

ian reorganization of the national banking system and of the **debt of Third World nations** on the basis of **high-technology** economic development in industry, agriculture, and infrastructure.

3. The establishment of gold-linked credits produces a **two-tier credit system inside the U.S. banking system.** Gold-linked export and related credits bear low interest charges, whereas floating-market paper rises to the price set in response to inflationary rates. Thus, holders of mortgage and other doubtful paper defend their positions best by keeping that paper off the market until the floating-market tier has been washed out, until high rates of capital formation in industry, agriculture and basic infrastructure in the USA have brought the internal U.S. market out of the current realm of double-digit inflation.

4. The fundamental economic policy of the USA must be to **rapidly expand industrial and high-technology agricultural investment and output.** The shift of the labor-force ratios toward growing ratios of industrial operatives, engineers, and scientists, plus technologically fostered increases in the national rate of overall social productivity, will bring inflation toward a halt and will restore the value of the U.S. dollar rapidly toward the projected 3.00 deutschemark level.

5. The key governmental measure required is drastic change in the federal tax structure. Instead of an across-the-board promotion of productive and speculative capital gains with no distinction between the two, **a high basic rate of taxation must be adopted with two categorical exemptions and offsets.** One is a raising of the household-income tax exemption; the other is a system of accelerated depreciation, amortization, and tax-credits for high-technology productive investments in industry, agriculture, and "hard" infrastructure. The tax structure must shelter the reinvestment of savings into new productive investments at such great advantage that an investment boom is built into the tax structure as a whole. The objective of an adequate tax revenue must be reached by relative heavy taxation on nonproductive margins of income and investment, above significantly raised household exemption allowances, and, more broadly, by rapid expansion of the ultimate taxbase in tangible-product output.

6. The shaping of U.S. internal recovery must be governed by a policy of **rapidly accelerated increases of nuclear and other high-technology capital-goods exports into the developing sector,** in cooperation with the new monetary system.

In summary, then, the points to be underlined and digested are:

Participation in the new monetary system;

The emergence of a low-interest component of a two-tier credit-system for the USA through participation in the programs of the new monetary system;

Debt reorganization of Third-World nations, and exchange of old for new instruments of debt;

A drastic reorganization of the U.S. tax structure giving **dirigist** preference to high-technology capital formation in industry, agriculture, and "hard" (communications, transportation, medical, educational, etc.) infrastructure.

The current Carter Administration policy is shamelessly a British, "Churchillian" pathway to national economic suicide. In service of the commitment to defend our nation's vital interests against all enemies, foreign and domestic, we sane persons must openly conspire to undo that evil, British nonsense in concert, at an appropriate moment of opportunity presenting itself to us at a point during the early future.

Our British enemies run their evil games on the basis of the long memories of evil practices of the *past* thousands of years, matters studied at Oxford and Cambridge. We defeat the morally inferior British by stressing our human qualities, the dedication to *dirigist* methods of shaping the *future* of our nation and humanity as a whole. Our conspiracy *will* work, if you and others will join it.

Iran's program for industrialization

World backing for the Shah bolsters nation's development prospects

A week ago, the future of the reign of the Shah of Iran looked bleak indeed. His ouster would threaten to make Iran the center of a region-wide Mideast conflagration, and at the least was almost certain to undo Iran's painfully worked out industrialization policy.

Many observers saw the Shah staying afloat only through concessions to hostile foreign elements — particularly the London Foreign Office and the British Petroleum-led oil consortium — and to his domestic opposition. The price would have been enormous: the London demands included abandonment of Iran's nuclear energy development program, one of the essentials for the success of the new European Monetary System. But the Shah's only alternative seemed to be more wide-scale butchery by the army.

Then, in moves that must have baffled followers of Iranian coverage in the Western press, the Shah began to get important help from abroad. President Leonid Brezhnev of the Soviet Union, in a birthday telegram to the Shah, affirmed Soviet support for the Shah's policies and called for a general expansion of relations between Iran and the USSR, which already cooperate closely on economic affairs. Czech government officials did the same, and trumpeted their felicitations in their press.

Eastern European defense of the Shah has begun to unravel the London *Daily Telegraph* tale that Moscow is backing the rag-tag collection of 16th century religious fanatics and Maoist "Islamic Marxists" against the Shah. The Soviet news agency TASS in fact went on to call CIA Director Turner a liar for spreading the *Daily Telegraph* story. "In order to uncover the reasons for the present disturbances in Iran," TASS said, "the CIA Director would have to look particularly at the policy of his own country." TASS went on to detail the collapse of oil revenues that have gone down with the dollar and the ridiculous Persian Gulf arms buildup.

Not to be outdone by the Soviet initiative, President Carter fired off a telegram to the Shah assuring him of full U.S. support.

The Shah appears to be stabilizing his own domestic position as well, making deals with viable domestic opposition elements. His Prime Minister won a solid vote of confidence in the Parliament by his positive offensive in searching out allies rather than relying on police crackdowns.

More than that, the Shah's government is giving inklings of throwing out the BP-led consortium that runs Iran's oil revenues. Kicking out the BP may be the essential step to winning him the domestic coalition he needs: it would certainly start to turn his situation around internationally.

1. The Shah's race against time

With only an estimated 30 years of oil reserves remaining, the Shah of Iran is fighting to build alternative industrial infrastructure capable of sustaining his country into the 21st century. The Shah knows that if he fails, Iran will revert to the poverty-stricken wasteland it became during British Colonial domination in the 19th century, having depleted its precious oil resources with no alternative source of wealth.

At the heart of Iran's development program — centering around the development of a heavy industry infrastructure — is one of the most ambitious and far-sighted nuclear-energy programs in the Third World. Four nuclear power stations are currently under construction — two by France and two by West Germany. Eight more reactors are on order from Germany and France (despite reports that these orders might be jeopardized by the current disturbances, the West German economics minister, Graf Lambsdorff, has just returned from Iran with assurances that, at worst, the orders may be subject to delays). An order for six to eight more reactors from the United States is now being negotiated, and further input by Japan into this area is being discussed by Iran with relevant Japanese firms. In all, Iran hopes to have 20 to 23 reactors in operation by 1995.

With these reactors, the Shah plans to power major heavy industrial infrastructure. He is projecting a major steel capacity for Iran, using its vast gas reserves for advanced, gas reduction steelmaking techniques. Already, two such plants are in operation. The country is also proceeding with one of the most ambitious petrochemical and refining development programs in the underdeveloped sector, despite uncertainties over future markets for petroleum products. Iran already sports the largest refinery in the world, at Abadan in the oil-rich Khuzistan region. The nation also has its own automobile manufacturing plant, and is increasing the manufacture of small appliances, to broaden its base of non-oil exports.

Combined government expenditures for the development of oil, gas, and mining this year accounts for $4 billion, or about 12 percent of the total budget. It is expected that next year's allocation will climb to $5.5 billion.

The continued development and economic stability of Iran has significance beyond the domestic implications. Iran is the crucial economic bridge between the developing Arab nations of the Persian Gulf and the Mideast, and the Indian subcontinent. The present government is highly aware of this fact, and the Shah has played a moderating role in attempting, for example, to ease tensions and possible conflicts between India and Pakistan.

Moreover, a severe economic crisis in Iran could cause a break in the critical moderate bloc of countries within the Organization of Petroleum Exporting Countries (OPEC), led by Saudi Arabia. Since 1976, Iran has forsaken its more "hardline" stance on oil prices, and formed a powerful alliance with the Saudis which has helped to sustain the oil price freeze.

Yet, despite the importance of Iranian development for both that nation and the world — or perhaps because of it — the Shah faces some formidable obstacles to his industrial goals.

Domestically, Iran must solve the problem posed by what foreign observers term its unique "parallel economy." While the government presses ahead with its modernization and industrialization goals, there exists inside Iran another, primitive economy based on money-lending, bazaars, a layer of "nouveau riche" businessmen and speculators — many with ties in England and other foreign capitals — who place their "jet set" lifestyles above their nation's development goals, and leading families of Iran's feudal oligarchy. These families, though in many cases disenfranchised of their land through the Shah's land reform programs, still wield considerable power through business and government positions. They continue to maintain traditional alliances with the powerful Shi'ite Islamic establishment and with money lenders and changers in the antiquated bazaars, where the central government exercises virtually no control over their activities.

Connected with these, and sharing their opposition to Iran's industrial development goals, is British Petroleum, which, as heir to the notorious British Anglo-Persian and Anglo-Iranian oil monopolies, heads the consortium of 14 oil companies with the contract to produce and market Iran's oil. As BP's most recent behavior in negotiations for a new contract be-

TASS: 'retort to Turner's lie'

The Soviet news agency TASS issued a sharp response to CIA Director Stansfield Turner's charges last week of Soviet involvement in domestic Iranian events:

When the CIA Director sets up interviews, the questions asked him, by a strange coincidence, serve as a kind of supplement to his answers. That was the case with Mr. Turner's recent interview on CBS. The correspondent turned to the director of the U.S. espionage agency with the following words: my first question is whether the CIA has detected any Soviet participation in the recent events in Iran?

To this Turner, not batting an eye, answered, "I am sure that to one degree or another there is a certain Soviet influence there."

Why, one might ask, is the CIA director putting out a conscious lie, and at the very moment that the massive antigovernment demonstrations in Iran are going on? On the one hand, Washington would like to whitewash U.S. policy towards Iran, and on the other, to slander the Soviet Union, to drive a wedge into the good-neighbor relations between the two states.

So American propaganda is putting out slanders about the mythical "hand of Moscow" being behind the events.

Mr. Turner knows very well of course, that relations between the USSR and Iran are based on the principles of respect and non-interference in each others' affairs....

In order to uncover the reasons for the present disturbances in Iran, the CIA director would have to look particularly at the policy of his own country. It is precisely the American monopolies that for many years have been looting Iran, paying for oil with depreciated dollars....

The U.S. has sent Iran military specialists, "advisors" and "consultants," whose subversive activities were recently led by Helms, one of Turner's predecessors at the CIA.

Is it any wonder that among delegations of the developing countries at the UN General Assembly, Turner's statement is considered as a propagandistic coverup for the American secret services in Teheran, who are actively trying to place candidates favorable to Washington in Iran's leading posts?

tween the consortium and the National Iranian Oil Company (NIOC) verifies, British policy toward Iran has not fundamentally altered since the days when Winston Churchill regarded "Persia" as the private oil field of the Royal Navy. Having flagrantly violated the terms of the previous contract, BP has adamantly refused to agree to a new contract which would boost Iranian oil revenues and thus produce more funds for development. Moreover, many of the most corrupt oligarchical families in Iran still maintain close ties to BP dating from the early part of the century.

It is this lingering old feudal power nexus that has been used by both British and Israeli foreign intelligence services to incite the recent antigovernment unrest in which Shi'ite leaders are openly calling for a drastic cutback in economic development. No analysis of Iran's economy can overlook these old vestiges of British colonialism. It is these which primarily account for the continued speculation, profiteering and blackmarketeering which has caused the peristent problem of inflation and created a serious thorn in the side of every Iranian development plan.

A City of London trap

The urgency of Iran's industrialization is underscored by the nation's increased rate of foreign borrowing to support expanded growth, augmenting oil income. From 1977-78, projects were funded with an increased percentage of loans totaling about 15 percent of development expenditures.

Prior to the recent political unrest, which has compelled the government to reevaluate many development projects, the cabinet announced a new 10-year development plan worth $600 billion. Designed to utilize all of Iran's projected future oil income, the plan would speed development to the maximum rate physically possible. Furthermore, the plan is also expected to require still more borrowing abroad, and to increase Iran's budget deficit.

Since late 1976, various reports from sources connected with the City of London financial center have openly promoted expanded Iranian borrowing. The publication *Eurofinance*, which is owned by a group of London merchant banks including Lehman Brothers Investment House, defined the trap into which Iran might easily fall through such increased borrowing: "Expenditures for building up industrial potential and infrastructure too rapidly will bankrupt the country long before the new industries can generate foreign exchange earnings for debt service." Such a scenario is coherent with City of London manipulation of underdeveloped nations through London banks and the International Monetary Fund by imposing stringent political demands on loans. Without continued economic development, Iran will have nothing left to show for the days of oil prosperity but mounting debt.

2. British Petroleum hobbles Iran's development

The failure of the Iranian government to reach a new contract with the consortium of 14 multinational oil companies which produces and markets Iran's petroleum output after eight months of talks could represent a setback for future Iranian economic growth. But it could prove to be the opening the Shah needs to boot out a major obstacle to his industrial development plans — British Petroleum. BP, which holds the majority of the share of oil marketable through the consortium, conducted the negotiations on the consortium's behalf.

The National Iranian Oil Company (NIOC), which negotiated for the Iranian government, put forth a number of pressing demands all within the bounds of the now expired 1973 contract, with which the consortium never fully abided. The primary issue of difference is the requirement in the 1973 contract that the consortium market up to eight million barrels a day (mbd) of oil by 1978. To date the companies have marketed only a meager three to four mbd. The government had formulated development expenditures based on increased revenues from stepped oil lifting (oil pumped and marketed) from the consortium.

The Iranian press responded to the breakdown of negotiations last month with indignation, assailing British Petroleum's refusal to meet NIOC's demands even half way. But the current refusal of BP to consummate an agreement with Iran which would yield greater revenues and to adopt policies to aid Iranian development is nothing new. During the years previous to the 1953 nationalization, when Iran's oil industry was totally in the hands of BP (Anglo-Iranian), royalties paid by BP to the government averaged only 15 percent of Iran's total yearly income, at a time when Iran's economy was almost totally dependent on oil.

An editorial in the official Iranian daily *Kayhan International* of Sept. 20 stated in straightforward terms the prospects for Iran finally taking its oil industry into its own hands and ending the use of the consortium as a major servicer. NIOC is one of the fastest growing companies for profits gained over the year 1976-77. If the Shah deemed it necessary Iran's oil business could easily be run by French assistance until Iran has sufficient trained manpower to run NIOC independently.

The *Kayhan* editorial said: "Iranian officials have said privately that the NIOC team brought a greater degree of flexibility and imagination to the talks and remains prepared to finalize an agreement in good faith. It is now up to the consortium, they say, to make the next move.

"Meanwhile, the NIOC will continue to step up its own direct exports which are expected to rise by about 20 percent this year over 1977, to stand at a respectable 33 percent of total sales....

"The two sides cannot continue to operate indefinitely without final guidelines governing their relationship. And if the consortium is not willing or able to show more flexibility in its dealings, perhaps it is time for Iran to reconsider its overall relationship with the companies.

"In retrospect, the 25 year partnership with the consortium and the 50 year relationship with British Petroleum which preceded it, have not been satisfactory ones for Iran.

"Today, some 70 years after oil was first commercially produced in Iran, foreign technicians continue to hold the key technical and operational positions in the country's principal oil fields. NIOC is reportedly preparing a comprehensive 'Iranization' program to reverse that situation over the next years.... But clearly there is a strong case to be made for overhauling the present relationship with the consortium. Looking to the future, NIOC should plan to handle all operations by itself, drawing if necessary, first on indigenous know-how and technical services and later on the consortium members individually or as a group as well as other independent international companies. While this would shift investment obligations wholly into the NIOC it would simultaneously have the attraction of placing the profitable marketing of all the country's oil products including natural gas into the hands of the state-owned company. The question on the minds of the oil industry here is, has the time for this change finally come?"

According to reports from the London *Financial Times*, Oct. 31, the latest wave of strikes within Iran's oil sector is based on demands that the consortium be removed from Iran. This includes the 570 foreign managers and executives that help run Iran's oil industry, the majority of whom are British nationals. Iran's Information Minister Tehrani told the press Oct. 31 that there was a brewing crisis between NIOC and the consortium.

3. Iran's parallel economy

Despite the $85 billion that has poured into Iran since the 1973 oil crisis, Iran has been unable to meet the development expectations put forth in government development plans. Out of the 2,340 industrial projects announced from the 1973 period, only 430 have been started. The explanation for this failure advanced by the International Monetary Fund (IMF) and the World Bank, that Iran's "overheated economy" needs to "cool off" through a slowdown in the growth rate, is dismissed by knowledgeable observers as stock monetarist puff which these institutions employ in every situation. Rather, they say, it is the fact that the Shah has as yet been unable to bring the layer of merchants connected to London-based merchant and investment banks under the control of the central government, that has been the main cause of Iran's difficulties.

Iran's import costs

(in millions of rials)

The rial has remained at approximately 70 to the dollar.

	Total	Food
1970-71	128,260	
1971-72	157,658	
1972-73	193,651	20,929
1973-74	253,190	26,932
1974-75	448,075	82,770
1975-76	800,819	129,524
1976-77	901,076	99,001
1977-78	721,611*	91,944*

*First three quarters

It goes without saying that the lack of basic infrastructure and the shortage of skilled labor power has been a factor in the shortcomings of Iranian industrialization efforts. But the profit hungry "industrial feudal class" formed by the old landed aristocracy and more recently monied "jetset" strata has significantly exacerbated the bottlenecks disrupting Iran's economic growth by profiteering and speculating on the abundance of oil wealth and on various development projects, particularly in the construction sector. Iran's traditional battles with inflation over 30 percent are to a large degree the product of unproductive investment of Iran's oil wealth especially since 1973.

Among the worst impediments to the modernization process are the old feudal bazaars, which not only account for a sizeable chunk of Iran's vast black market smuggling rings, but also for an unregulated moneylending market where loans are made at exhorbitant interest rates.

The Iranian bazaars still control a considerable percentage of Iranian capital. And they also transact up to 40 percent of Iranian imports and sell domestically produced items on the open markets at inflated prices. This "amazing parallel market," as it is known by international bankers, is today a prime financial supporter of the anti-Shah Shi'ite community that is calling for Iran to foresake modernization for "pure Islamic ideals."

The bazaar merchants are remnants of Persian society of the Middle Ages, who gained immense prosperity under the British. The bazaaris are, traditionally connected into similar unregulated monetary and smuggling operations within the Arab littoral states in the Persian Gulf. These operations in turn mesh with a number of prominent and financially powerful Jewish families which exert tremendous power over this uncontrolled financial nexus. Known as "Jewish rug merchants," these top financial concerns have the capacity to exert an impact on Iran's economy through massive capital flight operations on the order of tens of millions of dollars within hours.

Having established sophisticated channels through joint ventures with Israel and British based merchants banks — often through offshore banks in the littoral states — these top level Persian Jewish financial interests are known to lend money at up to 35 percent interest, and are responsible for driving up domestic inflation.

At the same time, bazaaris and related monetary speculators are known to change currencies, sometimes driving down the value of the Iranian rial to levels below the established government-quoted value of the currency. For instance, in 1977, when monetary speculation hit a high and heavy restrictions were placed on hard currency availability to commercial banks by Bank Murkazi (the central bank), the moneylenders gained short term hegemony over Iran's capital markets, driving down the value of the rial to 74 to the dollar when the quoted value was 70 to the dollar, and at the same time pushing inflation to over 25 percent.

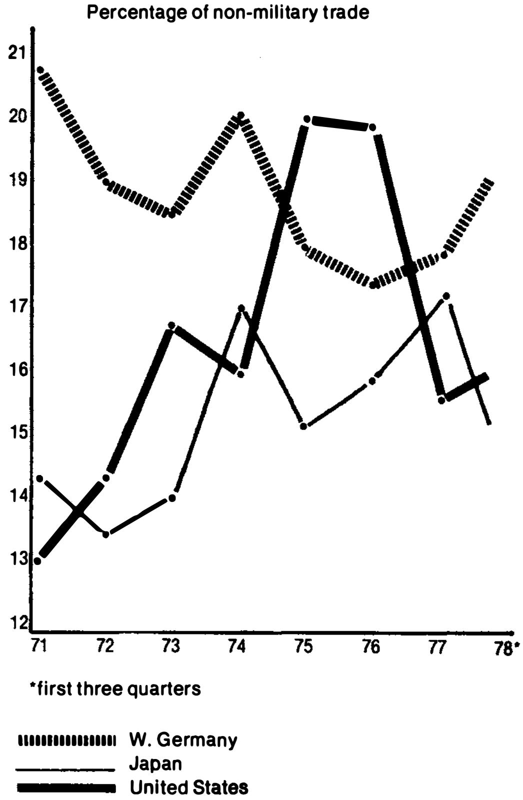
The political influence of the moneylenders goes beyond the streets. It is estimated that at times they have exerted influence over key government officials who turned a blind eye to their operations. According to *Euromoney* of June of 1978, local banks, including the Bank Melli (the largest in Iran), continue to conduct financial transactions with the bazaaris through instruments known as "softahs." The Central Bank has repeatedly tried to stop the issuance of softahs as a means of delimiting the activities of the bazaaris.

Since World War II, as Iranian modernization began to take hold, the bazaaris have gradually lost much of their power relative to the 19th century. However, Iranian development would be expedited with an even more forceful clampdown on the bazaaris.

Informed sources estimate that unregulated Iranian money provides up to 10 percent of the hard currency to London's merchant banking community for speculative ventures on the Euromarket against European currencies and the dollar. These Iranian moneylenders are integrated into the growing offshore money markets in the gulf which are draining off oil revenues into inflationary gambits such as land speculation, presenting a formidable encumbrance to industrial development.

Moreover, it is Gulf offshore banks supported by such banks as London's Kleinwart and Benson that are promoting the drawing of the Saudi riyal into these offshore money markets — a move which would inflate the Saudi economy overnight and to which Riyadh is adamantly opposed.

Iran's top three trading partners



The cost of the political unrest

The domestic crisis in Iran led by a loose alliance of conservative Shi'ite Mullahs and the left-leaning opposition has cost Iran dearly. Over the recent months, the estimated outflow of capital has been set at $2 billion. The *New York Post* reports that last month alone $700 million left the country, thanks to the Iranian Jewish community. Moreover, Iran's foreign reserves have dropped from $12 to $10 billion as a result of the cost of massive labor strikes.

Estimates are that settlements of strikes will cost the central government $4 billion. As a result, the Teheran government has announced a series of budget cutbacks which include cuts in nuclear plant allocations and major defense cuts. The construction of an international airport in Teheran and the Teheran railroad have also been postponed.

Most serious is the reappraisal of Iran's nuclear program. The four plants now under construction by West Germany and France are certain to continue, but plans for the purchase of another eight reactors from the same venders, along with projected purchases from the U.S., are subject to delays.

As well, the *Middle East Economic Digest* reports that the current chaos has forced a delay in the finalization of the sixth development plan (to cover March 1978 to March 1983). It is speculated that the $600 billion budget projected for the next 10 years may see some trimming. The collapse of the dollar has hurt the economy. According to *Kayhan*, the cost of imports will climb 22 percent this year, while imports climbed overall by 37 percent.

Such developments indicate that even if the present government survives the crisis, at least for the short term Iranian development will suffer. The setbacks in Iran's nuclear development lean toward the demands of the Shi'ite reactionaries who have repeatedly singled out nuclear energy for attack.

4. The agricultural crisis

One of the long-term economic maladies facing Iran is that of feeding a growing population. Part of the problem stems from insufficient long-term credits to promote mechanized agricultural development. This has left Iran increasingly dependent upon imported food, which this year should reach a record upwards of $2 billion, only further compounding Iran's accelerating import costs.

The solution to the food crisis in Iran rests with completion of a regionwide agricultural development plan. Ongoing talks with the Regional Cooperation for Development (RCD, comprised of CENTO countries: Turkey, Iran and Pakistan), are aimed at joint agricultural development. But the realization of such plans is still pending stabilization of all three governments. By the end of the year the RCD is expected to have established a common market arrangement alleviating tariffs between borders. In 1974, the Shah began to fund cattle farming in Pakistan to supply Iran, as an initial step to solving Iran's food problems.

In the past the Shah has probed the prospects of incorporating India into a regionwide agricultural bread basket. But because these plans have never left the drawing board, Iran has been left trying to grow sufficient food within its own borders, an endeavor made difficult by a lack of arable land and water. As early as 1965, the Shah had expressed a desire to develop large agro-businesses in the Caspian Sea area with nuclear powered desalination plants.

Iran's domestic agriculture program has met with overwhelming bureaucratic red tape aggravated by pervasive internal corruption. Despite an allocation of $4.5 billion for food production during the fifth five-year development program (from 1973-1978), informed sources report that only a portion of that money actually went into development. Unfortunately an insufficient amount of credit for farmers has often forced them to utilize the services of the bazaaris and other moneylenders at usurious rates of interest.

According to Iranian specialist M.G. Weinbaum, members of the Iranian elite have many times "blocked the transfer of capital allocations for food production," through their positions within Iran's massive bureaucracy. The nagging problem of high-priced food or food shortages is one of the most volatile issues in Iran which has repeatedly triggered riots.

Small farmers unable to pay their loans to moneylenders have been forced to sell their lands, very often bought up by the old land owners previously disenfranchised during land reform. As a result, large numbers of farmers and peasants have moved into the cities, swelling the slums. Rural migration since 1973 has been estimated at about 8 percent of the rural population per year.

These dislocated populations form the underpaid urban labor force, especially in the highly speculative Iranian construction sector. The imposition by Premier Jamshid Amouzegar of a credit squeeze on construction has resulted in cutbacks and a new round of layoffs of low-paid migrant construction workers. In turn, these restive unemployed have, over the recent months, joined the mullahs in anti-government demonstrations.

Iranian mafia and the failure of the "White Revolution"

A group of private and commercial farmers known as the "Iranian Mafia" have been responsible for undermining the National Cooperatives and independent farmers. In cooperation with the bazaaris and their allies, the government cooperatives have been forced to sell their products below cost to the bazaaris. The cooperatives were further maligned by limited marketing, transport and storage facilities.

At the same time, the old traditional land owners, in cooperation with elements within the Ministry of Agriculture and Natural Resources and the Agriculture Development Bank of Iran, have made efforts to block the formulation of a national policy which would continue the Shah's efforts to form government supported farming cooperatives through the "White Revolution" land expropriations. The failure of the cooperatives to become productive has significantly exacerbated Iran's food shortage.

—Judith Wyer
& Takis Panagiotofis

Schlesinger legacy: destruction of America's R&D capability

A year and a half after President Carter declared the "moral equivalent of war" on the energy crisis, the real victim has turned out to be the nation's basic scientific and technological capabilities. While the U.S. continues to have no legislated energy program (the mass of regulatory measures passed in the last days of the frantic 95th Congress is nothing more than a heap of disjointed rules and taxes related to energy use), the Department of Energy's proposed budget for U.S. energy development seeks to drive America below the level of a fourth-rate scientific power in crucial areas of research and development.

No one deserves more credit for this accomplishment than the Secretary of Energy, James Rodney Schlesinger. The extensive damage he was able to inflict on the Atomic Energy Commission, the CIA, and then the Department of Defense during his earlier service as head of each of those agencies has been overshadowed by the purge he has carried out against the best of the government's science cadre, the disastrous anti-energy policy he is imposing on the country by fiat, and his sabotage of every effort by America's allies to help it maintain its until recently unrivaled science and technology strength.

The fiscal year 1980 budget for the Department of Energy, submitted to the Office of Management and Budget by the DOE on Sept. 15, outlines a program based on the two central assumptions of Schlesinger's policy formulations: that the price of energy will reach a cost of $25 per barrel of oil equivalent by 1985, and that the rate of growth of energy use will *decline* for the next 20 years to zero or even negative by the year 2000.

On this basis, Schlesinger is replacing the tradition of the Energy *Research* and *Development* Administration (and the Atomic Energy Commission before it) with a jungle of "alternate energy sources" which will only be "competitive" if the price of oil skyrockets.

To its credit, the 95th Congress restored the DOE's proposed cuts in the budget for development of the most advanced power source, thermonuclear fusion, refused to be blackmailed on funding for the fission breeder reactor, and generally tried to maintain the integrity of scientific research and development of progress-oriented technology. But the real fight for a national energy policy will unfold when the 96th Congress convenes in January to consider the Depart-

Fusion program early casualty of "inflation fight"

It has become clear in the first days following President Carter's Oct. 24 announcement of his "anti-inflation" program that this program — already condemned for its crippling impact on U.S. industrial production — will become the pretext for the next ratchet of budget cuts in the Department of Energy fusion program and other high-technology programs.

Two days after the announcement, the DOE fusion office received a memorandum stating that as a result of the hiring freeze, two people will have to leave the division for every new employee to be hired. In addition, ten top-level positions in the division that are currently vacant cannot be filled unless there are additional resignations — a situation expected to severely crimp overall coordination of the nation's fusion effort.

On top of the personnel cutbacks, the fusion office has been informed that its travel budget has been cut by 50 percent. In addition to restricting on-the-spot supervision of its widely scattered research facilities, the cut has meant that the fusion office was unable to send a representative to the plasma physics meeting of the American Physical Society in Colorado Springs this week. And, according to a fusion office spokesman, it is possible that U.S. participation in Soviet Academician E.P. Velikhov's projected international Tokamak experiment — Unitor — will be hampered because the office will not have funds to send U.S. scientists to attend the discussions on the project being held in Vienna. Thus, the question of maintaining current U.S. leadership in the international fusion effort may hang on the price of plane tickets for U.S. fusion scientists!

ment's FY 1980 budget — the first budget put together "from scratch" by Schlesinger. Schlesinger has indeed declared war — on all possibilities of providing the U.S. and its allies with the technology and scientific manpower to bring the world to the fusion era by the beginning of the 21st century.

The FY 1980 budget proposes the funding for the Stone-Age techniques of solar energy and "biomass" (e.g., firewood) be almost doubled, from $466 million to $729 million in 1980. Since it is generally agreed that covering half the country with mirrors for solar electric generation is nonsensical and that there are no dramatic technological breakthroughs on the horizon for solar power, this funding would primarily be for tax credits and other financial incentives to bolster an "industry" that otherwise could never be profitable. Of course the cost to the consumer is prohibitive compared to any existing form of energy production.

"Conservation" is to receive $451 million, to bring various residential and industrial energy-saving devices to commercialization. In most cases these devices, like the solar and other so-called soft technologies, are economically feasible only after the cost of energy production by saner means spirals out of sight. The actually most efficient forms of energy use, new technologies for combustion, heating and industrial processing, are *not* included in this "conservation" budget.

Schlesinger and his deputy secretary, John O'Leary, have had little luck in selling their Nazi-originated synthetic coal programs to the energy industry. Undaunted, the FY 1980 budget proposes to spend $418 million in tax dollars on a program that by 1985, after spending close to $3 billion, will bring the U.S. up to the technology developed in Hitler's German autarky more than 40 years ago. The only significant improvement this multibillion dollar program will provide over the Nazi original will be pollution control devices on the plants that manufacture synthetic gas and liquid fuels from coal.

What about Schlesinger's travel budget?

Reports that the travel budget for officials of the U.S. fusion program has been cut 50 percent have prompted speculation concerning the cost of Energy Secretary James Schlesinger's lavish trip to Peking. Particulars of Schlesinger's plans were withheld by the top DOE officialdom.

One school suspects that Schlesinger may be attempting to exceed, or improperly circumvent, travel spending restrictions on his Peking junket, and feels an investigation is in order.

Another expresses fears that the cost of the Schlesinger jaunt has exhausted the DOE's travel budget, and is responsible for leaving other DOE officials Washington-bound until the FY 1980 budget goes into effect.

A third, more optimistic school of thought, however, believes that Schlesinger — a supporter of the anti-inflation program — will adhere to the 50 percent spending guidelines, and that his tickets to China are only one-way.

The purge of U.S. science and technology

Schlesinger realized almost two years ago that in order to transform U.S. energy policy from research and development led by the best scientists and engineers to wood chips, windmills, and synthetic fuels, he would have to eliminate all opposition from within what would become the new Department of Energy. Harassment, pressure, and demoralization are accomplishing this with maniacal precision.

The first top scientific administrator to be demoralized into resigning was Robert Hirsch, the dynamic leader of the U.S. fusion effort. After months of rumor-mongering and White House meetings to determine how much the budget for fusion would be cut, meetings that Hirsch was prevented from attending, it was made clear to him personally that there was *no* future for fusion in the new Administration. Hirsch departed.

Then a couple of months after the Administration made clear its position that under no conditions would it commit the U.S. to the construction of a breeder reactor for the next generation of nuclear technology, the DOE lost Stanley Ahrends, who had been the Director of Reactor Development under the DOE's predecessor, the Energy Research and Development Administration.

While on a trip to Moscow to continue important scientific cooperation between the U.S. and USSR, William Jackson was removed as head of the magnetohydrodynamics program, which has been the most fruitful area in U.S.-Soviet joint research.

This month, C.W. Cunningham, seeing the handwriting on the wall, resigned from his post as head of the Office of Nuclear Energy. Nelson Sievering, deputy assistant secretary for international affairs, responsible for international nuclear development, has likewise left the DOE.

These resignations and changes represent much more than simply the loss of talented individuals. They indicate the deep demoralization within the Department of the people who are vital to organizing and carrying out a high-technology energy policy. The point is the same as in the case of teams of scientists in the field who are carrying out the actual research: pulling apart the groups of scientists and administrators who have worked together for years will have an effect that cannot be reversed after a certain point. Replacing these men with rabid environmentalists brings that point dangerously near.

The other side of Schlesinger's attack on U.S.

science and technology is the funding projected for the nuclear energy technologies that must be developed for the future. This policy has been made explicit by Schlesinger and his men in the Department. According to the *Journal of Commerce* of Feb. 2, 1978, Deputy Secretary O'Leary declared that the "energy problem is not one that is going to be solved by research and development . . . no new technology spawned by the government has resulted in significant new energy supplies . . . after decades and spending billions, nuclear energy only provides 1 percent of the nation's energy needs." And, O'Leary continued, "We have misread the potential of fusion."

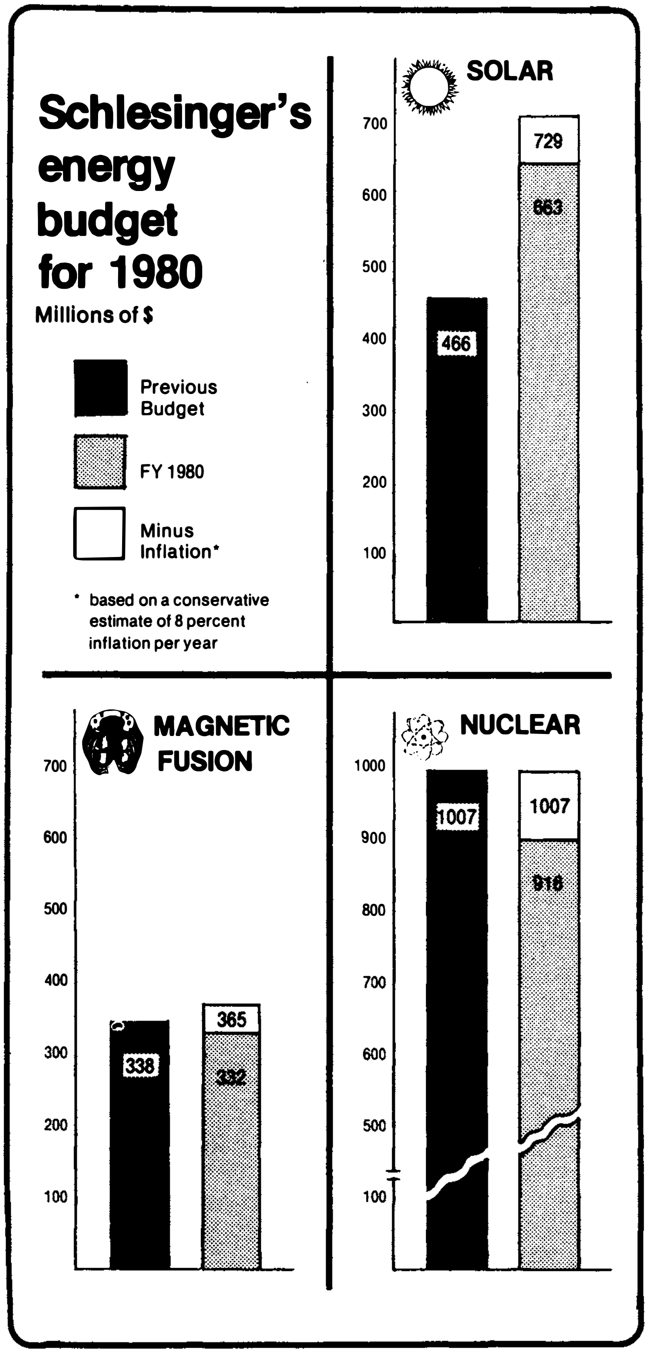
On May 18, at a breakfast meeting with reporters in Washington, O'Leary was asked about the need to increase the fusion budget. He replied, "I can't see how we can spend the current amount of money on fusion." Later that month, he asked John Deutch, the Director of the Office of Energy Research, to review the effect of cutting $100 million out of the magnetic fusion program for 1980. According to Schlesinger himself, in response to a reporter's question on June 5, "Fusion will be developed late in the 21st century."

Then at an Aug. 14 press conference it was made public that the Large Torus fusion device at the Princeton Plasma Physics Laboratory had achieved a first — an ignition temperature above 60 million degrees. The achievement was, by all scientific standards, a world-historical event in fusion research. Yet the Department of Energy fought behind the scenes to conceal, then downplay the news, even after it was forced to hold the press conference announcing the Princeton breakthrough. This journal documented, hour by hour, how Schlesinger and his aides tried to suppress the Princeton results (in our Aug. 29-Sept. 4 issue, Vol. V, No. 33). Typical was Schlesinger's explanation on nation-wide television that "we did not want to hype up" the fusion results, and the report in the Aug. 20 *Pittsburgh Press* that Schlesinger was "sizzling" that the results were made public.

More recently, according to the Oct. 19 Baltimore *Sun*, John Deutch declared that it could be 20 to 30 years before we know if a fusion system will be economical. Moreover, he said in the same interview, conventional nuclear energy and breeder reactors are too dangerous to be deployed on a large scale in the future.

In keeping with this line of reasoning, the proposed funding for FY 1980 for magnetic fusion is $365 million, a mere $27 million above the previous year's level and not even enough to keep up with inflation. The nuclear budget is projected at $1,007 million, exactly the same as the FY 1979 funding level. The DOE budget proposal includes no budget line for the Clinch River Breeder Reactor, and a $12 million *cut* in the magnetohydrodynamics funding.

The final blow to the Office of Energy Technology, which is what remains of the ERDA research and development capability, is the operation of the bogus



Office of Energy Research. Although formally he has practically no defined responsibilities, the Office's director John Deutch has gradually been given the power of life-and-death policy decisions over the programs which make up the Department's high-technology research component.

Not even included in the original organizational structure of the Department of Energy, the office of Energy "Research" has usurped responsibility from the Department divisions which have the technical expertise to actually formulate policy, and is being used as an internal "goon squad" against these divisions, which are accused of being too "constituency-oriented."

For example, the Office of Energy Research was given oversight to develop Administration policy on nuclear waste. Released last week, the Inter-Agency report proposes *no* program for this vital concern of the nuclear industry. Over the past month, Deutch has taken over the responsibility for formulating DOE domestic and international nuclear policy from the Office of Policy and Evaluation.

Deutch also headed the Ad Hoc Experts Group on Fusion, the Foster Committee, whose report has been used to call for a slowing down of the highly successful fusion Tokamak program.

Over the past two years an extraordinary number of offers for joint international advanced research in energy development have been made to the U.S. by the governments of Japan and the Soviet Union. Using military classification, economic threats, and personal intimidation, Schlesinger has almost succeeded in sabotaging this potential cooperation, and is instead currently visiting the People's Republic of China.

Under the pretext of joint development of Chinese oil reserves, Schlesinger is an active player in National Security Advisor Brzezinski's "China card" geopolitics. The sincerity of his concern for future U.S. fossil fuel supplies is obvious from his personal sabotage of joint U.S.-Mexico gas and oil development, of Algerian liquid natural gas imports, and of cooperation in Soviet Siberian resource exploitation. No one in the energy industry has been fooled by this international shell game.

The delicate negotiations between the U.S. and Soviet Union for a second SALT agreement were temporarily destabilized when Schlesinger insinuated himself into the White House meeting where the fate of the sale of American oil technology to the USSR was to be decided. Secretary Schlesinger cast the deciding vote which prevented the sale of the equipment which could help assure the U.S. adequate oil supplies in the future.

In 1972, President Nixon negotiated the historic scientific and energy cooperation agreements with the Soviet Union, to improve diplomatic relations and to produce commercial, advanced technology for energy production and use. Since Schlesinger has been in the Carter Administration, every offer for upgraded joint collaboration from the Soviets has been rebuffed.

At this point the overall cooperation agreements themselves are in dire straits. Because many of the specific agreements were finalized in 1974, their five year statute will expire in June 1979. Scientists in the DOE who recognize the importance of the joint work, both for international diplomacy and because the U.S. is lagging behind in many of the high-technology areas, are dismayed by the lack of U.S. interest in renewing the agreements. If nothing is done within the next few months, they will simply expire.

In periodic trips to the U.S. over the past two years, Soviet fusion scientists Nikolai Basov and E.P. Velikhov have made offers in research which would address the frontiers of both theoretic and experimental work in fusion development. In November 1977, Basov unofficially offered expanded collaboration in laser fusion at a conference at the University of Miami. When asked his response to the Basov offer, at a press conference, Schlesinger replied, "No, a flat no." Schlesinger claimed that since all laser fusion was classified — a simple lie — no joint work could go on.

In the spring of 1978, Academician Velikhov made an offer, initially to U.S. scientists, to build a joint, post-energy-breakeven Tokamak fusion reactor. The proposal was later expanded to invite participation from Western Europe and Japan. It is now under vigorous discussion in the International Atomic Energy Agency in Vienna, and the U.S. is the only participating country which has not unequivocally committed funding and manpower to this project.

The irony here is that the Unitor, as the test reactor has been named, will be on line at least four years before the comparable U.S. Tokamak reactor, and will make mincemeat out of Schlesinger and Deutch's protestations that fusion is not possible until well into the 21st century. Despite the excitement in the fusion community, the DOE Office of Fusion Energy, and the umbrella Office of Energy Technology, U.S. action on the Velikhov proposal is being squelched from the top.

Threatening our allies

On May 4, 1978, Japanese Prime Minister Takeo Fukuda addressed the Foreign Policy Association and Japan Society in New York and revealed that the Japanese would be willing to invest $.5 billion in an international fusion effort. Fukuda remarked that this would help alleviate Japan's U.S. balance of payments problem.

On Sept. 1, a U.S. delegation led by John Deutch presented the Japanese with the response to Prime Minister Fukuda's offer — before any agreement by the U.S for fusion cooperation, the Japanese would have to support a synthetic coal program to the tune of $170 million. Though the meeting produced a "letter of understanding," including the "understanding" that the Japanese consider joint fusion work the priority in these agreements, nothing positive has happened since the offer was made.

According to the Japanese, last week the Vice-Minister of the Japanese Ministry of International Trade and Industry (MITI) was in Washington, D.C. and met with Schlesinger. He told the energy czar that the Japanese proposal for joint fusion research stood as the Prime Minister had proposed it four months ago. According to a MITI representative, Schlesinger replied by insisting that the highest priority for U.S.-Japanese cooperation is . . . coal liquefaction.

– Marsha Freeman
Director of Industrial Research
Fusion Energy Foundation

Capriccio Siciliano

Part three of the Soviets' explosive investigation of the JFK assassination

In this section

This week continues *Executive Intelligence Review*'s exclusive translation of "Cappricio Siciliano" ("Sicilian Caprice"), a four-part series of articles on the links between political assassinations and the drug trade by Julian Semyonov which appeared recently in the Soviet youth organization's weekly magazine *Ogonyok.* The series is significant not only for the new light it sheds on such matters as the Kennedy assassination, the Mafia, and the activities of the Maoist Chinese intelligence apparatus, but also because it sets forth a new, sophisticated Soviet perception of the inner workings of British and Knights of Malta-linked intelligence networks.

Part one of our serialization dealt with the links between Lee Harvey Oswald, the purported assassin of President John F. Kennedy, and Jack Ruby, the man who killed Oswald; the links between Ruby and the Mafia and drug-running; and presented evidence linking Chinese intelligence to both. Semyonov showed that Oswald's brief "asylum" in the Soviet Union was due to no love on Oswald's part for the USSR, but rather conformed to an intelligence "laundering" profile that cohered closely with Maoist foreign policy interests of the early 1960s period. In Part two, last week, Semyonov detailed the Mafia's ties to Italian fascism and Western intelligence networks, and discussed its capability for carrying out high level political assassinations.

(***Note to readers:*** Elipses in the text are all as employed by the author in the original Russian, except where inclosed in parentheses — (. . .) — which indicate occasional small deletions by EIR for purposes of abbreviation.)

Twenty years ago — again according to the information in the English book on the history of the Chinese secret service — one of the Maoist leaders advanced the theory of "heroin war" against the West.

Now the headquarters of the heroin Mafia is located not in Brooklyn and not in Palermo. In the Chinese suburb of Antwerp — according to the Spanish and Dutch press — is concealed an office of the coordination center for "corruption of the whites," the center of an undeclared "opium war": "whites" do not intrude into China in search of opium but Maoist strategists are preparing (the) conquest of Western Europe and America. This is state policy. With Mafia assistance, they have arranged the importation of poison, which transforms a soldier into a pitiful hysteric, and an officer into a paranoid incapable of making decisions.

Three years ago about 300 kilograms of heroin was confiscated in Europe. In 1976, it was 700. According to "Interpol," this 700 kilograms is only a tenth of all the poison flowing out of Asia. One kilogram is enough to make 20,000 saleable portions. In that year, therefore, the Maoist opium-producers supplied, and the Mafiosi distributed, enough heroin in Europe alone to supply 150 *million* people.

A heroin boom is possible only where there exists disillusionment, fear, unemployment, where youth are obliged to pay enormous sums for a university education, where the symptoms of general economic depression are obvious. Whiskey does not heal the pessimism of youth. Narcotics are far more reliable. After the Americans left Vietnam (more than 70 percent of U.S. soldiers bought heroin — utter demoralization!), the heroin prepared for the American soldiers gushed into Western Europe.

At first the price in the BRD, for example, was quite "proper" — 50 marks a gram. A mass of youth began to smoke marijuana — this is even sung about in a rock opera, so interesting it was with new sensations and all the rest! The youths were drawn in cleverly, subtly, deliberately. Books and films turned the trick. And then the price for heroin unexpectedly soared. And how! In 1976 the price of a gram of heroin rose

200 to 300 marks. And last year, according to *Spiegel* magazine, the price had spiraled to 1000 marks a gram! (Remember the year before that 700 kilograms of heroin was confiscated. That is 700 million marks! And it was but a tenth of what was sold! That means a total turnover of 7 billion marks, that is about $20 billion!)*

Now Amsterdam is crawling with police. The Chinese "heroin Mafiosi" began a gradual relocation to London. They needed an entry to the entire English-speaking world. One symptom of this relocation was a new quality of crime in Great Britain. The police of the BRD, West Berlin, and Holland charted a certain, tragic correlation: unorganized prostitution, especially child-prostitution — with drug addiction; murder for the sake of seizing a purse with even a little money — with drug addiction; sadism — with drug addiction. The heroin suppliers feel power over their patients, who now number in the tens of thousands. A certain Chinese heroin operator demanded two racing motorcycles in 24 hours from a young American living in Amsterdam. For this he gave him a daily pinch of heroin. Bicycle and motorcycle theft grew massive. (In Rome I saw a young man drive up to a bar on a motorcycle to make a phone call. He took out a token, keeping his eye on the motorcycle. He began to talk about something. An Italian — his emotions got him distracted: gesticulations, exclamations, a bitter smile, a threatening shout, turning back and forth and switching the receiver from ear to ear....At just that moment, youths rushed for the motorcycle, jumped onto the seat and grabbed onto each other. The younger gave the "Indian" a kick, the older pushed a "skeleton key" in the ignition. The motorcycle lurched forward and the motor started up. The owner leapt out of the bar. With a scream, his face white, he gave chase. A small gathering developed. Witnesses gathered, began to cry about "democracy," "unlawfulness," "corruption," mentioning the names of leading political figures. They broke into small groups, each, of course, with its own orator. The police appeared in case of disorder.)

The growth of crime, however, cannot be explained by drug addiction alone. It is only the consequence. The reason goes deeper; it is in the *System* itself. Take France, for example. There not heroin but His Majesty Alcohol reigns supreme. In France, per capita alcohol consumption is higher than in any other country in Western Europe, in the USA, or in Latin America. Although advertising for alcoholic beverages is officially forbidden in France, it is present everywhere: in the movies, the theater, in all of Paris' innumerable shows. Not one newspaper has begun a massive attack against alcohol. Why? Because the alcohol lobby is incredibly strong. The profits of the wine magnates and aperitif producers are stunning. (...)

Sociologists in France consider that the growth of crime is promoted by current urban expansion: enormous complexes — faceless, immense and oppressive, work on the psyche and cripple people morally. But the System cannot control construction. The corruptness of the enormous concerns is stronger than the authorities. Complexes continue to be built in which man is like an insect: small, impotent, and lost. There, in the secret stone jungles, is hidden the current terrible breeding grounds of crime.

... The American secret services know how to thank people for loyalty — especially criminals. And "Operation Thanks" was usually the job of the sort of functionary who appeals to the hearts of Italians, who fall for big names and beautiful words, pronounced in front of television cameras.

Luciano and the Mafia: going "legit"

The New York Governor Thomas Dewey, who had called Luciano "the vilest and lowest criminal ever to appear before a United States court of law," sharply changed his views. Unexpectedly for all, he announced that Luciano's 30-year jail term had been reduced to nine years. This made him eligible for immediate parole. It is doubtful that Thomas Dewey knew that the "Mafia's prisoner" had not been in the prison at Dennamoor the entire time. He was evidently told that the "special agent of the OSS" had been quietly removed from prison by the secret service and ferried to Sicily. It is possible however that he was told something else: the U.S. Consul General in Palermo, Alfred Nester, held a secret meeting with the most authoritative Mafiosi — Giuseppe Castellano, Calogero Volgi, Vito Guarrasi (remember this name, reader; we will return to Guarrasi when we investigate the story of the murder of Engineer Mattei), and, of course, the "boss of all bosses," Don Calo. The theme of the Consul General's meeting with the Mafia leaders: "The creation of a mobile political group, which could bring to life the idea of an autonomous Sicily, with the Mafia as a government."

The American secret service took "lessons in tactics" from the Mafia, especially during the war, when a close, constant, and clandestine cooperation was initiated. Because of this the people from the OSS (which had then still not become the CIA) had learned to set up the chain of access to the necessary person. They established a chain of access to Thomas Dewey. (In order to clear himself of any possibility of being accused of connections to American intelligence, Luciano — significantly later — told journalists: "Freedom cost me $75,000, which went into

* Author Semyonov has apparently erred in calculating exchange rates. In 1976, the exchange was roughly 3 marks to the dollar, making 7 billion marks equivalent to about $2.3 billion. At the present, rapidly shifting rate, Semyonov's 7 billion DM is approximately $4 billion — ed.

Republican Party coffers.")

The police took Luciano from prison to the seventh pier in Brooklyn, where the small but incredibly comfortable ship *Laura Keane* was docked.

Dockers from the "crime syndicate" were guarding the gangplank: all ports, as well as airports, are traditionally in Mafia hands. FBI agents, posing as curious onlookers, kept a close eye on the OSS thugs; and agents of the narcotics bureau watched both.

Luciano winked at the journalists:

"Don't expect any sensations kids, everything will be quiet, family-style...."

At that time little was yet known about the Mafia, and so no one understood the secret meaning of Luciano's words. They began to understand a little later, when one after another the monstrous "Cadillacs" drove up to the pier and up the gangplank went the bosses of the American "Cosa Nostra": Albert Anastasia, Frank Costello, Meyer Lansky, Bugsy Siegel — the recognized chiefs of the Mafia "families." The police were obliged to let on board all the Mafiosi ID's as leaders of the dockworkers union. The police were obliged to let other visitors on too, who were coming to the "family" farewell party; one of these was a member of the Supreme Court, another was a leading figure in the ruling party of the USA.

The send-off went splendidly: Luciano turned up in the galley because his friends had brought on board wicker baskets with provisions — Sicilian lemons, French patés, Norwegian herring. The wine, of course, was Italian.

In Rome he stopped at the great Quirinale Hotel; he had several rooms reserved, practically a whole story. Each day, more and more new people arrived for Luciano. Mafia "soldiers" guarded all the entrances. "Lieutenants" received the visitors. To meet with an "adviser," Luciano went off in an unknown direction, carefully checking that he was not being followed.

Something did get set up: Luciano prepared cadres for the transformation of Sicily into his own empire; the jobs were already given out; the long chain of corruption was a precision operation — the police prefects knew to which Mafiosi they were accountable; the judges continued to discuss with the "lieutenants" the amount of monthly renumeration required for their clemency; the latifundists talked about the firmness of their reliance on the Mafia's services — in a word, everything was going smoothly.

And suddenly Luciano disappeared. Like he'd vanished into thin air. A counterintelligence investigation was launched in search of "Godfather No. 2"; soon the FBI became involved; the "Bureau for Combatting Narcotics" got agitated.

But Luciano was already in Cuba, a guest of the dictator Batista. And the CIA knew it. Furthermore, the CIA knew Luciano's plan and a truly hegemonistic plan it was. Its basic parameters were the following:

1. Sicily was to become a world resort with a network of casinos, fashionable hang-outs, and hotels.

2. Sicily was to be oriented toward the USA, which would induce the Pentagon too to support Luciano — after all, it wouldn't exactly be bad to have a base for the American fleets and air force in the center of the Mediterranean.

3. The realization of the first two points would transform Sicily into the transshipping base for the narcotics trade route: China — Middle East — Europe — USA.

The final leg to the USA had to be secured on a particularly reliable point. Such a base is impossible on American territory since what the CIA friends would allow, the FBI promptly forbids. Pay-offs are expensive, and why make trouble for yourself? Havana is right off the North American shores; the Batista regime knows how to make its subjects keep an oath of silence; the penalty for talkativeness is death in the little back alleys around "Cavalleria," lit with dim lanterns; the cost of carrying out the sentence is cheap — $50 to 100 and a pistol with a cartridge clip. When state involvement is necessary, the cost goes up somewhat; Batista's police are greedy people, and for an arrest, trial by ordeal and execution they take up to a thousand dollars, with the guarantee that the victim will disappear forever and no traces will be found.

Having straightened out the "Empire of Routes and Narcotics," Luciano appeared before dumbfounded Italian journalists. Lean as always, modestly attired, without any external effects, he said:

"Can the traffic be stopped? Of course not, it is eternal. We are charged with the narcotics trade. I don't know whether this is so, but if it is, maybe it would make more sense to let them be sold legally, with the payment of certain taxes to the states? Otherwise no one's going to be able to do anything about the smuggling, no matter how deplorable that is to us men of honor and of business (which, by the way, are the same thing...).

After the epopee in Havana, Luciano bought a floor in the most expensive quarter of Rome, where princes of the blood, premiers, and prestigious billionaires usually stay — the *nouveaux riches* felt quite out of place there. From there he left for Naples and acquired a bay, an excellent place for sheltering from storms the necessary ships with the goods. And the view of Sorrento was marvelous, walking stark naked on the kilometer-long beach, paying no attention to the bodyguards pressing themselves to the sweltering heat of the rocks. He arrived at Capri, rented a villa with a marvelous view of Vesuvius, and took a yacht out into the Adriatic — a 17th century castle was for sale, and Luciano loved the exotic. He tried to read the ancients: "In our profession knowledge of the subject of history is necessary, to help us avoid mistakes in the future."

The big business of narcotics

Luciano could most often be seen on Capri. At first nobody connected his arrivals on the islands with the visits of the former Egyptian king, Farouk. Later it was figured out, despite the fact that Luciano conspired masterfully, inviting Mussolini's granddaughter and the grandson of King Victor Emmanuel to a reception; they too were like enemies, but how tenderly they danced, like doves, no one could take their eyes off them.

That was just Luciano's way — let everyone look at the VIP's. He is not proud; he knows the price of the shadows.

During one such reception Luciano was able to pull off an unlikely operation: ex-King Farouk authorized the "narcotics king" to use his bank account — henceforward the meticulous financial inspectors were no longer dangerous to Luciano. He hastened to make this "contract" since he knew of the first busts in Harlem: the police raided one of his centers for heroin sales and two men were taken. One of them Luciano was as sure of as he was of himself; the other was inclined to discussions on literary themes and music. Luciano didn't believe in such types; they were blabbermouths. However, the "music lover" was not broken until after Luciano had transferred most of his money to one of Farouk's accounts.

The scandal in Harlem rebounded in Rome. Luciano was hauled in for interrogation a couple of times, but no evidence was found.

"You are doing your duty, I have nothing against you," said Luciano to the police commissioners. "But is it worth wasting time on such a hopeless matter?"

The American press began to attack Governor Dewey: "Why was 'Lucky' Luciano set free?"

The Governor only sighed, and remained silent.

The CIA also kept quiet. It kept quiet, but it went to work. The scandal connected with the name of Luciano, who was accused of heading up the "Harlem business," enabled the American authorities to gain the right to open a special Rome branch for combatting narcotics. Charles Siraguse was named chief of the branch, and several CIA workers were thus relocated closer to the Mediterranean — quite a serviceable "cover."

Since there was "no evidence" against Luciano in Italy, and the American police could not find any compromising materials, the issue of the "narcotics king" was transferred to the "bureau of finances."

It was turned up that every year Luciano received about a million francs from his bank account.

"Present evidence, Signor Luciano, of how you earned that money."

"I didn't earn it. It's a donation from friends. People know my crystalline honesty, people don't want me to die a hungry death. Besides, I have a factory that manufactures school desks, let them look at my receipts from production — I have a staff, they do a great deal of bookkeeping, they will answer you with exhaustive precision."

Information came from America: one of Luciano's bank accounts was discovered there, containing $3 million.

"And where did that come from?"

"Ask the people who sent me the money, if you are so ill-bred and see in every honest man a criminal."

The Harlem bust did not destroy the work of the Luciano empire. The heroin onslaught continued. Narcotics were brought from Asia across the Mediterranean to the shores of Sicily — just as Luciano had envisioned in 1946. Since nearly the whole fleet was in the hands of the Mafia, the goods were reloaded from merchant vessels chartered to "private firms" in the Far East, directly onto the ships of the Sicilian Mafia. Those were moored by night near the Ponte della Graperia Grande; from this lovely spot, winding around the Castellamare del Golfo, two roads branch out: one large one, to Trapani and Palermo, and one small, bumpy one to Tonara di Scopello; it is on that road, which gleams disquietingly at night, that the peasants, carrying out the directions of the Mafia "soldier," transport the cargo to the warehouses of the "Company for Sale of Sicilian Oranges." There were stores of empty oranges, made of plastic or wax. Into each box of quite normal oranges went one containing heroin. In the morning, vehicles with the special permits of the ministries dedicated "to the economic development of Italy" crossed into the port zone unimpeded. Dockers loaded the boxes — every last one of them connected with the Mafia; captains paid by the Mafia carried them to New York; and people from the "Cosa Nostra" unloaded them on the docks of Brooklyn.

Before his death, Don Calo, "the boss of all bosses" of Sicily, brought Luciano together with his successor, Gienco Russo.

"You are responsible for the fate of the business," said the "godfather," and the business will grow and triumph, if the Mafia truly marries the "Cosa Nostra." Sicily and America must be together constantly.

The oil connection

After the death of Don Calo his heirs convened a conference. The bosses from the New World flew in. The Italian police found out, but none of the Mafiosi were worried: "It's dangerous to mess with the Mafia simply because it is; if they start poking around, then the rules of the game will go into play — it doesn't do to attract attention, otherwise the Communist press will start to sound the trumpets, the leftists in parliament will be demanding an inquiry; we still have to take them into account. We won't tie your hands, of course. Curse them, but as long as they exist, you have to understand our situation."

When Santo Sorge flew in to Rome, an elegant, discreet businessman from New York, representative of the Texas "Rimrock Tidelands Company Limited," a steel-colored Rolls Royce was waiting for him at the airport, with a chauffeur and a silent, robust fellow with a tattered briefcase in his right hand.

Santo Sorge asked the fellow:

"Let the chauffeur take me anywhere near our people."

"Our people are still in Sicily," answered the man, clasping the briefcase to his chest.

Sorge laughed.

"The dictaphone takes badly through leather, my lad."

"I don't know what you're talking about," the man said, with genuine surprise. "I am your bodyguard, and I'm carrying pistols in the briefcase. The strap always breaks when I wear my Colts on a belt."

He flung open the briefcase, and indeed there was no dictaphone there, but two gleaming nine-caliber Colts.

"That's funny," said Sorge. "By 'our people,' I didn't mean Sicilians, but my colleagues from the United States Embassy."

"Well, they've gotten you apartments on the Via Veneto, near your people," the big guy answered, and began to fasten the clasp of his briefcase.

(The dictaphone was mounted on that very lock; friends from Hong Kong had sent it — they have whole docks full there; Russo always asked that guests from America write "friendship is friendship, but tobacco is something else again.")

The meeting between Luciano, Russo, and Sorge took place in the banquet hall of the Hotel Regis, attended by people flown in with the bosses from Palermo; waiters with trays were allowed only as far as the doors.

The conversation lasted three hours. Santo Sorge expounded upon all the benefits that would accrue to the brotherhood if the government were to give his Texas company the exclusive concession for prospecting in Sicily — there must be oil there, the blood of war, black gold, tangible power.

Russo kept quiet, listened intently, voiced his distress at the difficulty of the job, casually asked:

"And will your Texas partners go for cooperation with Engineer Mattei?"

"Never," answered Sorge, "Under no conditions. He's done enough in Europe. He's a leftist."

"He's not a leftist," objected Russo. "He's a Christian Democrat."

"Why did you ask me that question?" asked Sorge.

"Because Mattei is a very strong man. Because he has made ENI (the Italian state energy monopoly — ed.) a state within a state. Because he has done what he set out to do."

Luciano, quiet until now, summed up:

"Gienco, in your answer lies the program for our actions. Yes, Mattei is a strong man, but we are stronger. Yes, he transformed ENI into a special state within the system of our state — so much the worse for him, since previously only one organization had that right — ours, Gienco. We must make ENI into an ordinary company, like hundreds of others in Italy, no more. And finally, he has, as you said, done everything he set out to do. But do we not finish what we have begun?"

"We haven't begun yet," answered Russo.

"We have," said Sorge.

"Well I haven't," answered Russo and clicked his teeth. He was afraid of dentists and was always suffering from toothaches.

Luciano sensed that the conversation was over; he knew Russo's peasant stubbornness very well. Furthermore, he understood what the successor of Don Calo was being so cautious about.

ENI, the state oil company, was not just any private firm; its activity was controlled by senators and parliamentary deputies, since ENI provided Italy with energy, benzene, diesel fuel — that is to say it organized the entire economy of the country. Evidently, Luciano thought, some of the senators and deputies connected to Russo's Sicilian Mafia did not want to give up a drop, and especially not to the Texas uncles, since if you give them an inch they'll take a mile. Well then, you have to give the senators and deputies more than they get from the Sicilians.

He spent two days madly travelling around the country, adroitly ditching the tails from all the intelligence services, including the Mafia, and then went to Capri. There occurred a chance meeting with the lawyer Guarrasi (remember the meeting of Mafiosi with the U.S. consul general in Palermo?). Vito Guarrasi first met Lucky Luciano long ago, during the fall of Mussolini, when he was being moved to occupy these positions which remained empty after the rout of fascism. It was he who arrived in Tunis with the high Italian military leaders to work out the terms of total surrender; it was he who hurled fire and brimstone against the "blackshirts," when the Americans were billeted in Palermo; and it was he who went to Rome as a "liberal and liberator." Who but Vito Guarrasi, became a member of the "General Council of the Association of Sicilian Industrialists"?! The association sent him to the USA, to make contacts among his American colleagues in business and banking. He returned, and somebody pushed him towards Mattei, to the post of "counsel to ENI."

When Mattei briefed his staff on the idea of prospecting for oil in Sicily, his main supporter was Vito Guarrasi. (He sent information on Mattei's plan abroad the very same night, after he left "his friend, the economic genius" of Italy.) The mechanisms worked perfectly; after the squeeze was put on by Texas, some top Christian Democratic leaders unexpectedly came out against Mattei's project — "Let Sicily remain the agricultural granary of the country, there's no need to ruin their way of life."

Mattei begins a struggle against members of his own party. Vito Guarrasi stands by him — he has no choice. And the unexpected occurs: Mattei brings down the Christian Democrats in Sicily; a coalition government comes to power. The Mafia is outraged. There is panic in Rome, but the game is up, and Mattei introduces a bill through Palermo, allowing ENI to begin prospecting on a half-million acre territory.

Vito Guarrasi becomes the general secretary for the "five-year plan for the reconstruction of Sicily" — all the deals go through him, and all the capital investments are under the control of the Mafia lawyer — hundres of billions of lire!

(Mattei's defeat of the rightists, including the Mafia, did not topple the strategists of the "secret order." The work against the dynamic engineer continued; Guarrasi not only informed the bosses of each step his "friend" took, but also continued to manage their affairs; it was not important who won at this stage, but rather that the turnover of the capital of *his* people continued.)

It was through Vito Guarrasi that Lucky Luciano began his long operation. He proposed to the Mafia lawyer to work on ENI, to try to turn it towards contact with the Texas oil company.

"That's hard," Guarrasi replied. "More precisely speaking, it's impossible."

"That answer doesn't suit me, Vito."

"It doesn't suit me either, but it's better that I tell you the truth, Lucky — me, and not someone else."

"What would it take to bring Mattei to his senses?"

"Break up his friendship with the Arabs, then he will start looking around for allies."

"If Farouk were sitting in Cairo now," laughed Luciano, "your recommendation would start becoming reality tomorrow. Evidently it is impossible at this stage of the game; let's look truth in the face. So then, it seems there's only one way out?"

"I understand you, but I think that the scandal would be so loud that more might be lost than gained. What if we try to overthrow his people in the regional government? Could your friends in the States help us out?"

"*Our* friends, Vito," answered Luciano, "your friends and ours. You're talking to me face to face; your 'co-thinkers' from ENI can't hear you."

The friends from abroad helped overthrow the government loyal to Mattei, but something unforeseen happened, as so frequently does during tense political situations: instead of the planned Sicilian premier, Vito Guarrasi's enemy, Giuseppe d'Angelo came into the Palermo palace. He laid on Mattei's desk the facts about the lawyer: that he had given the Mafia the plan for the petroleum factory, and that the Mafia bought up all the land which Mattei planned to use for his giant; ENI's losses amounted to hundreds of millions of lire, and, most importantly, lost time: buying up land from the Mafiosi, extracting funds for that from the government, building settlements and bringing in workers — the project gets old, the tempo dies, and that's the end.

Mattei called in Vito Guarrasi; their talk lasted five minutes. The latter left the office of the president of the company a simple lawyer, but no longer "counsel" and "general secretary."

And so Guarrasi went to see Luciano.

"Yes," he said, "now it is not only possible to get rid of Mattei, but the time has come — otherwise he will ruin us."

"And the scandal?" laughed Luciano. "Didn't you say the scandal would be too loud?

Vito Guarrasi pretended not to have heard Luciano.

"My proposal amounts to the following, Lucky. First of all, to find some madman who will shoot him: Mattei is an enemy of the OAS. He played an essential role in the victory of the Algerians. I am certain that there are some possessed OASers, fanatics, who would do anything. Let Italy blame the French, let them hang it on the OAS, and we will never be implicated."

"Excellent proposal. And 'second of all'?"

"We have to find an idiot from among the young leftists on the West Coast, let the Texas people work with them, let them explain to him that Mattei is an exploiter, a so-and-so, only the honey seems sweet, but the bee has a sting. And thirdly, do the CIA special services really exist?"

"You're nuts," exclaimed Luciano softly. "God knows what you're chattering. Their secret services ask *me* for help in this type of business, they themselves still don't know how to pull it off and are not getting their feet wet."

They killed Mattei by setting up an airplane crash. That was easy, since the Mafia controls most of the airports. Guarrasi became the "counsel" to ENI again — just a few weeks after the ceremonial burial of the bones which had previously composed the substance and the aspirations of Enrico Mattei.

All attempts to unravel the true story of Mattei's death were unsuccessful: witnesses were abducted and blackmailed; those who touched on the truth were isolated.

Luciano, too true to his overseas friends, died a strange death — heart failure. Evidently he had tried too hard: Gienco Russo did not want to give up Sicily to anyone, even to the Texas friends. Mattei's murder was to his advantage; Luciano had done his job,now it was time to dump him. He had taught the lesson of political murder, which would come in handy in the future, thank you.

... It came in handy not just anywhere, but in Dallas.

(The Peking secret services, having made contact with the Mafia in the heroin trade, the CIA's "playful child," acquired in this way people who know how to *execute* what has been planned.)

The Baghdad Summit's strategic impact

Renaissance of the Fertile Crescent, development of the Arab world

While the Anglophile western press has expended much ink this week outlining the "splits" and "differences" among Arab nations during the preparatory discussions for the Arab heads of state summit beginning Nov. 2, astute observers have understood the major significance of political developments centering in Baghdad, Damascus, and other Arab capitals during the weeks since the signing of the Camp David "framework" accords in mid-September.

What is now transpiring in the Baghdad-centered motion is nothing less than a revolutionary transformation of the alignment of forces among the Arabs, with the following foci of international significance: the bringing to bear of the unified economic and military power of the Arab-Islamic East; the linking of the infrastructures and capabilities of the strategically central nations of Syria and Iraq as the centerpiece of a regional industrialization and agricultural development drive; and the decisive boxing in of attempts by the behind-the-scenes architects of the Camp David accords to force the Arab countries to submit to a policy presented as a dictate rather than as a negotiating position.

1. Iraq, Syria bury the hatchet

The most important in-depth transformation centering around the summit involves the unleashing of the economic potentials of the region. This possibility began to arise as soon as the Syrian and Iraqi governments dropped their long-standing bitter feud and began to seek a mutual reconciliation on the basis of mutual antipathy to the Camp David accords.

France's *Le Figaro*, on Oct. 27, captured the essence of what the reconciliation was about. In a front-page feature, *Figaro* reported:

> After a 10-year quarrel, three days of intensive summit meetings have provided the opportunity for Syrian President Hafez Assad and Iraqi President Hassan Bakr to seal a reconciliation pact. Officially termed "the charter for common national action," this pact is designed to serve as a countermeasure to the Camp David accords. The Iraqi news agency stated that the accord called for the constitution of a "Joint High Political Committee" composed of the representatives of the leadership of both countries to supervise the bilateral relations in the political, military, economic and cultural as well as in the area of media exchange. *This firm accord could evolve, according to certain sources, into a union between the two countries, the beginning of the reconstitution of the famous "fertile crescent" stretching from the Mediterranean to the Persian Gulf.* (emphasis added)

Elucidating this last concept, a leading Syrian ambassador told New York reporters on the same day that the Baghdad talks "could open a new era of economic (including oil) cooperation between Syria and Iraq." Not only could the pipeline between the two countries be reopened, but "joint ventures in oil could also be undertaken. . . . Iraq has surplus money and Syria lacks capital. That is a good start for joint ventures."

Among these joint ventures could be major projects in transport, communication, and agricultural development, especially since the feud between the two countries has held up progress on sharing the water resources of the Euphrates Dam. Such multi-billion-dollar possibilities were presaged in an announcement by the Iraqi government Oct. 29 that it is extending between 10 and 15 billion dollars worth of tenders for communication, airport expansion, and port reconstruction work to American, Japanese, and French industrial concerns.

The potentialities have been corroborated by ministry and banking officials in West Germany, who have seen the alliance with Iraq as a means of straightening out Syria's economic difficulties. According to one such source, "If this Syria-Iraq alliance takes hold, it could really raise the possibilities of a regional program for development to take root. We are preparing studies now analyzing that potential."

In concrete steps in that direction, the West Germans are now studying a Syrian request for the Federal Republic to provide full-cycle nuclear processing facilities to Syria, and have been conducting discussions with a visiting Saudi Arabian delegation towards providing the Saudis with nuclear plant facilities. The West Germans are also planning to build a railroad network from Damascus to Mecca.

West Germany's growing activity in this regard is exemplary of the increasingly bold extension of the European Monetary Fund into the Middle East. According to a First National Bank of Chicago source, this extension involves a decision by the Arab states to transform the Arab Monetary Fund into a "clearing house" regional central bank that can pool regional reserves to fund development programs — exactly the theory behind the parent EMF itself.

2. Boxing in Camp David

Pooling the resources of the Arab states will have a devastating effect on Camp David. Already on the eve of the actual heads of state summit itself, a Foreign Ministers' preparatory meeting issued a unanimous condemnation of the Camp David accords as an "unacceptable" framework for peace, and called for the shifting of Arab League headquarters out of Cairo until Camp David is superseded by an overall Arab-Israeli peace settlement.

The implications of the Baghdad developments for Camp David were grasped in an unusually competent and honest article in the Oct. 29 London *Observer*, the paper owned by Aspen Institute president Robert O. Anderson. In a piece entitled, "Arab Summit Will Fight Camp David," veteran Arab profiler Patrick Seale commented:

> The enemies of Camp David are mounting their counter-offensive. Their objection is not so much to the notion of peace in Israel as to the implication that they must bow to an Egyptian-Israeli *diktat*, backed by the full power of the United States. They are, in effect, rebelling against the imposition on the Arab world of a new American order, which, in their minds, is little different from the mandates and foreign control of the past.
>
> This challenge to American strategy could be effective. Since the surprise breakthrough at Camp David six weeks ago, the peacemakers have had the wind in their sails, but now the wind is turning, and, as it blows hotly from Baghdad, it may overturn a lot of well-laid plans.
>
> The summit has been preceded by the dramatic reconciliation of Iraq and Syria, whose rival Ba'athist regimes have been at loggerheads for a decade. Their common interest in resisting the new American order has reduced their differences to something like insignificance, and brought them together in a powerful negotiating bloc . . .
>
> The real significance of the Baghdad summit, as of the Syrian-Iraqi *rapprochement*, is that it is an attempt to force the Saudis and their oil-rich Gulf satellites to change camps. They are being asked to choose either to join the resistance to Camp David or to go along with it — at their peril. Already, the hardening Saudi line suggests they are bending to these pressures.
>
> Much as they want peace, and however reluctant they are to condemn Camp David out of hand, the Saudi royal family cannot afford to be seen as the American Trojan Horse in the region. . . .
>
> In contrast to Egypt, where the overwhelming mass of the population wants peace, opinion in Syria, Iraq and highly politicised Gulf States like Kuwait cannot tolerate peace on the Camp David terms. Such submission to a pact made by others does too much violence to the Arabs' sense of self-respect and to the great sacrifices they have made in the Palestinian cause over the last 30 years.
>
> The eastern Arabs have been asked to swallow proposals for the West Bank and Gaza which leave out their principal demand: a guarantee of the eventual return of these territories to Arab sovereignty.
>
> A wider issue is the very nature of Arab independence. Can the Arabs best realise their national objectives — such as forcing Israel back to its 1967 frontiers — under the American umbrella, as President Sadat would argue? Or can true Arab independence be secured only by striking a balance between the might of America and of Russia, as is argued by Syria and Iraq?
>
> For all President Carter's promises of support for the Arabs, repeated most recently by Assistant Secretary of State Harold Saunders on his tour of the area, Arab suspicion of American partiality for Israel remains a powerful emotion. . . .

3. Iraq's shift

A paramount aspect of the major changes occurring in the Arab world is the shift in direction by Iraq, from a country whose leadership has made Byzantine compromises with obvious in-place British and/or Israeli intelligence agents promoting regional destabilization, to a country reaffirming its strong national commitment to its own development and to the rapid progress of the Arab world as a whole.

In an interview with *Executive Intelligence Review*, a leading Arab diplomat outlined the Baghdad summit developments and the Syria-Iraq reconciliation with especial reference to the ways in which Iraq is changing.

Q. Do you think that the accord between Iraq and Syria is solid?

A. There is no question that a new era is underway in Arab relations. I think that the Soviet Union had a great deal to do with the reconciliation. But, equally, Saudi Arabia was pushing for this result. Now, with the Syrians and the Iraqis with a common point of view, it will create a situation in which the Saudis will be reinforced in their opposition to the Camp David accords. With Iraq and Syria divided, Egypt might have exerted a strong pull on Saudi Arabia.

Q. Has Iraq changed?

How the Arab Monetary Fund will work

An executive with Chicago First National Bank this week expressed full confidence that the Arab nations would soon put together a unified development fund to be centralized through the Arab Monetary Fund and the Arab League. Below are excerpts of his explanation of how the Arab Monetary Fund (AMF) will work and interface with the European Monetary Fund (EMF):

The Arabs want their own unified monetary fund to complement the European Monetary Fund. I think most of the Arab world is well aware of the European Monetary Fund and is watching it very closely. I am very aware of Prince Fahd's discussions with the leaders of France and Germany prior to the Bremen summit.

I think the idea behind the AMF is not a very new one. You shouldn't be concerned that at this time the AMF is capitalized at only $900 million. The important thing is that finally it is functioning and disbursing funds to Arab countries. It was never meant to be a large development fund as such. It was meant to be a centralizer for currency stabilization, balance of payments, etc.

The Arab world will use the already established Arab development funds for disbursing revenues for development and the AMF will act as a center for a unified development approach for all of the Arab world. Ultimately, I think the plan will require the establishment of a unified Arab currency, but for various political reasons that is a ways down the road. There are some elements within the Arab world which will have to be politically disciplined before the Saudis will allow the riyal to be brought into a unified currency. The new currency will streamline the distribution of development funds.

"Glitter of gold"

Following are quotes from an editorial which appeared in the October 18 issue of the Saudi daily Ukaz *entitled the "Glitter of gold."*

Whatever has been said and is being said about the gold base, the world has not yet found a true substitute for it. . . . New currency units are needed such as those agreed upon at the Bremen EEC summit, and such units must circulate within other international economic blocs so that the world can compare and choose on a fair economic basis instead of on the basis of the U.S. dollar alone, for which there is no substitute even if it is ill or on its deathbed. . . .

We find that going back to the gold base, despite the unrelenting war against it, is inevitable whenever the unstable systems which the world economy exchanges it for from time to time collapse. At the sign of any currency difficulties, the price of gold goes up and, to alleviate the confusion and ease the pressure on the dollar, the United States from time to time sells some of its gold reserves. But where will this road lead?

A. Very much. The Iraqis now accept the Syrian view that a settlement of the Middle East conflict might result from a UN framework. They no longer reject the Syrian approach to a peaceful settlement based on the upholding of Palestinian rights.

Q. And this must have repercussions on the Iraqi internal front?

A. There have been some changes. First of all, two weeks ago the Iraqis decided to cut off support to Abu Nidal (the terrorist ex-PLO official whom many Arabs believe to be an Israeli agent —ed.). In addition, Michel Aflaq has been put on the shelf, although this was a process lasting several months. (Aflaq is the leader of the right-wing faction of the Iraqi Baath Party, and has been the chief opponent of cooperation with Syria —ed.) And third, of course, Iraq has expelled Ayatollah Khomeini, the most bitter opponent of the Shah. So, all in all, Iraq has undergone a major shift.

Aside from ditching Messrs. Khomeini, Abu Nidal, and Aflaq, Iraq has been straightening out its international affiliations. According to the London *Financial Times* of Oct. 18, Iraq is beginning to substantially hurt Great Britain with a virtual embargo of contracts to British companies.

In an article entitled "Trade with Iraq: Semi-embargo is beginning to bite," reporter Patrick Cockburn commented that "U.K. exporters are now finding that the directives issued by the Iraqi government limiting trade with Britain are beginning to bite. . . . No British companies have been successful in bidding for major projects. . . . Were it not for bad political relations, Britain should be well placed to win contracts in the Iraqi market."

On the same day, France's *Le Figaro* reported a substantial improvement in Iraq's relations with France. Reporter Paul-Marie de la Gorce, in Iraq for a press conference at which the Iraqi Revolutionary Command Council announced efforts to improve bilateral French-Iraq relations, commented that Iraq was in the process of reassuming its leadership role in the Middle East, after months of isolation. Explicating this process, de la Gorce made the extraordinary revelation that it had been French-Iraqi contacts that in large part had been responsible for the 1975 Iraq-

Iran treaty which substantially cooled down tensions between the two countries and provided for a long-term stabilization of the potentially volatile Arabian-Persian Gulf area.

4. Stabilization of Lebanon, greater Palestinian unity

Informed Arab sources have insisted recently that the late-October Iraq-Syria reconciliation would soon extend to Jordan, the PLO, and Lebanon, creating an Arab East confederation that could transform into a powerful joint regional political-military bloc to contain thoughts of aggression from the extremist cliques in Israel.

The likelihood of such a joint command has grown from the Jordanian side. Jordan's Foreign Minister Hassan Ibrahim strongly praised Iraq's calls for unified Arab action Oct. 31 at the Foreign Ministers' preparatory meeting, while Jordanian reps the next day explicitly supported the idea of the formation of a joint military command, according to the Nov. 2 Baltimore *Sun*.

Most important for the "eastern front" area, however, has been the past week's stabilization of Lebanon and the signs of a redirection of PLO policy toward a more global, less doctrinally rigid approach.

Last week, in close coordination with the government of Syria, Lebanese President Elias Sarkis announced what the Oct. 26 *Jerusalem Post* described as "sweeping measures to confiscate unauthorized weapons, rebuild the army and punish anyone who collaborates with Israel."

According to the account in the *Jerusalem Post*:

> President Elias Sarkis asked the Syrian-dominated Arab deterrent force (ADF) to draw up a programme for disarming private armies and remove all military manifestations in this trouble-ridden country.
>
> He gave the ADF, the Lebanese army command and internal security commanders two weeks to arrange a coordinated programme for the implementation of the "security and political rectification" resolutions reached at an all-day Cabinet session. . . .

Sarkis's strategy was analyzed by respected French writer Pierre-Marie de la Gorce in a front-page feature in the Oct. 26 *Le Figaro*:

> The Lebanese government seeks to reestablish a Lebanese state and, by that, to guarantee the existence of the country: from which derives the regroupment of the Palestinian forces, the departure of those who have arrived in Beirut during the past few days, and the predicted dismantling of all the armed groups of the various parties. But the government desires, at the same time, to disarm the Maronite militias of Camille Chamoun and Pierre Gemayel — that is to say, to neutralize the latent threat that these could bring to bear on the Syrians in the event of a new Israeli-Arab conflict. . . .
>
> The greatest opportunity for the Lebanese government is without doubt the fractioning of the Christian communities, a significant part of which stayed on the sidelines during the recent crisis — an example of which can be seen in West Beirut where life is almost normal and where tens of thousands of Christian militiamen, many coming from Achrafiyeh (in East Beirut), live not without apprehension but without too many incidents, in the midst of a Muslim majority.
>
> It is this climate that the government would like to see established in the zones controlled up to the present by the militias: Beirut-East, Junieh, and a part of the Lebanese mountain, the enclaves of the extreme South. For fundamentally the goal is clear: it is a question of isolating and dismantling these militias so that Lebanon would no longer be accused of breaking with Arab solidarity and give no pretext to interventions at the hands of the Syrians. . . .

The Palestine Liberation Organization and their allies are cooperating fully with the disarming of the militia. Even the *Jerusalem Post* had to admit that "observers noted the leftists' positive response to the ADF pacification action, but questioned the peacekeepers' ability to exercise similar influence on Christian militias."

The Vatican has emerged as one of the prime forces behind the restoration of peace in Lebanon. On Oct. 26, Pope John Paul II met with the Lebanese Maronite Patriarch, and held an "unusually long" meeting with French President Giscard d'Estaing to discuss the Lebanon crisis. Recently, the Pope announced that he will soon make a trip to Lebanon to work toward a solution to the situation there.

Lebanese Christian and progressive Raymond Edde, who earlier had endorsed French Foreign Minister Guiringaud's attack on the Lebanese Falange for cooperating with Israel, endorsed the Vatican-French efforts by saying, "I share with the Great Powers and the Holy See the recognition that Lebanon cannot be partitioned."

The international mobilization for peace in Lebanon, combined with the acceptance by the PLO and the left of the measures to stabilize Lebanon, has isolated the Falange, leading to fragmentation in and defections from the rightist camp.

As for the PLO, Palestinian leader Arafat is unifying the ranks in the interest of restoring peace to war-torn Lebanon and of countering Camp David. At the Oct. 27 Palestine Central Council meeting in Damascus, a joint proposal drawn up "excluded some of the more extremist points" of previous proposals, according to the *Christian Science Monitor*.

—Mark Burdman

Brandt holds forth at the UN

Who's left to defend the World Bank-IMF?

Six weeks ago, United Nations Secretary General Kurt Waldheim opened his annual pre-General Assembly press conference with the declaration that the New International Economic Order, together with disarmament, was the most important item on the agenda of the 131 nations of the world organization. And it is now four years since the Special Session of the UN that created the concept of the NIEO, and the frustration of governments representing two-thirds of mankind is rising.

However, the UN has for the moment been pushed into the background in global economic and development negotiations, as Third World and European governments have turned their attention to the discussions centering on the European Monetary System as the basis for new development options. The EMS's sponsors are keeping it out of the UN in order to avoid a U.S. veto — rightly fearing that the U.S. will oppose any course of action that impinges on the International Monetary Fund.

One force, however, is apparently attempting to fill this temporary UN vacuum: besotted former Chancellor Willy Brandt, who heads the so-called "Brandt Commission," formally the Independent Commission on International Development Issues. The Commission was established outside the UN in December 1977, as a "middle force" which purports to represent both the Third World and the advanced sector in advocating labor-intensive primitive ("appropriate") technologies, and solar power.

Brandt has deployed into the UN environs twice in the last two months — in September, when the IMF's Julien Grenfell sponsored a Brandt press conference at the UN at which it was revealed that Henry Kissinger had become the leading policymaking force on the Commission and Oct. 26, when Brandt returned, ostensibly to publish his English language *Memoirs*. Although the West German government kept him at arm's length (both the German Mission to the UN and the Consulate denied any knowledge of his purpose or whereabouts), this reporter and 24 others were in attendance when the double door of the Marymount College dean's office — obtained for the occasion by the New York UN Association — opened, and the heavily jowled, flush-faced Brandt groped his way into a dimly lit anteroom, sat heavily on a couch, and held forth.

Adopting a well-lubricated, philosophizing tone, Brandt affirmed that he was indeed a supporter of "appropriate" ("applied") technologies and solar power, claimed that former Mexican President Luis Echeverria — a founder of the NIEO concept — had come around to Brandt's views, and revealed that the Commission was going to divide the developing sector into three parts to implement "applied" technologies.

He also threatened — implicitly referring to the strong dissension within his Commission from former Indonesian Prime Minister Adam Malik — that no matter what other Commission members said, he, Brandt, would determine the final outcome.

"The situation one sees in the Third World is very similar to the situation in Europe after World War II," he began, "and what is needed is something like the methods that were used after World War II... Even if the methods in the case of the developing countries are not the same, the spirit is the same....

"If I made a catalogue today, it is the problems of commodities, raw materials, and a problem of how to stabilize earnings from commodities and to get as much stability as possible for these countries that use raw materials.... We do not accept some of the catalogues presented in New York which give the impression that only the developed countries have something to do. We expect of the developing countries that they too do something inside their country."

Question: Mr. Brandt, you have stressed the question of commodities. There is one commodity, involving about $75 billion a year, which is harmful to developing nations' foreign exchange balances, to their agriculture and society. That is drugs. What will your Commission do to help the nations abolish this traffic and turn the revenues into development assistance?

Brandt: By now we haven't done anything. We are in the middle of a brainstorming process and I cannot guarantee we will say much on this subject. The Pearson Report only mentioned this as a future problem.

But I think my report will say more about some things than others... for example population. I do not think it is useful in politics to express oneself on every issue. I am not sure if we will go into the drug problem. We will go into the future imbalances around the arms question.

Question: Is your commission going to recommend that Third World countries use labor intensive, appropriate technologies instead of industrial programs, or are you going to recommend having the Third World use long-term low interest industrial loans that the European Monetary System will make available?

Brandt: I could tell you something about this in summary. You will remember when Echeverria was still President of Mexico and he made his contributions to the New International Economic Order in New York. Since then he is in Paris as the Mexican Ambassador to UNESCO where I discussed with him and found that he is now very close to the idea of what you call applied technologies. We must not only speak of economics, but of the historical, cultural and social conditions.

But we must not give the impression that they will be given applied technology instead of industrialized technology. They would not like that.

I went to Mali in May because we wanted to have a meeting in one of the poorest countries. Now I had studied solar energy for the Sahara, the solar things are small things, one meter square, but a peasant in Mali can use it to pump water from the River Niger for seven hours a day. He had no pump before. I also went to a small hospital where they could not operate at night before because they had no lights. They linked seven of these single elements, and now they can perform operations at night.

I am always interested in these things. Presently they are expensive, but once they are produced in France or the BRD they will be cheaper than importing oil by truck.

Question: What are the parties of the North-South dialogue?

Brandt: There are more parties in the North-South dialogue than just the North-South. We also have the West in the North and then I am also thinking about the process of differentiation going on in the Third World. If we raise this, then some of them think we are trying to divide them. And as it was, it was hard enough to get them into a group of 77. . . .

I do not know if I should bring this up; in politics one is always misunderstood. There are actually four kinds of developing countries. Take Brazil, which is surely a developing country close to industrialization. It will not take long before Brazil is a developed country.

By the way, our next Commission meeting is in Malaysia, and the South East Asian countries are very differentiated. They have some of the middle income countries like I have just mentioned, and some of the poorest.

I have learned that the United Nations and the World Bank figures don't really tell us the truth. We really have two poverty belts. One starts in Mauritania and covers East Africa, and the larger one is the one along the Himalayas and down into the islands in the Pacific Ocean. It is not India as such, not Pakistan as such, but these belts. If you realize this you can design programs to correct the problems.

... There is a recent study by Scandinavian and Austrian doctors that show that the result of these poverty belts is that generations of people in them are physically weakened, with all the disease and problems this creates. I compare this to the situation after the end of the Thirty Years War. Then it took some people generations to bypass poverty, degeneration, physical degenerations.

Of course there are disagreements, even within the Commission, but I can say that if everyone puts his ideas in the report (due next summer) that it will come out saying nothing. So I will be responsible for what has to be said and we will work on the ideas that are useful....

A postscript: The next morning Brandt gave a private audience sponsored by the German Information Center. Developing nations reporters refused to attend despite phone calls from the Center to Third World and black American reporters imploring their presence. Explained one respected journalist: "They called this morning begging me to go, but I know that is the Club."

—Leif Johnson
United Nations

Can U.S. relations with Mexico get worse?

In light of President Carter's commitment to a "European-style" campaign to bolster the dollar, it remains to be seen whether the Administration will go further and join the "Grand Design" policy for economic expansion in the advanced sector and the rapid industrial development of the Third World which is at the center of West German, French and Japanese global policy. Perhaps the best indicator of this in the weeks and months ahead will be U.S. relations with Mexico — the leading Third World participant in the Grand Design — which over the past two years have suffered from gross mismanagement at the hands of National Security council director Zbigniew Brzezinski and Energy Department head James Schlesinger.

In fact, during the past week U.S.-Mexican relations sank to their lowest ebb in 50 years following the announcement by the Immigration and Naturalization Service of a plan to build special "impenetrable" fences along several key sections of the U.S.-Mexico border to stem the illegal immigration of Mexican workers into the United States. (The fence is modeled on those used in Vietnam, and is to be constructed of twelve feet of steel mesh with an underground cement base and a "razor-sharp steel grating," which according to its builder "could rip a bare foot to shreds.") While INS and State Department officials tried to play down the significance of the fence, observers including the *Washington Post* concurred that it was just the first step toward sealing the entire U.S.-Mexico border.

The sharp deterioration in relations provoked by the scheme was signaled in the unusually harsh terms used by Mexican President Jose Lopez Portillo in responding to the fence-building plan. Referring repeatedly to the fence as "a discourtesy," Lopez Portillo denounced it as a "unilateral action. . . it is a discourteous and inconsiderate action." He concluded by stating that "I hope this discourtesy is not carried out, and if it is implemented, then it should be explained to us so that we in our own house can make our own decisions."

Observers here and in Mexico generally agree that the border-sealing plan is another in a series of "pressures" by the Brzezinski crew to secure strategic control over Mexico's vast oil resources. As outlined in last week's *Executive Intelligence Review*, the NSC is supervising the preparation of a Presidential Review Memorandum on relations with Mexico which will focus on how to prevent, in the words of Brzezinski, the development of "another Japan south of the border." As outlined in the various think-tank reports which are feeding into the PRM, the border issue will be a key weapon to back up this policy.

However, as Lopez Portillo's statements made clear, Mexico has no intention of bending to this type of blackmail pressure. Because of this, the "soft-liners" around Senator Edward Kennedy involved in relations with Mexico have also stepped in. On the day after President Lopez Portillo's statements, U.S. Ambassador to Mexico Patrick Lucey announced that the U.S. would postpone construction of the fence "to have time to analyze the matter."

The emergence of Lucey as the "liberal, friend of Mexico" follows the same approach taken fifty years ago by Ambassador Dwight Morrow who was sent to Mexico by British Morgan banking interests to subvert Mexico's national development efforts after the more violent attacks — including the threat of armed intervention — failed to reverse the progress brought about by the Mexican Revolution.

However, the so-called "soft-liners" this week made clear that while they prefer other means they have no major differences with Brzezinski's ends. This was reflected in an editorial in the *Washington Post* on Oct. 31 which rejected the "unnecessarily brutal" aspects of the new fences but fully agreed with the need to tighten the border.

Ironically, in the same week that U.S.-Mexico relations suffered a sharp downturn, President Lopez Portillo was signing major economic cooperation agreements with Japan based on the exchange of oil for capital goods and advanced technology — precisely the type of development relationship the U.S. has turned down in the past. In a statement which should be read carefully by foreign-policy makers in the U.S. at this conjuncture, Lopez Portillo stressed the need for approaching economic development from a global standpoint: "We must definitively abandon formulas of collective self-destruction and take on economic problems from a genuine global perspective. . . those countries such as Mexico which have energy must commercialize it from a universal and humanistic standpoint, but those which have technology must act in the same manner. Otherwise there will be no exchange."

Soviets offer $10 billion in deals— why won't the U.S. say yes?

"Certain negative aspects," reported *Pravda*, had to be stressed by Soviet President Brezhnev in his talks with U.S. Secretary of State Cyrus Vance on Soviet-American relations in Moscow last month. But Brezhnev was not just talking about the SALT negotiations or "human rights" issues.

Stories filed by Heinz Lathe, the usually well-informed Moscow correspondent for the *Handelsblatt* and other West German dailies, indicate that Brezhnev and Foreign Minister Anatolii Gromyko applied a sort of "linkage" — the preferred term of Zbigniew Brzezinski — in reverse. In his own contribution to the talks, reported Lathe, Brezhnev insisted that the U.S. must clarify other aspects of its foreign policy, if SALT is to succeed. In particular, Brezhnev wanted action on the restrictions imposed on U.S. trade with his country.

Drop the restrictions, and $10 billion in industrial contracts is ready for bidding by U.S. firms, according to Lathe's account of what Brezhnev had to say.

This volume of business corroborates the scale of possible sales to the Soviets, which is similarly indicated by the "28 major projects" that Soviet foreign trade officials reportedly discussed with Armco Steel Chairman C. William Verity during his recent visit to the USSR. It is *five times* the previous figure of $2 billion quoted by Foreign Trade Minister Patolichev and his deputy V. Sushkov as the amount of business immediately ready to go to the Americans.

A large delegation of U.S. businessmen is due in Moscow in December, for the meeting of the U.S.-USSR Trade and Economic Council. The delegation goes with two strikes against it, however: the existing mass of restrictions that still tie the hands of would-be negotiators of large-scale East-West trade, and the position of Treasury Secretary W. Michael Blumenthal as *ex officio* U.S. chairman of the Council and head of the delegation.

The Soviets are broadcasting loud and clear that they want Soviet-American trade to pivot on industrial growth, not just grain sales. Dzhermen Gvishiani, Deputy Chairman of the State Committee for Science and Technology, held a press conference in late October to tell American correspondents that it was a great mistake — "ridiculous" in his words — to suppose the new U.S. review procedures for high-technology exports would put political pressure on the Kremlin. It is the height of naiveté, said Gvishiani, to underestimate Soviet science. "We have the ability to solve any scientific and technological problem that exists today," he stated, and added that the USSR would prefer to sell high-technology products to the U.S. as well as buy them.

Mikhail Troyanov, director of the Soviet Institute for Physics and Energy Technology, also took the opportunity to discuss with Americans the paramount importance of high-technology industrial expansion when he toured the U.S. in October as a guest of the Atomic Industrial Forum. Troyanov reportedly spoke out for the advantages of building fast-breeder nuclear power plants — something that currently the USSR is doing and America is not.

— Rachel Berthoff

The war against East-West trade

The Carter Administration's performance to date on industrial-technological trade has cost the United States something in the hundreds of billions of dollars.

In the nuclear field alone, perhaps the most notorious case, the conservative estimates are that the U.S. could be exporting 85 reactors in the next few years and could have contracts underway for the same, if it were not for the Administration's nuclear export prohibitions. Since a nuclear plant costs approximately $1.5 to $2 billion, and by Department of Commerce estimates every $1 billion in U.S. exports supports 55,000 U.S. jobs, the decision to prohibit and-or discourage the export of 85 plants means the loss of between 8 and 9 million skilled and engineering jobs.

That's just the nuclear field. There is no way to accurately estimate the cost in terms of total exports, capital formation, and jobs that are being lost daily because of the restrictions, delays in licensing, and cancellations imposed on East-West trade particularly, on the pretext of "national security" considerations.

Just one lost sale, like, for example, the cancellation of the Sperry UNIVAC computer sale to the Soviet news agency Tass last August, can mean the loss of all future sales of that technology to a particular country. In tracking new exporters, the Commerce Department found that within one or two years, *half* of all U.S. exporters had stopped exporting largely because of the costly paperwork involved in government regulations, delays, and so on. One company charged that they had to lay out $10,000 for legal contracts and bureaucratic paperwork in order to carry through a foreign contract worth only $40,000!

C. William Verity, Jr., Chairman of the Board at Armco, Inc., recently reported to Senator Stevenson's subcommittee on International Trade that the loss of only one of his company's contracts with the Soviet Union, involving gas-lift equipment for two fields, due to delays in export licensing, meant not only the loss of a $500 million contract but $15 million in new capital formation for Armco, 10,000 U.S. jobs, and a $500 million contribution toward a favorable U.S. balance of trade.

Verity also reported that there are a total of 28 similar projects now being discussed by the Soviets with American firms — all within the same dollar range as the lost Armco project — and that all of them have been put on the back burner because of threatened licensing delays or disapproval. The Soviets finally awarded the Armco gas-lift equipment project to two French concerns instead, and these 28 other projects may go the same route. And this is just a sampling of what Henry Kissinger, Zbigniew Brzezinski, and James Schlesinger's trade war policy against the Soviets looks like from the standpoint of U.S. industry and employment.

1. The politics of the trade fight

Six months of plotting and maneuvering by Brzezinski, Schlesinger, and Co., backed by cofactioneers in the Defense Department, has given

Figure 1

U.S. Machine Tool Exports

Percent of world tool consumption

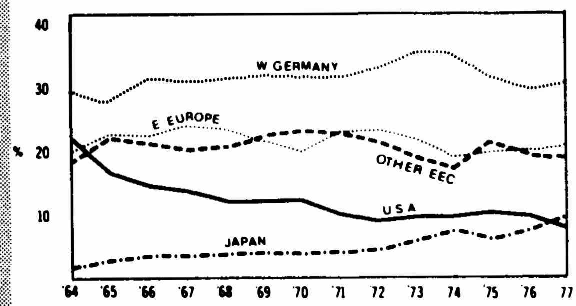
*Excludes U.S. consumption of domestically produced machine tools.

Source: American Machinist, Department of Commerce and NMTBA

Figure 2

Machine Tool Exports

Percent of Total World Exports

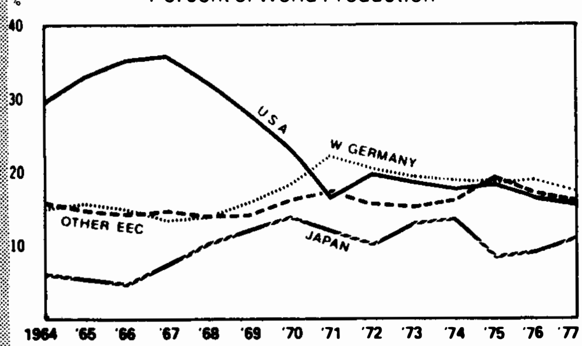


Source: American Machinist, Department of Commerce, NMTBA

Figure 3

Machine Tool Production

Percent of World Production



Source: Department of Commerce

this faction virtually dictatorial powers over U.S. exports. The Department of Commerce is still valiantly fighting for a genuine export-promotion policy (although within "given limitations"), but the day-to-day decisions on technology transfers and export licensing are now being determined by the National Security Council, the Department of Energy, and the Department of Defense. The NSC was granted inclusion in the technology review process by the Executive last July; since then, the NSC has also been pushing for total centralization of export determination within the Council. Previously, decisions on export licensing were made by the Commerce Department and-or a joint committee of Commerce, State, and Defense. Some decisions were passed up to the President for final determination. Now, nearly all technology exports are "questioned" and "reviewed" by the NSC in particular, resulting either in long delays or suspensions-cancellations by the President, as "recommended" by Brzezinski and Schlesinger.

The delays themselves are illegal. Under the provisions of the Export Administration Act, industry exporters are to be notified of the approval or disapproval of their export license application within a minimum of 90 days. It is now the norm that companies must wait as long as 18 months to two years for such notification. Said one oil company executive, "If anyone insisted on an answer within 90 days, it would undoubtedly result in a denial of the license."

Next, the NSC and DOE have been putting heavy pressure on President Carter to place more export items on the strategic control list (that is, the list of those items subject to review because of their potential risk to U.S. national security). In July, oil production technologies were put on the list on the argument that increased oil or gas production could aid another country to become "militarily self-sufficient in energy supplies." It is openly said that the object of this control is to prevent the Soviet Union from accessing its oil.

But as most exporters have accurately perceived, this is not motivated by military considerations alone. The point is to prevent the Soviets from selling their oil abroad, a source of their balance of payments with the West — and hence a source for expanding East-West trade. In other words, it is aimed not just at the Soviets but at their trading partners in the West, and at the basis of East-West detente.

The sickest joke in this routine is that America's "industrial and technological superiority" is supposed to give the U.S. leverage against the USSR. Even the Commerce Department has now rebutted this non-sense, saying, "The reality is that there are very few instances where the U.S. has either a monopoly or significant edge over competition in the international marketplace." The Soviets can, and are, obtaining their "keystone" technologies elsewhere.

2. A Chinese plot?

"Every time the Administration picks up that trade gun to shoot at 'them,' how come they always shoot one of 'us' instead? I can't fathom it, maybe it's some kind of Chinese plot," an international representative from McDonnell Douglas commented recently.

U.S. exporters thought it highly illuminating that at the same time the Administration was going after oil technology exports to the USSR, it was licensing the same sort of exports for the People's Republic of China. It is equally obvious to U.S. industrialists that no amount of pushing trade with China could make up for lost Soviet or East bloc deals and, further, that China is presently incapable of absorbing significant quantities of advanced U.S. technologies — the very technologies that have kept the U.S. in the trade market.

There are, in fact, several aspects to the "Chinese plot": the attempt to forge a London-Washington-Peking axis against the Soviet bloc and against detente, and the related effort to reduce America's economic power to a level where the U.S. becomes the subservient junior partner of decrepit Britain.

How else can Brzezinski and Schlesinger's "reasoning" on trade be explained? The U.S. trade deficit in 1977 was $31 billion. The Administration offers a single solution for balancing the deficit: cut back oil and other imports. Why not expand exports? Because that would mean accepting Soviet projects, and using different means than London's austerity-bent International Monetary Fund and World Bank (a new credit institution, such as the European Monetary System) to bring U.S. technologies to the less developed countries; it would mean getting rid of most of the present restrictions.

Cutting imports automatically means cutting out jobs in the U.S. because, in addition to oil, one quarter of all U.S. industrial output is dependent upon imports (for example, 12 out of the critical 15 raw materials are imported).

Nor is it difficult to detect what might be labeled as a "Maoist" influence inside the Administration, a "New Left" contempt for American industry. For example, the President's Export Council is supposed to be the main outside industrially oriented advisory group to the President on trade policy. Its members appointed under the Ford Administration consist of representatives from Control Data, Dresser Industries, Motorola, and Hewlett-Packard. When Carter came into office he added two new appointees: one a mobile home builder from New Hampshire, the other a nursing home operator from Indianapolis! Carter, it is reported, has not called on the Council for advice in over two years. Apparently, he believes Brzezinski and Schlesinger have more expertise in trade matters.

Trade policy: the Administration versus industry

Henry Kissinger, unofficial director of U.S. foreign policy: "The extension of Soviet spheres is a process which must be stopped. But it is helped by free East-West trade. Just as we cannot ask industrialists to make foreign policy, so the Western governments must establish an East-West code in order to stop the escalation which serves Soviet expansion." (Speech before the International Iron and Steel Institute in Colorado Springs, reported Oct. 5 in the French paper *Les Echos*).

National Security Council 1978 report on trade: "Broadly defined....trade is what most of international relations is all about. *For that reason, trade is national security policy.*" (Emphasis in original).

Secretary of Defense Harold Brown: "Defense's primary objective in the control of exports of U.S. technology is to protect the United States' lead time relative to its potential adversaries in the application of technology to military capabilities."

Industry responds:

- **Robert Malott, FMC Chief Executive**: "This country's worsening export posture has been obscured by the Administration's fixation with the so-called 'oil-caused trade deficit.' *The fact is oil is not the primary culprit*....more than half of last year's unprecedented deficit increase can be attributed directly to the decline in U.S. manufacturing and agricultural trade."
- **The National Machine Tool Builders' Association**: "The national security of our nation is not enhanced if the subject equipment is freely supplied by a foreign nation. Rather, the national security of this nation is improved if our machine tool factories are kept operating at a high rate of production, thus enabling them to better meet fixed expenses as well as to keep a trained workforce together."
- **The Computer and Business Equipment Manufacturers**: "The use of controls on foreign commercial trade to achieve foreign policy and military security objectives is ill-conceived and fundamentally injurious to our economic vitality, and a danger to national security."
- **James Thwait, President of International Operations, 3M Corp.**: "There's nothing wrong with importing $45 billion of oil, we could have the exports to pay for it."
- **A Sperry-Rand executive**: "A sale once lost can mean a whole market loss for twenty years or more — the U.S. government is our own worst enemy."
- **Machinery and Allied Products Institute**: "There are very few products or technologies where U.S. restrictions can effectively deny an economic capability to a foreign country. There are very few items which foreigners 'must' purchase from the U.S."
- **Frederick Huszagh, Executive Director, Dean Rusk Center at University of Georgia**: "A number of studies have established that research and development is directly correlated to export performance ... the American industries having the highest levels of R and D expenditures are the industries subject to the most burdensome controls and policies of delay and uncertainty.... This leads to a reduction in domestic R and D and a reduction of our technological lead.... Ultimately, this vicious cycle can affect not only our economic vitality, but also our military strength."

Shoddy treatment of industrialists has become standard practice. One industry executive related the following experience: "After months of phone calls and letters trying for an appointment, I walk into the office of this Assistant Secretary . . . with down-at-the-heels loafers propped up on his desk and wearing an open-necked blue-collar work shirt. His greeting is 'Well, what's your bitch?' I give him a short course on why an embargo on exports would cripple, if not destroy, our industry and all he says is, 'You mean you don't support the President's policy. You industry guys are all alike. You're looking for the bucks; not the moral obligation'."

3. The declining position of the U.S.

Even though exports accounted for only 6.3 percent of the U.S. Gross National Product last year, exports account for 40 percent of the market for construction machinery producers, 30 percent for aerospace, and 33 percent for computer manufactures. The U.S. trade deficit is wholly a result of the negative growth in high-technology exports, according to trade association estimates. And as was noted before, the multitude of restrictions on trade are mainly hitting the high-technology industries — nuclear, computers, computerized machine tools — exactly those industries where the U.S. had a technological lead. The government, said a Sperry Rand spokesman, "is creating our own competition. *That's* the result of their policy."

The U.S. share in world exports has declined from 18.8 percent in 1960 to 15.4 percent in 1976, and continues to plunge. The relationship between exports (which provide investment capital) and U.S. industrial growth is shown clearly enough by the decline in machine tool exports and the decline in U.S. machine tool output (Figures 1 and 2). Then add in other factors. For example, U.S. growth in manufacturing productivity is the least of all industrialized nations over the last 25 years. For example, the U.S. is no longer viewed as a "reliable supplier" because of obstacles to contracts even after they've been signed. No wonder London is able to undermine international confidence in the strength of the U.S. economy, and thus of the dollar.

Compare U.S. trade with the East bloc with that of West Germany or France. West German exports to the East are growing at 11.6 percent yearly, and the total volume of German trade with the East is now more than double 1973 volume. Prior to the Bremen meeting of European economic ministers in July, West Germany signed a $20 billion trade and economic development package with the Soviets. *All* of Germany's trade exports to the Soviet Union are classified as "high technology," thus giving a tremendous spur to West Germany's industrial growth. And while the USSR ranks tenth among France's clients, it is one of the biggest buyers of *capital-intensive* French goods.

U.S. trade with the Soviet Union, in contrast, fell from $2.3 billion in 1976 to $1.5 billion in 1977. The January-July 1978 figures do, however, show an increase up to $1.68 billion. But this jump is due entirely to agricultural, not technological, exports, with $1.37 billion representing agricultural products. And this is the "great leap forward" bragged about by the Administration! Nonagricultural exports to the Soviet Union have, in fact, dropped nearly 20 percent in the same period, according to statistics printed in the Oct. 16 *Journal of Commerce*. Comparative sales in 1977 to the Soviet Union of *nonagricultural* goods break down as follows:

West Germany:	$2.5 billion
Japan:	2.0 billion
France:	1.5 billion
Italy:	1.0 billion
U.S.:	less than 600 million

U.S. Export-Import Bank credits are critical for aiding high-technology exporters. But Eximbank credits are not allowed for the Soviet Union because of the Jackson-Vanik amendment to the 1974 Trade Act. so even trade that could be licensed is being lost.

U.S. trade with Communist countries

(In millions of U.S. dollars)

	U.S. Exports	
1970	234.9	118.7
1971	222.2	162.0
1972	276.9	542.2
1973	606.5	1,194.7
1974	823.4	609.2
1975	951.0	1,836.9
1976	1,189.8	2,306.0
1977*	791.4	1,534.8

*January to October at annual rate

Source: U.S. Department of Commerce; "overseas Business Reports."

Comparative figures showing credits extended to the Soviet Union for trade as of Jan. 1, 1978 are:

France:	$3.4 billion
West Germany:	3.3 billion
Japan:	3.2 billion
Italy:	2.6 billion
UK:	1.8 billion
U.S.:	500 million — all *prior* to Jackson-Vanik

4. Trade barriers in effect or pending

A listing of the more prominent trade "disincentives" helps give a more accurate sense of the compounded effect of all of them together, or what Frederick Huszagh calls the "black box" operation which is simply squeezing American industry out of international trade. This list is in no way all-inclusive, for as one trade association representative remarked, "*Seventy* different federal agencies have now been given free rein to poke their noses in and make their stupid recommendations on U.S. exports. This is what we're up against." This, of course, is in addition to NSC or DOE intervention.

International Traffic in Arms Control (ITAR) regulations.

Strategic Trade Control. The object is to restrict the flow of trade to the "Communist world" of equipment and technology that could have military significance. The stated criteria for deriving a "crucial" or "turnkey" technology are: (1) if it gives advantage or *marginal* gain to the recipient country's military capability; (2) time advantage; (3) technological "leap-frogging"; (4) manpower training-education; (5) military self-sufficiency in fuel supplies.

Item 1091 A of the Commodity Control List. This "loophole" is increasingly being used by Brzezinski et al. to stop trade. It requires licensing for equipment that "could be equipped with . . . some other embargoed item" and make it of strategic value. For example, a computer can be hooked up to something other than intended by the contractor, trucks can be used to haul tanks, and so on.

Illegal delays (for reviews and re-review). The required deadline under the Export Administration Act is 90 days for licensing. Eighteen months to two years is now becoming the norm.

New technologies disincentives. Patent-processing is gruesome, but this is even worse. All new inventions put up for export are scrutinized so carefully as to their possible strategic significance, one exporter said, that he was told by a government agency "Don't even waste your time applying."

Trade Act of 1974. The act includes the Jackson-Vanik amendment, which bars Most Favored Nation status and, therefore, Eximbank credits, to the Soviet Union and other "Communist countries."

NEPA Enforcement (pending). The Council on Environmental Quality and the Natural Resources Defense Committee are in litigation to require the Eximbank and other federal agencies to apply environmental protection requirements to technology transfers.

Church amendments to the Trade Act of 1974. Restrict nuclear exports.

Nonproliferation legislation.

"Human rights" decisions. This is the primary property of the Human Rights Bureau of the State Department, headed by Pat Derian and former Kennedy aide Mark Schneider. It has already seriously interfered with trade with Libya, Rhodesia, South Africa, Argentina, Chile, Uraguay, Iraq, Algeria, South Yemen.

U.S. trade embargoes. These effect Cuba, Vietnam, Rhodesia, South Africa, and other countries.

Foreign Corrupt Practices Act of 1977. This act mandates investigations, jail terms, and fines for overseas "payoffs." Industry calls this the "self-righteous clause" because other countries ignore payoffs, understanding that such "commissions" are sometimes required by the countries sold to, and are not the fault of the exporter.

Anti-trust laws. These laws prevent U.S. companies from bidding jointly on projects.

DISC. Pending proposals to end U.S. tax breaks on multinational operations abroad.

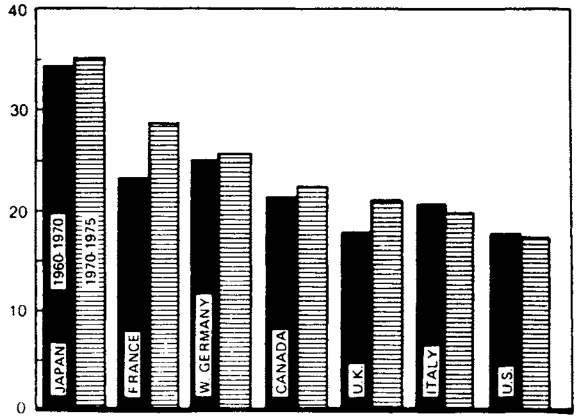
Exim rechartering on the rocks. Rechartering of the Eximbank did not go through the past session of Congress, and the bank has been extended on its present charter until June. Absurd amendments, such as Senator Hollings's to exclude U.S. textiles from GATT regulations, have wrecked the bill. Other amendments have watered down the financing. The bill will have to be reintroduced in the spring and go through the whole hurdle again.

Export Administration Act amendments. No details are available yet, but the Act comes up for extension next session and Senators Jackson and Percy have held an inquiry and hearings in their Permanent Investigations subcommittee on the Dresser approval with the intention of adding amendments to the Act which will "tighten up" the trade restrictions.

Congressional legislation, such as the House "Technology Transfer Ban" bill. This would give Congress the authority to veto, within 90 days, any license application.

International Investment Patterns

Fixed capital formation as a percent of GNP



Scurce Department of Commerce

The comparatively low percentage of the total domestic product (GDP) which is invested in fixed capital in the United States is one reason for its slower industrial growth. The additional fact that a smaller percentage of this investment is made in industry is another reason for concern for the industrial leadership of the United States.

5. The total effect

A complete survey of the total effect of all trade restrictions on U.S. industry would be impossible. Even individual industries are unable to give accurate estimates of their own trade losses, much less make projections for the entire industry or for all exports — mainly because of the spinoff effect of, for example, losing even one contract to an important customer. The only government agency that is equipped to manage such a review, the Commerce Department, is by law prohibited from investigating "particular" (i.e., nameable) industries and publishing its results, because to do so would be to represent "special interests."

Here, however, is a survey of some results of using "trade as a weapon" (against American producers!).

•Armco Chairman William Verity reports the loss of a Soviet project for gas lifting, with total scope of the project at $1 billion ($250 million per field for two fields initially). Verbal agreement had been reached, but the Soviets were forced to conclude a contract with two French firms instead because of U.S. licensing delays.

•Another Armco deal with the Soviets to produce cold-rolled dynamo steel valued at $350 million was lost (except for 10 percent which Armco retained in the project) because of lack of Eximbank credits. Japanese and French firms were able to offer such credit.

•Verity also projects that expansion of U.S. exports to the Soviet Union up to the $20 billion mark during the next five years would be quite feasible, if it were not for the restrictions.

•The government of Iran offered nuclear contracts for over $36 billion to built over the next 10 years. The U.S. government demanded that Iran agree to the nonproliferation guidelines, Iran refused, and the U.S. lost the contracts.

•Cancellation of the sale of Sperry 1100 UNIVAC computer to the Soviet news agency Tass lost a deal valued at $100 million. According to Sperry, the computer business has a very large overhead just for completing government paperwork. Because of delays, contracts have been taking almost twice as long to wind up as a few years ago. There have been other less publicized cancellations such as that of the sale of Control Data's Cyber 76 to the Soviet Union two years ago.

•Nuclear restrictions have virtually put the nuclear business out of the export field and may put them out of the nuclear business as well. At least 14 projects were lost in 1977 because of "uncertainties and delays" over the contracts. This does not include the Iranian offer. Westinghouse has predicted that the industry could get contracts for at least 85 reactors in the next two years, with each reactor valued at $1.5 to 2 billion.

•Electronics Industries Association cites as an example the Australian government demand to a U.S. exporter that the firm, as part of its bid, guarantee that a license would be forthcoming. The company obviously couldn't meet such a demand, and so lost the contract.

•Deals to Libya have been suspended involving at least $900 million and several U.S. companies: Boeing, Lockheed, and Oshkosh Truck Corp. The truck deal was curtailed because the trucks "could be used to haul Soviet-built tanks across the desert." Aircraft sales were suspended because they might be used for troop transport.

•A United Technologies (UTC) trade statistician threw out the "ballpark figure" of $6 billion as the effect on his company of the Libya decision (UTC makes engines for Boeings) and the "human rights" clampdown against Argentina (UTC makes Sikorsky helicopters, which have been stopped). He said that they have also been severely affected by what he perceived as a "clear shift" from a former strictly defined military strategic criterion to the inclusion into that category of what used to be classified as nonmilitary. This shift could be costing the aerospace industries upwards of $10 billion this past year, he estimated, and future losses to the industry would climb rapidly if the present policy continued. Keep in mind that the realization of an aerospace contract takes at least five years, and perceived future obstacles to this completion quickly lose contracts.

•Sperry Rand officials would give no figures, but noted that additional losses result from the collapse of the dollar overseas. Many companies are cutting back on international growth because they have depended on local foreign markets to refund their debt. That debt is now too burdensome.

•DuPont is restricted from selling certain kinds of x-ray equipment to hospitals in South Africa because the equipment might be used on troops!

•Loss of trade to South Africa is estimated by some sources at at least $5 billion.

•The Electronics Institute estimates their industry's losses last year at $10 billion in trade, and $1 billion in new capital formation.

—Maureen Manning

East bloc debt: why the scare?

Last month, media across the country suddenly discovered the Soviet sector debt question, and to hear them tell it, the economies of Eastern Europe were practically in the bankruptcy courts.

The source for this alarming news? The Brookings Institution, the private think-tank that has staffed so much of the Administration that it has a semiofficial role. And if the national press was hyping the report to make the average reader think a debt rollover crisis would hit before the weekend, the Brookings report was nonetheless alarmist enough on its own.

The report, *Economic relations between East and West: prospects and problems*, was aimed at the financial community, and its line was unequivocal: if you have any money, stay away from the East bloc. Their debt burden is catastrophic, and anyway, who'd want to help them even if it wasn't? The only way they can pay is by competing with the West in international markets.

Table 1
What East bloc debt looks like

	1976 Net Debt (in Billions of Dollars)	1976 GNP (in Billions of Dollars)	1976 Exports (in Millions of Dollars)	1976 Imports (in Billions of Dollars)	1976 Debt as % of GNP	Ratio of Debt to Hard-Currency Exports
Comecon Countries						
Bulgaria	2.3	20.9	486	969	11.0	4.7
Czechoslovakia	2.1	58.0	1,730	2,370	3.6	1.2
East Germany	4.9	66.2	3,000	4,350	7.4	1.7
Hungary	2.8	26.8	1,321	1,894	10.4	2.1
Poland	10.2	92.2	3,329	6,634	11.1	3.1
Romania	3.3	52.6	1,893	2,116	6.3	1.7
TOTAL	25.6	316.7			8.1	
Soviet Union	16.2	921.7	9,712	15,228	1.8	1.4
Cuba	1.3	10.6	744	1,305	12.3	1.7
TOTAL Comecon	43.1	1,249.0	22,215	34,866	3.5	1.8
Developing Countries						
Argentina	6.7	37.5	3,916	3,033	17.9	1.7
Brazil	25.9	145.9	10,100	12,500	17.8	2.6
Colombia	2.6	20.1	1,866	1,991	12.9	1.4
Mexico	26.0	79.0	3,298	6,030	32.9	6.5
South Korea	7.4	25.1	7,715	8,774	29.5	1.0
Spain	10.7	102.3	8,723	17,455	10.5	1.2
Venezuela	2.6	31.0	9,289	6,445	8.4	0.3

But cold war and trade war posturings aside, enough has been said about the East bloc debt to the West to merit a serious study. And any serious study would show the following:

• There is less foreign debt lien on the East bloc countries both absolutely and per GNP, than on virtually any of the other growing economies in the world, including much of Western Europe.

•The stable East bloc economies are equipped with some of the soundest and most technologically advanced industrial infrastructure anywhere. Whatever else may be said, the Brookings implication of Third World basket case status isn't going to sound plausible.

• Most important, the four countries — Japan, West Germany, France, and Italy — which together hold the lion's share of East bloc paper are the very countries that are calling for massive increases in loans and investments in the East, not the other way around.

But the whole Brookings report is predicated on one point — trade war. "First," Brookings states, "Eastern exports of manufactured goods, added to those coming from the newly industrializing developing nations, may increase the pressure for structural change and adjustment in the Western industrial economies. Second, the developing countries may encounter added competition in Western markets (from the East bloc — RF). Third, the advanced sector economies may find themselves subject to competition from the East in exports to the developing countries."

Such markets competition inevitably leads to trade war, Brookings predicts, and notes that the decline in Western trade restrictions against the East "is now being offset by a resurgence of protectionist measures intended to alleviate unemployment and balance of payment difficulties in the West. New quotas, informal or 'voluntary' controls on exports, and more frequent resort to antidumping procedures are all manifestations of this trend."

Trade war in lieu of economic growth has been a policy at Brookings ever since the City of London banks launched their assault on the dollar. Should it succeed, says Brookings, the East bloc won't be able to pay its debts to the West. "Continued borrowing (by the East bloc — RF) on the scale of recent past," Brookings warns, "...would almost certainly pose serious problems in the near future. Unless the East's trade deficits can be sharply curtailed, which seems improbable, some additional debt will have to be contracted.... But the rate of growth of the debt from 1974 to 1977 cannot be sustained."

Brookings bemoans the fact that the East bloc will not adhere to the "conditionality" clauses of the IMF, an euphemism for IMF control of a sovereign nation's economy and frequently the imposition of genocidal "conditions," because the bloc refuses to participate in that London-run body:

> "The International Monetary Fund is available to provide financial aid that is conditional on acceptable plans for 'stabilization.' The eastern European countries (except Rumania) are not members of the IMF, and there is no body of experience on which to base a debt rescheduling exercise with one of the CMEA's centrally planned economies.... The fact that the USSR labels its economy 'socialist' is not the problem. Yugoslavia wears the same socialist label and is able to take part in the GATT and IMF to its own and the institutions' satisfaction. But it appears most unlikely that the USSR will be prepared at any time soon to decentralize economic decision-making, to allow market forces scope to work, and to modify or to abandon its discriminatory trade practices."

Stripped down to its essentials the Brookings report's premise is a steady-state stagnation of world trade — a zero-growth model of competing blocs causing debt foreitures.

Yet to make this patently unacceptable premise palatable to the average U.S. businessman, Brookings has honey-coated it with a series of "statistical" tables on the size and character of East bloc debt which are half-truths or outright frauds. We turn our attention to that aspect of the report.

Table 2

Trends in range of spreads above LIBOR* on syndicated Eurocredits charged to Comecon and Western borrowers

(January-May 1978)

Prime Western Borrowers (i.e., France, West Germany, Japan)	
Bulgaria	0.625-0.75
Czechoslovakia	0.875-1.00
East Germany	0.75
Hungary	1.00-1.125
Poland	0.625-0.75
Romania	1.375-1.5
Soviet Union	0.875-1.0
Comecon Banks	0.75

*London Inter-Bank Overnight Rate

Source: International Currency Review, Vol. 10, No. 4

The East bloc debt

Table I is a combined chart showing the 1976 GNP, exports, and net debt of the leading Eastern European countries and Cuba, as well as the same information for some of the most industrialized non-East bloc debtor developing nations. The usefulness of this table is that it permits us to show net debt as: (a) a ratio of GNP; and (b) a ratio of hard-currency exports. This will show what the $50 billion in East bloc debt to the West looks like.

The Brookings report "Economic Relations" implies, using the same 1976 debt figures, that the East bloc debt is among the worst and potentially most volatile in the world. A quick glance at Table I shows the opposite. At the end of 1976, the Soviet Union had incurred external debts which *were equivalent to about 60 percent of Brazil's*, but the Soviet Union's GNP — it is the world's second largest economy, after the U.S. — was *six times larger than Brazil's*. Likewise, the debt position of Poland, which is usually cited as the "basket-case" of the East bloc, represents only 40 percent of the debt accumulated by Mexico, but its GNP was 17 percent larger than Mexico's. Similar highly favorable comparisons match up for other East bloc countries.

Further comparison shows that East bloc nations' debt position to be far better than the debt position of several OECD nations, notably Greece, Turkey, Spain and perhaps Great Britain and the Scandinavian nations. The East bloc's debt position is of course incomparably advantaged over all of the world's nonindustrialized less developed countries (LDCs). In fact, by a process of elimination, we quickly find that the East bloc has among the best debt situations in the world, using just the standard accounting criteria.

This conclusion has, in fact, been long recognized privately by the largest commercial banks, which have given the East bloc extremely favorable lending spreads, as is demonstrated in Table 2. Indeed, only the large industrial firms of West Germany, Japan, France, and the U.S. get better lending spreads.

Furthermore, from the West's standpoint, it is also widely recognized that before having a debt crisis which would cut off Western imports and disrupt their internal economies, there are a number of options available for the East bloc nations. These range from temporarily cutting back on *selected* imported items — a policy which on the whole the East bloc would only do under painful compulsion — to Soviet bulk sales of gold to raise foreign exchange. or to the East bloc drawing on still open and abundant Western government credit lines.

Soberly assessing these contingency options, the *International Currency Review* writes in Vol. 10, No. 4. in an article titled, "Communist Country Hard Currency Debt in Perspective":

> "In the first place, the Comecon group can always reduce imports from the West further. If similar

Table 3

Official public export credit Comecon countries commitments to by Western governments

(at the end of 1977, in millions of U.S. dollars)

Commitments offered to:	Bulgaria	Czecho-slovakia	East Germany	Hungary	Poland	Romania	USSR	Total
France	540	350	480	110	1,800	390	3,400	7,070
West Germany	140	450	1,200	65	1,900	430	3,300	7,485
Italy	80	70	530	70	800	200	1,950	3,700
Japan	280	0	400	200	450	500	3,150	4,980
Total Above 4 Nations	1,040	870	2,610	445	4,950	1,520	11,800	23,235
Austria	183	85	455	395	600	36	260	2,014
United Kingdom	30	50	45	40	960	100	720	1,945
Canada	0	3	0	0	454	9	173	639
United States	0	0	0	0	408	74	463	945
Other	265	195	465	95	950	215	750	2,935
Total	1,518	1,203	3,575	975	8,322	1,954	14,166	31,713
Estimated Drawings on Official Credits	798	841	2,455	460	5,775	1,256	10,730	22,315
Undrawn Balances	720	360	1,120	515	2,547	698	3,436	9,398

One-half of the East bloc's $50 billion in debt is held by the private banks and public credit institutions of four western nations: West Germany, France, Japan, and Italy. The above table shows that 73 percent of the East bloc's **public debt** of $22.3 billion is held by the governments of these four nations. By comparison, the governments of the United Kingdom, the United States, and Canada hold less than 12 percent of the East bloc's public debt.

reductions were made this year as in 1977, about $1.5 billion worth of export earnings derived from sales to Western countries would be made available for the servicing of foreign debt. Secondly, the Comecon countries can raise additional Euromarket credits for maturity periods of, say, up to seven years. The rate at which they borrowed from this source during the first six months of 1978 was nearly one-third higher than in the same period last year; and if the same rate of borrowing persists in the second half of the year, the total raised will exceed $3 billion.

"Thirdly, Soviet sales of gold could easily contribute a further $2 billion, bearing in mind the high dollar-denominated prices now available on the free market. Fourthly, there is every probability that Western banks will roll over a large proportion of the amount due to them by way of repayments this year; and in the unlikely event of roll-overs not being conceded, the East Europeans can fall back on nearly *$10 billion worth of credits not yet taken up, or else can draw from the $8 billion worth of deposits in Western banks*...At the same time, the Comecon countries have improved their creditworthiness with Western banks by reducing the increase in their new indebtedness last year to $7.5 billion, compared with increases of $12.8 billion and $9.5 billion in 1975 and 1976 respectively."

Expanding trade is the answer

However, the *International Currency Review* article overlooks the central point, a point that gives the Brookings Institution and its epigones fits of apoplexy: that the matter of East bloc debt, as with East-West relations generally, is a hard-and-fast political question and not a matter of accounting methods.

The political nature of the East bloc debt is centrally acknowledged by the four nations which collectively hold *one-half of the East bloc's* total government and private bank contracted indebtedness: Japan, West Germany, France and Italy (see Table 3). It is these four nations that have individually decided — at the government level with industrial and banking sector collaboration — to double levels of trade during the next two to five years between the East bloc and themselves. This trade commitment not only makes the outstanding East bloc debt as good as gold, but promises to open up massive new revolving lines for East-West trade.

This commitment to double levels of trade was not only concretized in a series of recent East-West trade summits, but was reaffirmed by the launching by West German Chancellor Schmidt and French President Giscard of France of the European Monetary System, and its correlate the European Monetary Fund at Bremen, West Germany on July 6 and 7.

The new monetary arrangements, the seed crystal of a new monetary system, will establish massive leaps in world trade as part of a global high-technology development plan, tossing additional tens of billions of dollars into trade credits for this purpose by early 1979.

For the West, such doubling of East-West — as well as North-South — trade commitments represents absolute necessity for economic survival. West Germany's trade with the East bloc last year, for example, represented nearly $9 billion, or almost 8 percent of Germany's two-way trade, no trifling matter for a high-technology exporting nation like Germany.

The East bloc side is more than prepared to increase trade with the West. As the East points out (and even Brookings had to grudgingly admit), the growth in East-West trade exceeds world trade levels.

Moreover, there has never been an East bloc unwillingness to trade. In fact, it was only the industrial collapse in the West during 1973-76 and the consequent wrecking of East-West trade that caused the great indebtedness of the East bloc, as the bloc was forced to import to feed its growing economies, but could not export because of depressed markets. This caused the bloc's large trade deficit, whose financing caused its indebtedness.

Brookings for depression

The continuation of expanding East-West trade as a policy option for the U.S. — as well as for American business — is thus greatly desirable. It is against this policy option of expanding East-West trade that the Brookings Institution, on behalf of its London overseers, has attempted to suggest a suspension of lending to the East bloc, thus precipitating a debt crisis.

However, there are two crippling flaws in Brookings' outlined policy option. First, the United States — even when combined with Britain and Canada — hold less than 20 percent of total private and public East bloc debt, giving the U.S. only marginal leverage over the bloc's debt question.

Second, and more important, even if the Brookings strategy were to be followed, and even if the East bloc economies were to default on their debt — an unlikely eventuality — the Eastern economies would not collapse and be overrun by a regenerated brigade of Winston Churchill's old regiments, come to "liberate the Eurasian land mass." Instead, such a debt default would probably produce an economic crisis in the West, shutting down the levels of trade necessary to keep the Western economies alive.

—Richard Freeman