Rotterdam swindle key to Tokyo summit

Writing in the June 17 issue of the *New York Times*, London *Financial Times* correspondent Henry Scott-Stokes offered the following thumbnail view of impending anarchy at the June 28-29 Tokyo monetary summit.

Scott-Stokes gloated. France's President Giscard d'Estaing, he said, is seen as so totally dependent on foreign petroleum that he "will defer to the U.S. now that the Arab world is divided by the Camp David Treaty." On Chancellor Helmut Schmidt, Scott-Stokes continued, "West Germany, a great believer in market forces, will agree to ration supplies under the gun of higher prices." As for Mrs. Thatcher's crew, he observed: "Britain will be the luckiest of all, since it will be totally self-sufficient in the black gold, due to the North Sea bonanza."

In this section

Our SPECIAL REPORT this week features a pre-Tokyo summit analysis by contributing editor Lyndon H. LaRouche, Jr. who is also a candidate for the presidency of the United States. LaRouche's article, "Rotterdam swindle key to Tokyo summit," outlines two paths that European leaders can take in the face of London's deliberately manipulated oil hoax: either capitulate to the policy of "IMF conditionalities" or move to Phase II of the European Monetary System.

LaRouche has commissioned a Riemannian economic analysis of the impact on the world economy of both options which will appear in a forthcoming issue of *Executive Intelligence Review*.

But as our coverage of the fight in Europe indicates, France also sees the Rotterdam swindle as the key issue at Tokyo and President Giscard may very well get the support he needs to buck London and Washington from West German Chancellor Helmut Schmidt.

We do not insist either that Scott-Stokes is entirely accurate, nor would we sign an affidavit certifying him to be entirely sane. Those points of caution noted, his remarks do indicate the current thinking among "mad dogs and Englishmen" on the Tokyo affair.

Unfortunately, there is a hint of truth in what Scott-Stokes observes concerning the apparent postures of the Schmidt government. If one is to believe Graf Lambsdorff's public defense of the Rotterdam oil-swindle is not misinformation published to deceive the British and Washington, it would appear that London has succeeded in creating a policy rupture in the Giscard-Schmidt alliance.

Responding in opposition to President Giscard's demand that the nations act to halt the super-monopolistic price swindle on the Rotterdam market, Graf Lambsdorff sanctimoniously defended the swindle, arguing that such monopolistic thievery was a noble expression of his principles of "free-market economy."

Oil swindle triggers world depression

The British are correct in one point. The Rotterdam oil swindle is the only real issue now on the agenda for the Tokyo monetary summit. If Italy blocks with Mrs. Thatcher against both Paris and Bonn, as Mrs. Thatcher was working frantically to accomplish this week, continental Europe's independent role will be monstrously weakened. If Schmidt refuses to support Giscard on measures to crush the Rotterdam oil swindle, the Paris-Bonn alliance will tend to be ruptured, whether Chancellor Schmidt intends such a result or not.

For my own part, I have instructed my associates to conduct a computer run, calculating the effects of the oil price rise on the world economy. The computer study will examine the current oil price rise under two, alternative conditions. The first condition studied is the effects of the oil price rise under continued rule of the world markets by the International Monetary Fund (IMF). The second condition is the effect of the price rise if (a) Giscard and Schmidt use Tokyo to launch "phase two" of the European Monetary System—the

European Monetary Fund (EMF), and (b) if a significant portion of the increased petroleum revenues are recycled through a combination of purchases of high-technology capital goods and purchases of gold-denominated bonds issued by the EMF.

The results of this study are being provided to governments as well as key business and trade-union groups as part of my own contributions to factual materials available at the Tokyo summit.

The accompanying statistical table, compiled by the New York City and Wiesbaden staffs of the *Executive Intelligence Review*, gives a rough indication of the horrible results the Rotterdam operation threatens to create in the world's economy.

Note particularly the cases of Brazil, Greece, Peru, the Phillipines, Portugal and Turkey. Under "IMF conditionalities," the effect for Brazil, Peru and Turkey mean a quantum increase in hunger, infant mortality and epidemic disease. Peru will begin to suffer some of the genocidal reduction of its population already underway in the Mont Pelerin Society's "economic miracle," Chile. Note however, that Brazil, Peru and Turkey are not "least-developed countries" (LDCs). In the LDCs, the combination of the Rotterdam oil price swindle with IMF conditionalities means roaring famine, epidemics and social chaos.

Continuing to refer to the accompanying statistical table, the *Executive Intelligence Review* staff reports the following facts concerning the calculations used.

The figures for the oil-import bills of nations have been based on last year's adjusted figures, combined with an estimated 1979 average price of $19 per barrel plus a $2.50 per barrel service charge: a total average price of $21.50 per barrel. The debt service figures are based on Bank for International Settlements (BIS) plus World Bank published data. The BIS and World Bank data are used temporarily, until more accurate data can be compiled.

Through preliminary computer runs against the economic model, the staffs have projected a $109 billion increase in the world's oil bill for 1979.

Going beyond the data shown in the table, the staffs have completed the following, further preliminary calculations. They have taken into account a projected $53 billion increase in world payments for coal, plus a projected $33 billion increase in the aggregate price paid for eight key nonferrous metals. This gives a projected total of $193 billion increase for 1979 in combined added costs of fossil fuels and eight nonferrous metals.

The staff has also taken into account an estimated decline of between 3 and 4 percent in world GDP. This drop is calculated through a comparison of the present situation with the effects of Federal Reserve Chairman Arthur Burns' credit-crunch during the last oil crisis. Burns' credit-crunch caused an 8-to-9 percent drop in the GDP. For the moment, the staffs are projecting only the most conservative amount of decline, 3-5 percent. This means a $350-400 billion drop in the current GDP of between $7 and $8 trillion: in total, a conservative estimate of a $600 billion drop in the world economy during the remainder of this year 1979.

The fact that the $600 billion drop is a very conservative estimate is supported by a glance at the column in the accompanying statistical table labeled "Oil and debt service as a percentage of current foreign

Oil hoax will trigger depression

Country	Projected 1979 Oil Import Bill & Debt Service (bns. of U.S. $)*	Oil & Debt Service as % of 1978 Export Earnings	Oil & Debt Service as % of Current Foreign Exchange Reserves
Brazil	15.4	121.3%	154.0%
Chile	2.0	83.3	181.8
Greece	4.3	143.3	477.8
Korea, Republic of	7.3	57.5	347.6
Pakistan	1.3	86.7	260.0
Peru	2.3	135.3	575.0
Philippines	3.7	115.6	264.3
Portugal	2.3	100.0	176.9
Turkey	4.6	200.0	657.1
Zambia	0.6	60.0	1,000.0

Assumes a 48 percent rise in the average price of imported oil during 1979 (i.e., an average crude oil price of $19 per barrel plus $2.50 in shipping and other charges). Debt service payments include principal and interest payments falling due in 1979 to both public and private creditors.

"President Giscard shows outwardly a more balanced, more accurate understanding of the nature of the inseparable connections among monetary, nuclear and detente policies."

exchange reserves." Here, we are considering the monetary impact of the crisis, as compared with the economic effects indicated in the other columns. The "reserve leverage" against the world economy caused by the oil price rise alone is much greater today than during the last petroleum-price crisis. In fact, without the launching of the European Monetary Fund immediately, the combined effects on the cost of other world market commodities threatens to trigger the worst depression in modern history—beginning this year.

Further results of the preliminary computer study will be made available during this week, in addition to special computer studies being prepared on request of serious governmental and business organizations in the same connection. Meanwhile, the kinds of preliminary figures identified here show the general magnitude of the disaster the Rotterdam price-swindle is threatening to trigger.

Depression is not necessary

There is nothing "inevitable" in the threatened new world depression. The last Great Depression, triggered by the 1929 New York Stock Market crash and the 1931 London floating of sterling, was also not necessary.

Karl Marx's famous analysis of the causes of cyclical depressions was based on Marx's grossly mistaken belief that the British economic system of Adam Smith and David Ricardo was the model-of-reference for determining the lawful features of a capitalist economy. To the extent that the world's monetary system is dominated by the City of London, or by British monetary policies imposed by a combination of London and Manhattan financial interests, Marx's analysis will tend to be corroborated in appearance.

However, as Alexander Hamilton, Henry C. Carey and Friedrich List—among others—have shown, the post-1660 British economy is not an industrial-capitalist economy, but is a semi-industrial-capitalist economy dominated by feudalist political and monetary institutions. Under an industrial-capitalist system of the form outlined by Hamilton, Carey and List, there is no boom-depression cycle inherent in capitalist development.

This fact was most recently proven by the U.S.A.'s war-production mobilization of 1940-1945. If we substitute "dirigist" production of high-technology capital goods for production of war material, study of the 1940-1945 U.S. war-production mobilization shows how a modern industrial capitalist economy functions successfully.

The inflationary effects of a war-production economy are structural, arising from the fact that cannon are not edible and that tanks are neither good machine-tools nor chemical plants. From the standpoint of the economy itself, war-production goods are not only sheer waste, but their production loots the productive structure of the world economy at its most vulnerable points.

This is illustrated by using Marx's own economic categories in a slightly modified form. If we let s signify surplus tangible product of the economy as a whole, and let c and v represent, respectively, constant capital as a whole and the cost of the productive (tangible goods producing) labor-force as a whole, we have the critical ratio $s/(c+v)$, or what Marx names "the rate of profit." However, we must also account for such socially necessary but nonproductive services as administration, engineering, hygiene, medicine, education, and basic municipal services plus waste; we have the following adjustments to the ratio $s/(c+v)$.

The net portion of total product available for reinvestment is (s-d). Let s′ stand for (s-d). Then, the ratio we require to indicate the potential of a national economy for both current profitability and economic growth is given by functions of the ratio $s'/(c+v)$. These are, in fact, sophisticated functions of a sort which are mathematically soluble in terms of only Riemann's mathematical physics. However, for purposes of laymen, let it be assumed that the functions are what university engineering undergraduates think of as "exponential functions."

On condition that advances in technology are reflected in expansion and replacement of productive plant, equipment, machinery in manufacturing, transportation, energy-production, and agriculture, the effect of reinvestment of s′ is a growth in average productivity of the economy per-capita, leading to rises in per-capita consumption-income available, and still permitting a rise in the ratio $s'/(c+v)$. This demands that the value of the ratio $s'/(c+v)$ be sufficiently high in the first place—in other words, that the ratio of capital-investment per member of the labor force be sufficiently high.

Clearly, if we expand combined services and waste at a greater rate than we expand investment in high-technology industrial and agricultural capital, d will grow more rapidly than s, and the ratio $s'/(c+v)$ will tend to become negative. Since war-production falls under d, not under c, v or s′, the convergence of $s'/(c+v)$on negative values ensues, and we have thus the familiar consequence of war-production inflation. However, if the same volume of production is shifted from war-production to high-technology capital-investment goods, the result is secularly deflationary, and high potential rates of growth profitability and economic growth result.

Obviously, given a suitable value for the ratio $s'/(c+v)$, whether the economy stagnates in its productivity ratios or grows is determined by the rate of advancement of science and applied advances in technology. So, in the case of 19th century Germany, Kekulé, Liebig and Göttingen were the indispensable complement to the effect of the customs-union and other work of Friedrich List in making Germany an industrial power.

At slow rates of technological progress in the world economy, as since World War I, a new economic boom can be generated only by emphasizing investment of existing, relatively advanced productive technologies in the relatively underdeveloped sections of the national economy or in foreign markets. Existing technology applied to such underdeveloped regions results in great leaps in per capita output-rates in the sectors of the world economy targeted for such high-technology investments. The economic boom in the world economy set into motion through investment in raising the productive output levels of less developed sectors and subsectors of the national and world economies creates the kind of capital-goods-producing boom in capital-exporting sectors which, in turn, fosters high rates of technological progress in investment in capital-goods production.

The common problem of the United States, Japan and Germany during the period from World War I to World War II was that the British colonial system, combined with the dominant monetary role of the City of London, prevented those industrialized nations from exporting high-technology capital goods at sufficient rates into what we now term the "developing sector."

President Franklin D. Roosevelt was keenly aware of this fact, despite rotten anglophile elements such as Treasury Secretary Henry Morgenthau in his cabinet.

At Roosevelt's Atlantic Charter and Casablanca conferences with Prime Minister Winston Churchill, Roosevelt drove Churchill to the point of apoplexy by the following statement of Roosevelt's postwar economic policies.

Roosevelt instructed Churchill that the United States was not going to war for the purpose that American soldiers would once again die to save the British Empire, as in World War I. Nor was the United States going to tolerate the old British Empire in some new, thinly disguised form. To make his point clear, Roosevelt instructed Churchill that the United States was not going to tolerate any further continuation of "British 18th century methods"—i.e., no more of the economic and monetary policies associated with Adam Smith's *Wealth of Nations*. The postwar policies of the United States, Roosevelt instructed Churchill at both the Atlantic and Casablanca conferences, was to develop the entire world using "American methods." At Casablanca, Roosevelt displayed the map of Africa, outlining as an example of his policy, the high-technology development of Africa's Sahel into the breadbasket of all Africa. Churchill, and his Casablanca sidekick Lord Mountbatten—the Mountbatten Roosevelt described to Churchill as "that bastard"—were near to the point of a stroke.

Unfortunately, the anglophile mice and rats in Roosevelt's government diverted even the Roosevelt administration away from the course outlined at the Atlantic and Casablanca meetings. Nonetheless, Roosevelt's proposals, as detailed by his son and companion at those conferences, were sound. If the U.S. had organized its war-debt at the end of the war on the basis of the policies of Alexander Hamilton, and if the U.S. had launched a worldwide capital-development program, using the production of capital goods to replace war-material production, and had quickly infused German industry with the capital to make its important contribution to this effort, the result would have been a worldwide "economic miracle" soaring to new heights to this present day.

Roosevelt had excellent empirical evidence to support his proposals. The United States had gone through a totally unnecessary depression during the 1929-1939 period. If the United States had been willing to confront Britain during the 1920s and 1930s, to force open high-technology development of what we today term the "developing sector," either there would not have been the Great Depression—or the Hitler regime—or during the 1930s, the economic recovery could have been started at any point. The 1940-1945 war-production experience proved this—and proved, once again, the soundness of the economic policies of Jean-Baptiste Colbert, Alexander Hamilton, Henry C. Carey, and Friedrich List.

Prospects for a world boom

If the statesmen at Tokyo can manage to get their lips and eyes away from the foot of Mrs. Margaret Thatcher, the Tokyo summit could be the launching of the greatest worldwide economic boom, the greatest and most durable economic boom in history.

There are approximately presently three billion and soon more people in the developing sector, a laborforce approaching one billion persons. Using what Roosevelt described to Churchill as "American methods," we can assimilate millions of this potential laborforce into modern production annually, raising the levels of output from the present few thousands of dollars maximum, to Western industrial levels. At the same time, using irrigation, drainage, desalination, fertilizers, modern agronomical science, we can raise the levels of output of agriculture by orders of magnitude—even with the existing level of technological culture of most of the peasants throughout that sector.

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The potentials are staggering. By working to increase the numbers of hectares tilled by farmers, and by absorbing excess farm labor in industrial production, we generate a vast, expanding future labor pool for industrial production as the ratios of rural-to-urban employment are pushed in the direction of U.S. standards over the coming half-century. By the end of this century, we can have readily quadrupled agricultural output, while reducing the ratio of the agricultural labor-force and can project the development of a modern industrial labor force in the order of magnitude of a quarter-billion persons or larger.

As both consumer and capital goods industries emerge to meet local and regional needs within the developing sector, the ratios of employment in the presently industrialized nations will shift away from consumer-goods production into high-technology capital goods, and the component of the employed population represented by scientists and engineers will increase even more rapidly than investment in expansion of capital-goods industries.

Thus, over the next quarter-century, in the presently industrialized nations we shall deemphasize so-called services employment, except for medical, teaching, enegineering, and science occupations, and shall considerably expand the ratio of the potential labor-force employed as productive, skilled operatives in industry and related occupations. In other words, as we approach the point that the world's population is raised to modern technological standards, the source of new increases in per-capita wealth and investment-opportunities will be a "dirigist policy" for maximizing the rates of scientific and applied-technological progress.

This requires an abundant source of cheap energy: nuclear energy. It requires hundreds of billions annually in new sources of cheap, long-term credit for capital investment and related commerce. This credit can be generated by using the gold-based currencies of the EMS to issue long-term, low-interest bonds which soak up the excess liquidities held by central banks and other, connected institutions. This can succeed, because a gold-based bond of 2-3 percent yield is a better investment than a 15 percent yield in today's floating rates market of double-digit inflation.

The obstacle to overcome in launching such an export-boom is the IMF. Under the domination of the world monetary system, especially with the neo-Schachtian (i.e., fascist) policies known as "IMF conditionalities," the world is doomed to depression, and thus more or less inevitable to the early outbreak of nuclear war. The debts of depressed nations must be reorganized through, chiefly, issuance of gold-based long-term bonds of very low interest rates, negotiable as reserve-assets within a new monetary system centered around the European Monetary Fund. Debt moratoria on IMF, World Bank and related London-market interlocked categories of debt will probably be necessary, a measure which will not cause disruption of the private banking sector of any nation but Britain.

Obviously, if the New York commercial banks accept forward-redeemable bonds, negotiable as reserves, for foreign debt-holdings, this procedure will not injure such banks, but will transform a dangerous overhang at their present portfolios into a high-grade reserve asset. If the Carter administration and the New York banks stubbornly insist on committing monetary suicide, that will not be the fault of the EMF backers.

If Britain is incapable of effecting economic recovery of its ruined industrial economy, the British would be well-advised to place themselves temporarily under the rule of Ireland, the fastest-growing economy of the European Community.

Schmidt's policy

One must be cautious in reading Chancellor Helmut Schmidt's early future policy intentions from such evidences as the propaganda of Graf Lambsdorff. The Federal Republic rebuilt its economy with the combination of hard work and a certain calculated slyness in the ranks of the nation's leading patriots. This slyness is reflected in the fact that the Federal Republic has a few competent political leaders, but does produce a number of important statesmen of which Schmidt has made himself something of an example since late 1976.

Two examples of this quality in Chancellor Schmidt are notable. First, there was Schmidt's handling of the problem of international terrorism during 1977 and 1978. Prevented, by political pressures, from going openly against the "background of terrorism," the Chancellor cooperated in an excellent way with France's President Giscard, and either cooperated with or outmaneuvered other forces. Although Schmidt's antiterrorist measures were inadequate, they were otherwise successful in dealing with the most immediate aspects of the problem.

Second, there is the case of the Giscard-Schmidt "conspiracy" in launching the European Monetary System over the last half of 1978. Although Schmidt, like Foreign Minister Genscher, is constrained by the well-known internal problems of the SPD and FDP, and although some of Schmidt's advisors urgently require employment in less important positions, Schmidt's instinct is often in the direction. Although his policy lacks coherence, he has intelligence, courage, executive qualities, and the ability to correct wrong judgments.

To that extent, we concede that Schmidt's private intentions may be far better than anything we would be justified in believing from the pattern of his recent public performance.

It appears that Schmidt has traded away Europe's urgent monetary and general-energy-policy interest to London, New York and Washington, in an effort to drag London and Washington reluctantly behind himself and President Giscard on two issues to which Schmidt has given the greatest priority, the maintenance of detente, first, and Paris-Bonn nuclear-energy policy a poor second priority. That was the gist of Schmidt's public performance during and after this humiliating treatment at the hands of the Carter administration, during his recent visit to the United States.

Although President Giscard shows outwardly a more balanced, more accurate understanding of the nature of the inseparable connections among monetary, nuclear and detente policies, neither Schmidt nor Soviet President Brezhnev have shown publicly a competent understanding of those connections.

This weakness in the manifest outlook of Moscow and Bonn is key to the parade of diplomatic pageantry performed in Vienna during this past week. The controlling forces behind the U.S. government have no intentions of continuing detente—at least, not as Brezhnev understands detente, or as Schmidt, in a different way, understands the policy. However, those same powers behind the scenes have decided to encourage the poor, "lame duck" President Carter to sign the papers. The SALT II will not go through the U.S. Senate—at least, not during the session of the U.S. Senate, and the signing of the papers will not slow down in the least the Thatcher-Carter escalation of confrontation with the Soviet Union and Cuba on nearly every front. Nonetheless, Washington and London estimate that poor discredited Carter's signing the papers will contribute to keeping Schmidt, Brezhnev and others politically "off balance."

If there is one thing on which Schmidt, Wehner and perhaps even Brandt are agreed, it is the need to prevent that total destruction of Germany which is the most-undisputed result of a nuclear war. Although the Soviet leadership is prepared to fight a nuclear war to win it, if no other acceptable choice is available to them, Brezhnev reflects a powerful impulse to avoid such a war, and a willingness to perform some humiliating flip-flops to extract a semblance of war avoidance policies and practices from the certifiable lunatics of London, Washington, Jerusalem and Peking.

In Schmidt's case, as long as Schmidt is either unwilling or senses himself unable to confront London and Washington with the accomplished fact of an overtly independent European bloc led by France and the Federal Republic, Schmidt is left with little choice but to cling rather desperately to wishful thinking on the detente issue. He will tend to trade away as much as is required to bargain for detente policy from London and Washington.

In Brezhnev's case, we are reluctant to attribute any reading of his own mind as our final, perfect judgement on the matter. However, Soviet policy does adapt itself considerably to the kinds of policies expressed variously by IMEMO and Boris Ponomarev. For ideological reasons, one powerful faction in Soviet policy-making clings to the lunatic view that the issues of EMF versus IMF are merely reflections of "trade-war" impulses or, more generally, tendencies toward "inter-imperialist rivalries." Such misguided ideologues in Moscow watch, one by one, developing nations subjected to hideous destabilizations and to "IMF conditionalities" worse in clear ultimate effect than Nazi looting policies. Moscow watches three billions of the human population being projected toward the genocidal goals of the Club of Rome, and yet professes to imagine that the conflict between the EMF and IMF is merely a matter of "imperialist rivalries." Some Soviet leading circles have a corrected view of the economic, if not monetary side of this issue, but many powerful influences, such as those reflected by Boris Ponomarev, do not.

Consequently, Brezhnev is presently pursuing an official Soviet policy which foolishly asserts that the signing of arms agreements blunts the driving impulses toward war.

So, in their quite different ways of approaching the matter both the Brezhnev and Schmidt governments are apparently obsessed by tragic wishful thinking on the subject of disarmament and related agreements. The obsessiveness of this wishful thinking prompts them often to grab fiercely to any wisp of mist which suggests proof of conclusions to which their wishful thinking impels them.

We hope that the public appearances are proven mistaken in our poor view of Schmidt's current perceptions of the real driving forces toward war. The performance of the BRD delegation at Tokyo will show us the truth of the matter, one way or the other.

—Lyndon H. LaRouche, Jr.