

EIR

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Iran crew targets Mexican industrialization
President Carter's foreign policy debacles
Behind the Saudis' \$250 billion development plan

**Energy conservation:
building inflation into the economy**



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EIR

From the Editor-in-Chief

Our Special Report, Energy Conservation: Building Inflation into the Economy, sheds new light on the long term problems of structural inflation plaguing the U.S. economy. We focus in on the devastating effects of energy conservation, proving that attempts to reduce total energy throughput at a time of grossly inadequate levels of capital formation in all key manufacturing sectors leads straight to an uncontrollable inflationary crisis. We review U.S. capital formation and demonstrate that stagnating investment is being devoted increasingly to ways of achieving energy conservation and substituting labor for energy and capital in the production process, thus breaking the back of the economy's high technology potentials.

Our report was prepared by Economics Editor David Goldman, Dr. John Schoonover, and Lydia Schulman under the direction of Contributing Editor Dr. Uwe Parpart and initiates our series on the real causes of inflation. We will use our LaRouche-Riemannian econometric model to make the first truly scientific study of this crucial problem.

We note another report of special interest, The Iran Crew Targets Mexican Industrialization. Here we detail the who and why of the anti-technology "revolutionaries" in Mexico, and who is really behind them.



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Jimmy Carter announces budget cuts and an anti-inflation battle at the same time that he sends interest rates, defense spending and energy prices sky high. Interest rate increases feed inflation, and add billions to the federal budget. Defense spending feeds inflation and adds billions to the federal budget. Energy price increases feed inflation and... Everything Jimmy Carter proposes seems designed to produce the opposite... and does.

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Although a certain manner of assembling monetary statistics could convince a fool that "economic growth" is occurring, the surest indicator that the productive base of the U.S. economy is disintegrating is the inflation rate. That inflation reflects not simply speculative monetary flows, but rapidly falling rates of energy consumption per capita. All that would be necessary to build hyperinflation into the economy's very structure is a far-reaching program of "energy conservation."

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Before Giscard d'Estaing's tour of the Persian Gulf nations was even half over, international corridors of power were reverberating with the slogan: "France has inherited the Gulf." The Arab world had watched in stunned anger as the Carter administration reversed itself on an earlier U.N. vote condemning Israeli West Bank settlements. Then, the French president appeared, in Arab capital after Arab capital, with a program that could succeed even in the world's most volatile region: proposals for peace, based on proposals for economic development.

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To prevent such a new "Japan" to the south, they're planning a new "Iran" to the south.

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Only a few months ago, the boys down at the Council on foreign Relations had everything in place to produce a major foreign policy embarrassment for Jimmy Carter, paving the way for a 1980 GOP strongman of their choosing. The scenario fell apart, but nobody doubts that foreign policy embarrassments are multiplying daily. The CFR crew had planned to throw the ship's captain overboard; instead, the ship itself is sinking, fast.

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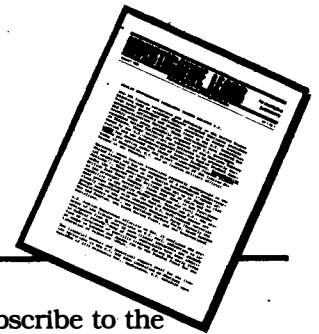
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EIR on newsprint

Delayed shipments at our printers have necessitated printing this issue of EIR on newsprint. We will resume our normal appearance in the coming issue.

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by Nora Hamerman

The nation-state revived

The current issue of the London *Economist* contains an exceptionally revealing document. Peter Jay's paper, "Europe's Ostrich and America's Eagle," unveils what our contributing editor Criton Zoakos has aptly referred to as an "unveiling of some of the less sordid mental processes now racing inside the heads of those policy makers who have brought the world to its present crisis."

Peter Jay, some may recall, is the son-in-law of former British Prime Minister Jim Callaghan and was U.K. Ambassador to Washington under Callaghan's government. In the *Economist*, he laments that what he calls "the West" may not survive the re-emergence of "nationalist" tendencies in Europe.

To reduce Jay's strategic argument to a nutshell, if a "European Reich" based on the European Monetary System emerges in the 1980s, then what he slanderously calls "isolationist" forces will come back to prominence in the United States. And, he points out, this would be the first time since the "isolationists" "lost their battle to Churchill and Roosevelt in 1941," at the Atlantic Charter conference off the coast of Newfoundland.

Americans, especially American conservatives, will be astounded to discover what the gamemasters of London, who drafted the Atlantic Charter in 1941, meant by "the West," or, in their favorite phraseology, the "Western order, liberal and universal." Peter Jay defines it at some length, reminding us that "unbridled nationalism" was "the world's most dangerous force," to be subjected to a world government under which "economic nationalism" would be crushed.

Out of this philosophy, Jay affirms, were born the OECD, NATO, the United Nations, and "the

Bretton Woods twins," the International Monetary Fund and World Bank. Hence under the guise of defense from the "Soviet menace," the "West" has been nothing but a liberal organization of affairs, whose principal enemy from the outset was the nation-state. This includes NATO, the purported champion of our national freedoms!

Now let us view the question from the vantage point of the crumbling of the liberal world-order in the current Carter administration debacle. From the China card, shattered by Deng Xiaoping's wily combination of "America and Russia card" strategies; to support for "Islamic Fundamentalism" which was just discredited for good by Khomeini; to the ashes of Camp David; to an economic policy that has collapsed into runaway inflation, Washington's liberal policies have fallen into a shambles.

What Ambassador Jay fears is that increasing numbers of Americans will see the way out of fiasco precisely in the European nationalism he decries. French President Giscard has reawakened in the Middle East and Africa the long-dormant aspirations to scientific progress that had suffocated under Anglo-American domination. As editor Zoakos underlines in a recent strategic document, since Plato, the sovereign nation-state has been the institution through which "the greatest number of people" were organized around "great moral goals." The United States itself was a very special nation among nations, established as a constitutional republic to foster the creative potential of its citizenry and to help build similar sovereign republics.

If the U.S. "nationalist genius" links up to "nationalist genius" of the European Monetary System, all that will suffer is the liberal world order of the Atlantic Charter.

Carter's economic plan: no good, or worse

by Richard Freeman

President Carter has two options on the U.S. economy: no good and worse. Presently, Carter is sitting on top of an economic time-bomb, which he has no way to control, and which is already making him the laughing-stock of continental Europe. Each time Carter does intervene into the economic life of this country, such as his recent approval of Fed chairman Paul Volcker's hike in the discount rate twice in the last 45 days, it has tended to intensify inflation and heighten the potential for Penn Central 1970-style bankruptcy in the corporate sector.

For their part, the Republican opposition in the Senate smells that Carter is ripe for the taking. After drafting a resolution calling for broad budget-cutting, signed by all 42 Republican senators, a Republican reported March 13, "This is beautiful. Carter's budget can't work. He can't balance a damn thing and now we've got him."

But the issue is broader than opposition politics in the U.S. This past two weeks, while Carter was fumbling on the Israeli settlements question at the U.N., President Giscard of France was locking up large technology transfer deals with Saudi Arabia, Kuwait and all the major Gulf countries, cutting the French in on the big potato—the \$120 billion OPEC current account surplus. This will give the French and Germans control over the marginal amount of new liquidity coming into the banking system, foretelling a big shift away from Anglo-American control over the world's monetary system.

At the same time, Carter is coming in for merciless criticism from his allies in Europe. Chancellor Helmut Schmidt, after meeting Carter's economic advisers on his visit last week to Washington, could only shake his head

in dismay and wonder, according to *Der Spiegel*, how come the U.S. can't stop its own inflation which is spreading across the world.

Even Carter's erstwhile friends in the British financial press are now treating him with open scorn. In an article cataloging the breakdown of all of the principal U.S. markets, the March 8 *London Economist* editorially suggests that Carter can cut losses and "confine the panic to Wall Street" by firing his top policy advisers. After criticizing Fed chairman Volcker for mishandling the economy, the *Economist* coyly proposed, "President Carter should also bring in a new treasury secretary. Mr. William Miller, who came from Textron, might (like his predecessor, Mr. Michael Blumenthal, who came from Bendix) have made a good secretary of commerce, but both men have lacked an understanding and a feel for the treasury's financial constituency."

The budget fraud

The Carter 1981 fiscal budget deficit, while purporting to be in the range of \$21 to \$25 billion, is actually, as the *EIR* documents in this issue, closer to \$115 billion. This includes off-budget items, inflation adjustment indexes, and almost \$25 billion added on as increases in refinancing the Treasury's short-term debt at higher interest rates.

In the face of this projected deficit, Carter proposes to cut socially useful programs in the budget, while continuing and abetting capital flows into the very speculative ventures that have, with Volcker's assistance, shot the January-February Wholesale Price Index to an 18 percent annual inflation rate. In the latest version of cuts,

leaked from the White House March 11, Carter plans to go for an \$11 billion slash in programs in the budget, including a \$1.7 billion cut in the state portion of local revenue sharing, \$400 million from a health program for the young, \$400 million from highway construction and \$.5 billion from federal subsidies to the private Postal Service by proposing eliminating mail service on Saturdays. For the time being, it appears Carter has abandoned his earlier announcement that he would seek to eliminate the inflation-adjustment index for Social Security and veterans program beneficiaries.

In order to increase revenues, Carter seems to be throwing his weight behind an energy rationing plan that would impose a 10 cent excise tax on each barrel of imported oil, which would raise \$6 billion, as well as another tax on dividend and interest payments.

The implicit rationale behind all this proposed budget-slashing is the Milton Friedmanite assumption that a balanced budget per se will put an end to inflation. In fact, budget-cutting in the manner it is occurring—targeting productive or socially useful programs rather than those tied into non-productive speculation—is more wildly inflationary than what the most wild-eyed Keynesian turned loose in the Treasury could do.

A Penn Central bankruptcy

While Carter fiddles away the federal budget, his interest rate policy which sent money-center commercial banks hiking the prime interest rate to 17.75 percent March 7, is now fueling the chances for a 1970 Penn Central-style bankruptcy.

Ford Motor company is now being talked about in Wall Street circles as the most likely candidate. According to sources close to the company, Ford will report out a \$1.2 billion loss on North American car sales for the first half of this year alone. This threatens hundreds of Ford supplier industries as well scattered throughout the U.S. midwest. At the same time, the problems at Ford have spread to its dealerships in Maryland reportedly preparing to file bankruptcy papers next month.

Even the largest U.S. auto company is not immune, as GM showed a 7 percent drop in sales in the first twenty days of February, despite heavy rebates, and announced last week plans to shut down 4 auto and truck plants and give 6,400 workers indefinite layoffs. The sole response the auto sector has mustered to its liquidation at the hands of Carter and Volcker is for Chrysler head Lee Iacocca to call this week for limiting foreign car imports, currently at 25 percent of the U.S. market, to its 1978 level of 17 percent of the market.

The latest newsletter for the National Association of Homebuilders predicts that housing starts this year will drop to an annual 1.1 million level. This says the NAHB will be 900,000 units below 1977 and 1978 levels, and will cost the country of 1.4 million jobs, almost \$25 billion in

wages and \$6.7 billion in tax revenues—which must be figured as revenue shortfall into the Carter 1980 and 1981 federal budgets.

The problem that Carter's and Volcker's policy poses is broader than either the badly hit auto and housing sector. A potential Ford Motor Company blow-out would intersect a worsening U.S. corporate liquidity picture and the danger of an international credit market blow-out. Unlike last year, when large U.S. companies were fairly flush, this year, the financing needs of large U.S. companies will be strained to the limit. With the bond and stock market shut off to corporations as a source of new liquidity, only short-term commercial paper and 6 month bank loans remain open to corporate treasurers. In January, the volume of this type of financing was together nearly \$5 billion—as great as the entire figure for the fourth quarter of 1979. This of course feeds the growth of the monetary aggregates—which Volcker allegedly wanted to stop. Salomon Brothers general partner Henry Kaufman in a widely quoted speech delivered last month in Los Angeles, predicted that, this year, "corporations credit needs will be so large as to prevent funding of liabilities."

Carter, through his interest rate policy, has simultaneously touched off an international interest rate war, whose only consequence will be to make it impossible for Third World countries to get import suppliers credits except at 25 percent interest. If U.S. corporations and the U.S. Treasury are also competing for international funds at soaring rates, no one will be able to get funding. It has been the goodwill of Europe and Saudi Arabia that has held the Eurodollar market above collapse up to this point, and that good will is eroding with each new Carter foreign policy blunder.

Finally, as a way out for Carter, in addition to the unworkable budget cuts, some have proposed credit controls. Indeed, there is a fight in the administration over this issue, with Carter favoring controls on industry, while Volcker favors controls on consumers. Ultimately, both sides are refuted by the simple fact that controls are the fastest way to insure a blow-out of both the domestic economy and international lending. The only sober view of this debate of controls, aside from this magazine, has come, not unexpectedly, from Europe.

Appraising the entire Carter strategy and the proposed controls in particular, the West German *Wirtschaftswoche* ("Economic Week") commented that "American industry is fully opposed to the Carter administration's economic policy. With 18 percent inflation, Carter's house is in disarray. The American population—without being informed of what is really going on—might support credit controls, but would soon see how useless they would be. It is hard to see how Carter could win the presidency under any circumstances."

Indeed.

The 'ruinous' LDC debt situation

Funding Third World debt demands for 1980 is looking to be a high-risk venture. But U.S. bankers have indicated they are willing to play with these stakes.

In 1980, the lesser developed countries will come to the Euro-currency markets looking for anywhere from \$70 to \$100 billion. If there is a significant recession in the United States that spreads to Europe and Japan, it could be much more. Faced with the dilemma of financing everything that is requested, or of pulling down one or more countries by saying "no," U.S. bankers have nothing to lose but their shirts.

And despite the deafening silence that top U.S. bankers are maintaining for public consumption on the crisis, most know, as one securities analyst put it, that the real situation is "ruinous." That has put the major banks in the absurd position of throwing worse money after bad, and in larger quantities than ever before. If in 1978 and 1979, the U.S. banks stayed away in droves from participation in many LDC loans because the risk was too high, they apparently intend to return in 1980 when the risk is far greater and the stakes far higher.

Brazil is of course the *primus inter pares* among LDC debtor countries. Fantasy has so far dominated Finance Minister Delfim Neto's kited projections for the Brazilian economy and financing needs.

Those calculations, as presented to bankers in New York

last month, break down as follows: A balance of trade deficit of 0 (based on the assumption of \$20 billion in both imports and exports), \$3.7 in services, \$5.4 billion in net interest charges, \$7 billion in rollover of principal, for a total of \$16 billion to be covered by: \$2 billion suppliers credits, \$2 billion direct investment, \$2 billion draw-down of reserves, leaving \$10 billion in need of financing.

The projected trade balance assumes \$28 per barrel oil. But at the more realistic \$30-32, the oil bill goes up \$1-2 billion. It also assumes no break in coffee, soybean and iron ore prices, a dubious assumption if there is any weakening of the industrialized economies. Moreover, Delfim's plan calls for a 31 percent increase in exports. Realistic estimates are for a \$2-4 billion trade deficit. As for Delfim's \$12.5 billion in debt service estimate, it relies on a very low figure for average interest costs (well below the 17 percent LIBOR now prevailing); New York's *Journal of Commerce* pegs it at \$14 billion.

In short, Brazil is likely to need from \$2 to \$6 billion more than the \$10 billion so far requested.

The banking community has responded by saying that Brazil will get its money—even if it's more than \$10 billion—but only at much higher spreads than have

prevailed recently. After all, the only choice is to bring Brazil and the whole LDC debt pyramid down, and maybe with it Citibank and New York City.

All of this misses the real issue. The calculations for Brazil, which could be repeated for a dozen other LDCs, depend absolutely on the continuation of the inflationary spiral in the world economy. Any deflation, a serious recession, and all bets are off.

Almost any debt, LDC or otherwise, can be refinanced, no matter what the interest rate, if the funds are plentiful at the price. But most of the highly indebted LDCs, like Peru, Algeria, Argentina, Indonesia and Mexico, are considered good risks solely because of the huge run-up in raw materials and petroleum prices. A deflationary break in the hyperinflation cycle will turn most of the \$315 billion in LDC debt into the modern equivalent of Tsarist bonds.

Fed Chairman Paul Volcker, aware that all is not well, recently surmised that there could be some LDC financing problems this year. But Volcker's preferred nostrum—tapping what he estimates to be \$23 billion in IMF moneys—is wishful thinking. The conditions under which that money would become available would necessitate such levels of austerity as to be economically—and politically—impossible to administer.

So the banks just keep on pumping money and aggravating the underlying unviability of the financial pyramid so constructed. Bereft of positive alternatives, which would solve the LDC debt problem, the banks are determined to play out their losing hand to the end.

Elderly on the firing line

With all the charges of "waste" being raised against America's elderly population, one Congressman has stood up to set the record straight.

As part of the ongoing fiscal 1981 budget debate, some groups have stepped forward to isolate various programs for the elderly—social security, social security cost of living escalator clauses, medicare, etc.—as prime targets for cuts. These groups all clutch reports of studies purporting to show the elderly living in the lap of luxury or close to it. Two recent examples of this type of spurious study are a January cover story appearing in *Forbes* magazine, and a lengthy study conducted by the *New York Times* Feb. 15.

This week, with the congressman's office's permission, we reprint part of the statement of Rep. Claude Pepper (D-Fla.), chairman of the House Select Committee on the Aging.

With the race to embrace fiscal responsibility in high gear, academicians, journalists, and politicians are falling over one another in an effort to find "waste" and "fat" in the federal budget. All too often, "waste" constitutes expenditures for persons who are the least able to defend themselves politically. It is small wonder, then, that the new panacea for budget-cutters is the slashing of benefits for America's aged.

The most recent but surely not the last salvo to be fired in this direction appeared in the Feb. 15 *New York Times* (Are Old Folks Really Poor?). In a cynical attempt

to portray the staggering proportions of poverty among the aged as a "stereotyped view of aging," the authors sought to create a fantasyland of typically wealthy, healthy, and well nourished elderly persons that plead poverty in order to live off the fat of the land.

Messrs. Rabushka and Jacobs believe that there is a "commonly held image of misfortune and need" with respect to the elderly. According to the authors, "widespread news-media coverage" of a "select few among the elderly" who might suffer from a host of trumped-up maladies and misfortunes reinforces these "preconceptions"...

Where does this so-called myth originate? To find out, Messrs. Rabushka and Jacobs polled 1,500 elderly homeowners on the effects of poverty on their lives. This is not unlike testing 1,500 graduate school students to determine the extent of illiteracy among young Americans....

Perhaps Rabushka and Jacobs would have encountered more difficulty had they bothered to poll the 14.6 million elderly persons with incomes under \$5,999 or the more than 16 million persons over 65 with incomes under \$6,999. These groups constitute 64 and 70 percent, respectively, of the total elderly population in America. From the standpoint of time alone, the authors did well to confine their survey to 1,500 elderly homeowners.

From a standpoint of accuracy, however, the economic plight of the aged was distorted to the point where any connection with reality was purely accidental. Surely these researchers had access to Census Bureau statistics which reveal that the family income for older persons is 43 percent below the national average and that the median income for elderly persons living alone—\$4,305—is 36 percent lower than the national average. Surely they were aware that persons over 65 constitute almost 23 percent of everyone in America with an income under \$4,999 although they comprise only 10.7 percent of the overall population....

Supplemental Security Income does indeed, as stated in the article, provide a guaranteed minimum income to all older Americans. The maximum benefit of \$208 to a person with no other income was casually omitted from discussion. If those anxious to "cut the fat" ever attempted to live on \$208 per month, the inadequacies of the benefit level would acquire new significance....

In view of the fact that Medicare pays less than 43 percent of an average older person's health bill, it is not very likely that one will find many people who have received a fiscal windfall as a result of in-kind health benefits. Medicare, moreover, is financed by Social Security payroll taxes paid into the system during a person's working years, as well as monthly premiums paid after age 65....

It is nothing short of a tragedy that the greatest country in the world, with all of its vast resources, cannot allow its elderly population to live out the rest of their lives in dignity and decency.

Water for development

A new bill passing the house by enough votes to override a veto could pull the plug on Carter's water resources policy.

House passage on Feb. 5 of the public works authorization bill, the Water Resources Development Act of 1979 (HR-4788), by a whopping 283-127 majority vote has defeated Jimmy Carter's water resources policy. The bill authorizes approximately \$3-4 billion for construction of new and modified irrigation, hydroelectric power generation and water transport projects as well as for feasibility studies for future water development projects throughout the country.

Carter lamely blasted the bill as a "threat to the federal budget" and said he "intends" to veto. The bill is currently in Senate committee (S-703), with hearings to be held soon. Efforts on the part of Senators Moynihan (D-N.Y.) and Domenici (R-N.M.) to tack on some of the Carter provisions in amendment form were rejected in committee, and knowledgeable sources characterize reports that the Carter program will be melded into the Senate version of the legislation as "highly speculative."

Capitol Hill observers expect that Carter will have to decide whether or not to follow through on his veto threat by August. While a veto is possible, the margin of victory of the House vote virtually assures the success of an override.

Passage of the House bill is the first break in the deadlock over water policy that has persisted since President Carter launched his attack in April 1977. Carter pro-

posed to scrap outright 18 water development projects already in progress and to significantly curtail five more. The "hit list" was backed up with a set of "comprehensive water policy reforms" designed to transform American water policy from an instrument of industrial and agricultural development into a Malthusian concoction of austerity cutbacks, and bureaucratic and environmentalist strangulation of water development—a program Carter unveiled in mid-1978.

Bill HR-4788 provides authorization to the Army Corps of Engineers for work to be done on 47 new projects, 31 feasibility studies of future projects and 77 modifications of existing projects from Mobile, Alabama to Buffalo, New York, to Oregon and Galveston, Texas. The work ranges from construction of locks and dams, to harbor expansions, flood control structure erection, river dredging and channelizations, pumping stations construction and the restoration of beach erosion. While House Public Works Committee staffers have put the total cost of the legislation at about \$2.7 billion, the Congressional Budget Office insists the price tag will top \$4 billion.

Altogether the package is a point-for-point repudiation of the Carter water policy plan. The bill does not require state cost-sharing. The bill waives Carter's cost-effec-

tiveness requirements and authorizes projects lacking "completed" feasibility studies.

As Senator Jennings Randolph (D-W.Va.) insisted during the 1977 debates on water policy, the proponents of a water *development* policy explicitly reject the austerity, "conservation" approach epitomized in the "cost effectiveness" criteria Carter would impose. "We do not receive back dollar for dollar," Randolph stated. "It is not an expenditure. It is an investment in the area and the country."

The Carter water policy's aims are most explicit in the administration's "160-acre" campaign against Western producers using federally irrigated land, a campaign led by Interior Department chief Cecil Andrus. The campaign sought to arbitrarily enforce the 160-acre limitation on federally irrigated landholdings by a single producer stipulated in the 1902 reclamation law, in effect seeking to turn the advanced, high-technology Imperial Valley agricultural economy back to the 1900 mode of small-plot farming powered by animals and human muscle.

Significantly, not only is Andrus' Water Resource Council presently hoping for a renewal of funding before May 15 lest it officially go out of business, but certain Representatives in the House have already provided for its early replacement. The Water Resources Development Act of 1979 also contains a provision establishing a 29-member Commission on Federal Water Policy made up of members of both houses that is to report to Congress by June 30, 1981 on what the nation's water policy should be.

Gold becomes a campaign issue

In both the GOP and the Democratic Party, gold remonetization is quickly becoming a leading economic issue in the presidential campaign.

The question of whether the U.S. should act to reestablish some form of gold-backed monetary system is emerging as a major issue in this year's presidential race. Lyndon LaRouche, a contender for the Democratic Party nomination, was the first candidate to endorse gold remonetization, which he said should be undertaken by the U.S. in close consultation with the leading European Monetary System powers, France and West Germany. On March 10, Republican Party hopeful Ronald Reagan also advocated a new monetary role for gold.

While campaigning in Birmingham, Alabama, Reagan announced that he had instructed his research staff to prepare a position paper on the advantages of establishing a gold backing for the U.S. dollar. This "might be one way to stabilize what we have now," Reagan said. "No nation in history has ever survived fiat money, money that did not have precious metal backing and why we should suddenly think that we can be different than any other nation in thousands of years of civilized history, I don't know."

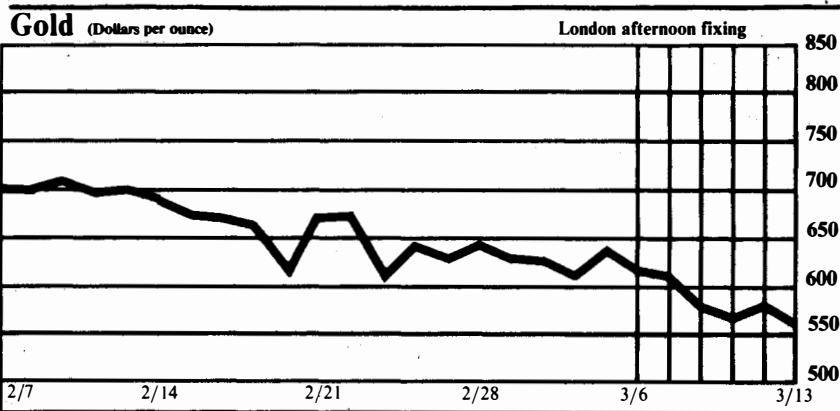
Reagan's statement reflects strong progold sentiment among his conservative supporters, a current running counter to the views of many of the candidate's economic advisors. Only days before Reagan's Birmingham speech, Dr. Herbert Stein, who formerly head-

ed Nixon's Council of Economic Advisors, told a journalist that Reagan was considering taking a progold stance, but was being "advised against it by Milton Friedman." Friedman, the well-known monetarist economist, was the intellectual author of Nixon's Aug. 15, 1971, package which cut the dollar's ties to gold and initiated the often chaotic, system of "floating exchange rates."

Of course, there are many different ways in which one might go about reestablishing a link between gold and the dollar. LaRouche's advisors warn that a mechanistic, nineteenth-century style gold standard, restricting credit growth so as not to exceed the value of the nation's gold holdings, could result in a deflationary bust. The currency's true value, they argue, ultimately rests not on piles of gold, but on the productivity of the nation's industry. Therefore,

the nation's gold should be harnessed in such a way as to reestablish confidence in dollar credit, enabling the federal government to systematically channel that credit to promote expanded capital formation in U.S. industry and U.S. technology for capital goods exports to the Third World.

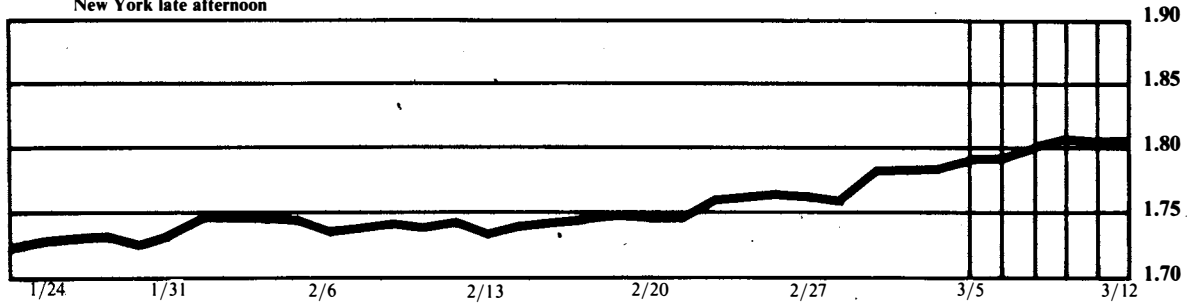
Meanwhile, despite the increasing importance of the gold issue in this year's election, the metal has come under some pressure in recent days in U.S. futures markets. Analysts attribute the slippage in the gold price to below the \$600 an ounce level to rising U.S. interest rates, which have increased the cost of holding commodity futures contracts, and to investor fears that the Carter administration may impose sharp increases in margin requirements. Nevertheless, the "big players" in the gold market, namely the oil-rich Arab nations and continental European banks, have made no move to divest themselves of their enormous gold holdings and appear quite confident that gold will eventually rebound.



Foreign Exchange

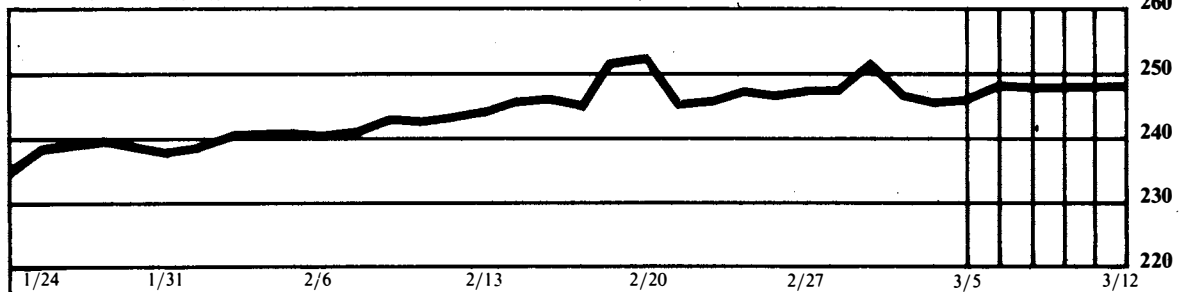
The dollar in deutschmarks

New York late afternoon



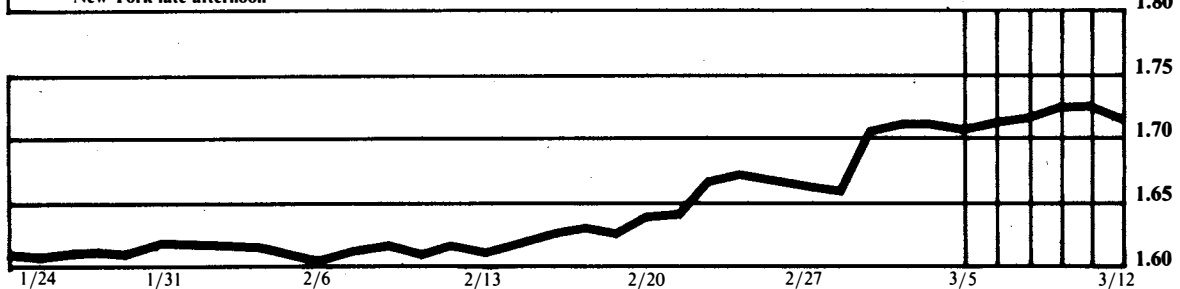
The dollar in yen

New York late afternoon



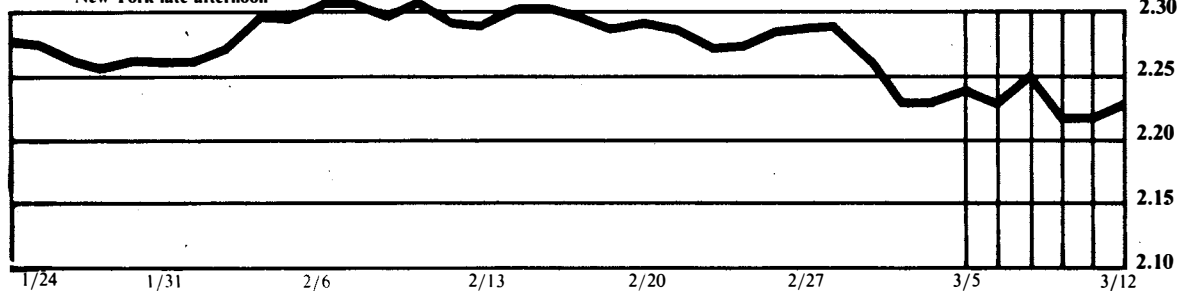
The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon



Trade Review

NEW DEALS

Cost	Principals	Project/Nature of Deal	Financing	Comment
\$307 mn	Indonesia from France	Aeroport de Paris (French government owned) will build an airport 16 miles South of Jakarta for the Indonesian government.	60 percent from a consortium of French banks and the French government; balance from Indonesian Treasury	
90 mn	East Germany from Italy	ENI's Snam Progetti subsidiary (state-owned) will build a highly advanced plant to recover lead from batteries		Deal signed at ongoing Leipzig trade fair
90 mn	East Germany from U.K.	GKN will build the first of three forges which will produce components for a new range of East German trucks		Contract awarded
87 mn	Poland/Brazil	A broad-based technical and scientific agreement on coal-mining and treatment has been signed		Agreement recently signed in Brasilia
79 mn	Indonesia from U.S.	Hughes Aircraft will build two replacement satellites for Indonesia's Communications Ministry		Agreement signed
68 mn	U.S. from Japan	Kawasaki Corp. will supply Philadelphia with 110 new subway cars. Budd Co. lost out, with a higher bid of \$81 mn		Winning contract awarded
56 mn	Morocco from The Netherlands	Bos Kalis (Netherlands) will build a harbor near El Ayonne for the Moroccan government		Technical contract signed in Morocco Feb. 29
50.6 mn	U.S. from Sweden	Amtrack has ordered 17 additional high-speed lightweight locomotives from ASEA, Sweden's heavy electrical equipment manufacturer		
45 mn	U.K. from U.S.	British Caledonian Airways orders an eighth McDonnell Douglas DC-10		
27.5 mn	Philippines/Australia	A steel galvanizing plant will be built in the Philippines, with ownership 60 percent Philippine, 40 percent Australian (Broken Hill Proprietary and Conzinc Rio Tinto)		
20 mn	Australia from Italy	Italianpanti and Ansaldo (both Italian state-owned) will build a coal ship terminal complex near Sydney, Australia		

Business Briefs

International Credit

Bundesbank to loosen capital inflow restrictions

Following the regular March 13 meeting of the Bundesbank Council in Frankfurt, President Karl-Otto Poehl announced that the central bank supported a federal government request to ease capital inflow restrictions. The West German commitment follows similar moves in the past two weeks by Japan and Switzerland. Poehl cited a possible 35 billion DeutscheMark current account deficit for West Germany over 1980, and warned that the Bundesbank intended to keep its substantial foreign exchange reserves intact for currency intervention purposes. Over the past four weeks, the West German mark has lost more than 5 percent of its value, trading March 13 at around DM 1.81 to the dollar.

Among the restrictions to be lifted are the virtual prohibition the bank imposed last year on commercial bank issuance of *Schuldscheine*, or mark-denominated certificates of deposits. West German banks had used such issues to soak up several billion marks' worth of Arab deposits and relend the funds on the Eurocurrency market. In an effort to restrict bank lending, the Bundesbank dried up that source of funds by preventing the banks from issuing notes of shorter maturity than four years. Now the limit will be reduced to two years. The implication of the exchange control easing is that the impact will not merely help the capital-account surplus to compensate for the current account deficit, but restore a measure of West German banks' international activity.

World Trade

Europe in export push to Third World

A new set of major trade deals are in the works between Western Europe and

developing countries, as German Chamber of Trade and Industry chief Otto Wolf von Amerongen announced a new German export push. Amerongen, in a statement March 12, called for expansion of the Hermes export insurance system, warning that any damage to the West German export guarantee corporation would be "lethal" for developing countries.

Meanwhile, the French giant Technip has sold Iraq 1 billion francs' worth of liquification equipment, Montedison of Italy fixed an \$800 million deal to build chemical plants in the Soviet Union, and the Japanese steelmaker Sumitomo agreed to sell the Soviets 100,000 tons of seamless steel pipe. European bankers believe that the loosening of Bundesbank restrictions on commercial bank issuance of certificates of deposit may enable them to expand export financing to year-ago levels, when Western European and Japanese banking virtually took over the Euromarket. The Bank of Japan has also lifted some restrictions on Japanese banks' foreign lending as of this month, but has not permitted banks to expand Euromarket liabilities.

Economic Policy

Bundesbank head knocks Volcker

Karl Otto Poehl, head of the German Bundesbank, and generally known for his conservative banking views, is now leading a West German counterattack against the United States' escalation of interest rates. Poehl told the prestigious guests gathered at the meeting of the International Chamber of Commerce in Stuttgart March 12 that Volcker's "anti-inflationary" action will probably produce an economic downturn for the next 12 months in Germany. Even more emphatically, Poehl asserted, the high interest rate environment created by Carter's hand-picked Federal Reserve Chairman Paul Volcker, is now creating con-

ditions for a world recession, and added that should there continue to be competitive hikes in interest rates by other nations to offset the moves inside the U.S. there might be a collapse of all of world trade.

Poehl's statements are rare in that the head of the Bundesbank almost never makes controversial political statements, and until now, Poehl has specifically exempted Volcker from criticism.

Poehl's statement however is just the front edge of a mounting dissatisfaction among all of German banking, following hard on the heels of similar statements by German industry. One West German banker this week asked pointedly, "aren't there moves now afoot to fire Volcker?"

Gold

A proposal for dollar-gold convertibility...from the City of London

In a March 7 interview with *Executive Intelligence Review*, William Rees-Mogg, the economic editor of the London Times, expressed strong views in favor of reestablishing fixed exchange rates and dollar-gold convertibility. "There is a perfectly reasonable prospect of negotiating an international monetary system based on gold," said Rees-Mogg. "Britain should join the EMS and put sterling into the European rate alignment. Then negotiations could take place with the United States and Japan and bring the now substantially overvalued dollar and yen into alignment in a stable fixed-rate system."

"Once this is done," continued Rees Mogg, "there should be a fixed rate for gold with convertibility into currencies. ...Given the size of the independent gold market, it is important to have convertibility for citizens in order to avoid a central bank market with a fixed price that diverges substantially at times from the private market.

"There is interest in the British gov-

ernment in fixing the rate of sterling, particularly because it is now overvalued...with North Sea oil making sterling attractive. ... We should be trying to set up a system of long-term rates which should make possible a devaluation of the pound. ...Based on calculations from Dresdner Bank figures, I calculated that \$1.60 was about competitive based on the relative cost of purchasing productivity in sterling."

On the issue of inflation, Rees-Mogg agrees with Milton "Friedman's view that any major change should be done gradually. I am against any sudden shock. This is one of the benefits of the gold system, provided that it is monetized at a high price. It will allow a slow return to price stability."

Banking

Major bank reform bill emerges from committee

The House and Senate Banking Committee's joint meeting of conferees reported out a banking reform bill this week, H.R. 4986, that will make a fairly large-scale reform of the U.S. banking system.

The two major features of the bill—elimination of Regulation Q, and mandatory reserve requirements on transaction accounts for all banks—are the most controversial, and may still be voted down when the bill comes up for a full House vote later in March. Regulation Q has provided thrift institutions with the ability to pay a .25 percent interest rate differential on deposits above that offered by commercial banks. This has allowed the thrift institutions to accumulate deposits which were then lent out to the housing industry. Now, under provisions of this bill, this differential will be wiped out (over a 6-year phase-out period) and instead thrift institutions will be allowed to grant up to 20 percent of their loans in the consumer credit area. One of the hidden intentions of H.R. 4986, as advanced by Rep.

Henry Reuss (D-Wis.), the bill's main proponent, has been to blur distinctions between different kinds of U.S. lending institutions until they all blend into one.

The other main provision of the bill is to give the Federal Reserve the power to impose uniform, mandatory reserves on transaction accounts at all types of financial institutions, be they members of the Fed or not. This measure was taken because so many banks have chosen to leave the Fed system rather than pay reserve requirements that the U.S. has started to evolve a dual banking system. This measure too has hidden implications, as it will also allow the Fed to tighten credit to commerce, industry and impose even tighter credit. Other features of the bill include the passage of NOW (Negotiable Order of Withdrawal) accounts and also an override of state bank usury ceilings. The bill must pass Congress soon or face the striking out of the NOW and state usury provisions, since law requires they be changed by March 31 of this year, or stand as existing.

Domestic Credit

Sen. Bentsen attacks Volcker policy

President Carter's tight money policy has come under attack by leading members of his own party. In a statement before the Joint Economic Committee March 12, Senator Lloyd Bentsen (D-Texas) said: "Before the bond market calamity, it was predicted that 1980 would be a poor year for the housing industry, with only 1.1 and 1.2 million starts. Now it seems that those grim predictions may have been optimistic. In state after state, subsidized housing—generally financed through bond sales—will not be built due to high interest expenses. Even federally subsidized units are in jeopardy. With interest on long-term Treasury bonds rising to over 12 percent, fewer units can be built without a budget increase, which is unlikely."

Briefly

● **VON BETHMANN** of the bank that has borne his family's name for 200 years denounced high interest rates, in a discussion in the West German business daily *Handelsblatt* March 13. "It's no good fighting inflation with high interest rates. The only positive result could be if they stop rising. These anti-inflationary measures only increase inflationary mentality, and will end in a devastating collapse. Will the U.S. Federal Reserve learn from its mistakes, or will it continue its senseless escalation...The shift has to come in the area of theory, and the Bundesbank must abandon its attachment to the theory of quantity of money, which will be viewed in the future the way we now look at the money-printing of the 1920's."

● **A CARTER CABINET** member on the economic policy side is despondent about the President's proposed budget cuts. "In a two and a half trillion dollar economy, \$20 billion of budget cuts is a lot of (expletive deleted)," he says privately. "It won't do a thing about inflation."

● **SEN. HENRY JACKSON** is conferring with controls advocates Henry Kaufman, the Salomon Brothers seer, and Lazard Freres partner Felix Rohatyn, about emergency measures to deal with the economic crisis. Kaufman and Rohatyn recently gave speeches proposing wage, price, credit, and other forms of controls over the American economy. Jackson is furious that the administration "isn't doing anything," and wants to organize a group of Senators to take the investment bankers' advice.

Energy conservation: building inflation into the economy

by Uwe Parpart and David Goldman

With the rate of inflation and interest rates at or near 20 percent, there is now little doubt in anyone's mind that the United States economy is out of control. Expert opinion as published on the front page of the *New York Times* of March 13, states that inflation itself is the principal cause of more inflation.

That is not likely to dispel the perception that things are out of control, as if the problem would go away if only everybody simultaneously could agree to stop charging higher prices. More to the point is an observation in the same *New York Times* article that "after fifteen years of blunders, there's no basis for having any confidence in the system (of fine-tuning through monetary policy measures)."

In fact, economists and economic policy makers who, without exception, applauded Paul Volcker's restrictive interest rate measures of last October as a "bitter but necessary medicine" to get inflation under control must now feel like someone whose automobile brakes overnight became attached to the gas pedal. At the time of Volcker's decision, *EIR* alone firmly predicted that the Fed's measures would rapidly exacerbate rather than attenuate the inflation problem since indiscriminate drastic boosting of the interest rate would cut still further into already too-low productive investment, while leaving virtually untouched politically protected or higher-yield unproductive or speculative short-term spending.

The data assembled below in the discussions by David Goldman, Dr. John Schoonover, and Lydia Schulman are intended to shed further light on the more long-term problems of structural inflation, which we have focused on consistently. This direction of inquiry has allowed us to make accurate assessments of the state of the U.S. economy when other analytic approaches have demonstrably failed.



Photo: Carlos Wesley/NSIPS

We pay attention here in particular to the crucial role of energy consumption in the economic process, concluding that attempts to reduce total energy throughput of the U.S. economy—either in response to higher energy prices or to regulatory policies—at a time of grossly inadequate levels of capital formation in virtually all manufacturing sectors have played a critical role in bringing about inflation and continue to play such a role in intensifying the present inflation crisis.

President Carter's "anti-inflation" address of March 14, whose most outstanding feature is the imposition of a \$4 per barrel tax on oil imports, along with a shotgun blast of budget cuts and credit controls which will damage the productive sectors of the economy more than the unproductive, is a further step in this crisis. The idea that government-mandated increases in the energy price will prove counter-inflationary may appear absurd. Nonetheless, exactly this was dictated to the Carter administration by the Council on Foreign Relations, whose view was presented by Harvard Business School economists Robert Stobaugh and Daniel Yergin in the *Foreign Affairs* magazine's annual review of 1979:

"Can this be done? We think it can, with substantial investments in conservation measures encouraged by federal financing—and the removal of institutional barriers. The result will not only be a higher GNP but much less inflation than if we send these dollars abroad to pay

for oil at ever-increasing prices...At the very least, our aim should be zero growth for the 1980s—not just because our supplies might be limited to that, but because meeting this goal through productive conservation is the best way to promote positive economic growth. Conventional economic analysis would dismiss this notion as fanciful. Our reply is that such conventional analysis is increasingly and distressingly distant from reality."

This statement has, through the life of the Carter administration, been elevated to national policy, and the economy has been attempting to do precisely what the Council on Foreign Relations has demanded. The question is whether these results have borne out as predicted: has greater energy efficiency led to greater GNP growth and less inflation? In fact, our analysis demonstrates that the past five years of shift away from energy-intensity in the American economy has created the present, apparently uncontrollable, inflationary crisis.

The apparent combined outcome of higher prices for energy and federal encouragement or regulation in favor of conservation has been—graph 1 shows—more output with less energy. This fact is used to argue that conservation works, more or less as stated above. There has, in fact, been greater output with less energy throughput. The extreme fallacies of this two-dimensional (energy vs. output) presentation become apparent when that two-dimensional correlation is embedded in a four-dimen-

sional phase space, including not only output and energy throughput, but also capital formation and a free energy measure. That free energy measure, the equivalent of Helmholtz's free energy (or useable surplus energy) in thermodynamics, has been defined in *EIR's* computer econometric model of the economy as the rate of production of investible tangible surplus versus current tangible costs of maintenance of the productive economy, or $S'/(C+V)$. This measures the efficiency of the joint action of a given quality and quantity of labor and capital.

This technique of embedding the simpler, and misleading, correlation between energy consumption and output in a four-dimensional phase space brings out what we consider to be the principal causal connection in the economy between 1) the quality of capital formation, 2) energy throughput, and 3) productivity, which a mere two-dimensional analysis must ignore. The technique is suggested by the past year's successful application of *EIR's* computer econometric model of the economy, known generally as the Riemann-LaRouche model, whose first results measuring the result of oil price increases were presented in this publication a year ago.

Analyzing the surface of the four-dimensional phase space defined by the four parameters mentioned above gives rise to the general conclusion that over the past decade, but specifically since 1974-1975, the U.S. economy has been deteriorating in the following fashion: considered as a heat engine in the sense of physical thermodynamics, it has in fact been on a path toward

dramatically lowered overall thermodynamic efficiency. This process has accelerated sharply since the summer of 1979. (A detailed quantitative analysis employing our computer simulation of the economy is now in progress and will be published shortly as part of this series.)

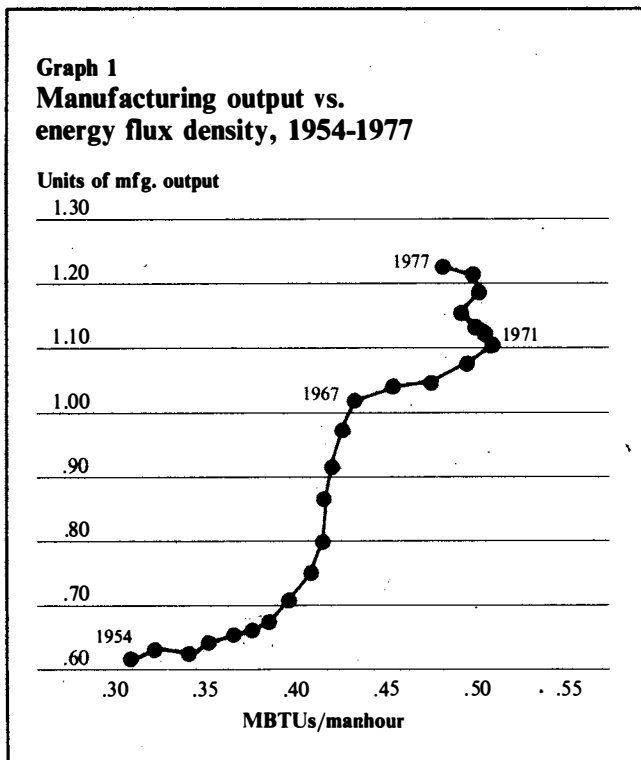
The qualitative measures of this process may be described as follows: While in the two-dimensional phase space spanned by energy throughput and output, an actual growth in output has been realized with less energy, this nonetheless leaves open the question of how this was accomplished. Such a result could be due to significant investment in capital formation of the high-technology sector of the U.S. economy, raising the actual efficiency of energy throughput of the economy as a whole, or through a change in the internal composition of output toward a regime favoring output in low-energy-intensive production categories and, more broadly, pushing the economy toward a less capital-intensive mode.

The evidence presented below leaves no doubt as to the correct answer. Capital formation in all sectors has been flat in the past period. Much of what did occur flowed into pollution-abatement equipment, etc., which in fact lowered the efficiency of energy throughput in the relevant sectors. As for the remainder of the small volume of capital formation, most was absorbed in the "friction costs" of significant shifts from capital-intensive to labor-intensive production, dictated by higher energy prices.

Useful evidence on the substitution of labor for energy has been presented by Harvard economists Dale Jorgenson and Edward Hudson, in their October 1978 study, "Energy Prices and the U.S. Economy, 1972-1976." They calculate a 3.2 percent drop in GNP and a 2.64 percent rise in demand for labor over the period as a result of higher energy prices. However, these figures, significant as they are, grossly understate the actual problem incurred.

As S' , or Helmholtz free energy, declines along a surface defined by the cited conditions, the deductions into various forms of waste reduce the useable free energy to zero. That is, aggregating the demands of "energy-saving" investment, military spending, synthetic fuels plants, chimney scrubbers, and the other investment costs of the low-energy program, these costs have already exceeded the economic free energy available for investment in productive capital formation. As S' declines below zero, the other costs become an absolute deduction from the productive sector.

In any thermodynamic system—and the U.S. economy is such a system—a reduction of Helmholtz free energy to below zero will lead its path through a singularity, i.e. a threshold point past which the system no longer behaves in the normal predictable fashion. This



makes foolish the statement of Hudson and Jorgenson, for example, that the cited effects of energy price increases "are one-time effects rather than permanent trends. Once the economy has adjusted to the new labor and productivity conditions, there will be no further energy-induced pressures for further changes. Continued changes will occur only if there is a secondary wave of induced price responses." The two economists build in this entirely unjustifiable assumption in predicting that, by the year 2000, the trends they describe will produce only a 3 percent total drop in GNP growth despite a 16 percent reduction in energy consumption.

In fact, the inflation crisis shows that we are well into such a singularity. The simple fact that the rate of commercial bank lending is still at 30 percent per year, despite a massive dropoff in consumer lending, the virtual cessation of loans for commodity speculation, corporate acquisitions, and various other forms of short-

term operations, proves this. The joke in President Carter's proposed credit controls against consumers and "speculators" that the banks have already squeezed most speculation out of the economy—witnessed by the collapse last week of all the hottest commodities markets—while the demands of structural inflation have kept credit demand booming.

This is now an Alice-in-Wonderland world, in which the real investible surplus of the economy—minus the "friction cost" of reducing energy consumption and various other forms of waste—is negative, but the economy keeps reinvesting as if such investments actually could have a productive effect on the economy! None of these conventional policies, even the most brutal of them, work. The crisis is identical in most respects to that faced by the Nazi economy in 1937-1938. *EIR* will present the detailed comparison between that crisis and the present one shortly.

Conservation kills

Some hidden costs of "energy conservation" were revealed last week as statistics were released showing that traffic fatalities continued to rise again during 1979, exceeding 50,000 for the second year in a row. According to news reports, the rise in traffic deaths is attributed by a number of safety experts to the growing number of smaller cars on the highways.

The truth is that long before present legislation which mandates smaller, "fuel efficient" automobiles was passed by Congress, it was well-known among automotive engineers and traffic safety experts that small cars are inherently more dangerous than larger cars. It was also well-known that an increase in the number of light-weight, and cheaply made, small cars on the road would inevitably lead to thousands of additional deaths per year. Yet nary a word was heard from the liberals, Naderites, and conservation buffs who forced energy austerity on the American motorist and the automobile manufacturers.

As early as 1965, a National Safety Council study reported that studies on five states showed that "in accidents that do happen, the rates of serious injury and death are sharply higher among small car occupants than they are among occupants of larger cars." In the early 1970's, the ratio of fatalities in small-car

occupants versus large-car occupants was 8:1, according to a report to a Society of Automotive Engineers safety conference.

Because the danger of small cars was so well established, Chrysler's chief engineer for auto safety warned in 1973: "We believe that government officials, while extolling the virtues of the small car in relationship to the need for conserving the nation's fuel supply, should also call attention to the findings of this study in the interest of conserving human lives. The safety differences shown to be related to vehicle weight are far greater than any other factors involving the vehicle."

Nonetheless, following the contrived oil shortages of 1973-74, the Congress passed legislation which forced manufacturers to produce smaller—and more dangerous—cars. In fact, fatalities among passenger car occupants had risen already in 1972 due to the number of compacts and subcompacts on the road after falling since 1969. Death rates fell in 1973 and 1974 with the decrease in miles driven due to the gas shortages, but have risen now for the past two years and will undoubtedly continue to increase. Even if the liberal's dream of eliminating the inequality in all large cars were to become reality, so that the inequality in collisions between large cars and small cars were eliminated, safety would be only minimally affected, since small cars are still more dangerous in collisions with fixed objects and trucks, as well as being incompatible with highway design such as banking and median barriers designed for larger vehicles.

The relationship between energy, inflation and productivity

by David Goldman and Dr. John Schoonover

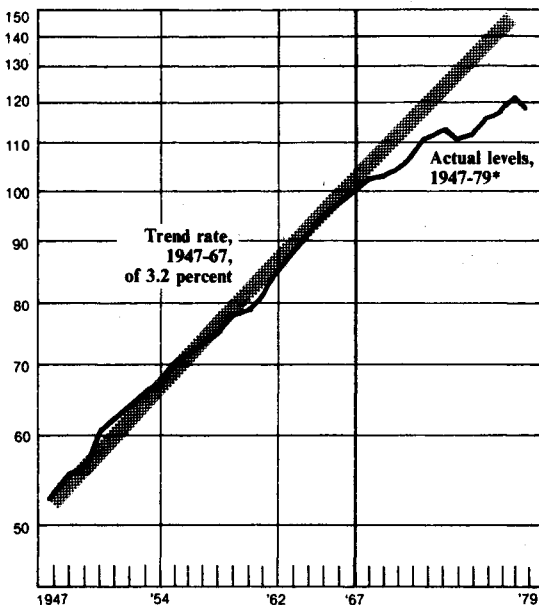
What is currently known to the economics profession concerning the behavior of productivity can be summarized in the first three sets of graphs showing 1) the trend of productivity (in terms of output per manhour) in the U.S. economy; 2) the correlation between productivity and the rate of fixed capital formation in various industrial economies; and 3) the inverse correlation between productivity growth rates and inflation rates among a

group of U.S. industries. The first three graphs are drawn from a current summary in the Bulletin of the Kansas City Federal Reserve Bank; the last, Graph 3A, was prepared by the *EIR* staff from Commerce Department and Bureau of Labor Statistics data.

A more useful description of the relationship between productivity and inflation is shown in the next, Graph 4, which compares the rate of productivity growth to the

Graph 1
Output per hour in private business economy

Index (1967 = 100)

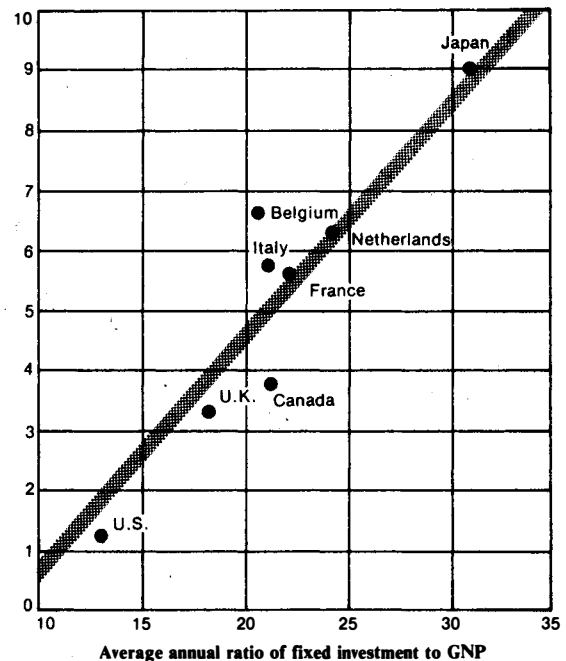


* 1979 value estimated

Source: Federal Reserve Bank of Kansas City, *Economic Review*, November 1979.

Graph 2
Investment and productivity, 1960-76

Average annual percent increase in manufacturing productivity

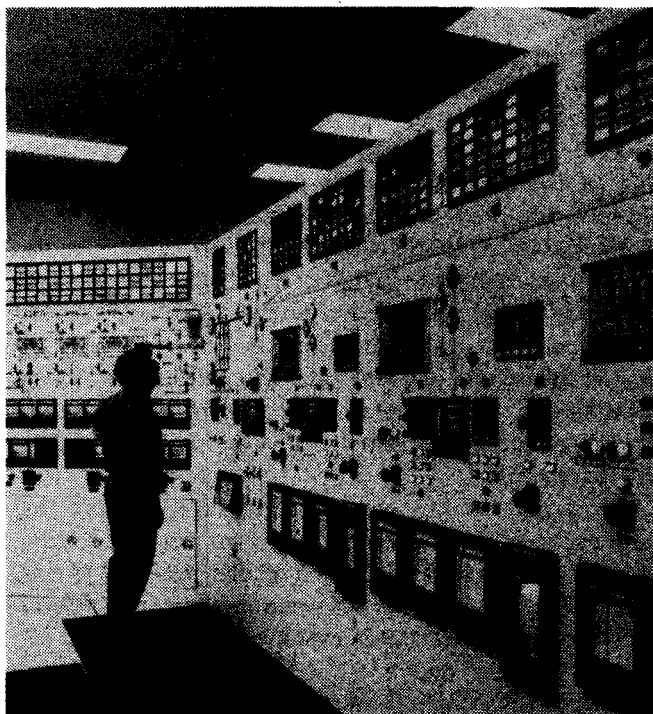


Source: Federal Reserve Bank of Kansas City, *Economic Review*, November 1979.

expansion of total indebtedness in the U.S. economy during the past 25 years. After 1967, which we shall demonstrate was a crucial turning point, there is an obvious relationship between the two lines; the rate of indebtedness rises geometrically as the productivity growth rate falls. In the simplest possible terms, this excess in debt expansion at odds with productivity growth rates defines a regime of *structural inflation*.

Graph 5, showing the relationship between output per manhour, or "productivity" in the conventional definition, and the energy-intensiveness of labor in the U.S. economy, as measured by consumption of British Thermal Units (BTU's) in manufacturing against manhours worked, begins to shed light on how productivity in fact develops. The vertical axis is productivity on the Bureau of Labor Statistics index; the horizontal axis is millions of BTU's per man-hour. Between 1954, the starting point of the time-line of the resulting graph, and 1971, the U.S. economy behaved in such a fashion that every increase in productivity was matched by an increase in energy-intensiveness.

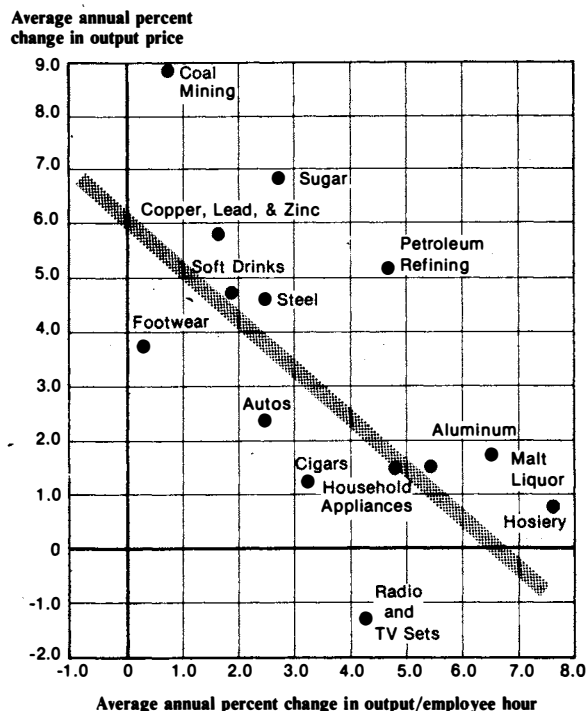
Graph 6, which shows manufacturing output on the vertical axis against consumption of energy measured in quads of BTU's, shows, through 1974, an almost linear function of increase. But it is the previous graph, which



Part of an 85 foot control panel operating a computerized blast furnace at the Sparrows Point steel plant, Baltimore.

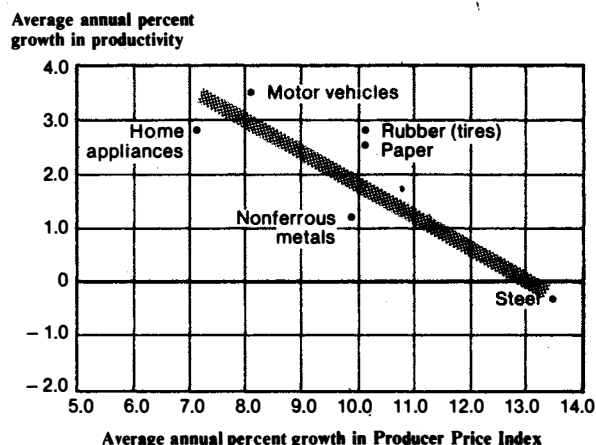
Photo: Bethlehem Steel

Graph 3
Prices and productivity, 1960-75



Source: Federal Reserve Bank of Kansas City, *Economic Review*, November 1979.

Graph 3A
Prices and productivity, 1973-78



Source: Commerce Department and Bureau of Labor Statistics data.

shows instead the productivity behind that output and the development of energy intensiveness, which tells us much more about the behavior of the economy. Between 1954 and 1959, as the American economy extends in scale, BTU's per manhour rise faster than productivity. During the next eight years, the relationship reverses sharply, and productivity grows much faster than energy-intensiveness. In this eight-year period, the U.S. economy sustained more than half of the productivity growth of the entire 24 year period shown. This spectacular development is attributable not only to high rates of capital formation, but high rates of assimilation of new technologies. These years correspond to the height of NASA spending for research and development related to the space effort.

However, the line breaks sharply at 1967, and the U.S. economy returns to earlier growth rates of energy efficiency. That year was both a secular peak in the rate of capital formation, and the point at which real federal spending for research and development began to fall off sharply.

After 1971, productivity growth continues, while the energy-intensiveness of industry falls in absolute terms. As shown also on Graph 6, the raw consumption of energy per unit of output also falls sharply during 1974-1975 and had not, in 1977, reached 1974 levels.

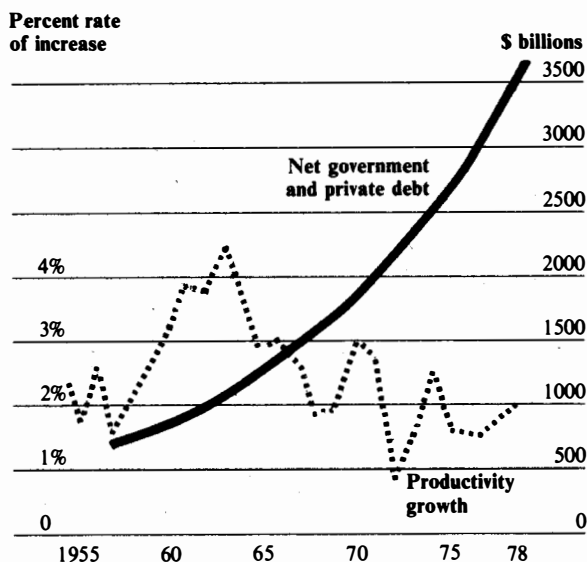
The next set of graphs demonstrates that the post-1971 behavior of the rate of energy efficiency is the result

of a fundamental deterioration in the American economy, which we have characterized as a regime of structural inflation. Specifically, the reversal of the trend line occurred as the result of a reduction in scale of the manufacturing sector as a whole, and the distortion of manufacturing away from highly energy-intensive industries toward less energy-intensive industries. This transformation of the mix of industries is specifically biased away from those investment-goods industries which are most important for manufacturing fixed capital formation. This will establish the causal relationship between the lines of declining productivity growth rates and rising indebtedness shown in Graph 4.

Graph 7 shows the absolute decline in total BTU consumption in a number of industries in the years prior to 1977. This decline in absolute BTU consumption, or energy throughput, corresponds to the period of growth of both output and productivity despite fewer BTU's per manhour. But during the same period, industrial employment fell sharply, as the most energy-intensive, least-productive sectors of industry, especially in primary metals, were permanently scrapped. Total manufacturing hours worked fell from a peak of 27.4 billion in 1967, not quite equalled by the 27.3 billion of 1974, to 25.3 billion in 1976. Manufacturing hours worked are still below the 1967 peak, as is the absolute level of manufacturing operatives.

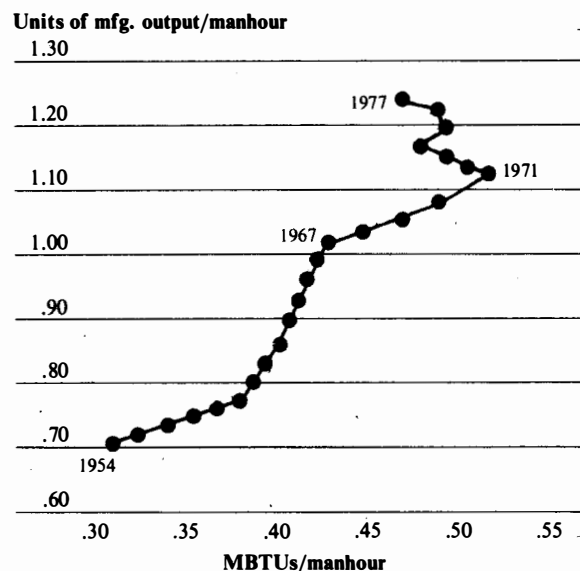
Graph 8, which shows the energy content of Gross

Graph 4
Productivity and total debt



Source: Federal Reserve Board; U.S. Dept. of Labor, Bureau of Labor Statistics

Graph 5
Manufacturing output/manhour vs. energy flux density, 1954-1977



National Product, provides a further illustration of the phase-change of the U.S. economy during the post-1971 period. Nominal GNP in trillions of dollars is the vertical axis; energy consumption of manufacturing is the horizontal axis. The graph shows a much more exaggerated rise in nominal GNP despite the fall in energy consumption than we saw earlier in either the case of productivity per man-hour, or in the case of manufacturing output. This shows the distortion of the economy away from goods-producing activity and towards more non-goods-producing activity, in addition to the shift in composition of manufacturing itself.

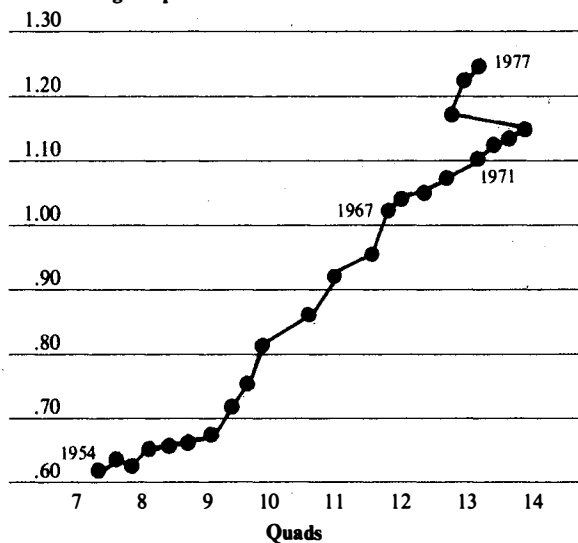
That shift is shown in the next three tables. The first two were prepared by Harvard economists Hudson and Jorgenson, the last by the *EIR* staff.

Table 1, "Composition of real final demand in 1976," shows the dropoff in demand for goods and a rise in demand for services as a result of energy price increases. The Hudson-Jorgenson econometric model estimated the composition of spending in 1976 under prevailing energy price conditions, and then simulated what they would have been under 1972 energy price conditions. Their model produced the rather obvious conclusion that demand for goods fell, particularly for energy and energy-intensive products, while demand for services rose, relative to the proportions that would have prevailed had energy prices not quadrupled in 1973.

The next table is the result of Hudson and Jorgen-

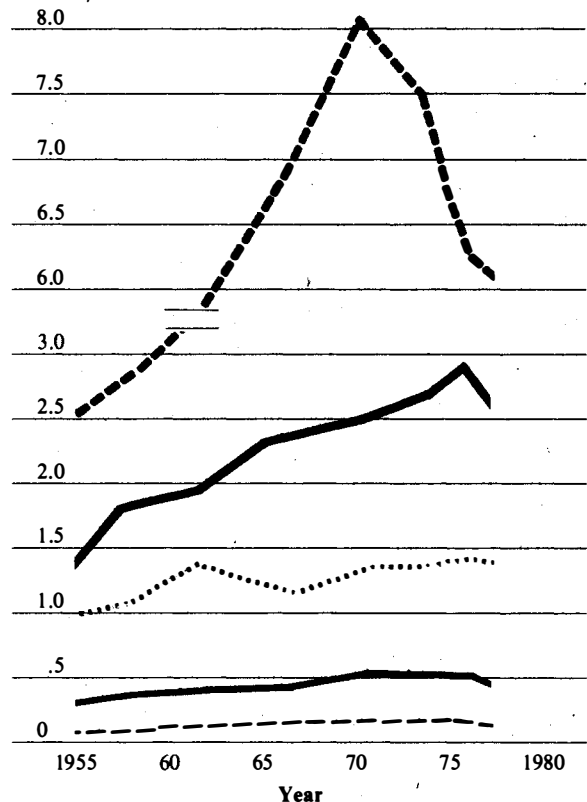
Graph 6
Efficiency of energy use
in manufacture

Units of mfg. output



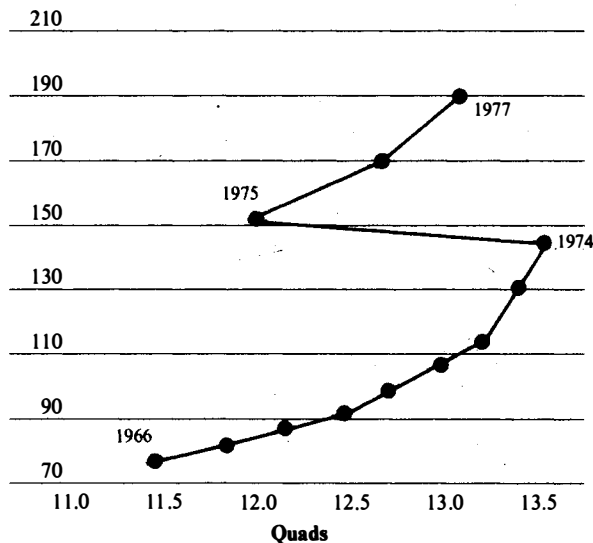
Graph 7
Energy flux density for
selected industries

MBTUs/manhour



Graph 8
Energy content of the GNP

GNP \$ trillions



son's econometric projection into the future of reductions in energy supply. The "Base Case," "Policy 1," and "Policy 2" represent differing degrees of stringency in reduction of energy supplies. Again, the Harvard economists come to the straightforward conclusion that the more other factors, especially labor, are substituted for energy, the lower real growth will be and the worse off the economy will be.

The final table in the series, Table 3, documents the shift in composition of manufacturing industries away from energy-intensive toward less energy-intensive industries between 1973 and 1978. By sector, the table states the shipments of each industry as a percentage of total manufacturing shipments, and compares the change in the proportion among the industries to energy-intensiveness. The results are quite dramatic. The least energy-intensive industries show a significant rise in proportion of total shipments; the most energy-intensive show a drop. Most dramatic is the drop for the most energy-intensive industry listed, primary metals, which falls from 8.1 percent to 7.2 percent of total output. The biggest increases—in transportation equipment, electrical equipment, and food—are in the least energy-intensive industries.

This last table actually understates the change in state of the economy, because it shows only the proportions within the manufacturing sector, not the decline of the manufacturing sector in both absolute terms (as measured by total manhours worked) and in relative terms, with respect to the rest of the economy.

To summarize the data displayed above: it is in fact the case that the American economy managed to increase productivity in terms of output per manhour and to increase overall output while reducing energy consump-

tion. However, this was the result of 1) a decline in the tangible economy with respect to the paper economy in absolute terms, 2) a decline in the proportion of economic activity devoted to tangible-goods production, and 3) a perversion of the internal composition of the goods-producing sector itself. Overall, the process was the cause of declining rates of productivity growth with respect to historical levels, and declining productivity especially with respect to the rate of growth of indebtedness in the economy. That defines an accelerating structural inflation in the U.S. economy.

A period of structural inflation

The above description provides a unique, and accurate, measurement of what structural inflation is, an explanation entirely lacking in most accounts of the development of inflation. The following section, on capital formation in a regime of structural inflation, demonstrates that the American economy has entered a period of self-feeding structural inflation, and potential hyperinflation.

Lydia Schulman's analysis demonstrates that as of 1980, the adverse structural shift away from energy-intensiveness in the U.S. economy will absorb virtually all fixed capital formation in manufacturing—i.e. new plant and equipment investment will add neither to the supply of goods nor the productivity of labor, but merely change the energy composition of the economy. Under such conditions industrial capital formation becomes an overhead burden on the economy, worsening precisely those tendencies in the real economy that capital investment should solve, and leading to self-feeding inflation.

Table 2
Capital, labor and energy inputs in 2000

Quantities of input	Base case	Policy 1	% change from base case	Policy 2	% change from base case
Capital services*	831.5	821.9	-1.2	806.3	-3.0
Labor services*	1281.3	1281.2	-0.0	1281.1	-0.0
Energy**	138.5	126.6	-8.7	116.3	-16.0
Real GNP	2721.7	2679.8	-1.5	2634.9	-3.2

* Measured in billions of 1972 dollars
** Quadrillion Btu of primary energy input

Table 1
Composition of real final demand in 1976

(percent of total real final spending)

	Simulated with 1972 energy prices	Simulated with actual energy prices
Agriculture, construction	12.3	12.0
Manufacturing	32.4	32.2
Transportation	2.6	2.5
Services, trade communications	48.8	49.9
Energy	3.9	3.4
Total	100.0	100.0

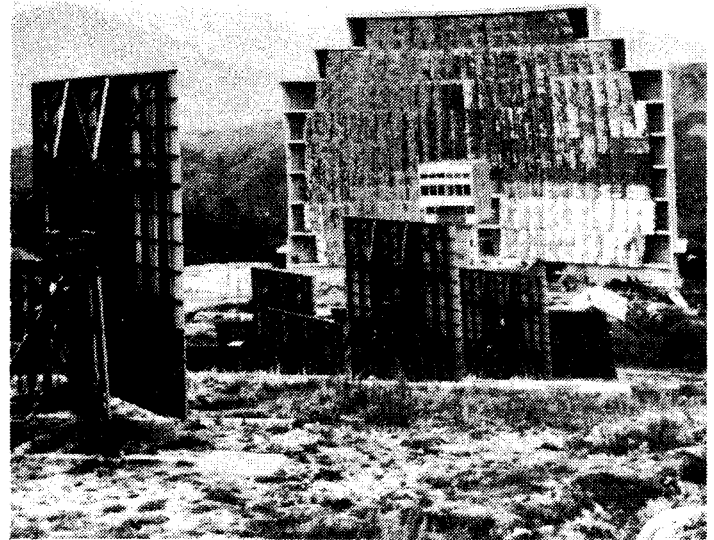
Table 3
**Shift in composition of U.S.
 manufacturing industries, 1973-78**

Sector	Shipments as % of total*		Energy intensity indicator †
	1973	1978	%
Food	13.5	14.3	4.1
Textiles	3.7	3.8	6.8
Paper	4.0	4.0	12.2
Chemicals	8.7	8.7	10.5
Petroleum and coal products	4.0	4.4	15.9
Rubber and plastics	3.2	3.1	4.6
Stone, clay, and glass	2.7	2.7	12.9
Primary metals	8.1	7.2	15.8
Machinery, not electrical	9.7	9.5	1.9
Electrical eqpt.	8.0	8.2	1.9
Transportation eqpt.	14.2	14.9	2.1
Other**	20.2	19.2	--

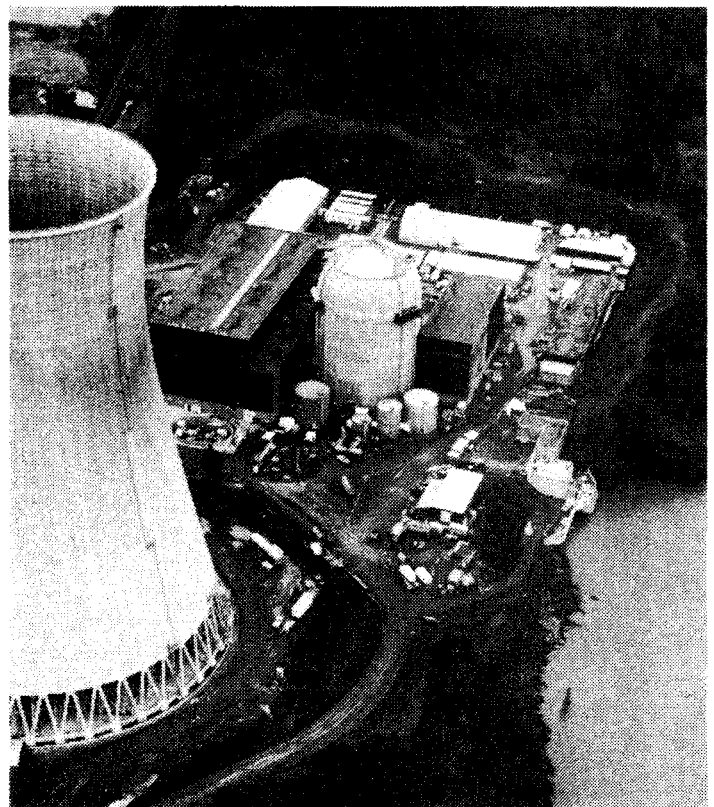
* Inflation-adjusted data

** Includes tobacco, apparel, lumber, furniture, printing leather, fabricated metal products, instruments and miscellaneous

† Fuel and electricity costs as % total value added. Does not include feedstocks; thus, primary metals, chemicals and petroleum are relatively more energy-intensive than would appear from these figures.



Energy inefficiency: A solar panel in the Pyrenees.



Energy efficiency: The Trojan nuclear plant in Portland

Photo: Portland General Electric

The quality of capital investment in the United States

by Lydia Schulman



U.S. machine tools: most are out of date.

The acceleration of structural inflation in the U.S. economy has its root in the deterioration of U.S. capital formation. Since 1975 especially, U.S. capital investment has been stagnating quantitatively, and it has been deteriorating qualitatively.

As the following report will illustrate, this qualitative deterioration has been governed by a vicious irony: that new capital formation has been devoted increasingly to seeking ways to achieve energy "conservation" and substitute labor for energy and capital in production processes. The results of this shift in the composition of capital formation have been a leveling off of the rate of productivity growth over the last two years (measured as output per manhour) and galloping inflation.

The dominant character of U.S. capital investment is exemplified by the \$60 billion the big three auto companies plan to spend over the next five years to retool their plants to produce the smaller, more "fuel-efficient" cars mandated by the federal government. Putting aside for a moment the likelihood that these capital outlays will bankrupt two of the three automakers before the five years are up, it is readily apparent that the retooling program represents a misinvestment of \$60 billion to adapt to a fictitious "energy crisis" and to perpetuate an obsolescent mode of technology. Unfortunately, an increasing proportion of U.S. capital investment is of the same non-productive and wasteful character.

A useful area of capital investment for the automakers would be in the development of nonpolluting, hydrogen fuel-based automobiles and entire mass transportation systems. Such an investment program, of course, would have to take place in the context of a national commitment to developing cheaper, more efficient energy sources for the economy as a whole.

To fully appreciate the misinvestment represented by the planned auto retooling program, consider that \$60 billion invested in the construction of added U.S. nuclear energy capacity would save considerably more petroleum than the more fuel-efficient autos, leaving Americans to drive larger and safer cars and leaving the auto industry to put its investment funds to better use. \$60 billion invested in the development of thermonuclear fusion would most probably bring on line a power source much cheaper than anything else available by the end of the 1980s, solving America's and the world's energy problems for the foreseeable future. Rep. McCormack (D.-Wash.) recently proposed legislation that would provide \$20 billion for the start up of a demonstration fusion reactor. To save trivial amounts of petroleum, the auto companies plan to spend three times that amount.

What the figures show

The accompanying graphs indicate the overall parameters of the quantitative and qualitative deterioration of U.S. capital formation. New expenditures on plant and equipment adjusted for inflation have been virtually stagnant over the last decade (Graph 1). At \$103 billion last year, constant dollar capital expenditures were barely higher than the \$97.5 billion level reached in 1974, before the quadrupling of world energy prices took its full toll on output and investment.

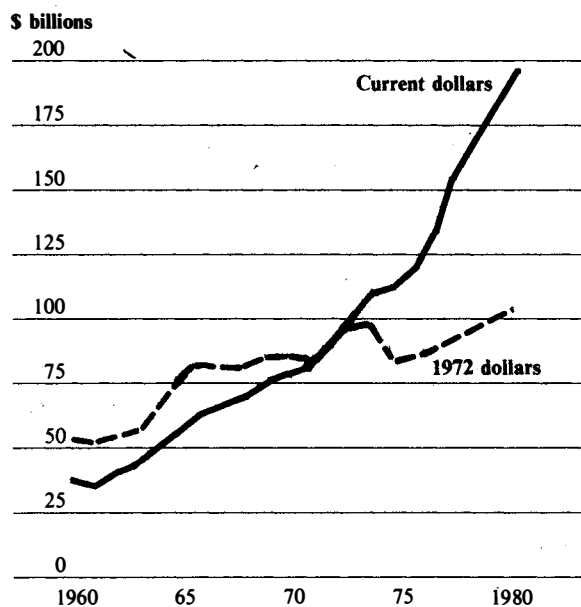
The annual survey conducted by the U.S. Commerce Department in late November and December of last year indicated that U.S. business plans to spend \$195.7 billion (current dollars) for new plant and equipment in 1980. Survey respondents also indicated that they expected capital goods prices to increase by 10 percent this year, implying a mere 1-2 percent increase in planned real spending on plant and equipment.

Graph 1 also records an exponential take off in capital goods prices beginning in about 1975, which was related to the energy-intensity of the capital goods industries and the over-strained capacity conditions in that economic sector. The higher-than-average rate of inflation of capital goods prices, together with an adverse tax environment and steadily worsening credit conditions, have now discouraged productive capital formation to the point of unleashing a self-feeding spiral of eroding real capital formation and accelerating structural inflation.

In Graph 2, two categories of plant and equipment expenditures—spending on pollution abatement and purchases of autos and trucks for business use—have been deducted from total inflation-adjusted capital spending to better approximate the real level of spending on productive plant and equipment.

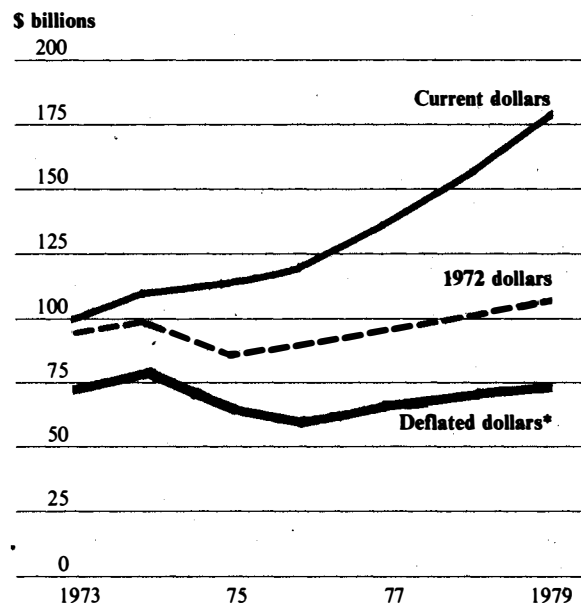
Compliance with Environmental Protection Agency

Graph 1
Expenditures on new plant and equipment by U.S. business, 1960 to present



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis

Graph 2
Expenditures on new plant and equipment by U.S. business, 1973-1979



* Less spending on pollution abatement equipment and trucks and cars for business use.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis

and other government regulatory agency requirements accounts for a major chunk of nonproductive capital investment each year. Between 1974 and 1979, spending on scrubbers and other pollution abatement devices accounted for an average of 5.4 percent of total plant and equipment devices per year, and the amount of such spending is expected to rise sharply over the next five years, as new environmental regulations take force. The EPA itself is projecting that U.S. business will spend \$220 billion on pollution abatement over the next 10 years, or triple the current annual rate!

The example of machine tools

Increased capital spending by the private sector related to the projected rise in government defense spending and to synthetic fuel production—two features of the Carter administration's Fiscal 1981 budget—represent the same sort of misinvestment and tilting of the composition of capital formation in favor of nonproductive

investment. The administration's synfuels program is an example of highly inflationary, pure waste spending, whose stated aim is to produce energy by the most costly procedures available.

A telling reflection of the shift in the internal composition of U.S. capital formation is seen in the shifting distribution of the stock of machine tools in the United States. The machine tool industry is properly regarded as one of the key "productivity-generating" centers in the economy. Leaps in growth of productivity are mediated through the absolute expansion of machine tool capacity and the technologically advancing character of that machine tool stock.

Over the last year, the shipments of the machine tool industry have been increasingly absorbed by retooling by automakers and airframe builders, who are racing to meet federal fuel-efficiency and air and noise pollution standards. According to one estimate, around 20 percent of new shipments are currently destined for the auto industry, where they will be used to turn out the new

U.S. capital investment in selected industries

Here is what the trend in capital investment looks like for selected industrial sectors.

Transportation equipment. The Ford Motor Company has budgeted \$20 billion for "product spending" over the eight-year period from 1978 through 1985. Of this amount, more than 80 percent will go to meet government regulations on downsizing and fuel-economy.

General Motors reports that its regulatory costs for the five-year period 1974 to 1978 were almost \$6.2 billion, excluding large expenditures made every year to improve the "fuel economy" of GM cars. In 1978, these expenditures came to \$1.5 billion. The cost of meeting federal regulatory standards, GM estimates, will add \$590 to the cost of one of its typical cars by 1985.

Steel. Stated in 1978 dollars, the annual capital input of the steel industry came to \$3.2 billion in the 1960s. In the 1970s, annual capital spending averaged \$2.9 billion, but upwards of 20 percent of that amount was devoted to pollution abatement expenditures.

This year capital expenditures by the industry are projected at \$3.36 billion (in current dollars), while environmental costs are expected to run \$800 million a year over the 1980s.

Mandated pollution abatement spending by the steel industry has locked the industry into an especially vicious trap. The recent capital spending rate, after spending on pollution abatement was deducted, permitted the replacement of only 2.5 percent of the industry's capacity each year. That meant that the average steel facility was being replaced only once every 40 years! The average coke oven, the chief source of pollution, is more than 17 years old. Pollution abatement spending breeds more pollution.

Electric utilities. Plant and equipment spending by the electric utilities in 1978 totalled \$23 billion. Roughly 10 percent of that represented spending on pollution abatement. A study prepared by the Electric Power Research Institute has shown, moreover, that the adding of retrofitted scrubbers to coal-fired electrical generating plants has significantly increased their down time. Between 1966 and 1976 available capacity dropped by 6 percent. For every percentage point drop in plant availability, EPRI calculated, \$1 million in dependent business is lost.

Regulatory delays on the licensing and construction of nuclear plants led to a doubling of their cost of construction over the 1970s.

downsized cars. By contrast, in 1978, the entire transport equipment sector accounted for 13.7 percent of the nation's inventory of machine tools, up from 13.1 percent in 1973.

Over the next several months a new area of demand for machine tools is expected to open up: the military sector of the market. However, the unusually high demand from the auto and airframe industries is already straining existing machine tool-producing capacity, because of the undercapitalization of the machine tool industry. The total inventory of U.S. machine tools available for use declined by more than 14 percent between 1973 and 1978. While it is true that the total number of more technologically advanced, numerically controlled machine tools almost doubled over the same five year period, in the base year, numerically controlled machines accounted for only 1 percent of all machine tools. In terms of the average age and obsolescence of machine tools, the U.S. came in last when compared with seven other countries (Table 1). More troublesome even in the view of the industry is the shortage of skilled mechanics to man the capacity.

Corollary developments in employment

The emphasis on nonproductive over productive capital formation in the U.S. economy correlates with a deterioration in the ratio of operatives employed in the production of tangible wealth to the total national labor force. In a healthy economy, characterized by rising rates of technological progress and real economic growth, increasing rates of new capital formation create and require a rising ratio of skilled, productive employment. Opposite trends have been the rule in the postwar U.S. economy. Graph 3 shows the steady drop in the percentage of employees engaged in goods-producing industries from the end of World War II to the present. At the end of 1979, the percentage stood at 29.7 percent, as compared with 43.5 percent in 1945.

In the 35-year sweep from 1944 through 1979, the total U.S. labor force (agricultural and nonagricultural workers) grew by 41 million workers. But of that increase 39 million workers—95 percent—were added to the services-producing sector. Over the same time period, the manufacturing labor force grew by only 3.5 million.

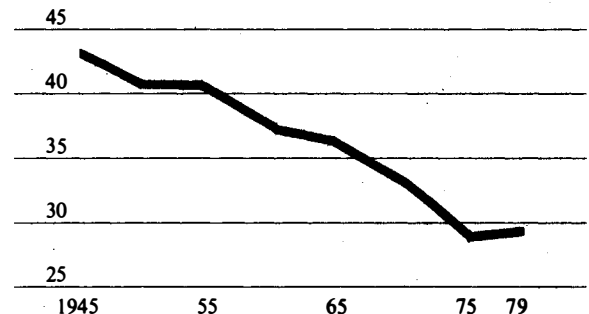
In 1979, the shift in the composition of the labor force emphasizing service employment was brought into relief by the fact that the total number of employed workers continued to grow, holding down the unemployment rate, despite heavy layoffs among auto, steel and other blue collar workers.

Table 1
Age of machine tools in eight countries

Country	Year	% under 10 years	% over 20 years
United States	1977	31%	34%
Canada	1978	47	18
F.R.G.	1979	37	27
France	1974	34	33
Italy	1975	42	28
Japan	1973	60	n.a.
United Kingdom	1977	39	24
U.S.S.R.	1971	54	n.a.

Source: 12th American Machinist Inventory of Metalworking Equipment, Dec. 1978

Graph 3
Employment in goods-producing industries as a percentage of nonagricultural employment



Source: U.S. Dept. of Labor, Bureau of Labor Statistics



Giscard's Mideast trip: a way out of the mess

by Philip Golub and Vin Berg

The international community, with French President Valéry Giscard d'Estaing in the lead, is slowly but surely awakening to the reality of the international situation. An unusual combination of Carter administration blunders and French diplomatic action to stabilize the Persian Gulf-Mideast region has radically altered the course of international affairs in a matter of weeks.

Giscard's design, to found a "third force" in world politics, a new nonaligned bloc stretching from Central Asia through the Middle East to the southern-most parts of Africa, is closer to realization today than at any time in past years, partly impelled by the depth of the global strategic crisis itself. Carter bungling has so deepened that crisis that decisions that were merely possible yesterday are imperative today.

What West German Chancellor Schmidt politely termed the Carter administration's "incalculability," i.e., insanity, has produced what is unquestionably the vastest U.S. policy debacle in the postwar period. Continental Europe, the Middle East nations, the Persian Gulf, Central Asia and Africa have been wielded into a single voice by the French President, denouncing the Carter administration's heavy handed efforts to draw others into a Soviet-American conflict.

Giscard d'Estaing achieved a truly extraordinary degree of success on his tour of nations in the Persian Gulf, perhaps the most unstable and explosive area in the world. Giscard visited the region with a global perspective, linking monetary reform to political and military considerations, and addressing the war dangers in the region from the standpoint of its need for economic development. The solution to outstanding political prob-

lems, led by the Palestinian question, requires political agreements and security guarantees, but these can remain stable only to the extent that they are linked to large-scale "North-South" technology transfer to develop the Third World nations in a codetermined fashion.

French thinking

Numerous specific Franco-Arab agreements were signed relating to state-to-state oil sales, oil-for-technology agreements, and in the political and military fields. The essentials of French thinking, however, can be summarized as follows:

- Central Asia, flanked on its east by a stable and strong India and on its west by OPEC, can be secured by working out an overall political and economic program for all states.

- Pakistan and India must be developed simultaneously, with special emphasis on providing Pakistan with sufficient aid to free it from its current reliance on the United States and China—a major step toward permitting Soviet withdrawal from Afghanistan.

- A "trialogue" leading to "triangular development" agreements between Europe, the Middle East and Africa must be inaugurated; a "European Monetary Fund," phase 2 of the European Monetary System, pooling European gold reserves and Arab petrodollar "deposits," can extend billions in credits for large-scale, high-technology development projects in the OPEC and African nations.

To date, even as Giscard toured, Pakistan said a loud "no thanks" to U.S. offers of military aid. India endorsed Giscard's perspective and began cooperating with the



Giscard d'Estaing with the Emir of Kuwait.

French President's peace-making efforts during his state-visit to New Delhi in late January. The OPEC member-nations Giscard has visited, one by one, have jointly communicated their approval of the "trialogue" concept. West Germany is publicly supporting him, and the Soviet Union has indicated that it views the development positively. The preconditions for the grand design have essentially been fulfilled.

"Three brilliant partners"

Giscard's own perceptions of the impact of his ten-day tour, which culminated in powerful Saudi Arabia, were expressed at a press conference as follows: "This will be a re-encounter of three of the most brilliant partners of our civilization. It does not aim to suppress other forms of dialogue (such as the North-South dialogue), but to expand and make specific these already existing forms."

In short, France will be the vehicle that finally gives expression to the nationbuilding aspirations of the Arab and African states so long suppressed by Anglo-American domination, reviving the tradition of scientific excellence embedded in Middle Eastern humanism and the Moorish culture of North Africa and Spain. In so doing, France offers an excellent example to the United States of the way out of the disaster into which Carter zero-growth policies have led the nation and the West as a whole.

Giscard won the support of the Arabs early in his

Franco-Arab trade deals: naphtha to nuclear plants

The following trade and cooperation agreements were reached between France and Middle Eastern nations during Giscard's tour of the region.

Kuwait. France and Kuwait signed a cooperation agreement for joint investments into France, Kuwait, or third countries, with special emphasis on oil exploration, refining and petrochemicals. To begin cooperation, agreement was reached for the construction in France of methanol and urea plants by a joint company of Kuwaiti financiers and the French CDF-Chimie (the latter with 51 percent).

The Compagnie Francaise des Petroles (CFP) and Elf Aquitaine who up to now bought Kuwaiti oil through Shell and British Petroleum are now authorized to buy oil directly in a state-to-state agreement.

Bahrain. Cooperation agreements were signed, notably involving Electricité de France (EDF), to develop and modernize its production and distribution installations. The French National Geographic Institute is negotiating with Bahrain's Housing Minister.

Qatar. André Giraud reached an agreement with Qatar on research into new forms of energy and ways to fight pollution. The French Trade Minister Deniau helped establish a joint company for the development of Qatar's agriculture. CDF-Chimie will be supplied naphtha for its petrochemical installations in France.

United Arab Emirates. France and the Emirates signed an agreement to study "the nuclear production of electricity." In Abu Dhabi, France will build a center for the control of offshore installations, and through the French Oil Institute, IFP, France will train engineers and technicians.

France will cooperate in the development of fruit and vegetable "hot house" culture as well as aquaculture.

Jordan. The joint Franco-Jordanian communique states that: "They (Giscard d'Estaing and King Hussein) are particularly interested in industrial projects concerning exploration, exploitation and development of oil and mining resources, the production of fertilizers, electricity and cement, as well as the auto industry. The two parties declared themselves ready to develop the cooperation launched in the domain of telecommunication.

tour when in Kuwait, he dropped a diplomatic bombshell on the moribund Camp David treaty—or rather, secret military alliance—by announcing French support for Palestinian “self-determination.” He subsequently made it clear that he means for the international Palestinian diaspora, featuring a very high percentage of well educated intellectuals, to return from abroad to build a Palestinian nation-state. Camp David, already a policy-wreck, was thus officially buried to the applause of every nation in the region except Israel. On March 8, even Egypt, which signed away Palestinian rights in the pact with Israel, was praising the French initiative.

Carter’s reversal of the U.S. vote at the United Nations last week condemning Israel’s West Bank settlement-policy wiped out the last hope that London policy-makers had of regaining some influence in the Middle East. The Anglo-American faction was left high-and-dry as France carried out its diplomatic victory. The phrase commonly heard by the time Giscard’s trip was only half over is: “France has inherited the Gulf.”

The war with Volcker

The long-term implications are summarized in the “trialogue” approach. Yet, even in the short-term, the effects of Giscard’s success can be enormous.

For one thing, the European Monetary System nations’ excellent positioning for the receipt of Arab “petrodollar deposits” after Giscard’s tour gives the continental powers a much stronger hand in the “interest-rate war” launched against them by Jimmy Carter’s Federal Reserve Secretary, Paul Volcker. With a U.S. budget deficit now being unofficially placed at \$150 billion or more, Volcker has striven to attract petrodollars from the OPEC nations by driving up the interest rate on U.S. government securities, forcing Europe to follow suit. That must have a dampening effect on Europe’s policy-intention of “recycling” petrodollars into low-interest development-project lending to Third World nations—unless Europe were able to offer petrodollar holders like Saudi Arabia *gold guarantees* for lower interest rates on their deposits.

It cannot be lost on observers that Giscard d’Estaing, now so popular with the Saudis and others, is the same man who has promised to introduce proposals to return the world monetary system to a gold-standard at the coming Vienna economic summit in April. Otherwise, the details of Giscard’s discussions in Riyadh remain out of public view.

It was perhaps in Jordan, however, that Giscard best expressed the purpose and significance of his talks with the Arab world. “With the institution of peace . . . , what exceptional development opportunities will suddenly unfold for all the peoples of this region!”

The Franco-Jordan communique

Below are excerpts from the joint communique issued by Valery Giscard d’Estaing and King Hussein of Jordan on March 10, 1980.

... The official conversations which the President of the Republic and His Majesty the King had during this visit took place in a spirit of friendship, confidence, mutual respect and total comprehension...

The two heads of state placed the question of the Middle East and the situation in the region as foremost among their concerns, and devoted considerable attention to it. They agreed that the delicate and grave situation of the region constitutes a threat to peace and security in the world, and that it is necessary and important to find a global and just settlement to the Middle East crisis. They affirmed that the goal of this settlement is to ensure and guarantee the establishment of a just and durable peace for all the people of the region and that this peace is of vital importance for the security and independence of these people and for their economic and social development.

The two heads of state...noted that the international community is now conscious of the necessity of finding an international solution to the Middle East crisis based on the charter of the United Nations, on the resolutions of the Security Council and therefore on the following principles: Israeli withdrawal from Arab territory occupied in 1967, recognition of the legitimate rights of the Palestinian people, including its right to a homeland on these territories, and recognition of the right of all the states in the region to live in peace within safe, recognized and guaranteed borders.

The two heads of state recognized the central character of the Palestinian problem. They expressed their conviction that this problem is not a problem of refugees, but that of a people which legitimately aspires to exist as such, and which must be in a position to exercise its right to self-determination in the framework of a peace settlement.

The two heads of state agreed to mobilize all their efforts so that the path towards a real peace will be opened. They feel that the principles of global settlement are valid for all the parties concerned. The latter must therefore be associated with the negotiations, notably the

Palestinian people, which implies participation of the Palestine Liberation Organization...

The President of the Republic and His Majesty the King were pleased to note the convergence of their views on the major international problems and expressed their concern over the tensions recently cropping up in various regions of the world. They stressed their common attachment to the principles of independence, sovereignty and territorial integrity of all states. At the same time, they stressed that the relations between states must be based on:

- reciprocal respect, in conformity with the principles which must govern international relations, and in particular, those which are contained in the United Nations charter,
- non-interference in the internal affairs of other states,
- cooperation with a view to safeguarding international security and peace, in order to reinforce the right to security of all states through the development of consultation in a constructive spirit.

The two heads of state came out against all foreign interventions and interference which threaten to undermine security and peace in the world. They expressed their concern over the situation in Afghanistan, as well as their hope of reaching an acceptable formula which would create the proper climate to permit the Muslim people of Afghanistan to freely decide their own destiny.

The two heads of state agreed that the Euro-Arab dialogue offers considerable possibilities in the common interest of the European Economic Community and the Arab countries, and they affirmed the necessity and the urgency of deepening it.

His Majesty the King expressed his satisfaction and his active support for the initiative of the President of the Republic for the creation of an Institute of the Arab World whose goal is to deepen knowledge of the Arab world and improve reciprocal knowledge of the languages, cultures and civilizations of the Arab countries and France, and through the latter, of Europe.

The two heads of state proceeded with an examination of their bilateral relations and affirmed their will to develop cooperation between the two countries. The two parties expressed congratulations for the results achieved in the field of economic relations and for the contribution made by the first Franco-Jordanian protocol signed in 1977 covering the financing and realization of the Agaba phosphate complex.

By the same token, the two heads of state expressed their satisfaction with the continuous development of this cooperation, which has manifested itself notably with the signing of the second financial protocol of June 1979 covering an important program in the field of telecommunications. The rapid execution of this accord

will give a new impulse to their bilateral relations.

Finally, the two heads of state evoked the new perspectives opening for relations between the two countries. They showed particular interest in industrial projects in the areas of prospecting, exploitation and the development of mining and petroleum resources, the production of fertilizer, electricity, cement, as well as the automobile industry. The two parties declared their readiness to develop the already-initiated cooperation in the field of telecommunications. The French party is, in addition, when the time comes, disposed to open a new loan under privileged conditions for the realization of one or more projects according to the criteria of French aid, as well as to the economic development needs of Jordan.

'What development there will be, after peace!'

French president Giscard made the following statement during his stay in Amman, Jordan:

We know how much your country has suffered from a situation which has engendered four wars in a generation. We know its desire for peace. We also know what close ties unite it with the Palestinian people which it has largely welcomed on its soil, this people whose aspiration to a motherland neither exodus nor uprooting nor years could dampen. ... The right of each state in the region to live in peace must be ensured through guaranteed and recognized frontiers...

We must recognize at the same time the true nature of the Palestinian problem. It is not a refugee problem, but the problem of a people who aspire to exist and organize itself as such. By exercising its right to self-determination, a right also universal, in the framework of a peace settlement, this people must be able to control its own destiny and to have a motherland.

Such are for France the two conditions for peace in the Middle East....

As far as she is concerned, France intends to do everything in her power, in liaison with its European partners, in the search for a peace settlement. With the institution of peace, cooperation between the people of that region would unfold such a future for the region!

... Yes, the obstacles on the path of peace must not prevent us from perceiving the exceptional opportunities for development which would open to all the people of the region, so greatly equipped with resources and talents, from the moment they accept coexistence within frontiers that would no longer face menaces.

The French press hails the French president

The French press is euphoric over the outcome of French President Giscard d'Estaing's tour of the Middle East. Le Monde, not known for its sympathy towards the president, carries a front page interview of PLO leader Arafat with the banner headline: "Giscard Has Gotten Europe To Take The First Step Towards a Settlement Of The Mideast," a quote of Arafat. Otherwise, the following are exemplary of French press comments.

Les Echos

"Apotheosis in Riyadh for the New Foreign Policy of France," Mar. 10: The trip of Giscard in the Mideast is a beautiful success for French diplomacy. It marks the return in force of France's foreign policy in that part of the world. We hope that Saudi Arabia's commitment to a \$250 billion national industrialization plan will see French technology getting its share of the pie usually monopolized by the 'anglo-saxons.'

Le Figaro

"Four Successes for Giscard," Mar. 10: The ten day trip of the President of the Republic to four states of the Persian Gulf ended in Amman yesterday with total self-

assurance, method, and care in the framework of a foreign policy that is equally balanced between the East and the West and is consistent with itself as far as the Mideast is concerned, a policy that has strengthened itself since Afghanistan, one which clearly sees its objectives and which anticipates the future.

The successes were 1)The Emirates have guaranteed France's oil supplies; 2)The prestige of France is at its highest in the Arab world and most of the Third World; 3)The phrase on self-determination for the Palestinians went far to unblock the situation; 4)The idea of dialogue with developing countries has made a gigantic step forward.

Le Matin

Mar. 11: Giscard d'Estaing, accompanied by his foreign minister Francois-Poncet, received yesterday an absolutely exceptional welcome on the part of the Saudi authorities led by Prince Fahd waiting for him at the airport. There was something very rare even for a foreign head of State—all the sons of the founders of the Kingdom of Ibn Saud who are in the government. That is: Prince Sultan, defense minister; Nayef, Interior ministry;

Saud, of foreign affairs; and Abdullah, commander of the National Guard. Even King Khaled would have come to the airport were he not ill....

Giscard had a two and a half hour private meeting with Khaled while Francois-Poncet was meeting Prince Saud. After the meeting, Giscard declared: "I have been happy to see the convergence of analysis and intentions that exists between Saudi Arabia and France."

After Giscard departed, Prince Fahd brusquely pushed aside his head of protocol—something extremely rare—to speak into a microphone, underlining that Giscard d'Estaing "is the friend of Saudi Arabia and of the Arabs, he has made very interesting declarations that left nothing in the dark, neither for the Gulf nor for us." According to Prince Saud, "Giscard's proposals have been well considered and examined. They must now be implemented. Any European initiative will be welcome and constructive, considering the ties we have with Europe."

Asked whether it would have been better if Giscard had talked about a Palestinian State, Prince Saud answered that: "Self determination is the best expression. If the Palestinians want a state, it is for them to decide."

Le Monde

Mar. 11: For the president of the Republic, the trip to Amman (Jordan) was the occasion to reshape his policy in the Mideast, a shift that was absolutely not improvised under the pressure of events, but one methodically realized. ...But he has also moved forward what is his Grand Design for the long term: the cooperation between the industrial and the developing sector through all possible bilateral and multilateral channels—the only path, he thinks, to avoid a *universal regression*.

Saudi Arabia's \$250 billion growth plan

by Robert Dreyfuss

Together, the two largest oil-exporting countries, Saudi Arabia and Iraq, have embarked on a project to industrialize the entire Arab world and parts of Africa and Asia, using technology obtained in Western Europe, primarily in France and West Germany, and Japan.

The scope of the development programs outlined in the past two weeks by Iraq and Saudi Arabia is staggering. According to conservative estimates, at least \$500 billion of Iraqi and Saudi capital will be invested, either internally in the two nations or with Arab and other third parties. The current tour through the Middle East by French President Giscard d'Estaing, which has already resulted in a series of oil-for-technology deals between France and the Arabs, shows the extent to which Paris has assumed leadership.

But the intention behind the Arab development plans goes far beyond the mere building of factories and industrial plant. That was underlined by perhaps the chief Arab architect of the current Arab development strategy, Iraqi President Saddam Hussein. In an interview with a Beirut newspaper March 2, President Hussein declared that the chief goal of Arab planners was an immediate upgrading of the cultural and economic standard of the Arab people, with the Arab world soon emerging as one of the major industrial powers of the world.

"Iraq wants a strong Arab nation," said Hussein. "It wants Yemen, for instance, to be like Iraq—and Iraq and Saudi Arabia to be on a par with the fifteen most advanced nations in the world."

He continued, "The confrontation with Israel is a cultural one. ... What the Zionists fear is a scientific mind and an economic base behind our guns and planes, and a scientific and cultural based behind our tanks. The Zionists have sabotaged Lebanon because it is an exam-

ple of an advanced Arab state which constitutes a cultural challenge to Israel."

To implement such a vision, both Iraq and Saudi Arabia have laid carefully the foundation for a summit meeting of Arab states to discuss economic issues. What is remarkable about the current approach is that it challenges directly the reactionary current associated with Muslim Brotherhood fundamentalism and the Islamic revolution of Iran, which opposes industrial development. Instead, the Arabs are heading for an unprecedented period of economic growth. Although the oil industry and related areas—petrochemicals, refining, and so forth—will be the centerpiece of Arab development plans, Iraq, Saudi Arabia, and the Gulf states intend to develop a fully-blown military-industrial complex on a high-technology basis. Not only these countries but also Syria have recently begun ambitious programs for development of nuclear energy.

According to Arab sources, the United States will be involved in only a tiny portion of the contracts and will supply only a fraction of the capital equipment. Saudi Arabia and Iraq intend to construct entire cities, from the ground up, using European technology.

Saudi 5-year plan

Earlier this week, Saudi Arabia announced the start of its next Five Year Plan—an expenditure of \$270 billion over the five-year period. As part of the plan, Saudi Arabia intends to create a series of petrochemical and refining plants, with pipelines and infrastructure linking new industrial cities on both coasts. Tens of billions of dollars will be put into constructing hospitals, schools, universities, and other facilities.

Deputy Planning Minister Faisal al-Bashir stressed that "our primary goal is to change a human being from illiterate to literate—to educate our people. How can you put a price tag on that?"

More than \$20 billion is already being invested into a major expansion of Saudi oil-producing capacity. At present, Saudi Arabia sustains a capacity of 9.5 million barrels a day, and by the end of 1980 will be able to sustain output of 10.5 million b/d. Within several years, that will increase to 12-13 million b/d. Together with Iraq, currently second in OPEC with production of 4 million b/d by the end of 1980, Saudi Arabia will produce by year's end fully half of OPEC exports.

The extent to which Saudi Arabia has been alienated from the United States was revealed by the results of the visit to the kingdom by U.S. Energy Secretary Charles Duncan last week. After Duncan's three-day visit, Saudi Oil Minister Zaki Yamani announced that Saudi Arabia will not cooperate with the planned U.S. "strategic reserve" oil stockpiling. Reportedly, Duncan's meeting with the Saudis were a total failure.

While distancing themselves from the "incalculable" Carter administration, Saudi Arabia has drawn increasingly close to neighboring Iraq. In February, the Saudis warmly endorsed Iraq's call to convene an Arab summit to discuss regional economic cooperation among the Arab states. According to Arab sources, the Saudis and Iraq have established an all-but-official axis for both security and economic development.

The Iraqi plan—called the "Pan-Arab Charter"—opposes the so-called Carter Doctrine for stationing U.S. forces on Arab territory as part of a U.S. defense umbrella over the Persian Gulf.

Among the plans under consideration are projects that involve nuclear-power plants and nuclear research facilities. In recent months, both Iraq and Saudi Arabia have launched national programs for nuclear development, in coordination with France. The French made it known last week that they intend to supply Iraq with high-quality enriched uranium for nuclear power, despite U.S. objections.

Both Iraq and Saudi Arabia are challenging the Muslim Brotherhood "fundamentalism" of Iran's Ayatollah Khomeini, whose movement is said to thrive by fomenting revolts against industrial progress. The announcement of the \$270 billion Saudi plan shocked observers in certain U.S. thinktanks who had been predicting that Saudi Arabia would be forced to cut back on its previous development strategy as a concession to fundamentalists. But the Saudi plan represents a literal doubling of its previous, \$142 billion development budget.

The fact that Iraq has emerged into the leadership of the new Arab economic strategy, as well as in the political field, ought to come as no surprise. The leadership role of Iraq coincided with two recent Middle East developments: the signing of the Camp David treaty and the Iranian Islamic revolution. Following the conclusion of Camp David, Iraq convened two pan-Arab meetings to organize an Arab united front against Egypt, and because Iraqi diplomacy had succeeded in placing Baghdad in a good position relative to each Arab country, the Iraqis emerged as a mediator in several inter-Arab disputes.

But where Iraq stood alone—initially—was in regard to Iran. From the start of the upheaval in Iran, Iraq was at first cool and then bitterly hostile to the regime of Ayatollah Khomeini and the Muslim Brotherhood. While the Syrians, the PLO, and other Arabs tended to praise the revolution in Iran, Iraq forthrightly condemned it and demanded that other Arabs do the same. Publicly, Baghdad correctly said that Khomeini and his aides were agents for the Anglo-American intelligence services and Israel; privately, Iraq is known to have begun feeding

weapons and other aid to anti-Khomeini rebels inside Iran.

The turning point was during the summer of 1979. Following a brief government crisis and somewhat exaggerated rumors of an attempted coup d'état, President Saddam Hussein effected a major power play in replacing then-President Ahmed Hasan al-Bakr, who was ill, and taking the reins of power himself. Within weeks, hundreds of Iraqis were rounded up and arrested, and after trials several dozen were executed for treason. Those arrested included two categories of people: agents and sympathizers inside Iraq of Khomeini and the Muslim Brotherhood, especially from Iraq's substantial Shiite Islamic population, including those who had collaborated with Khomeini during his 16-year-long stay in Iraq after his exile by the Shah in 1963; and communists and leftists, especially supporters of the dissident Kurdish movement that has long plagued Iraqi governments. The purge of Iraqi communists, which had begun as early as January 1979 after the Iraqi Communist Party had tried to infiltrate its members into the armed forces, caused a break in the ruling National Front, with the Arab Baath Socialist Party expelling its Communist partners.

During this period, Iraq began developing closer and closer ties with both Saudi Arabia and France. A projected Syrian-Iraqi union fell apart, due in large part to differences between Iraq and Syria over Iran, but the Iraqis gained influence and stature all over the Arab world, ending a ten-year period as outcasts. Increasingly Baghdad turned to France not only on political and economic questions, but for military supplies as well.

A Pan-Arab Charter

The following is the text of the "Pan-Arab Charter" proposed by Iraqi President Saddam Hussein on Feb. 8.

IN THE NAME OF GOD

THE MERCIFUL THE COMPASSIONATE

Under present international circumstances and the possibility of their future development, and the serious potentialities involved, which might hamper Arab national sovereignty and security, on the one hand, and peace and security of the world on the other;

And in response to the necessities of national responsibility towards the Arab nation, as people, territory, civilisation and heritage;

In line with the principles of the Non-Aligned

Movement, Iraq finds itself obliged to take the initiative to promulgate this Declaration to serve as a charter for the regulation of nationalist relations among the Arab states in the first place and an obligation by the Arab Nation to countries neighboring the Arab Homeland which declare respect for the Charter and abidance by it, in the second place.

The Declaration comprises the following principles:

1. Rejecting the presence of armies, military forces or any foreign forces and bases in the Arab Homeland, or facilitating their presence in any formula or under any pretext or cover, and for any reason, with any Arab regime not abiding by this principle to be boycotted politically and economically and its policies to be resisted by all available means.

2. Banning recourse to the utilization of armed forces by any Arab state against any other Arab state, and settling any disputes that might arise between the Arab states by peaceful means under the principles of joint national action and the supreme Arab interest.

3. The principle mentioned in (2), above, shall apply to the relations of the Arab Nation and Arab states with the nations and countries neighboring the Arab Homeland. Naturally, as you know, the Zionist entity is not included, because the Zionist entity is not considered a state, but a deformed entity occupying an Arab territory. It is not covered by these principles.

Thus, recourse is not permitted to the utilization of armed forces in disputes with these countries except for self-defence or defending national sovereignty against threats that might encroach the security of Arab states and their vital interest.

4. Arab states shall, all together, embark upon solidarity against any aggression or violation by a foreign party of the regional sovereignty of any Arab state, or launching of an actual state of war on it. These countries shall launch a joint retaliation to such aggression or violation to foil it by all means and techniques, including military action, collective political and economic boycott and in all other fields necessitated by national interest.

5. Confirming the abidance of Arab states by international laws and conventions concerning the utilization of territorial waters, air, and land by any country not in a state of war with any Arab state.

6. The Arab states shall avoid international disputes and warfare, and abide by total Non-Alignment to any party to such disputes or war, unless any party of the dispute or war has committed a violation on Arab territorial sovereignty and the firm rights of the Arab coun-

tries guaranteed by international laws and conventions. The Arab states shall refrain from having their military forces participate in full or in part, in any military wars or disputes in the area and outside it on behalf of any foreign country or party.

7. The Arab states shall undertake to establish developed and constructive economic relations among them, with a view to providing and promoting a joint basis for Arab economic reconstruction and development and Arab unity. The Arab states shall avoid any conduct that might cause damage to such relations or impede their continuance and development, regardless of differences among Arab systems and such marginal political differences as might take place among them, so long as the parties concerned are abiding by the principles of this declaration. The Arab states shall abide by the principles of national economic collaboration, with the economically solvent Arab States undertaking to contribute all forms of economic assistance to the Arab countries in such a way as to preserve them against possible dependence on foreign powers, hence a possible encroachment on their national independence and will.

8. Iraq, as it presents the principles of this Declaration forward, confirms its preparedness to abide by them vis-à-vis any Arab state or any party abiding by them; Iraq is prepared to discuss the Declaration with the Arab brethren and listen to their remarks about it, so as to reinforce the effectiveness of its principles and consolidate its implications. Iraq also confirms that this Declaration does not constitute an alternative to the Arab League Charter or the Treaty on Joint Defence and Economic Cooperation between the Arab League states. On the contrary, Iraq considers the Declaration as a consolidation of the Charter and the Treaty, and a development of both of them to be consistent with the emerging international conditions and the dangers confronting the Arab Nation and the national responsibilities involved under present and future circumstances.

Great Iraqi people! Masses of the glorious Arab Nation everywhere in the Arab Homeland!

Iraq, while putting forth this Declaration proceeds from its national responsibility which outweighs any self or regional interest. As we address this Declaration to Arab governments, being the parties responsible for its approval and for abiding by its principles, we profoundly believe that the principles of this national Declaration can only be achieved into a charter for Arab relations through the struggle of Arab masses and through their support because it is bound to secure their fundamental rights, meet their national aspirations to liberty and independence, and facilitate Arab unity.

Schmidt's visit: encounter with the incalculable

by Rainier Apel

Despite extensive and, under normal circumstances, unusual discussions between West German Chancellor Helmut Schmidt and leading representatives of the American news media, coverage of the chancellor's visit to the United States for talks with President Carter constituted a virtual black-out. Did Schmidt perhaps say something the American press wants to hide from its readers?

Judging from the West German press, the answer is yes. Schmidt went much further in his criticism of the Carter administration than just terming Carter "incalculable"—or "naive" as the *New York Times* reported.

Schmidt made his visit, with the backing of West German industry and labor, primarily out of concern over the disastrous economic policy of the U.S. administration. *Die Welt*, a leading West German daily, reported March 10 that, upon his departure, Schmidt informed reporters that he had spoken with private individuals who agreed with him that the present state of the U.S. economy, thanks to continuing increases in interest rates, was not only a problem for the Americans, but for the whole world. The economic problems of the United States will dominate political debate in the months ahead, said Schmidt, "once the hostage drama in Teheran is solved."

The chancellor, in discussions with Saudi Arabia's foreign minister Saud-al Faisal, was even more explicit in his criticism of present U.S. policy. "I am very much concerned about the fact that the Americans keep sitting down to their money-printing machines, pouring dollars into the world, and igniting inflation." According to the weekly *Der Spiegel* magazine, Schmidt then added: "I am afraid there could be another Black Friday all of a sudden."

Schmidt is frightened by the "unreliable nature of the current U.S. government," reports *Die Welt*. This placed

him in a dilemma, during his visit to Washington, where he necessarily had to reaffirm solidarity with the United States while opposing almost every U.S. policy. Schmidt, said *Die Welt*, belongs to the generation of Germans who, after the war, used to believe in the economic strength of America, and still remembers U.S. aid for Europe's reconstruction after 1945. This "technologically well-equipped nation," Schmidt is reported to have said, is now ruled by a decision-making process which is getting less and less reliable and calculable. Schmidt, concluded the article, "is hardly able to grasp how it is possible for people like Hamilton Jordan and Zbigniew Brzezinski to get to the top in the United States."

Schmidt was therefore "overcome with the feeling of incalculability and incompetence proven in so many decisions by the White House." But he had to "remain polite to such an extent that nobody could believe him ... You could recognize from his passing statements how difficult it was to keep himself under control...."

An earlier report in the same newspaper quoted West German government sources calling Brzezinski the "main problem" in the United States. *Wirtschaftswoche* magazine has called for Brzezinski's dismissal to save the Carter administration. And last week, a leading West German military official told *EIR* that "The American people are not different from the Germans, but the problem is the official government in Washington. The Americans deserve a better government than the one they have."

The Carter-Volcker "disaster"

Meanwhile, leading West German economics journals almost daily denounce Carter administration policy on the economy as at best a complete failure, but more like catastrophe. Calling the Volcker high-interest rate measures a disaster, *Handelsblatt*, West Germany's "Wall Street Journal," wrote that "Carter's anti-inflation program won't reduce the exuberant growth of the administration's budget because the main source of inflationary spending, the defense sector, is saved from the measures." Another prestigious economic newspaper, *Wirtschaftswoche*, wrote that "As long as the American inflation, which is now approximating South American highs, cannot be kept under control, American rearmament efforts will work like fuel poured into a fire...."

Such statements in the West German press are polite. Indications are that Schmidt and his entourage were much more blunt during the U.S. trip. Hans-Jürgen Wischniewski, Schmidt's main political trouble-shooter who joined him in Washington, is said to have lectured the White House at one point on America's reputation in Europe. According to the Bonn press, Wischniewski reported how common it is to see American soldiers dig-

ging in the garbage cans behind German garrisons to find something usable. If that is the living conditions of Americans, the U.S. should take care of this problem and not try to tell Germany what to do.

The point of the insult was that Carter's economic policy has its military complement. Schmidt himself stated it clearly when he told the Saudi foreign minister in Bonn that the Americans have no army worth mentioning. "The Soviets," on the other hand, "have 20 million soldiers under arms constantly—well-organized, well-trained, and well-armed."

This, and the prophetic leak from Schmidt to the German press two weeks ago, that administration policy is so "incalculable" that Carter "might decide on measures which could lead to further uncontrollable escalation" against the Soviet Union, is sufficient indication of the fear and anger Schmidt brought with him on his recent American visit.

The only military doctrine corresponding to the realities of U.S. economic and military weakness is comparable to the choice the German Reich made in similar economic straits in 1938. Schmidt is one of the Germans who experienced that policy 35 years ago, and he knows that it can only lead to national extinction. The advent of Nazi-like economic policies in a nation "on whose stability we depend so much," is the most horrifying image any German can possibly have of the United States of America.

German industry: 'Boycotts always fail'

The following comment appeared in the West German journal Wirtschaftswoche of March 7:

(The) Federal Republic of Germany has encountered an American partner who—shivering from inflationary fever—has just turned his back on the world to save his own house from the flames... Doubts about the American economy's vitality can be added to the existing doubts in Bonn on the calculability of Washington's foreign policy.

The following appeared in Die Welt, March 10:

Helmut Schmidt, according to his own estimation, has been to the United States approximately 40 to 45 times. He is always impressed... He is a child of a generation which feels obliged for America's aid, opening the postwar horizon... That the levers of power are presently held by people like Hamilton Jordan or Zbigniew Brze-

zinski, that this could happen, is to Schmidt unbelievable, belonging to those aspects of his image of America which cannot be grasped, and are uncanny.

The feeling of incalculability and incompetence proven by many decisions in the White House forced him to remain polite... but you could recognize from his passing references how much he had to keep himself under control.

The following is a statement by Hans Hartwig, president of the Federal Association of German Wholesale and Export Traders, appearing in Die Welt March 7:

Economic history knows a whole set of embargo and boycott measures used again and again to push through foreign policy goals. But, neither the Napoleonic continental blockade nor Carter's human rights policy achieved their political aim. People do, however, grab foreign trade for use as a political weapon again and again—in most cases, out of shortsightedness.


The German export trades reject economic sanctions launched for political purposes. Export and import businesses are based on longterm business relations. How can these flows of goods be developed if the foreign trade companies are forced to join climatic shifts which happen very often in international politics.

The following statement was made by Otto Wolff von Amerongen, president of the German Association of Chambers of Commerce:

Today, we face a world economy which is interlinked to a great extent not only in terms of trade, but also within a system of relations which include financial, organizational, and technical communication.

... The building of closer relations in foreign trade creates a basis for political relations, too. The fact that trade has occupied a pioneering role in political détente is, for example, also proven by the fact that mutual economic relations were paid much attention to at the Helsinki Conference on Security and Cooperation in Europe. Concerning the North-South dialogue, the building of lasting economic ties is a crucial element of international politics.

Unfortunately, we can assume that we will face numerous international crises in the 1980s. We have to take into account, therefore, increasing problems for our foreign trade worldwide. But we should also be conscious of the fact that trade provides a positive element in relations between nations, while its cancellation will—according to all experiences—not only fail to achieve the political aims, but will create even more problems internationally.





Italy

Vance visits 'with a pistol in his briefcase'

by Umberto Pascali and Kathy Stevens

The "victory" of the Jesuit-controlled faction of Amintore Fanfani at the recent congress and national council of Italy's ruling Christian Democratic Party is the result of nothing less than a series of personal threats delivered by U.S. Secretary of State Vance with the assistance of U.S. Ambassador to Italy Richard Gardner to the head of the crucial swing faction of the DC, the Dorothean faction.

Former Premier Giulio Andreotti and his allies had party leadership all but sewn up when they walked into the March 5 National Council that was to elect members of the secretariat and the chairmanship. The DC Congress ended Feb. 20 with a thin 58 percent majority for Fanfani. So with 42 percent of the party behind him, Andreotti had just one more "problem" to solve: Flaminio Piccoli, the Dorothean conservative leader who had been threatened with an anticommunist rebellion in the Dorothean rank-and-file if he swung his faction behind Andreotti.

So how did Fanfani get his majority? According to our sources, Cyrus Vance came to Rome with "a suitcase full of dollars and a pistol" which he promptly placed at the head of Piccoli. The Secretary of State's behavior reminded no one of a foreign diplomat, said our sources, but a gangster "putting things in their rightful place." Piccoli capitulated.

After three emergency postponements, the DC National Council elected Piccoli to the secretariat, Arnaldo Forlani, Fanfani's right hand man, got the chairmanship, and Carlo Donat Cattin, the leader of the Forze Nuove Courrant who was instrumental in the Fanfani operation, was elected to the vice-secretariat.

It should come as no surprise to anyone that Secretary of State Vance interfered in the internal affairs of a sovereign nation on behalf of the Anglo-Jesuit faction of the Christian Democracy. Who are Fanfani's—and

Vance's—factional enemies? Andreotti and former DC General Secretary Benigno Zaccagnini, staunch advocates of a national unity government with Italian Communist Party participation. Only the Communist Party of Italy shares with the Andreotti-Zaccagnini faction of the DC a commitment to working with France and West Germany, the founders of the European Monetary System, to continue detente and a global development program.

Ambassador Gardner's role in this heavy-handed pressure tactic is equally unsurprising. A member of the Trilateral Commission and the Institute for Policy Studies in Washington, D.C. (well-known for its sponsorship of international terrorist networks), Gardner has ties by marriage to the blackest of Italy's Black Nobility which dates back at least to the feudal Hapsburg empire. Gardner's wife is a member of the Luzzato family, the leading Black Guelph family in Venice, Venice, as *EIR* has documented, is the mother of terrorism, the center of Hapsburg-Jesuit power. A new Andreotti government, a very likely outcome barring the Gardner-Vance intervention, would have been based on an "historic compromise" perhaps bringing Communist Party officials into the government at the cabinet level. Vance and friends do not hate the Communists; rather, the prospect of a highly stable Italian government, and one aligned with France and West Germany to build the European Monetary system, is hated.

Andreotti rips up the rule books

Normally after such bitter party infighting which marked the DC conference and council, the rules allow as much dirty dealing as the market will bear, providing all sides respect some limits in how much they reveal about the other. But Andreotti, Zaccagnini and the factions they lead within the DC are serious enough about their commitment to Italian participation in the emerging European nation-building axis to go after the life-blood of their British- and Jesuit-manipulated opposition inside the DC: in particular, the long-standing slush fund operations through which these factions have survived financially for decades.

First, Andreotti and his allies launched an offensive to bring into public view the criminal activities of their factional opponents. "Anyone who thinks I might have a role in the [party] organization is mistaken," said Andreotti. "After a long political career, I think the only value that must be safeguarded is the possibility of saying clearly what one thinks. ... My experience in the last legislature [as premier, with a working agreement with the PCI] has made a lasting impression on me; and since part of those problems persist, the position I took in the congress had a significance which is neither occasional nor tactical."

Similarly, Giovanni Galloni, a representative of the Andreotti minority faction, said after the failure of his attempt to formulate a compromise at the congress that "a political agreement on the basis of elements which include equivocal aspects can be more dangerous than making a frank admission of the persistence of diverse positions in the congress."

Scandals involving allies of the faction of Fanfani and Socialist Party leader Bettino Craxi are now breaking into the open. The secretary to Carlo Donat Cattin is under arrest. Fanfani's franchise holder in the party organization in Palermo, Defense Minister Attilio Ruffini, is being interrogated concerning his relationship with a well-known Mafia-connected family, the Spatolas. Fanfani himself is being targeted by the widely read daily *La Repubblica* for a scandal going back to the 1960s known as the "Italian Chappaquiddick." The story involves Fanfani, a sex orgy, and a young lady whose body was found in Lake Montero. Finally, PSI terror controller Giacomo Mancini's presence on the Parliamentary Commission of Inquiry into the murder of Aldo Moro is being questioned. Several delegates resigned to protest the fact that Mancini had visited accused terrorist assassin Franco Piperno in jail in the capacity of a defense lawyer. The commission dissolved and will be reconstituted soon without Mancini.

The scandals and charges escalated March 4 with the arrest of 49 prominent bankers and businessmen by Rome Judge Antonio Alebrandi, reportedly an Andreotti ally, for illegal financial operations involving millions, if not billions of lira and run through Italcasse, the nation's central savings bank and, according to sources, the electoral slush fund of Fanfani and his allies. Two days later, and one day after the DC council, the Rome judges investigating the Italcasse scandal announced that they had seized the passports of another 44 prominent Italians.

The gloves were off.

Among the arrested bankers were Giordano Dell'Amore, the former president of the Lombardy Savings Bank and a former minister of foreign trade; Tommaso Pesce, the former president of Banco Del Monte in Milan, and reputedly Craxi's bankroller; and the presidents of savings banks all over Italy. All were allegedly involved in laundering the "elite funds" of Italcasse to peddle influence.

The passports seizures of March 6 have the following targets:

- the party treasurers of four political parties—the DC, PSI, PSDI, and PRI—including a DC treasurer Filippo Micheli, who was just re-elected administrative secretary of the DC's national council;
- Paolo Baffi, former governor of the Bank of Italy and an advocate of U.S. Federal Reserve Chairman Paul Volcker's tight credit policies;

- Rinaldo Ossola, also formerly of the Bank of Italy and a former economics minister;

- Giorgio Cappon, head of the IMI, a government holding company for bankrupt industries and a major source of under-the-table funds;

- all the members of boards of directors of IMI and three other state institutions with similar side-activities;

- two leading members of the DC faction Forze Nuove, led by Fanfani ally Carlo Donat Cattin. Donat Cattin wrote the so-called *Preambolo*, the document around which the Fanfani forces rallied.

Rome financial circles report that Judge Alibrandi is preparing yet another wave of high-level arrests.

Magistrates targeted

The extent of the damage to Italian business-as-usual is completely blacked out from even the Italian press, with the most telling reaction being British-controlled papers' diversionary attack on the magistrates responsible for signing the warrants. Milan's *Corriere della Sera* begins its coverage March 7: "The hard line unexpectedly embraced by investigating judge Antonio Alibrandi seems to have infected the Rome magistracy in its entirety." Alibrandi issued arrest warrants for Baffi and his top aide Mario Sarcinelli almost a year ago. The London *Financial Times* on March 6 suggests that "some magistrates have also given the impression at times of overstepping their constitutional powers." The U.S. Eastern establishment-controlled press has simply covered the affair up under headlines about a different scandal which, in their judgment, affects the average Italian more: famous Italian soccer players taking bribes to throw games.

What Andreotti and company intend to accomplish with this redefinition of the terms of political activity, is to throw a monkey wrench into the plans of Fanfani and Craxi to pull together a five-way government excluding the PCI.

Of the five parties that would be involved in such a deal, four of them are trying at this point to keep their treasurers out of jail.

Rumors are circulating that after the scandal "there is not enough money for everybody," so Fanfani will have to concentrate on the Socialist Party. Just a few days after the Italcasse scandal exploded in Fanfani's face, the tiny, prodrug Radical Party announced it would not participate in the next elections. The "center left" government the Anglo-Jesuits are dreaming about appears at least difficult to achieve.

The strategy of the Italian "EMS faction" is a political one. So there is no coincidence in the fact that shortly before the scandal broke, Andreotti met privately in Paris with French Foreign Minister Jean François-Poncet and the President of the National Assembly, Jacques Chaban Delmas.

U.S.S.R.

Soviets slam U.S. 'financial oligarchy'

Four months ago, Andrei Gromyko, the Soviet Foreign Minister, told a press conference that "the Pentagon or circles close to it" are to blame for NATO's decision to deploy missiles in Europe within striking distance of Soviet cities for the first time.

"However," Gromyko added, "If anyone proves that these impulses come from some other sources and cites convincing arguments, we will agree with them."

Clearly, the Soviet leadership has now heard other arguments, and has been convinced.

The forces pushing the world toward war are not located around the "Pentagon" or "the military-industrial complex." Rather, according to charges just published in two authoritative Soviet news journals, a "financial oligarchy" rules the U.S.A., is centered around the New York Council on Foreign Relations, and is responsible for the present strategic crisis and those past crises that have posed similar, serious threats to human civilization.

The exposés represent a significant shift in the thrust of Soviet news commentary, and qualify as a major improvement in the Soviet Union's perception of global strategic realities as well as political processes inside the United States. *EIR* can, and has, independently confirmed and documented the central position of the CFR in the Anglo-American hierarchy, and published exposés of that agency and the policies of the overlapping Trilateral Commission and Bilderberg Club, which are now related subjects of attack in the Soviet media.

To the extent that this improved Soviet perception lessens the danger of Soviet miscalculations in the present strategic crisis, the exposés signify an improvement in the world's chances to avert general war.

The articles, published in *Kommunist*, the theoretical journal of the Soviet Communist Party, and in the English-language weekly, *New Times*, identify the Council

on Foreign Relations, Trilateral Commission and Bilderberg Club as an oligarchical "general staff" predominantly drawn from the Rothschild, Morgan and Rockefeller interests. Detailing the vast network of associated "charitable foundations," university programs, think-tanks and law firms through which U.S. government policies are shaped at the highest level, the Soviet commentators charge this oligarchy with creating and staffing the Carter administration, formulating the "China card" and other provocative Carter policies, ordering the murder of Aldo Moro in Italy, and several attempts to overthrow France's Charles de Gaulle.

Finance's 'deformed child'

This apparatus is currently propelling the world toward war, charges R. Ovinnikov, writing in *Kommunist*. The "military-industrial complex"—the traditional ogre of Soviet analysis—is merely the "deformed child" of the financial oligarchy, and "raises its head only when permitted to do so." No mere debating point, this shift in line strikes at the heart of the edifice of false ideology cultivated in the Kremlin by British agents-of-influence in Moscow and Leningrad since the founding of the Soviet republic. The articles thereby provide a clue to such recent Soviet factional developments as the shake-up in the State Committee on Science and Technology.

The cited articles, while omitting to report the crucial Anglophile nature and British institutional connections of the American "oligarchy," nevertheless reverse the long-standing Soviet insistence that industrial capitalists are the source of "imperialist war provocations" (through their voracious desire for the profits of military production), whereas the "liberal" finance capitalists of the Council on Foreign Relations (CFR) and the Trilateral Commission are "friends of detente."

This argument has been endlessly elaborated by Georgi Arbatov's "U.S.A. and Canada Institute" and by the Moscow epigones of British intelligence triple-agent Kim Philby. It has been used to "prove" that it was the German industrialists who put Adolf Hitler into power—not the City of London. It has provided the ideological justification for collaboration of Soviet officials with the CFR and such outfits as the Washington-based Institute for Policy Studies (IPS), one of the prime "liberal" coordinators of international terrorism.

The *Kommunist* article excerpted below specifically names *IPS* as an offshoot of the "financial oligarchy"—a first for the Soviet press.

One key locus of Soviet collaboration with such "liberals" in the West has been the State Committee on Science and Technology, whose deputy director, J. Gvishiani (son-in-law of Prime Minister Aleksei Kosygin), is a long-time associate of Ford Foundation President McGeorge Bundy and a collaborator of the Malthusian

Club of Rome. Gvishiani's pals now stand exposed in the Soviet Union as the American "war party"—which goes a long way toward explaining the fact that Gvishiani was recently by-passed for promotion when V. Kirillin resigned from the directorship of the State Committee. (Kirillin himself did not frequent the same CFR-allied circles that Gvishiani did, and his replacement by Siberian academician G. Marchuk is traceable to disputes over domestic economic development planning, not foreign policy.)

'Jacobinism' exposed

Kommunist's attack on the Institute for Policy Studies demonstrates that, aside from the "liberal" oligarchists, the second important target of this new Soviet line is "Jacobinism," the "class war now" faction in the world communist movement. This is drawn out even more clearly in A. Andreyev's article in the foreign-policy weekly *New Times*. He stresses the fact that the supranational elite group, the Bilderberg Club, used left-wing student demonstrations in 1968 against French President Charles deGaulle.

The reasons for this Soviet shift can be most directly traced to the Carter administration's "turn" away from any semblance of a detente policy. Carter's "Trilateral Commission" cabinet is packed with the individuals representing the "financial oligarchy" attacked by *Kommunist*. Carter talked about detente and peaceful coexistence in his 1976 election speeches, writes the *New Times* commentator, but this was soon revealed to be a fraud: "The present sharp turn of the West towards the old policy of hegemonism and feverish armament has come as no surprise. Everything that is announced officially today was said by Brzezinski yesterday...."

"Carter's election promises were 'buried once and for all' during the Bonn meeting of the Trilateral Commission in November 1977, where Brzezinski's report 'China—a possible factor of equilibrium?' was made the basis for discussion. ...In the past two years the world has more than once witnessed the United States' attempts to play the anti-Soviet and, on a broader plane, the antisocialist China card...and to bring crude pressure to bear on oil-producing countries."

Thus, it is from the vantage-point of current U.S. policy that *Kommunist* declares that "all the basic foreign policy of American imperialism for the past third of a century" originated with the Council on Foreign Relations, "the majority of them having a clearly expressed anti-Soviet character." *Kommunist* cites the CFR's 1947 "containment doctrine" as an early example, in an implicit warning against those who might give too much credence today to the "realistic" views of the CFR's "Mr. X" who authored that doctrine—George F. Kennan.

New Times: 'A secret Bilderberg Club...'

The Soviet foreign affairs weekly New Times, in a February issue (no. 6), published an analysis of the Bilderberg Club and the Trilateral Commission, by A. Andreyev, titled "Invisible Centres of Real Power." The article draws on a book recently published in Paris by former Spanish intelligence operative Luis Gonzalez-Mata, called "The Real Masters of the World" ("Les vrais maitres du monde.") Andreyev's article read in part:

In March 1966 the Bilderberg Club assembled for an emergency meeting to try to prevent adoption of the decision, then in the making, on France's withdrawal from the NATO military set-up. But Paris refused to knuckle under. In June of the same year the French President made his historic visit to the Soviet Union to become the pioneer of detente among Western statesmen. On July 1 the armed forces of France were taken from under NATO's control. U.S. troops had to leave French territory.

Small wonder, therefore, that at their meeting in Mont Tremblant, Canada, in April 1968, the Bilderberg Club reverted to the question of "de Gaulle's anti-Americanism" and considered how to use the aggravation of the social situation in France against the recalcitrant general. A week later barricades appeared in the streets of Paris and then other French cities, and anarchistic-minded Leftists and all sorts of shady characters issued a call for "revolution."

The author discloses the role that the CIA played in those events. At that time he received the following instructions from Colonel Graham of the U.S. special services: "It is necessary that our friends who have infiltrated the activists' group instigate as many clashes as possible between the demonstrators and the law enforcement forces. Violence and destruction are our best allies at present."

Gonzalez-Mata admits that despite all his experience it took him some time to see through the Americans' design: did they really want power in France to pass from de Gaule to the Left? Colonel Graham explained: "The issue is not one of facilitating seizure of power by the Left. By inciting disturbances and engineering clashes between the demonstrators and the police one can induce the required reaction of the 'silent majority' and the bourgeoisie, who, faced with danger, will compel de Gaulle to change his policy, to move away from the East and return to the fold of Europe's alliance with the United States."

Kommunist: 'The CFR is the imperialist citadel'

Kommunist, the theoretical journal of the Soviet Communist Party, published an analysis by R. Ovinnikov, titled "The Foreign Policy of the USA as a Tool of the Financial Oligarchy," in a January issue (no. 2). We translate excerpts here.

...The financial groups of the eastern states of the U.S.A., relying on their undoubted economic predominance, have acquired a corresponding role in determining the foreign policy of American imperialism. The secret of their domination in this area is the concentration in their hands of an entire system of control over foreign policy, developed over three-and-a-half postwar decades.

The center of the carefully woven web, bringing together many different aspects of the mechanism for generating basic foreign policy decisions, are the so-called charitable foundations of the three financial groups—the Morgans, Rockefellers, and Ford. ...

The "charitable" foundations ... have set up specialized institutes for the study of foreign policy problems, under government contract. Perhaps the best known and most influential of these is the Brookings Institution in Washington. ... It became the main force behind the creation of a whole series of scientific research institutions, such as the "RAND" corporation, the Institute for Defense Analysis, the Institute for Policy Studies, etc. ...

Of all the institutions and organizations of the American financial oligarchy serving as tools of its influence on policy, the citadel of that oligarchy, located in New York, stands out particularly. It is here that the main link is secured between the development of American imperialism's basic strategic doctrines, realized under the guidance of the three principal financial groups, and their implementation in the practical policies of the U.S.A. internationally. This organ consists of about 2,000 specially selected persons, who under the leadership of 25 directors form a kind of general staff of the American financial oligarchy, in the final selection of proposals and decision-making. ...

The Council on Foreign Relations is the main operational center, synthesizing the efforts of all the other institutes of the American financial oligarchy in the sphere of foreign policy. All the basic foreign policy doctrines of American imperialism for the past third of a century were generated within the walls of this institution or with its active participation, with the majority of them having a clearly expressed anti-Soviet character. The notorious "containment" doctrine was not only first

rolled out at a meeting of the Council, but was also officially proclaimed in its press organ, *Foreign Affairs* magazine, in July 1947. The unlamented doctrine of "massive retaliation" was proclaimed by U.S. Secretary of State Dulles at a session of the Council in January 1954. Even the recent "newcomer" to American diplomacy, the campaign for "human rights," was the child of this organization. ...

A telling indication of the concrete and practical character of the Council's goals and one of its large-scale endeavors was the so-called "Project 1980s." This is an attempt to predict the most likely course of events internationally for 10 to 15 years and on this basis to outline optimal strategy and tactics for American imperialism. In all, 80 separate institutions took part in this enormous operation, which began several years ago and has just been completed. ... Just 25 of these studies—and in abridged form at that—were made public. The bulk of them, particularly in the form of opinions and recommendations, lie on the desks of high government officials. Thus, although it is not yet known to anyone what administrations will end up in power in the USA, American foreign policy for the 1980s is already programmed.

It should not be said that the basic goals of the Council on Foreign Relations have been divorced from reality. ... Unlike many irresponsible publications in the U.S.A., the official Council journal *Foreign Affairs* has rather consistently supported the SALT-II agreement. This line has brought it accusations of "bias" from the extreme militaristic forces in the USA.

However, the contradictory nature of the position of the American financial oligarchy (and the Council on Foreign Relations as its main foreign policy instrument) on basic questions today is obvious. ... In the summer of 1979 articles appeared in *Foreign Affairs* magazine openly calling for the placing of new American nuclear missiles in Western Europe, and in the fall *Foreign Policy* magazine published a shameless call for curtailing all negotiations for arms limitation and disarmament.

The American government's official policy continued in the same direction. In December 1979 the NATO Council under U.S. pressure approved the aggressive and adventurous course toward a new, even more dangerous round of the arms race. Then Washington announced a program for stepping up the arms race, unprecedented in scale and planned out for many years to come. At the beginning of January President Carter proposed to delay the ratification of the SALT II Treaty indefinitely. And it was not simply that the U.S. military-industrial complex (together with the death merchants in Western Europe) forced that course. In the final analysis, the military-industrial complex itself is merely the deformed child of that same financial oligarchy, and raises its head only when permitted to do so. ...

The Iran crew targets Mexican industrialization

by Dolia Pettingell

As *EIR* warned in its Editorial Comment of the Feb. 26-March 3 issue, Mexico is currently a leading target for destabilization by the same crew of international anti-industrial proterrorist intelligence agents who ran the Dark Ages horror story known as the Khomeini Revolution.

As documented in the following pages, this is not hyperbole, nor is it merely a question of *intent*; the phase of implementation of the "Iranization" of Mexico is further along than many have chosen to believe, both within and outside Mexico.

Henry Kissinger, who operates out of the Jesuit Georgetown University in Washington, D.C., has visited Mexico virtually monthly of late, in order to personally coordinate such subversive operations. Twelve hours after one of Kissinger's latest touch-downs, the resident Jesuit networks performing the role of Iran's Muslim Brotherhood orchestrated the seizure of the Belgian and Danish embassies in Mexico City by two groups of terrorist-led peasants. The object of the cynical international public relations ploy was to tar Mexico as a major human rights violator.

As stated in our Editorial, the goal of instigating a Khomeiniac, Jesuit-run upsurge in Mexico is to destroy the thrust toward science, industrialization and progress represented by the circles around Mexican President José López Portillo. "The Mexican people are going to teach a lesson to the Mexican government if it continues to stick to its industrial programs," U.S. State Department envoy and former Attorney General Ramsey Clark told



Ramsey Clark ducks away from the camera.

Photo: NSIPS

an interviewer last week. Clark, along with Princeton professor and Council on Foreign Relations ideologue Richard Falk, are two of the major architects of the intelligence operation that put the Ayatollah Khomeini regime in power in Iran and run international cover for the Dark Ages Khomeini regime today. They have joined forces again to assault Mexico.

President López Portillo's and his closest collaborators' response to the Iranization threat has been precisely to "stick to" their commitment to industrialization, as is clearly shown in a series of recent statements and developments.

"Despite the enormous economic and social differences, Mexico will maintain its current levels of economic growth since we know that this is the only way we can deal with the challenge we now face," the Mexican President told the University Council of one of Mexico's southern states March 3. He insisted that the "fight for equality does not mean reducing the current levels of growth, but instead driving the country into higher stages of development."

A few days later when he met with the leadership of the Congress of Labor—the major pro-government labor umbrella organization in Mexico—López Portillo repeated the commitment. He called on the workers to strengthen the historic worker-State alliance that traces back to the Lincoln-allied Benito Juárez government. The way to do this, he emphasized, is by "increasing productivity through gaining higher levels of efficiency." By becoming an industrialized country, Mexico will be

in a position to compete in the international markets, he added.

Giving substance to the President's statements, Mexican Minister of Industrial Development José Andres de Oteyza, had announced Feb. 12 the initiation of the second stage of the mammoth, state-run Las Truchas steel industrial complex on Mexico's west coast. De Oteyza told the press that over \$2 billion would be invested in expanding the existing steel facilities by 2 million tons per year capacity, and that work would start on the project within weeks.

According to observers, De Oteyza's announcement is key because it studiously ingores the International Monetary Fund's demands that Mexico shelve all plans for Phase II. The IMF argued that Mexico should exercise austerity in order to pay off its foreign debts. Furthermore, the announcement of Phase II of Las Truchas represents a solid step forward toward the full implementation of Mexico's National Industrial Development Plan (PNDI), the target of the Mexican Khomeiniacs.

This kind of large-scale industrial initiative continues to demonstrate that Mexico is a stable and progressive leader of the developing sector. However, the intelligence operation to subvert that country and topple its republican institutions is definitely advancing. This becomes clear if one takes into consideration the international connections of the Mexican Khomeiniacs which make them part of a well coordinated and financed network demonstrably capable of overthrowing the most solid regimes.

One of the weakest and most dangerous flanks that these networks are exploiting is the very serious problem that Mexico now faces in the agricultural sector. It is the backwardness of agriculture which makes the huge peasant population of Mexico susceptible to being manipulated against the government's industrial plans. Furthermore, the agriculture sector's problems represent a burden on and a limitation to the National Industrial Development Plan. Unless this bottleneck is solved, Mexico's drive to industrialization will be easily short-circuited.

Coming in April: Can Mexico Develop?

One year ago, collaboration between EIR, the Fusion Energy Foundation (FEF) and economist Lyndon LaRouche produced a new computer-applications tool of economic forecasting, the "Riemannian Model," the accuracy of its results proving superior to any conventional "econometric" model in current use. Now, EIR, FEF and the Mexican Association for Fusion Energy, will undertake a groundbreaking application of Riemannian analysis to the Mexican economy.

PEN Club meet

'Mexico is much worse than the Nazis were'

by Cecilia Soto de Estevez

A February 7 New York conference sponsored by the American branch of PEN International marked an important, if little noted, "nodal point" in the development of Khomeini-style operations against Mexico.

The conference directly brought together, for the first time, the two high priests of American support for Khomeini with their Mexican co-thinkers, to propagandize the allegation that Mexico is a "human rights violator" on the model of the Shah's Iran.

The co-chairmen of the special PEN panel on "Habeas Corpus and Disappeared Persons" were proterrorist international lawyer Ramsey Clark and the editor of the Council on Foreign Relations' Project 1980s volume on human rights, Richard Falk.

The Mexican delegation featured prominently Octavio Paz, guru poet of irrationalist, antiprogress cultism in Mexico. The chairwoman of the Mexican PEN Club chapter, Julieta Campos, is the wife of one of the other half-dozen leading Dark Ages ideologues in Mexico, Enrique González Pedrero (see below, Mexico's would-be Ayatollahs.)

The entire purpose of the Clark-Falk panel was to portray Mexico as a major violator of human rights—despite the fact that by admission of every "human rights organization" in existence, the case against Mexico is flimsy and the record of the government under López Portillo, one of the best in modern Mexican history. Mexican writer Elena Poniatowska, in her presentation, described Mexico as a country worse than Nazi Germany: "... at least the Nazis used to publicize the list of names of those exterminated in their concentration camps."

But as a reading of the rabid anti-growth and Malthusian economic ideas of Messrs. Clark and Falk shows, the real "crime" of Mexico is not alleged repression but the prodevelopment commitment of President López Portillo and his ambitious National Industrial Development Plan. The Mexican government is trying to impose "a model of development alien to the original culture of the Mexican people," charged Ramsey Clark in a private interview.

PEN International, an association for writers and

journalists, has been widely used as an element in Zbigniew Brzezinski's efforts to destabilize the COMECON nations, as it encourages "dissident" writers to express their views "in the West" through PEN channels. In Iran itself, the PEN added its voice to those forces attempting to define industrialization as one of the Shah's chief "crimes."

Pig Pen

The tab for the two-day New York symposium, advertized as "an inquiry into the Literary and Political Climate of Latin America," was picked up by the Rockefeller Foundation. The Clark-Falk panel received, in addition, support from the Ford Foundation and the Center for Interamerican Relations, an offshoot of the CFR.

The prize witness of the affair was one Rosario Ibarra de Piedra, a publicity creature of the *New York Times'* Mexico correspondent Alan Riding, who heads up a group calling itself the "Committee in Defense of Persecuted, Exiled and Disappeared Political Prisoners in Mexico." Mrs. Ibarra's committee is a synthetic organization formed mostly of convicted terrorists and working closely with the Jesuit safehouse network known as CENCOS.

Ms. Poniatowska, of similar Polish aristocrat origins to Brzezinski, dedicated her speech to a virulent attack on López Portillo and on the institution of the Mexican Presidency. She then forthrightly described the objective of the tactic: "If one attacks what the President represents, the country will become deformed, it will literally disappear as it is currently constituted. Beyond that is ... the coup d'état, fascism." She proceeded to compare the record of the Mexican government to that of the Argentinian junta, and focused on methods to substitute "One Worldist" supranational agencies for effective national sovereignty, under a human rights banner. "Just as Latin American paramilitary groups inaugurate the practice of 'disappearing', as in the case of México, so can another form of struggle be inaugurated ... If the Argentine military had sufficient imagination to 'disappear' those it viewed as its enemies, couldn't we in the PEN Club ask the International Red Cross and the Interamerican Committee on Human Rights to inspect the detention centers, military bases, and jails in our respective countries?"

The major press conduit into Mexico of this new destabilization push was the Jesuit-controlled magazine *Proceso*, a systematic slanderer of the industrial plans of the government. All of Mexico's major prospective Khomeiniacs are frequent contributors to the magazine. The issue that published the PEN story placed Ms. Poniatowska on its cover with the following title: *The Disappeared Ones of Mexico: A Government Which Kidnaps.*

Mexico's 'Ayatollahs'

A 'widely respected' band of intellectual kooks

Very shortly our readers will be as familiar with Mexico's would-be ayatollahs as they are with Bani-Sadr, Khomeini and Pol Pot—if the Anglo-American elites they represent succeed in bringing about the Dark Age policy designed for Mexico. These "eminent" Mexican intellectuals and politicians are already widely known and even respected in the United States, especially in the elite academic circles of our universities. Octavio Paz is considered *the* main surrealist poet in Spanish letters, and perhaps the world, while his disciple and intimate collaborator, Carlos Fuentes, is considered one of the foremost novelists of our time. Most of their works are translated into English almost as soon as they come off the press in Spanish or French.

On the ideological level, what binds these Mexican Khomeiniacs together is a burning hatred of progress in industry, science and technology. "Born out of the Idea

The would-be Ayatollahs

Octavio Paz: He is obsessed with eroticism, mysticism, incest and computer-application linguistics.

Carlos Fuentes: His hatred is directed at "The State," the "Soviet Union," and "the Idea of Progress."

Enrique Gonzalez Pedrero: He demands an economy devoid of industry and any taint of "modernity."

Mario Moya Palencia: His slogan is "Let's Make Ourselves Less."

Heberto Castillo: He has built an "environmentalist" movement now heading toward terrorism.

Raul Olmedo: He proclaims technology "the murderer and enemy."

of Progress," says Octavio Paz, technology is "synonymous with crisis, anguish, violence and oppression and perhaps death." In an interview with *The New York Times* earlier this year, Carlos Fuentes had this to say on the same issue: "... once you believe that you are ordered to progress ... those that oppose you are no longer your equals, but figures of evil. It is strange, isn't it, that it was in fact in Iran where manicheism was invented, and it is the West that is applying it."

In this respect, both Paz and Fuentes—teachers and friends of the rest of Mexico's khomeiniacs—are in perfect agreement with the Dark Age policies Henry Kissinger and the New York Council on Foreign Relations have in store for Mexico.

OCTAVIO PAZ during an ambassadorship in India, he oriented his writings to the "eroticism" and "mysticism" of the East, something which complimented his long fascination with the nature of "incest." He became intimately acquainted with the noted Schachtian economist John Kenneth Galbraith, then U.S. ambassador to India.

Paz gained worldwide notoriety, especially among left-intellectual circles, that year, 1968, for his self-righteous resignation as Mexico's ambassador in New Delhi over the student massacre in Mexico City in October of the same year. The "student massacre" was an outcome of a British-American intelligence operation launched in France that year designed to force General Charles de Gaulle—the standard-bearer of the Idea of Progress—out of power.

Following his resignation, Paz self-exiled in Cambridge University where he was involved in computer linguistic techniques, the sort of brainwashing techniques which experts have pointed to as instrumental in the creation of modern day zombie-terrorists.

Together with Carlos Fuentes and Heberto Castillo, Paz helped other "intellectuals" in the formation of a "new socialism" in Mexico, an attempt that failed and later became the fascist Mexican Workers Party (PMT) headed by Heberto Castillo. Earlier in his life, Paz was involved in the beginnings of Mexico's Christian Democratic Party, known as Accion Nacional (PAN).

The "surrealist" poet and essayist Paz has been groomed by the Anglo-American ruling elites as an "intellectual guru" representing "rebellion against the State." Deeply anti-Soviet and "anti-totalitarian," Paz is the holder of Mexico's prestigious National Letters Award for his writings on the origins of Mexican primitivism which he champions in opposition to industrial progress and science. In his *Corriente Alterna*, Paz states that drugs is the way to "authenticity and freedom."

Paz is internationally recognized as the "authority" on the Mexican psyche. His 'classical' work, *The La-*

brynth of Solitude portrays a bestialist, irrational, hidden self as the core of "Mexican culture."

CARLOS FUENTES a self-styled "Zapatista," a reference to the Mexican revolutionary leader who according to Fuentes envisioned a totally bucolic Mexican state. He shares with Paz, his friend and mentor, his hatred for the "State," the "Soviet Union," and the "Idea of Progress."

His pamphlets and writings of 1968 were instrumental in the spreading—and financing—of the French student revolts in Mexico.

With his latest novel *The Hydra Head*, Fuentes established himself as a top Anglo-American intelligence scenario writer, and his scenarios—including one for the 1980 U.S. presidential elections—have been published in *The New York Times* and other major U.S. journals. In a two-page-long editorial feature Feb. 11 Carlos Fuentes wrote in *The Washington Post*: "John Paul was welcomed (to Mexico—ed.) by millions of people; in an era of resurgent spiritual movements, he has shown (to the horror of Mexico's official but minority Jacobinism) that the southern neighbor of the United States might be as swayable as Iran by its deep and ancient religious commitments."

ENRIQUE GONZALEZ PEDRERO a high official in Mexico's Ministry of Public Education, did his university studies at the University of Paris, in the same milieu where Iran's Bani-Sadr and Cambodia's Pol Pot were trained. These are the same academic circles around the Institut des Hautes Etudes Pratiques, out of which come Jacques Soustelle, an anthropologist and leader of the OAS terrorist organization of the Algerian independence days. Soustelle is an intimate collaborator of Octavio Paz.

Gonzalez Pedrero, in charge of the government's "free textbook program" for Mexico's elementary schools, earned notoriety last year with the publication of *The Wealth of Poverty*. This book, dedicated to Carlos Fuentes and Octavio Paz, is an unabashed apology for a Dark Ages policy in Mexico. Its approach to Mexico's problems is self-sufficiency and an economy devoid of industry and based on small agricultural-peasant communities and opposed to any solution which implies "modernity."

MARIO MOYA PALENCIA was Mexico's powerful Interior Minister from 1970 to 1976. Moya headed up the reactionary forces embedded in Luis Echeverria's cabinet in a compromise with Echeverria's progressive nationalist base. A "respected" Law Professor at the Autonomous University of Mexico (UNAM) for many years, Moya Palencia has become the number one ideologue of

the Club of Rome's "zero population growth" policies. These policies were popularized at the Bucharest Conference on Population in Rome 1974, chaired by David Rockefeller, and attended by Moya. During his term as Interior Minister, he attempted to make the slogan "let's make ourselves less" a household word in Mexico.

Presently, Moya Palencia holds an important post in Mexico's National Council on Tourism, headed by ex-President Miguel Aleman—the Mexican darling of the U.S. Zionist lobby—whom Henry Kissinger recently addressed in public as "Mr. President."

His continued efforts towards promoting "zero growth" include a major promotional drive for Enrique Gonzalez Pedrero's book *The Wealth of Poverty*.

Moya is also a long-time friend of Carlos Fuentes. Fuentes is known to have bragged publicly that Moya had read and admired his recent novel, *Terra Nostra*.

HEBERTO CASTILLO is president of the so-called Mexican Workers Party (PMT), a populist version of the right-wing PAN Party. Castillo has replicated in Mexico the kind of pro-terrorist, environmentalist movement which late last year attempted to take over the Seabrook nuclear plant installations in New Hampshire. Internationally, the Anglo-American media have made Castillo the number one spokesman against Mexico's government-owned oil company, Pemex, as well as against Pemex's nationalist director Jorge Diaz Serrano and his policies. Castillo contributes weekly to the Jesuit-linked *Proceso* magazine—launched under the auspices of Octavio Paz et al. and his libelous writings caused Mexico's President José López Portillo to refuse an interview with him unless every word of it was taped.

RAUL OLMEDO is presently director of post-graduate studies of the Political Science School of Mexico's UNAM. He took his graduate degree in France, under the direction of "structuralist" ideologue Louis Althusser who was expelled from the French Communist Party recently for his connections to Toni Negri, University of Padua professor and controller of the Italian Red Brigades terrorists.

Olmedo heads the "left-wing" side of the operations against the "Idea of Progress" in Mexico, and his main propaganda conduit is Mexico's best known daily *Excelsior*, where Olmedo heads the economic page. Olmedo, identified as Louis Althusser's representative in Mexico, devotes his volumes to promoting the notion that economic progress as an offspring of industrial progress "will shackle Mexico to the chains of Imperialism." His solution is an economy where "individuals use the energy of their own bodies"; technology is "the murderer and enemy" of productivity.

Falk: 'High technology is very threatening to Mexico'

Richard Falk, Princeton University professor and the New York Council on Foreign Relations' resident luminary on the operational uses of human rights campaigns, has functioned as Bani-Sadr's U.S. collaborator since well before the Iranian events of last year. His general objective of using human rights issues as a cover to destroy national sovereignty was promulgated in Falk's contribution to the CFR's Project 1980's series, "Human Rights and the International Order," excerpts from which follow.

...The 1980s will be a period of learning and experimentation. The multifaceted struggle to uphold basic human rights will be an important way to convey the image of alternative systems of world order and to test their relative potency.

...Ultimately, global guarantees of human rights are virtually synonymous with the quest for the next world order system.

As I have argued, even in the most optimistic view of the 1980s, territorial supremacy will insulate severe violations of human rights from international control. The state system imposes structural constraints that set firm limits on global policy. Overcoming these limits presupposes the emergence of a new world order. ...It should also be appreciated that Hitler's Germany and Mussolini's Italy did well by needs criteria as compared to their more moderate predecessors—e.g., standard of living of workers improved in both countries.

In a recent interview made available to the EIR, Falk revealed his thoughts on the following topics.

On Iran. "They (in Iran) are very proud of the fact that they staged a revolution that owed virtually nothing to Western thought...that the Third World possess the cultural ingredients of domestic revolutionary process. It not only doesn't need Western technology, it doesn't need Western ideology."

On the need for a One World technocracy. "People's real identities are either with their communities or are being identified in large-scale terms with religious identity or with humanity as a whole. Those various kinds of broader identities seem to me to represent the stronghold for creating a future world order that is capable of avoiding a really catastrophic kind of destiny for the planet. The technology, the crowdedness and the ine-

quality are such that we have created a very explosive political arrangement.”

On embassy take-overs. “State terrorism leads to popular terrorism, and there is a kind of unspoken conspiracy between these two elements in the modern political world...So before one becomes too one-sided in condemning those who carry out embassy seizures on behalf of positive goals, I think one has to understand that the whole basis of political life in many of these countries is associated with terrorism.”

On Mexico. “I think that any kind of dramatic transformation of the reality of a country like Mexico arouses all kinds of fears...I think big technology can be very threatening to the patterns of existence that are prevalent, particularly in the rural countryside. One sees the effects among Indian communities as most extreme. Iran is very helpful as an experience because there all this modernization that was supposed to be so good for people was experienced by them as a terribly corrupting and degrading encounter with what a modern world has to offer...”

On his Mexican co-thinkers. “I believe the two Mexican thinkers most congenial to my views are Carlos Fuentes and Octavio Paz.”

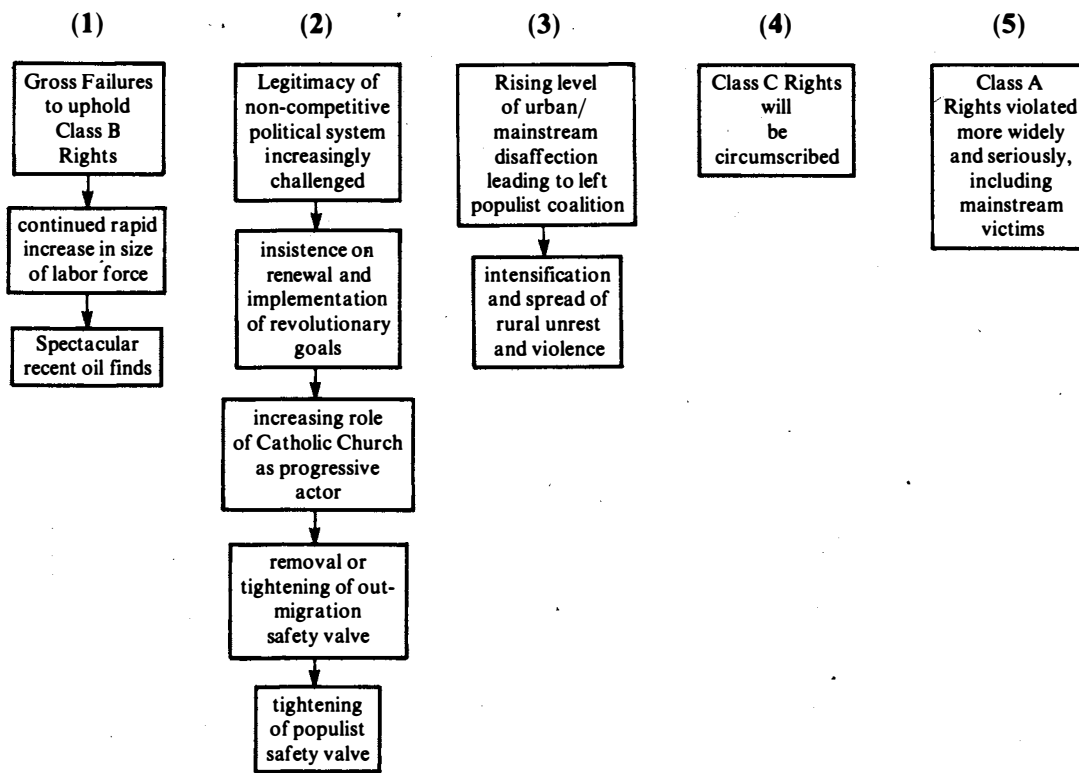
Clark: ‘Mexico reminds me of Iran under the Shah’

In a recent interview with a Mexican journalist, the man who led “human rights” marches down the streets of Teheran in January 1979, explains why he is turning his attention to Mexico and why Mexico must, in his view, turn back from modernization and industrialization.

Q: What’s your thinking on Mexico’s future?

A: The first thing that comes to my mind in thinking about Iran...er, I mean Mexico... is the example of Iran. Iran is the perfect case study on how oil revenues caused a disaster by pushing industrialization and as a result of it, an accelerated process of urbanization that led to terrible suffering for the population. It was a copy of an alien model. So it is clear for me that Mexico has to be very careful about her oil and must foster conservation.

Projected political model of human rights observance and violation in Mexico



I think Mexico is facing a very dangerous conjuncture. What has to be questioned is the desirability of industrial expansion, especially in a country with the cultural tradition of Mexico. I love the country myself. I spent my honeymoon in the Isthmus of Tehuantepec, I know all the back towns of Oaxaca. Mexican Indian art I find particularly attractive.

If you build a significant industrial plant, you create an enormous need for energy. Mexico's oil supply could only last for say 40 years, and after that what could you do? Think about the Shah fantasizing about nuclear energy. It was only a fantasy because there was no national reality for nuclear energy in Iran. It was economic planning based on a foreign model, and was denounced by my good friend Bani-Sadr for over 20 years as an economist.

Mexico should learn the lessons of Iran, although I imagine the Mexican government wouldn't depict itself as similar with the Shah's regime, because it allegedly doesn't violate human rights so blatantly. But the Mexican government is in fact highly aristocratic. And once you have that, and once you add rapid urbanization, popular resentment and chaos begin, and you have a revolution.

Falk's "human rights" assault plan

This chart, contained in an unpublished paper by Richard Falk, entitled Human Rights in Brazil and Mexico, is a glaring example of the way the CFR undertakes destabilization scenarios. Class A rights, in Falk's lexicon, are those "gross violations pertaining to Dignity of Persons and Groups"; Class B, refers to "Gross Failures to satisfy Basic Human Needs of Person and Groups" (economic rights); Class C, "Gross denials of participation in Economic, Social, Cultural, and Political Domain."

Column 1 describes the basic ingredients—according to Falk—that will lead the Mexican government to be a major Class A, Class B and Class C human rights violator during the next decade. Notice the mention of Mexico's "spectacular recent oil finds." Column 2 identifies the major elements now being used by the CFR to destabilize Mexico: The first box recommends a massive attack against the "Presidentialist" Mexican political system, of the sort discussed at the recent PEN International conference and which has proliferated in all of Mexico's "opposition" magazines. The third box "predicts" the increasing role of the Jesuit "Theology of Liberation" variety of manipulation.

A national plan

Steel sets the pace for Mexico's industrial growth

The Feb. 12 announcement that Mexico was going ahead with the construction of Phase II of Las Truchas, the giant West Coast steel complex also known as SICARTSA (Siderurgica Lazaro Cardenas, S.A.), marks an important step toward the implementation of the now year-old National Industrial Development Plan (PNDI).

This Plan, a groundbreaking planning effort designed to chart priority investment strategies for Mexico's anticipated oil revenue boom, provides for heavy incentives for a capital-intensive industrialization strategy. Two forms of incentives exist under the PNDI. First, incentives are placed on investment according to production line. The prime beneficiaries here are electricity and other infrastructure, steel, capital goods and agro-industry.

The other scale arranges incentives according to geographical location. In order to decentralize Mexican industry out of its present four highland strongholds (Mexico City, Puebla, Monterrey, and Guadalajara), and increase trade prospects, the PNDI established a priority development classification of "I-A" for four giant industrial port complexes. These four I-A zones—Lazaro Cardenas and Salina Cruz on the Pacific side, and Tampico and Coatzacoalcos on the Gulf—are granted extraordinary development advantages, including energy discounts of up to 30 percent in certain production lines.

The just announced SICARTSA Phase II expansion, long on the drawing boards but stalled through anti-industry pressures from the International Monetary Fund, is rated at the top of both incentive scales in the planning revisions kicked off by the promulgation of the PNDI in March, 1979. An additional plus in its favor, which helped shape the Mexican government's final decision, is its inclusion of determined Japanese co-investment partners.

Steel projections before and after the PNDI

With the initiation of Phase II of SICARTSA, the growth of the steel sector remains close to the ambitious targets mandated by the PNDI.

Before the adoption of the National Industrial Development Plan (PNDI) in March 1979, the projections for growth of demand for the Mexican steel industry were 8 percent per year. It was estimated that total demand for 1982 would only reach 11.2 million tons, and that this could be handled through a relatively modest expansion program. In March 1978, the director of the state's steel holding company, Sidermex, Leipen Garay, and the Steel Industry Coordinating Commission unveiled the expansion program for the years 1978-1982. The program aimed at expanding installed capacity from 9.4 million tons to 11.9 million 1982, through total investment of approximately 40 billion pesos (\$1.8 billion).

The relatively centralized industry comprises five major firms and a variety of smaller-scale, unintegrated firms primarily dealing with specialty steels. Three of the majors—Altos Hornos (AHMSA), Fundidora Monterrey, and SICARTSA—are state-controlled. The two private sector majors are Hojalata y Lamina S.A. (HYLSA), in Monterrey and Puebla, and Tubos de Acero (TAMSA), located in Veracruz and controlled by Monterrey associate Bruno Pagliai.

Mexico steel industry goals as of 1978

(in millions of tons/year)

Company	Installed Capacity			Production* 1985
	1970	1978	1982	
AHMSA	2.10	3.20	4.20	3.78
FUNDIDORA	1.00	1.50	1.87	1.68
SICARTSA	—	1.30	1.45	1.31
HYLSA	1.00	1.55	2.30	2.07
TAMSA	0.30	0.45	0.75	0.67
Other	0.70	1.35	1.35	1.22
TOTAL	5.10	9.35	11.92	10.72

* Estimating that steel production reaches 90% of installed capacity over a three-year shake-down period.

Source: Sepafin

The PNDI, released in March of 1979, raised the goals for steel demand from the 8 percent previously adopted, to 13 percent. Sidermex and the Coordinating Commission immediately ordered studies prepared to determine the best way to meet the new projections, which would require installed capacity of over 15 million tons per year by 1982.

The guiding conception was that while industry expansion up through 1982 would still in large measure take place at the existing AHMSA, HYLSA and TAMSA plants located in Monclova (Coahuila), Monterrey and Veracruz respectively, additional growth for those years to meet the new targets, as well as almost all development afterwards, would take place on the Pacific

and Gulf coasts. Beyond the general considerations of contributing to the government's industrial port concept and enjoying the I-A classification under the PNDI, two other specific factors contributed to this orientation. First, it is projected that in the medium term Mexico will have to import significant quantities of iron ore. The existing reserves at La Perla (supplying AHMSA), Pena Colorado (AHMSA, HYLSA, FMSA and TAMSA), and Las Truchas (SICARTSA), are running down. Second, the production of steel will increasingly be oriented to capital goods manufacture and shipbuilding, both activities slated for priority location at the new port complexes.

In the fourth quarter of 1979, SICARTSA presented a plan to the Coordinating Commission for:

- A sponge iron plant, using natural gas for the direct reduction method.
- An electric arc steelmaking plant with a 1.5 million tons/year capacity.
- Equipment for continuous casting, and a rolling mill to produce steel plate.

This is the plan that, with minor modifications, has now been adopted. Industrial Development Minister de Oteyza, in his Feb. 12 announcement, broke down a total investment tag of 57 billion pesos (\$2.0 billion) into three components: 48 billion for the flat steel expansion; 6 billion for a forging mill to be financed with Japanese co-investment; 3 billion for a large-scale seamless pipe facility, also with Japanese co-investment. He also highlighted an additional 10 billion for completion of Mexico's largest fertilizer plant now under construction at Las Truchas.

De Oteyza stressed that the flat, rolled steel will meet the supply side for capital goods expansion, one of the top PNDI goals alongside steel itself. The \$280 million NKS (Nafinsa-Kobe-SICARTSA) capital goods plant at Las Truchas, announced in December and due for completion in 1982, is expected to be an immediate beneficiary.

The technology question

For several months, Phase II was held up as planners debated the cost and technical aspects of direct reduction versus blast furnace technology. A large blast furnace (1 million tons or more) consumes approximately 3.8 gigacalories per ton of pig iron. The direct reduction process consumes approximately 5.0 gigacalories per ton of sponge iron, for installations of the same size. Though this energy differential is narrowing with the introduction of new technologies for direct reduction, the energy-intensive economics of direct reduction still places a premium on low-cost natural gas.

Mexico's current domestic gas prices are among the lowest in the world, only a fraction of world market

prices. The debate thus revolved around whether such a low pricing pattern was desirable and should be maintained by the government over the long term. If not, then the advantages of direct reduction for SICARTSA II were reduced, if not eliminated, in cost terms.

For several reasons, including the desirability of maintaining at least some differential in gas price in order to encourage energy-intensive exports, and the security of domestic gas supply in comparison with partially imported coal, the planners in SICARTSA, Sidermex and the Coordinating Commission reached an agreement in favor of the direct reduction option. The specific licensing technology is reported to be contracted from HYLSA.

The revised production projections are now as follows:

Mexico steel industry goals as of 1980

(in millions of tons/year)

	1982 capacity	1985 production
Original Program*	11.55	10.40
SICARTSA II	2.00	1.80
TOTAL	13.55	12.20

* Minus a 370,000 ton addition to Fundidora, scheduled in the 1978 plan but subsequently abandoned.

Source: Sepafin

Investment levels, in addition to the \$57 billion pesos for SICARTSA, are projected at 17 billion pesos (\$750 million) each for AHMSA and HYLSA, and 13 billion pesos (\$550 million) for TAMSA.

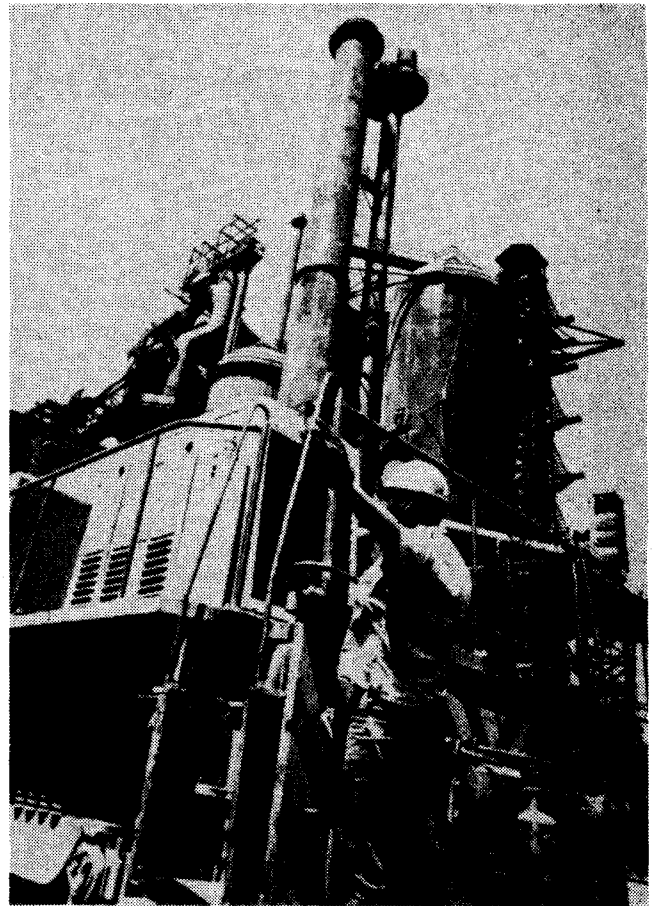
Filling the gap

This current, revised plan still leaves an approximately 1.5 million ton gap to be filled in order to meet the PNDI projections of steel demand. The Coordinating Commission has not yet decided how—and if—it plans to bridge this gap.

One possibility under consideration to fill the immediate steel production gap is to amalgamate SICARTSA Phase II with a further projected Phase III into one giant expansion of 3.5 million tons.

Another possibility under consideration is the initiation of a major Gulf Coast steel complex. The only existing Gulf Coast plant is the privately-owned Tubos de Acero (TAMSA) plant in Veracruz, which already plans expansion to 800,000 tons/yr. production of seamless steel pipe by 1982. Further expansion in the short term is considered unlikely by Mexican steel industry sources.

If a new plant is to be constructed on the Gulf Coast, the likely location is Tampico. In addition to its I-A classification, Tampico's location places it relatively near



A steel plant on Mexico's Pacific coast.

the existing steel centers of Monterrey and Monclova, the Sabinas basin coal and gas deposits, and, to the south, the Chicontepec oil reserves. The exploitation of Chicontepec alone will require drilling over 15,000 separate wells, and will generate one of the greatest demands for capital goods in the history of the country, according to Pemex director Jorge Diaz Serrano.

A Japanese firm is currently conducting planning studies for large-scale infrastructure at Altamira, a site 10 miles north of Tampico but within its I-A development zone, and the Mexican government has asked private sector groups to specify investments for the site. But because of the scale of infrastructure required, it is almost certain that the Altamira project or any similarly conceived effort would only bring added steel capacity on line in a 5-6 year time period, rather than the 3 years which fall within the Steel Coordinating Commission's 1982 plan.

Leipen Garay signaled some major project along these lines in a recent briefing to Mexican businessmen. He spoke of possible Gulf developments reaching 5 million tons, but provided no details as to location or construction schedule.

International Intelligence

EUROPE

Schmidt and Giscard meet to assess EMS diplomacy

France's President Giscard d'Estaing and West German Chancellor Schmidt will be meeting Sunday March 16 in Hamburg to go over the results and implications of Giscard's 10 day historic trip to the Persian Gulf and Schmidt's trip to the United States to talk with Carter.

The objective of the meeting was hinted at by French Economics Minister Rene Monory who, according to *Le Figaro*, denounced the recent round of interest rate warfare provoked by the latest U.S. increase in interest rates, which, he said, would not solve inflation. Monory explained how the European Monetary System has been providing monetary stability in Europe and that Phase Two of the EMS, the creation of a European Monetary credit fund, would begin operation this year. There are two key questions which he said will be discussed by Giscard and Schmidt: what to do with the \$70 billion deficit of the Less Developed Countries and the \$110 billion surplus of the OPEC countries.

Schmidt: No differences with Giscard

At a press conference March 13, West German Chancellor Helmut Schmidt confirmed that "there is no difference" between French President Giscard's Palestinian policy and his own. Schmidt explained that he had had a long telephone conversation with Giscard on March 11 during which Giscard had suggested a meeting in Hamburg because his just-concluded Mideast tour

had brought forward "some new and interesting aspects of Middle East policy." Schmidt also said that he would like the United States to find a more "respectful" approach to nonalignment and independence in the Third World. Neutrality, he said, cannot be forced on any nation that doesn't ask for it, referencing the Afghanistan situation.

Thatcher's unsuccessful seduction

British Prime Minister Margaret Thatcher went on French television this week to get public opinion behind her campaign for "fairness and justice" over Britain's contribution to the European Economic Committee budget. The French government has taken a particularly hard-line position demanding that either Britain meet the 1,000 million pound contribution agreed upon, or consider withdrawing its membership.

Mrs. Thatcher stressed that Britain made great contributions to the EEC in fishing and trade. "I am afraid that unless we get justice fairly soon, it will be difficult to make progress with other things because we think we should make progress with things that affect us, too." There's no possibility Britain will leave the EEC, she said. The West must have "the most effective alliance we can possibly have. As the Soviet world lives together, bound together by hoops of steel, we're bound together freely and we must be effective, and there's no question of leaving the community."

The French press characterized her television appearance as "an attempted seduction." The British "iron lady," said *Le Monde* should be called the "velvet lady" because of the way she kept flitting her eyelashes in a seeming attempt to seduce the gentleman conducting the interview. *Quotidien de Paris* disagreed, suggesting the term "uranium lady" because of the way her eyes and lacquered hair sparkled during the interview.

SOVIET UNION

Soviets praise French "realism"

French President Valery Giscard d'Estaing is "charting an independent line from Washington," concludes the Soviet government newspaper *Izvestia* March 11. Giscard's Middle East tour, writes the authoritative commentator Alexander Bovin, is a "new manifestation" of French "realism" which "inevitably separates the policy of Paris from Washington's policy." Asserting that Moscow does not want to split Europe from the United States as is often charged, the Soviet daily heaps praise on the Franco-German alliance for peace and cooperation and adds that "without stable, regular and equal relations between the U.S. one cannot speak of stability for the system of international relations in their entirety."

ASIA

Coup rumors in Pakistan

On March 11, a small flurry was caused in Washington, Islamabad and other capitals when the UPI wire service carried a story, based on unconfirmed "sources" that there had been an attempted military coup in Pakistan. The coup allegedly involved some 26 top officers including the Deputy Chief of Staff General Mohammed Iqbal and Deputy Chief Martial Law Administrator General Saghir Hussein. The report was also carried in a Urdu language paper, favoring the policies of murdered former premier Bhutto, *Millat* in Lon-

don. The Pakistani government immediately denied the report.

One explanation of the report was provided by Pakistani diplomatic sources in Washington who charged that it had been prompted by the Pakistani rejection of the U.S. aid package, implying that the report had been fabricated with the connivance of Washington. The coup report in fact alleged that the officers involved were "upset" by General Zia's rejection of the aid.

MIDDLE EAST

Clergy expected to win big in Iranian elections

The clergy of Iran, organized into the dominant Islamic Republican Party, are expected to be the big winner in the March 14 elections to the *Majlis*, or Iranian parliament.

President Abolhassan Bani-Sadr, who has tried to decrease the power of the clergy and the ayatollahs, is poorly organized with no political base for the elections. In Teheran, whose 30 seats make up the biggest bloc of the parliament, Bani-Sadr has fielded candidates for less than half of the contested positions, and that is the pattern across the country. The Carter administration is counting on a big victory by Bani-Sadr to renew the momentum to free the U.S. hostages.

The Islamic Republican Party, led by Ayatollah Beheshti of the Revolutionary Council, has formed alliances with other religious blocs in the country, and is in the strongest position. Also running are candidates of the Tudeh Communist Party and the Mujaheddin, a left-leaning Islamic guerrilla group, which has reportedly drawn middle-class support.

Voting procedures are highly irregular. In a nation that is more than half illiterate, voters must write in the names of each of their intended candidates, which in Teheran means that voters must individually write up to 30 names on the ballot. The Interior Ministry has arbitrarily ruled various parties off the ballot, leading, in Kurdistan, to armed rebellion and strikes. The *Christian Science Monitor* reported March 13 that "widespread strikes and demonstrations" by dissatisfied parties might "bring down the government" in the wake of the election.

LATIN AMERICA

Colombian elections signal end to democracy

In what political observers are analyzing as the demise of Colombian democracy, over 80 percent of the country's electorate abstained from voting in the March 9, mid-term elections. In the capital city of Bogota, only 10 percent of the electorate voted. While the Colombian press is claiming the elections were a "victory for democracy," the official results reaffirm existing political alliances dominated by the oligarchy.

The elections occurred as the terrorist M-19 continued to hold 13 foreign ambassadors hostage in the Dominican Embassy in Bogota, an incident which has prompted widespread military repression, numerous raids and arrests around the country. The extraordinary levels of repression and terror, coupled with the military's known desire to stage an "Entebbe-style" raid to free the embassy hostages, are seen by many as evidence of a virtual military takeover in the country, and the reason for the unprecedented abstention rate.

Briefly

● **IRELAND'S** Prime Minister Charles Haughey was in Paris this week, on his first official trip abroad, for talks with President Giscard and Prime Minister Raymond Barre. Interviewed by the daily *Le Monde*, Haughey stated that Ireland hopes for a solution to the European Economic Community budget fight which has Great Britain opposed to the rest of the EEC. Haughey stated he finds it absurd for a poor country like Ireland to be financing Britain's participation.

● **GENERAL ZIAUL HAQ**, Pakistan's military dictator, is a "hypocrite" says the Soviet official daily *Izvestia*, in response to Zia's latest rejection of U.S. aid offers. The *Izvestia* commentary by Kornilov, calls it "pure rhetoric, hypocrisy" and says that Pakistan continues its "undeclared war against Afghanistan." Zia, says *Izvestia*, is already acting as a "satellite" of the U.S. and China, has sold the sovereignty of Pakistan to the U.S. and the only thing he is doing is to increase his price.

● **ISMAIL FAHMI**, Egypt's former foreign minister who resigned from the government following President Sadat's visit to Jerusalem in 1977, appeared again in the pages of the Egyptian press this week. Fahmi called for Egypt to freeze relations with Israel and to halt the negotiations until the Israelis recognize the right of the Palestinians to an independent state. Because of tight censorship in the Egyptian press, the fact that the statement appeared is taken as a sign of at least tacit approval by President Sadat. During his tour of the Persian Gulf in the last 10 days, French President Giscard d'Estaing on several occasions called for Palestinian "self determination."

President Carter's foreign policy debacles

by Criton Zoakos, Contributing Editor

Back in July of 1979, an artificial "Carter debacle" had been preprogrammed by certain circles associated with the New York Council on Foreign Relations and Georgetown University. This was supposed to cause a major foreign policy embarrassment for President Carter, and at the same time pave the way for the late, lamented Alexander Haig's ascent to the Presidency.

But by the first week of March, not only had the CFR boys been completely unable to carry out that scenario. Instead, a different Carter debacle had already emerged, which in fact is the debacle of their own foreign and domestic policies with which the poor, pathetic Carter is burdened. The fellows had schemed to throw their ship's captain overboard, and they are now seeing the ship itself sinking fast.

Taking stock of developments as of the March 5 landmark Israeli cabinet meeting, we have the following:

- The Camp David treaty is virtually finished.
- The "Islamic fundamentalist" card in Iran has turned sour and out of control, and Iran is increasingly in danger of falling captive to Soviet pressure, on the principle, recently identified by a senior Israeli intelligence officer, that in Islamic tradition, military victory (such as the Soviet invasion of Afghanistan) is viewed as divine favor bestowed by Allah upon the victor.
- In the People's Republic of China, a leadership has consolidated with the recent Central Committee meeting, fully dedicated to two propositions: to play the "American card" to the hilt while never allowing Washington to play the China card.
- In continental Europe, the Paris-Bonn combination has emerged as an effective continental leadership organizing itself, not for the purpose of "splitting" Eu-

rope from the United States as the Thatcher-Keith Joseph government in Britain had calculated, but for the purpose of imposing its own conception of strategy for the future of the western alliance upon the United States itself. (See International)

- In terms of both foreign and domestic economic policy, both the Carter administration and its controllers in New York and London find themselves in the midst of the most devastating debacle of all: by February, the rate of inflation had shot dangerously close to 20 percent, with discount rates following closely behind. The federal government was discovering that one of the major sources of the economy's inflation is its own anti-inflationary policy! The current "interest rates war" has caused a situation in the international credit markets which threatens the Carter administration with a wholesale deflationary collapse either at the end of the second quarter in June, or at the end of the third quarter in September.

Who will survive?

This year, whoever controls the flow of Arab petroleum revenues, will determine which major commercial banks and which governments around the world will go bankrupt. Whoever attracts Arab bank deposits, or Arab cash transfers for trade or technological deals, will be in a position to decide whether to bankrupt all the major seven New York commercial banks and whether to bankrupt the United States Treasury itself.

With the developments now being reported in the Middle East, the partnership between Schmidt and French president Giscard has a better than good case to claim that it is on the verge of obtaining just this sort of

leverage over the political affairs of the United States. This is where the European-Arab dialogue and the collapse of Camp David come in.

The Camp David Treaty issue

Back in 1978, when every other political leader and strategist was engulfed in the euphoria of the false peace, *Executive Intelligence Review* warned that Camp David would prove unworkable. Soon, the Syrian, Jordanian, Saudi and Iraqi government concurred. At a later point, the governments of the European Community also concurred with this evaluation. As of now, it is the firm but still "top secret" evaluation of the Israeli government that Camp David "will not work." The Sadat government in Cairo has also sent out signals (especially to the continental European governments) that Camp David will not work.

The special problem confronting Begin's government at this juncture is that if it were to relent to the almost universal pressure to return back to its 1967 borders, given the chaotic political situation in the United States, it is left with absolutely no guarantees for its national security. In point of fact, neither a Carter, nor a Kennedy, nor a Bush nor even a Reagan administration despite their stated intentions, would be able to provide any reliable guarantees to Israel's security within its 1967 borders. The only practicable, that is deliverable, guarantee for Israel is the one offered to Israel by Lyndon LaRouche in the course of the last five years, because it is the only one associated with those types of domestic economic and military policies which can make security guarantees work from the U.S. side.

As things stand now however, Israel will find itself increasingly compelled to deal with France, West Germany, the European Community and, indirectly, with the Soviet Union. On the Arab side, a Saudi-Iraqi-Indian "Third Force axis" is emerging which associates its political and national survival with a policy of close economic, military, and diplomatic cooperation with the governments of continental Europe to the exclusion of the two "superpowers."

Carter's vicious cycle

In summary, the foolish Carter and his foolish controllers, are gripped in the following vicious cycle:

To keep their "1980s Project" program for "controlled disintegration of the world economy" on course, they must maintain control of the political processes within the United States. For this they must maintain a certain amount of control over the international and domestic monetary process. They must also restore their stranglehold over this year's "petrodollar recycling," and such a stranglehold requires either the cooperation

or the overthrow of a number of Arab governments. But the threat of being overthrown by Brzezinski's lunatic Islamic fundamentalists in Iran has rallied the intended Arab victims around the French and West German diplomatic and economic initiatives. To stop these Europeans from deploying in this fashion, Washington must offer them credible guarantees of continued detente with the Soviet Union and a framework of programs for the economic development of the Third World.

To do that, the United States must abandon its "1980s Project" perspective, and strike upon a policy of serious economic recovery.

If such a course is rejected, there are two types of general perspectives from which to choose. One would be the "war economy" orientation similar to the 1936 shift in Nazi Germany from Schacht to Hermann Goering. This given the present military capabilities of the U.S.S.R., will result either in a world catastrophe accompanying the defeat and extinction of the United States as a nation, or the disintegration of the American economy under such a policy of cannibalization. Such an eventuality would cause the eclipse of the United States as a world power and would throw the CFR idiots into the clutches of the nightmare scenario, which is already in place. This scenario calls for the humiliation of the United States (such as that occurring now with the hostages in Teheran and Bogota) but on a larger scale, with sweeping domestic destabilizations and "fundamentalist" movements being attempted against the United States itself, and generally the spread of a social collapse into anomie and degeneration currently associated with such fringes as the Citizens Party, the Libertarian Party, and Governor Jerry Brown's Jesuit-inspired gospel of deindustrialization, sodomy, and drug culture.

Thus, the debacle of Jimmy Carter is a debacle for the United States and a thing that has been caused deliberately by the Carter administration's backroom mentors and controllers.

The miscalculation of these evil people does not lie in the fact that their policies may turn the United States into a pathetic and powerless Sodom and Gomorrah. This has been part of their intentions all along, and it fits into their perspective of shaping a worldwide "great stability" model run by a "world government arrangement." Their miscalculation lies in the fact that under the present developments, such a situation is threatening to arise while the Soviet Union is displaying a rapidly developing ability to cope admirably with the "religious weapon" that, according to Brzezinski and friends, was supposed to cause a "disintegration" of the Soviet Union parallel to that of the United States, and the Soviet Union is also displaying a growing ability to convince the European members of the alliance to remain on the course of detente.

Will the real John Anderson please sit down!

by Lyndon H. LaRouche, Jr., Contributing Editor

Following the March 9 endorsement of the presidential candidacies of John B. Anderson and Jimmy Carter by the conservative Chicago Tribune, our contributing editor Lyndon LaRouche immediately asked whether the Tribune was playing a premature April Fool's joke upon its readers by endorsing a candidate with known "liberal" qualities. We excerpt LaRouche's statement here.

The most outstanding thing about Representative John Bayard Anderson at close quarters is the fellow's liberal head of hair. At close range one surmises that it is that glorious head of hair, rather than anything located immediately beneath it, which is the pride and joy of the candidate's assorted producers, directors, scriptwriters, make-up artists, and publicity photographers.

At close range, specifically during a candidates' night sponsored by the New Hampshire gunowners, Anderson's mane appeared to be teased, blued, and lacquered. It was all that one noticed, until the candidate began clacking his wide scissor-bill of a mouth.

Politically, if comparisons are wanted, John B. Anderson (R-Ill.) is the Edmund "Jerry" Brown, Jr. of the current Republican ticket.

Anderson shares Brown's wooing of the potheads and gay movement. Although he differed with Brown on guncontrol in New Hampshire (Brown was opposed to gun-control on radical libertarian grounds), Anderson is otherwise the eerie combination of Buckleyite liberatari-an "conservatism" and ultra-radical social demagogy we have grown accustomed to hearing from Brown.

According to the proverbial "word" currently running around in ostensibly informed Republican circles, Anderson is also merely a stalking-horse for the supposedly imminent candidacy of former President Gerald Ford.

The odyssey of a queer sort of chameleon

Too many voters have been so much amused by Anderson's similarities to Jerry Brown that they have overlooked the forces behind him. He is a member of not

only the New York Council on Foreign Relations, but also both the Trilateral Commission and the "Bilderberg" set.

For example, Anderson participated in the 1979 Baden, Austria session of the Bilderberg society. This was the conference which adopted the policy of supporting "Islamic fundamentalism" (for example, Ayatollah Khomeini) and which endorsed the earlier decision of the London petroleum cartel to run an energy crisis against the economy and people of the United States.

Within Trilateral and Bilderberg circles, Anderson's cronies are the Democratic Party liberals, rather than the Republican currents of that set of influentials. Anderson's policies are shaped predominantly by the circles close to Governor Averell Harriman, as typified by Anderson's recently appointed "national communications director," Richard Stout. Stout was formerly assigned by Harriman to assist Harriman's protégé Daniel Moynihan (now senator—D.-N.Y.), and was an aide to Rep. Morris Udall during the latter's 1976 campaign for the Democratic Party presidential nomination.

In Chicago Anderson's key connection is Harrimanite Alex Seith, prominent figure of the Chicago Council on Foreign Relations.

Early history

Official and quasi-official biographical sources shed the included; following bits of light on Anderson's rise toward the ranks of the leading "one-worlders."

Following his birth in February 1922, the first part of his life is dominated, according to available records, by his devotion to the Evangelical Free Church in Rockford, Illinois. After progressing to an advanced law degree at Harvard (1949), he practiced hometown law, moved on to serve under General Lucius Clay in West Berlin as a Foreign Service officer, and then moved on to become state's attorney in his Rockford native city until his run for the U.S. Congress in 1960.

His first eight years in the Congress were undistinguished to the point of boredom. Sometime during the middle sixties he underwent a conversion to liberalism.

As he has described that transformation more recently, "Anyone who looks back at that decade of the 1960s realizes we were undergoing social upheaval. ... The whole atmosphere began to register on my conscience. It began to convince me that times had changed, and that some of us—grudgingly—were going to have to change."

After Anderson's maiden self-exposure as a liberal in 1968, hands behind the scenes began easing the congressman upwards. He appeared on the Republican Policy Committee. He was made the second-ranking Republican on the Joint Committee on Atomic Energy. He became chairman of the House Republican Conference. He was also, incidentally, a delegate to the 1976 Republican convention.

It was the publication of his book *Between Two Worlds: A Congressman's Choice*, published in 1970, plus his position as editor of Lippincott's 1970 *Congress and Conscience*, which served as Anderson's Faustian pledge to his one-worlder patrons.

Anderson's financial angels

Liberal Anderson's financial backers are largely the same crowd which backed Senator Eugene McCarthy's 1968 campaign, Senator George McGovern's 1972 campaign, and Governor "Jerry" Brown's run for the California governorship.

The biggest "money bags" of the collection is Stewart Mott, who ostensibly has enough left over from backing Senator Edward Kennedy's bid for the nomination to support Anderson. Others from Mott's favorite liberal Republican circles behind Anderson are Shelby Wright, Mrs. Robert Potter, and head of New York Planned Parenthood Wendy MacKenzie. Also most notable among Anderson's backers is a California crowd including Stanley Scheinbaum, Norman Lear, Grant Tinker, Gore Vidal, and Irving Wallace. Vidal and Wallace are, of course, well-known liberal writers; Tinker a Hollywood producer. Scheinbaum is the most interesting of the connection from those precincts.

Scheinbaum is linked to Philip Agee's "CounterSpy" network, and is otherwise famed for his leading part in the 1970 "Democrats for Change." He recently explained his support for John Anderson in a Jan. 21, 1980 interview: "I'm a liberal Democrat, a McGovern type. I've been following Anderson since Watergate. About two months ago I decided he'd probably begin to get a lot of press coverage. I've been impressed by the way he thinks. ... I've become increasingly disillusioned with Kennedy. ... My major point is to keep Anderson's voice alive."

Does the color of Anderson's liberal head of hair come from his hairdresser—or, perhaps, is it the result of poor blood circulation above the level of that clacking scissor-bill jaw of his?

John Anderson: profile of a Bilderberger



John Anderson is a member of the Trilateral Commission, the New York Council on Foreign Relations, and the Bilderberg Society. These decide his policies.

Last year, the Bilderberg Society held a secret conference in Baden, Austria, Anderson in attendance. The conferees, Europe's "black" noblemen, British aristocrats and intelligence executives, and an international assortment of their political supporters like Anderson, plotted the rise of "Islamic fundamentalism" led by Iran's Ayatollah Khomeini, and approved the oil shortage hoax of the major oil companies last summer. Both were parts of a broader aim: To cut off energy supplies to speed "deindustrialization" of the advanced nations.

Therefore, on the campaign trail, John Anderson calls for a 50-cent-a-gallon tax on gasoline to "limit consumption." This and all of Anderson's economic proposals are oriented to what he chooses to call "meaningful sacrifice." He also calls for a cut-off of federal aid to the inner cities; and a 50 percent reduction in Social Security revenues.

Anderson is also a cosponsor of the Anderson-Udall Alaska Lands Act, which seeks to outlaw "excessive development" in the state.

Anderson has been endorsed by John Harris, head of the U.S. Association for the Club of Rome. The Club of Rome calls for reduction of the world's population by 2 billion persons in the next 20 years, and views warfare, epidemic disease and the social chaos accompanying economic breakdown ("deindustrialization") as positive and natural developments to halt population growth.

Anderson's presidential campaign is being bankrolled by a cross-section of America's monied-degeneracy figures. The most prominent are Stanley Sheinbaum, director of *CounterSpy* magazine, a "left" organ of the terrorist deployment center, the Institute for Policy Studies in Washington, D.C.; trash novelists Gore Vidal and Irving Wallace; trash-television producers Norman Lear and Grant Tinker; and East Coast liberal-millionaire kook Stewart Mott.

Senate loosens trucking regulation; will House go all the way?

As the Senate Commerce Committee approved controversial legislation lifting many of the federal rules that now protect the trucking industry, a key member of the house indicated that he is considering sweeping aside *all* federal regulation of the trucking industry.

Rep. James J. Howard (D-N.J.) chairman of the House Surface Transportation Subcommittee said on March 11 that he is considering legislation which would consist of three written lines—repealing all sections of the 1935 Interstate Commerce Act which relate to motor carrier transportation. Earlier this year, Howard introduced legislation which proposed only minor reforms in trucking regulation.

One Capital Hill observer said: "I wonder whether Howard might have been 'abscammed' Just as Senate Commerce Committee Chairman Howard Cannon (D-Nev) had been 'brilabbed'," referring to the fact that Cannon changed from an antideregulation position to just the opposite, just as it was becoming known that the FBI was investigating whether Cannon was illegally and financially beholden to the Teamsters union for his antideregulation position. While Rep. Howard has not been implicated in the Abscam scandals, other members of his state delegation, such as Senator Harrison Williams and Representative Frank Thompson have, and the Democratic Party as a whole in New Jersey is said to be in turmoil because of the ongoing investigations. Observers note that

it is too much to believe that both Cannon and Howard would become parallel "born again deregulators" without some kind of outside pressure.

Cannon's newly found pro-deregulation position prevailed on March 12, as the Senate Commerce Committee passed, by a vote of 13 to 4, the bill before it. Several at-

ting many small towns off from truck shipments.

Bennett C. Whitlock, president of the American Trucking Association, Inc., said he felt "the only winners are inflation and increased fuel use. Provision after provision erodes the traffick base" of the regulated truckers and will "force them to cut back service and charge higher prices."

While Rep. Howard says that he will not decide definitely whether to introduce his radical deregulation bill on the House side for several weeks, both sides still remain comitted to having trucking reform legislation before the President by April.

Rep. James J. Howard (D-N.J.)



Sen. Howard Cannon (D-Nev)

tempts to gut the more radical "re-regulating" provisions were defeated by one vote several times. The bill, which will be moved on for quick floor action, contains several key provisions which make it easier for new firms to enter the business and would bar truckers from setting rates jointly for all goods hauled entirely by one firm—70 percent of all shipments. As an EIR special report published in November 1979 showed, such moves will gut the capital intensive base of the U.S. trucking industry, raising the price of truck shipments and cut-

Criminal code reform passes House subcommittee

After months of debate, the House Subcommittee on Criminal Laws passed the Criminal Code Reform Bill, known by its earlier Senate version "S.1," by a vote of 7 to 1. The bill now goes to the full House Judiciary Committee where the debate is expected to begin anew. House Judiciary Committee chairman Peter Rodino (D-N.J.) stalled the bill in the last session of Congress, thereby killing it even though it had passed the Senate. Whether Rodino wants to or can repeat that ploy this year remains to be seen.

The bill, authored in large part by Senate Judiciary Committee Chairman Edward Kennedy, passed that committee last November and is expected to reach the floor of the Senate next month.

Both versions would establish a commission which would develop sentencing guidelines which could be used for appeal by a defendant if the court imposed sentence exceeded the guidelines. But the Senate version would also allow the government to appeal if the sentence was more lenient than the guidelines. The Senate version also abolishes parole.

Capitol Hill observers noted that many of the tougher provisions in the Senate bill were "in exchange" for getting Republican support for de facto marijuana decriminalization in Kennedy's version. That provision may face a Senate floor fight to take it out of the bill.

Carter draft bill getting nowhere

A "strange bedfellow" coalition of liberals and conservatives has so far been able to stop President Carter's proposed draft registration legislation in the House and Senate Appropriations Committees. After suffering one defeat in the House Appropriations Committee's Independent Agencies Subcommittee on a tie vote of 6 to 6, the full House Appropriations Committee indefinitely postponed a crucial vote on the proposal on March 5. "It's in limbo," said a spokesman for Rep. Jamie Whitten (D-Miss.) chairman of the committee. Members of the parallel Senate Appropriations Subcommittee heavily attacked the proposal, citing a Selective Service report that said registration could be accom-

plished quickly enough after the President so orders.

Liberals, led in particular by Rep. Pat Schroeder (D-Co.), attack the proposal because they see it as a first step to war. Conservatives have attacked it as without substance, a rhetorical response to a collapsing U.S. military capability.

The proposals before the Appropriations Committees only cover the funds necessary for the President to use his existing power to register men. His proposal to also register women is before the Armed Services Committee where it is receiving a cool reception.

IMF quota increase before Senate

Treasury Secretary William Miller testified before the Senate Foreign Relations Committee on March 10 and called on Congress to enact S.2271, legislation to increase the United States quota to the International Monetary Fund by \$6 billion. Reflecting increased attacks on the IMF's policy of conditionality (the imposition of economic adjustments on a national economy as a precondition for an IMF loan), Miller went out of his way to defend the policy: "in most cases the sooner needed adjustments can be initiated the better since the longer the adjustment is delayed, the more difficult and painful it will be...but sometimes a country will not approach the fund until the situation is desperate. This is a key point to remember. The Fund does not cause the lack of

foreign exchange that interrupts vitally needed imports."

Attacks on conditionality began to pick up steam after the Brandt Commission attacked the economic stabilization programs of the IMF. The Commission, headed by former West German chancellor Willy Brandt, calls for greater consideration in the formulation of conditionalities on "basic human needs," a euphemism which accepts the enforced backwardness of the Third World under the IMF, but advocates minimal forms of life sustenance and "appropriate technologies."

Senate Foreign Relations Committee Chairman Frank Church is reportedly considering offering amendments which would conform to Brandt Commission concerns. Rep. James Cavanaugh, a liberal Democrat from Nebraska, has been running a series of articles on IMF conditionality in the *Congressional Record* and attacking it.

Opposition is expected to arise from conservative Republicans in both the House and the Senate who view U.S. participation in the IMF as a further ceding of U.S. interests to supranational institutions. The open question remains whether those conservatives will begin to couple their traditional opposition to the IMF with the growing calls for a return to a gold-based monetary system coming from such individuals as GOP presidential candidate Ronald Reagan, and Rep. Jack Kemp (R-N.Y.). Capitol Hill observers note that if that occurs, the debate on the IMF quota could take on an entirely different character.

National News

'No preference' wins 11 percent in Fla. primary

Faced with a choice of Kennedy, Carter or Brown in the Florida Democratic primary, over 100,000 voters turned out to give a colossal "thumbs down" to all three by voting "None of the above." The vote was solid statewide, with the counted "no preference" votes over 10 percent in Dade County, and 12 percent or more elsewhere in the state. Local media has called the "no preference" rejection vote "perhaps the most significant result of the election."

One Democratic Party official from Dade County commented: "I can't ask people to vote for Carter, he is an idiot. And there is a groundswell of people calling Kennedy an evil lunatic. This 'no preference' vote is a sign of dissatisfaction."

Meanwhile, in Alabama, a huge anti-Carter conservative Democratic vote went to Reagan, with the total Democratic turnout falling down to less than 50 percent of what was expected, while the GOP turnout increased by 400 percent from 1976. Then the Democratic Primary turnout was 450,000. This year it fell to 200,000. The Republican statewide turnout soared from 54,000 last time to over 200,000 Tuesday.

In precinct caucuses nationally, the "no preference" rejection vote ran even higher than in Florida. In Oklahoma, the rejection vote was 15 percent, coming in second, ahead of Kennedy who polled 10 percent. In Delaware, "no preference" polled 16 percent, securing 28 delegates. In Washington State, the rejection vote was 20 percent. Finally, in Alaska, "Uncommitted" won the primary with a smashing total of 52 percent of the vote, crushing Kennedy with 38 percent and Carter with 9 percent.

The dismay this voter rejection of Carter and Kennedy has caused among leading circles in the New York Council

on Foreign Relations was expressed clearly in the March 13 *New York Times*. In its lead editorial, the *Times* warns: "President Carter's support, despite his winning streak, appears fragile. And that fragility does not, outside Massachusetts, translate into support for Edward Kennedy. ... Just 48 percent of Democrats approve of the way Mr. Carter is handling his job. Fully 45 percent disapprove. How many of the latter turned to Senator Kennedy? Only two in five. Fertile ground for None of the Above to look forward to."

Aspen: end American democracy

America has too much democracy, when what it needs is an elite to hold things together, according to Douglass Cater, the head of the Project on Governability at the Aspen Institute for Humanistic Studies. The Aspen Institute is a think-tank whose membership is drawn from the top ranks of the British intelligence community, the Trilateral Commission and the New York Council on Foreign Relations.

Cater told a reporter on March 12 that he and other such "select citizens" should constitute a new elite to control the American population. According to a paper he is now preparing, he said, "constitutional reform" is required. "Things are getting way out of proportion. There are political currents that threaten the existence of the country as we know it. The key thing is to regain control, exercise self-discipline."

Cater referred to Walter Lippman. Lippman, who founded the *New Republic* magazine in the United States as an unofficial organ for the Royal Institute of International Affairs, British intelligence headquarters, "identified the problems of the current period in his last work," said the Aspen executive. "People didn't like his ideas; they were afraid because he said that the U.S.

government didn't work. The idea is that we need constitutional reform, without a constitutional amendment."

Cater argues that the "average citizen" has "too much power." "I propose that we create a new federalism, a new internationalism based not on these poor stupid people, but on an elite that imposes reality. I think the idea is to act like Walter Lippman, to create a brain trust. ... People are frustrated and sick of the powerlessness they feel about America's ability to act. ... The election this year will create a new basis for it. People are getting sick of the electoral process. ... It is the responsibility of handfuls of people to take charge. It will not be done overnight, but a new America will emerge and the old America will finally die. ... It only depends on whether we get a consensus on these issues from the key leaders, an elite. ..."

Trilateral Commission sounds the alarm

Alarmed by the impact of the attacks on the Trilateral Commission which have been unleashed by the LaRouche and Reagan campaigns, leading press spokesmen for the country's Eastern Establishment have stepped forward to publicly demand that these attacks be brought to a halt. One such demand came in an editorial entitled "Trilateral Who?" in the March 12 *Christian Science Monitor*: "Whatever else happens after yesterday's primaries, the conspiracy theory of membership in the Trilateral Commission ought to be retired a campaign tactic. It exploits fear and ignorance among the voters in a manner any candidate should repudiate." After lamenting the attacks on George Bush, the *Monitor* defends the Commission by mentioning other Republican members, including John Anderson and Bill Brock. "Such a sample hardly suggests the Trilateral Commission is the liberal cabal of the conspiracy theory fielded

by the right, or the nest of imperialists decried by the far left. . . . The appearance may be that there was a design to employ Trilateral members, even as anti-Bush campaigners have suggested an appearance that Trilateralists are supporting him in order to have both a Republican contender and the Democratic leader in tow. But think about it. Would the people above be enlisted in government because they were Trilateralists, or were they Trilateralists because they were part of the same pool from which officials are likely to be drawn? . . . lets not see conspiracies where none exist."

Draft Ford option starts and stumbles

This past week saw the rapid rise and fall of a "Draft Ford" bandwagon. The "Draft Ford" campaign, an up-front stop Reagan effort, was launched in the wake of the failure of the New York Council on Foreign Relations' Bush campaign to snatch up the GOP primary and caucus votes.

The Draft Ford drive began promisingly enough, with a well-publicized press conference March 10 announcing the formation of a committee endorsed by such notables as Henry Kissinger, Thomas Reed, Edward Levi, and Rita Hauser. However, by March 12, Ford's candor in naming Kissinger as his designated Secretary of State had already set off a "stay away from Ford" sentiment throughout the GOP. Several key Republican leaders, such as House Minority leader John Rhodes and Ohio Governor James Rhodes, who had been expected to back Ford, refused to do so and instead issued statements of neutrality.

The liability of Ford's statements on Kissinger were belatedly recognized by the CFR. A member and columnist, Joseph Kraft, expressed in his midweek column complete agreement with Ford's

choice of Kissinger, but bemoaned the fact that Ford had been so inept as to announce it. "I agree Kissinger's the best man for the job, but Ford doesn't have to announce it now. He only further alienates the Reaganites." Kraft concludes: "The maladroitness that did so much harm has not disappeared."

Teamsters demonstrate against Kennedy

On March 12, 220 members of the International Brotherhood of Teamsters armed with picket signs and 40 semi-trucks draped with banners massed in front of a \$100 a plate fundraiser in a Detroit suburb for the flagging presidential campaign of Edward Kennedy who was the featured speaker.

With all the state press and national wires present, Robert Lins, president of Teamsters local 299 announced that with this demonstration against Kennedy, a well-known advocate of trucking deregulation, the Teamsters union was beginning a campaign of more intensive involvement in the 1980 presidential race.

The demonstration, said Lins, had the full backing of the International and is a tactic the Teamsters will be taking to Illinois and Wisconsin.

The Teamster members distributed leaflets asking: "Why does Kennedy want to destroy our trucking industry? An industry that has made our country the worlds' foremost powerhouse. Why does Kennedy want to destroy the IBT? A union that has fostered high technology, high wages, smart workers, and high productivity. Why does Kennedy want to unleash death and drugs on America's highways? We in the Teamsters union see this movement for deregulation as undermining the national economy and will not stand by while Ted Kennedy and Alfred Kahn conspire to destroy our great nation and our great union."

Briefly

● **UNITED AUTO WORKERS** President Douglas Fraser says there is a "possibility" that he might support a non-Democrat for President this year for the first time. He said GOP candidate George Bush was "a possibility, but a lesser possibility than Anderson." Fraser has been an active supporter of the Citizen Labor Energy Coalition and the Progressive Alliance, which provide the base for Barry Commoner's Citizen's Party. The Citizen's Party is expected to be Anderson's third party vehicle in the post-convention period.

● **SENATOR EDWARD KENNEDY'S** deteriorating presidential campaign has begun to experience major financial difficulties. Several key staff members have resigned because they are not being paid including Finance Chairman Martin Katz and special assistant James Flug. The campaign has resorted to using "original" works or pronography as collateral for loans to buy TV time. The "originals" are being donated by Studio 54 "artist" Andy Warhol.

● **JEREMY RIFKIN** of the Institute for Policy Studies and the People's Bicentennial Commission terrorist front see many parallels between Islamic Fundamentalism and the Khomeini revolution in Iran, and American evangelical and charismatic religious movements. "The only difference is," he said in an interview. March 13, "in Islamic Fundamentalism, we are witnessing a response to the *early stages* of modernization and the destruction of the traditional culture. The charismatic movement in the U.S., in particular, is a response to the *end* of science that is setting in now." Rifkin is authoring a book entitled *Entropy* which will attack the notion of scientific development.

The truth about Soviet oil

A Swedish study of Soviet oil reserves indicate that they're the largest in the world

Is the Soviet leadership out to grab Persian Gulf oil resources? The answer to this question is one of the single most important strategic "facts" in today's troubled international political arena.

Since April 1977, when the Carter administration published a highly controversial CIA estimate of Soviet oil reserves, everyone from former Energy Secretary Schlesinger to President Carter and his National Security Adviser, Zbigniew Brzezinski, has attempted to prove that a necessity to take control of Persian Gulf oil supplies underlies Soviet long-range foreign policy designs. The military action in Afghanistan has been labeled by the administration as an attempt by the Soviet Union to position itself to take over Iranian resources and ultimately the resources of the entire Persian Gulf.

That view has been challenged by a little publicized report titled, "Soviet Proven Oil Reserves: 1946-80" released three months ago by a Malmoe, Sweden consulting firm, Petrostudies. This report is the third and most devastating critique of the CIA analysis.

Prior to 1977, the generally accepted estimation of Soviet oil reserves came from British Petroleum. They calculated "proven" reserves of approximately 70-80 billion barrels. In April 1977, the CIA issued their report, prepared by an obscure economist named Walt MacDonald, which reached the alarming conclusion that "Soviet

proven reserves are 30-35 billion barrels...and there is little chance that new oil will be discovered during the next few years." Energy Secretary Schlesinger waved a copy of the report around Washington to convince Congress of the need to dump billions of taxpayer dollars into his Strategic Petroleum Reserve as a hedge against a Soviet capture of Persian Gulf oil supplies, as well as the need for energy austerity legislation like Carter's 1978 energy bill.

Petrostudies attacks the CIA analysis on the basis of a two year analysis. Petrostudies calculated on this basis that the Soviets have deliberately and systematically downplayed new oil finds over the past 20 years. In fact, they calculate that the actual reserves of the Soviet Union are the largest in the world, substantially above the approximate 150 billion barrels in the Saudi oil fields.

The report further concludes that "there is no danger at all that the U.S.S.R. will become a net importer of oil in the next ten years at least, and compete with other nations for the purchase of OPEC oil. On the contrary, the Soviet leadership has a long-term policy to increase oil exports to the West—particularly refined products—in order to earn hard currency."

Is the CIA analysis updated last month by a subsequent study titled "The World Oil Market," a lie or merely incompetent? In an

exclusive interview, Walt MacDonald revealed the methodology behind his controversial findings. His study used a simple linear extrapolation of recent Soviet discovery rates and then-current technologies to project supply to 1985. When queried as to why he did not take into account the fact that dramatically new technologies for enhanced recovery and exploration were planned for application during this period, MacDonald replied, "I was ordered to do the report this way."

But the director of the U.S. Geological Survey, McIlhenney, who denounced as incompetent the findings of MacDonald's study was quietly fired by the Carter administration. MacDonald's study verged on becoming a self-fulfilling prophesy. Brzezinski declared an embargo on "sensitive" oil drilling technology during the summer of 1978 and held up a multi-billion dollar oil and gas development project in the Yakutsk region of the Soviet Union which involved U.S., Japanese and Soviet construction firms. The latest in this effort to ensure against development of the vast Soviet potential is Carter's economic sanctions against the U.S.S.R., imposed as "retribution" for the Afghanistan invasion.

If, as such Kremlin watchers as former Ambassador George F. Kennan have stated, the Afghanistan events are a warning to the U.S. administration to drop its "China Card" and have nothing to do with any war-risking grab for Persian oil, American readers would do well to think more about Brzezinski-Carter policy from the vantage point of the Swedish petroleum study.