

# EIR

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Behind Ronald Reagan's Asia posture  
Bolivian coup boosts World Bank drug policy  
Fallout in Moscow from U.S. first-strike doctrine

**The recession: why EIR's model  
predicted what Wall Street couldn't**



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# EIR

## From the Editor

The steepest fall in industrial production since World War II occurred during the second quarter of 1980. The entire range of computerized econometric forecasts missed this collapse—with one exception. *EIR's* LaRouche-Riemann model was almost exactly on target, while the other models predicted either mild recession or no recession at all.

This week's Special Report, "Why the *EIR* model beat Wall Street's 1980 predictions," examines their models and ours.

Economics Editor David Goldman assembles the track record of our competition, including DRI, Chase Econometrics, and Wharton.

He concludes that the basis for our superiority is the fact that "The LaRouche-Riemann model was designed to take such basic changes into account through simulating the underlying causal relationships in the economy rather than merely crunching out correlations of past behavior." Goldman also presents our projection for 1981 if Volcker's austerity policy holds, and reviews an important but flawed approach to boosting productivity.

Another special feature in this issue, "The Policy Choices that Confront the Kremlin," analyzes the Soviet reaction to the flight-forward behavior of the Carter administration, as embodied in Presidential Directive 59, the official statement of a U.S. limited nuclear warfare doctrine.

A team of experts led by editor-in-chief Criton Zoakos documents the decisionmaking process of the Soviet High Command and the current reevaluation of the Brezhnev war-avoidance policy of economic cooperation with Western Europe. The destabilization of Poland could be the last straw for the détente advocates.

The *EIR* team included Soviet editor Rachel Douglas, Military Strategy Editor Susan Welsh, and Stockholm bureau chief Clifford Gaddy.



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Lower Manhattan as viewed from the Brooklyn docks. Photo: Stu Lewis/NSIPS

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A dossier assembled by the editors of EIR's special *Investigative Leads* counterterrorist newsletter. The Iranian student demonstrators, Yippies and Jewish Defense Leaguers surrounding the Democratic convention were ready for assassination attempts if Democratic contender Lyndon LaRouche had been nominated on the convention floor; this report maps their controllers and the controllers' motivations.

# Business Briefs

## *Oil markets*

### **OPEC crude output hits 1976 low**

Total crude oil production by OPEC last month hit its lowest level in four and a half years. A precipitous drop in world demand for crude oil is the cause. In the United States alone, oil imports are down 14 percent from this time last year. OPEC production has decreased by over 3 million barrels per day from the same period of 1979. With the exception of Saudi Arabia and Iraq, other cartel members have cut output over the past six months, trimming total production to just over 27 mbd.

A New York oil analyst with a fairly good track record thinks the "slump in the world oil markets will continue through 1981." He projects continued oil-price softening, which has already forced a marginal drop in the price of gasoline in the U.S. and in Europe.

Oil company sources in the U.S. say they are stunned by the degree of petroleum consumption decline in the wake of price hikes earlier this year. American consumption for the first half of 1980 is down by over 8 percent from 1979. As a result, many U.S. companies are taking price cuts on their crude and petroleum products contracts.

## *Gold*

### **Long-term investment and panic buying**

Reflecting investors' fears of a possible East-West confrontation over either Poland or the Middle East, the world gold price jumped \$22 on Aug. 20. European buying was particularly heavy.

According to a source at a leading West German bank, Israel's annexation of the Arab sector of Jerusalem is regarded in Europe as an especially ominous sign of Israeli intransigence. The same source predicts that gold and the U.S.

dollar will continue to rise in tandem because the major Western European economies are more vulnerable to a shut-down of Middle East oil supplies than is the United States.

A Zurich-based bank, the Privatbank und Verwaltungsgesellschaft, has estimated that the OPEC nations now hold nearly 15 percent of their total portfolio in gold. The bank reports that OPEC's gold assets equal approximately \$33 billion worth of gold, when valued at \$600 an ounce. OPEC investments representing the members' cumulative surplus since 1973 are placed at \$220 to \$260 billion. A Bank of England estimate earlier this year put OPEC's gold holdings at only 10 percent of its total investments. The Privatbank predicts that OPEC nations will continue to expand their gold holdings, and therefore the price will be "solidly supported."

## *Food relief*

### **Supplies diverted to marauding troops**

Reagan campaign manager William Casey and Leo Cherne, formerly of the Foreign Intelligence Advisory Board, are using relief organizations for population-control and population-reduction purposes in eastern Africa, *EIR* has learned. The main refugee and resettlement agency active in the region is the International Rescue Committee (IRC), directed by Cherne with input from Casey. Working with the League of Red Cross Societies, the IRC, according to Cherne's assistant, is involved in "very sensitive work" in Uganda, Somalia, and the Sudan. Together with Ethiopia, these countries are the worst hit by famine.

In Uganda, relief supplies have been funneled to an army made up of remnants of dictator Idi Amin's troops, criminal elements, and rebels from neighboring countries including the Sudan. This makes it impossible to provide real relief for the starving Karamojan tribesmen, whose food is captured and whose live-

stock is decimated by the invaders.

The Somalian army has also been built up by the IRC operation, according to numerous African sources. The army has conducted raids into drought-stricken Ethiopia, systematically destroying livestock, hospitals, and schools. Ethiopian officials say that the military hardware captured from Somalian troops is extremely sophisticated. A full report will come in next week's *EIR*.

## *Energy policy*

### **Carter's statistics are all wrong**

In each major campaign speech since he delivered his energy proclamation last year, President Carter has promised that by 1985 his alternative energy program will produce 500,000 barrels per day of oil equivalent. Now sources at the Department of Energy disclose that promise to be unmeetable by a wide margin.

"There is no way that Carter can attain this objective," said one Department of Energy source. "The coal gasification and liquefaction programs will produce a few thousand barrels by 1985. This will be coming from demonstration plants. Commercial plants for these processes won't be started until the late 1980s." Oil shale, the other major energy supply for synthetic fuels, is more advanced than coal liquefaction or gasification, "but it still won't kick in much." "Oil shale will produce 100,000 barrels of oil equivalent per day by 1985, but not much more," added another DOE source.

"From day one, I've found no one in the administration who believes the 500,000 per day figure. When we were drawing up the Synthetic Fuels Corporation bill, we dismissed these figures," complained one congressional source. Still, the U.S. government plans to spend up to \$88 billion on synthetic fuels during this decade. Private industry plans to spend tens of billions of additional dollars.

## Briefly

● **RONALD REAGAN** has formed a new advisory committee on economics under the direction of Bechtel chief George Schultz. New faces include Morgan Guaranty chief economist Rimmer de Vries in a panel on international economics chaired by former Fed Chairman Arthur Burns.

● **ROBERT ABBOUD** told a great deal about First Chicago's near bankruptcy in an interview with *Forbes* magazine. (His arch-rival Harvey Kapnick will tell all to the Chicago *Sun-Times*). One thing Abboud didn't mention is that he was in negotiation with the same 25-bank consortium that bought a chunk of First of Pennsylvania in an April bailout.

● **ONE SENIOR** Wall Street economist believes Fed policy will be guided by fear of a runoff of "massive foreign dollar liabilities" into European and Arab hands. He predicts slowly rising interest rates to keep dollars in the country.

● **IMF MANAGING DIRECTOR** de Larosiere's upcoming trip to Saudi Arabia won't produce the \$10 billion cash contribution to the IMF he is looking for, IMF sources say. De Larosiere is in no position to offer the PLO observer status at the next IMF annual meeting, the Saudis' condition for cooperating.

● **JACEK KURON**, the key dissident leader of the Polish strike movement, is the author of a 1964 pamphlet, "A Revolutionary Socialist Manifesto," that became one of the founding documents of the European "New Left." Kuron's pamphlet indicted Polish bureaucrats for orienting too strongly toward economic growth. One conservative Frankfurt businessman declared: "I know this may sound strange to you, but I think we should support Gierk in this situation. When you look at the alternative, you'd have to be crazy not to."

### *Housing finance*

## Savings bankers plan anti-Volcker campaign

The U.S. League of Savings and Loan Associations will launch a media blitz this autumn to demonstrate that housing construction is being decimated by the policies of Federal Reserve Chairman Volcker and the recently established Depository Institutions Deregulation Committee. (DIDC).

With housing starts about to be hit again by a new increase in long-term interest rates, leaders of the Savings League met informally with officials of the National Association of Realtors over the Aug. 15-17 weekend.

"The public has a point beyond which they cannot afford to buy homes. At mortgage rates of 12 to 13 percent, they stopped taking out mortgages—we're now at 12 percent," said the president of one large S&L. Housing starts, totaling 2.2 million units in 1978, fell to 900,000 units in April, then rose to 1.3 million units in July as interest rates came down. That situation is now likely to be reversed.

The Savings League—plaintiff in a lawsuit against Volcker and the DIDC—asserts that the new regulatory decisions will create a \$17 billion outflow this year from the S&Ls that fund most U.S. housing construction.

### *Food additives*

## Nitrite ban lifted as election ploy?

"There is no basis for the FDA or USDA to initiate any action to remove nitrite from foods at this time," read a statement issued jointly this week by FDA commissioner Dr. Jere E. Goyan and Agriculture Secretary Bergland's assistant for consumer affairs, Carol Tucker Foreman. The issue has been a delight for environmentalists and consumerists. Moves were

made to ban the use of sodium nitrite, the preservative used in 7 percent of the nation's food, particularly processed meat and poultry products, after a 1978 study purportedly showed nitrite to be a cancer-causing agent.

The sudden about-face on this issue, though welcomed in the meat industry, is widely viewed as an electioneering ploy by President Carter. The Carter move caught some partisans by surprise, but it was generally agreed that moves to reduce the use of nitrite will continue in any case.

### *Transportation*

## Rail decontrol on administrative track

Deprived of unanimous support from railroads and shippers, rail deregulation bill sponsor Rep. James Florio (D-N.J.) withdrew the legislation from the House schedule this week. "For all practical purposes the bill is dead," Florio told the *Journal of Commerce*. Spokesmen for the railroads have indicated to Congress that they prefer to rely on the Interstate Commerce Commission to implement decontrol administratively, rather than accept any sort of legislative compromise that may tie their hands.

At the last moment, a coalition of shippers, port interests, short-line railroads, some farm shippers, and others tried to lower the ceiling at which the ICC would be required to ratify newly set rates. The bill mandates the ICC to investigate rates when they go above 200 percent of variable costs. The coalition, whose spokesmen was Rep. Bob Eckhardt (D-Tex.), proposed investigation of any rate over 160 percent above variable costs. Also at issue was the provision enabling railroads to levy surcharges on international traffic—opposed by the coalition as "just a license to steal."

Meanwhile, last week the ICC struck down the railroads' collective ratemaking agreement in a move designed "to enhance competition in the ratemaking process."

## Planning for the end of OPEC

by David Goldman

Virtually all the major international financial institutions and most leading American commercial banks plan on major disruptions of Saudi Arabia and decreased availability of OPEC oil to hit the world economy before the end of 1980.

This is not a "political estimate" on the part of these institutions, but a commitment to support such a destabilization as a vehicle for economic warfare against the European Monetary System. Most observers of the diverging paths of development of the "Anglo-American" economies and the European sector have noted that, on strictly economic grounds, the United States is not in position to reverse its slide into industrial decay without complete rejection of Federal Reserve Chairman Volcker's monetarism.

However, the American side has no intention of competing with Europe. The expectation at Chase Manhattan Bank, the Hoover Institution, Georgetown University's Center for Strategic and International Studies, and Robert McNamara's World Bank is that a shutoff of Persian Gulf oil will leave Western Europe economically prostrate.

Chase Manhattan gained notoriety last year in the field of Middle East politics when its outgoing chairman, David Rockefeller, helped Henry Kissinger persuade the Carter administration to admit the late deposed Shah to the United States for medical treatment. As *EIR* documented, there was no medical need for the Shah to come

to New York, which Kissinger and Rockefeller knew at the time. They also knew the action would lead to Iranian attacks on the American embassy in Teheran, as did the Carter administration.

### The calculations for an oil shutoff

Now Chase Manhattan's economists are conducting a secret comprehensive study on the global and domestic economic impact of a shutoff of Persian Gulf oil. Taking a reduction of Persian Gulf production from 17 million barrels per day to 9 million barrels per day as a starting point, the Chase economists are calculating the effects on world financial markets and on every American industrial sector. The 17 million figure—the current output of Saudi Arabia, Kuwait, the Emirates and Iraq—could only be reduced to the 9 million level "by a catastrophe," a Chase economist said. "Nine million barrels a day is the point at which OPEC is destroyed as a world financial power. That is why we are using the figure," the Chase economist said.

Stanford University's Hoover Institution began planning for an oil shutoff at a closed-door conference on June 16, sponsored by Reagan adviser Glenn Campbell, the Institution's director. As *EIR* reported at the time, the conference titled itself "An investigation of non-military responses to a cutoff of Middle East oil and a consideration of how the quantitative and quali-



tative energy requirements of the United States could be met in this contingency." Apart from Campbell, the chief speaker on the subject of "Macroeconomic Effects of Oil Cut-Back" was former Treasury Secretary George Schultz, the man in charge of all economic program work for the Reagan campaign.

Chase's internal project on the American economy duplicates the work at Hoover, examining the United States industry by industry to determine which sectors could function on virtually no energy. "Take the paper industry," said a Chase staffer. "It can operate on virtually no energy input at all" by producing its own power through biomass waste. Some of the Hoover planners did not anticipate a Persian Gulf collapse, using the scary theme instead to press for energy programs. Dr. Edward Teller, the noted physicist, wanted a \$50 billion annual program for nuclear power, and used the conference "to get the Carter administration's attention," a colleague said.

But at Hoover and at Georgetown University's Center for Strategic and International Studies, resident geopoliticians are deadly serious about the near-term overthrow of the Saudi regime. "Iran is deteriorating fast, and Saudi Arabia will be next," predicts geopolitician Alvin Cottrell, the institute's Mideast specialist.

### **Retargeting the European Monetary System**

What terrifies the Hoover and Georgetown specialists more than any other scenario is a European-Mideast economic axis with close relations to the East bloc. As *EIR's* cover story reported two weeks ago, the intensity of Euro-Arab economic and political diplomacy during the last three months has virtually brought such an axis into being, and the more than \$100 billion per year petrodollar surplus now flows largely through European channels.

Any major reduction in the availability of Persian Gulf oil would ruin the European Monetary System—which barely survived the Shah's overthrow—in a matter of weeks.

That is the unstated content of a series of financial scenarios released by the World Bank, Morgan Guaranty Trust, the OECD, Chase Manhattan, and others during the last several weeks. Most blatant is the World Bank (see *International Credit*), which insists that developing countries adopt national autarky "self-reliance" economics, because neither OPEC financial resources nor OPEC oil will be available to them in the years ahead. All these scenarios project the virtual disappearance of the OPEC surplus by 1982 or slightly later. However, as Chase Manhattan reports, the breaking of OPEC's international financial muscle depends on the virtual halving of production of the four leading Persian Gulf producers.

The prevailing view that a large OPEC surplus would persist through the early 1980s is suddenly changing, the *Financial Times* of London reported in an analysis published Aug. 19. "It has become a pundit's platitude to predict that the millstone of the OPEC surplus will be heavier and harder to dislodge this time round than it was after the first oil shock in 1973. The shakeup in Iran has reduced the phenomenal propensity to import shown by the Islamic world in 1974-75. And the producer countries' resistance has stiffened to any repeat of the fall in the real price of oil which also occurred in the period," wrote Lombard columnist David Marsh.

"All the same," continued the British financial daily, "it is worthwhile recalling how closely the present consensus view on the durability of the petrodollar surplus resembles the conventional wisdom of 1975. The economic soothsayers were confounded last time . . . and they could well be proved wrong again."

### **Destabilization not preordained**

Different forecasts for the end of the deployable OPEC surplus cite myriad reasons, ranging from expected price stability (Morgan) to recession in the West and greater imports into producing countries (OECD). But the strategic thinking guiding these forecasts is the destabilization of the Persian Gulf. Chase Manhattan's own published forecasts, in its newsletter *International Finance*, projects that the surplus will begin to decline in 1981. But the newsletter, presumably an insiders' view for the bank's clients, does not report what the real assignment of the bank's economics research group is.

In a series of exposés on the origins of the Khomeini dictatorship in Iran, *EIR* has demonstrated that the objective of the United States and Great Britain in giving Khomeini an open door to power was to disrupt world oil markets and practice strategic blackmail against Western Europe. The same participants and the same predictions are now pointing towards Saudi Arabia.

By no means, however, does this guarantee that the Saudis will suffer the same fate as the Shah. *EIR* does not endorse the "insider briefings" circulating among the corporate community doing business with the Arab world to the effect that the Saudi regime will not survive. A great many forces in the world, Western Europe in particular, are committed to the stability of the Middle East and Saudi Arabia in particular. This is not a matter of regional dislocation, but a fight for control over the world economy, whose outcome is by no means assured. American companies who take precipitate action in reducing exposure in the Gulf might also be cutting themselves out of important future growth possibilities.

# Corporate sector liquidity squeeze

by Richard Freeman

U.S. corporate profits dropped 19.8 percent, adjusted for inflation, during the second quarter, the government reported Aug. 19. This drop is the largest in 25 years. Moreover, the monetary policy imposed by Federal Reserve chairman Volcker in many cases will only exacerbate the causes of decline.

The profit drop, the largest since 1954, occurred as the Federal Reserve's credit squeeze sent sales in basic U.S. industries—auto, steel, rubber, housing—down 25 to 40 percent. James McKeon, co-author of the Salomon Brothers investment bank study, "Restoring Corporate Balance Sheets: An Urgent Challenge," pointed out that "the balance sheets of non-petroleum manufacturing firms are parched."

## The ratio indicators

The first indicator is the growing illiquidity of corporations.

In 1979, the liquid asset holdings of nonfinancial business corporations was \$170.8 billion, according to the Federal Reserve Board. According to the same source, in 1979, the short-term market debt of nonfinancial business corporations was \$266.4 billion, while their total short-term liabilities, including short-term market debt as well as trade, tax and other short-term payables, was \$616.8 billion. Thus the narrowest gauge of liquidity, liquid assets to short-term debt, shows a liquidity ratio of 0.64.

The broader and more accurate gauge of liquidity that takes liquid assets to total short-term liabilities is a strikingly low 0.28.

To appreciate these ratios, it is necessary to go back to 1945, when the economy was fairly liquid based on the expansion during the war. Then, the narrow gauge of liquidity had a ratio of 1.17, more than four times the current level.

The broader gauge of liquidity was 4.84, nearly 8

times the current level. As late as the mid-1960s, the liquidity ratios were substantially better. But then, corporations began borrowing short-term to finance the furious merger movement, while adding on mostly paper assets. Since the added-on assets were often in nonproductive ventures, they did not generate much new productive profit and thus add to liquid assets.

However, other key balance-sheet parameters have also been deteriorating. Short-term to long-term debt ratios for the U.S. economy as a whole have declined sharply.

From a high of 4.5 in 1949, the ratio of long-term to short-term credit market debt has fallen steadily, especially from 1962 onwards, to a level of 2.65 in 1979. This means that corporations are more and more committing themselves to the short side of the market, and a greater proportion of corporate funds has to be committed to rolling over short-term debt, at the expense of cash flow for development.

This also exposes corporations to the swings in short-term interest rates, which are more volatile than long-term rates.

Moreover, since the 1970s, and especially because of Fed chairman Volcker's monetary policy, which will produce an inflation rate of at least 10 percent next year, firms will have no opportunity to restore their balance sheet to long-side debt. To do that, they need low interest rates, which will occur only in a non-inflationary environment. This week interest rates blipped upward as Chase Manhattan raised its prime from 11 percent to 11.25. The Federal Reserve refused to intervene when Fed funds reached 9.75 percent, spurring marketwatchers to predict further hikes.

The other key corporate parameter in trouble is the debt-equity ratio.

Corporations are making fewer and fewer new stock issues as a percentage of total liabilities.

In 1979, equity was only 47 percent of liabilities. Since equity consists of new stock issued plus retained earnings, only the growth of retained earnings has kept the debt-equity ratio from going totally out of whack. The advantage of new stock issuance is that it doesn't require the corporation to retire the debt, as with a bond, and thus helps cash flow. The lack of stock issuance has cut back further on the capital spending needed to reverse the industrial collapse.

For example, in 1979 new stock issued was net only \$3.5 billion compared to annual net changes in total (long and short) liabilities of \$180.7, or barely 3 percent.

The sharp collapse of retained earnings in the second quarter of 1980, as registered by the 19.8 percent drop in second quarter profits, means that retained earnings cannot come to the rescue of the debt-equity ratio.

Volcker's policy has above all undermined the corporate sector by *intensifying* inflation. High interest rates have caused the collapse of key industries and massive unemployment. This has required a huge flow of unemployment insurance benefits and other automatic anti-recession expenses of the federal government. These outlays, along with the \$5 billion Social Security increase in July, sent the money supply soaring by \$8.9 billion for the week ending Aug. 6.

Second, Carter killed dams and water projects in 1977 that would have been necessary to counter the effects on farmers of severe drought, compounded by Volcker's restriction of credit.

The combination of these policies caused food prices to jump on a wholesale level by 3.8 percent in July, pushing up the overall producer price index by 1.7 percent.

### Credit constriction

On top of inflation's damper on corporate bond possibilities, many corporations such as Chrysler and entire industries such as consumer goods are scheduled by Volcker to get scant funds.

Under these circumstances, not only will borrowing for corporations be hard and/or expensive, but there will be the additional factor that the U.S. government, with its huge deficit, will need to go to market for over \$100 billion (under the most optimistic scenario) between now and the end of 1981. For example, on Aug. 25-27, the Treasury will auction \$650 million in 90- and 180-day bills and \$3 billion in five-year-and-over notes.

The prospect of crowding out industrial firms is real. The retort to this is that insurance companies and pension funds are rich with cash. This overlooks two important developments.

First, half the volume of new publicly offered corporate bonds in May and June was medium term: investors are unwilling to invest long-term in corporate bonds during a period of high inflation, when the yield curve is out of whack (i.e., short-term bonds may fetch more than long-term bonds).

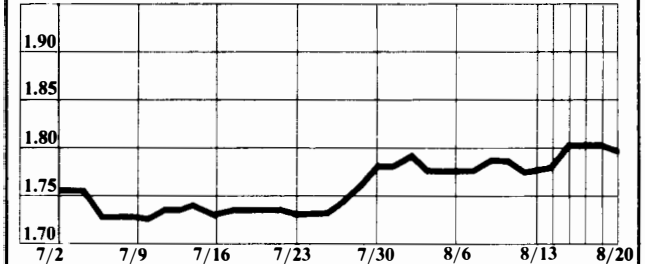
Second, the individual investor, who comprised a healthy segment of the purchasers of corporate long-term bonds, is now going into the glamor money market funds and money market savings certificates. Overall, the market for long-term corporate bonds is not as flush as it looks on the surface.

The solution to this problem of restoring corporate liquidity is not an easy one. But already there appears to be a faction that plans to solve it in the worst way possible. According to one of the most influential economists on Wall Street, "What this means is that balance sheets will be restored through forced liquidation if the adverse economic environment prevails."

## Foreign Exchange

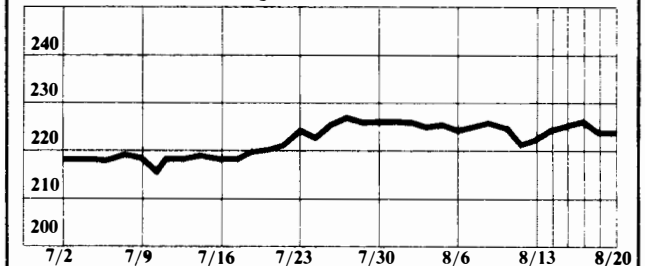
### The dollar in deutschemarks

New York late afternoon fixing



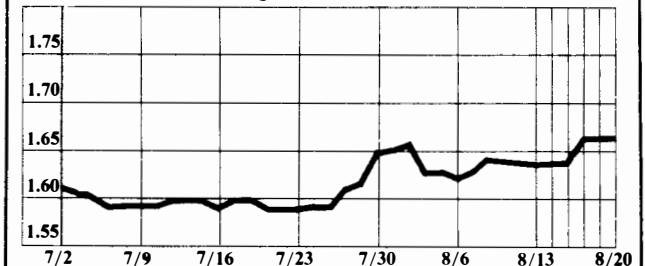
### The dollar in yen

New York late afternoon fixing



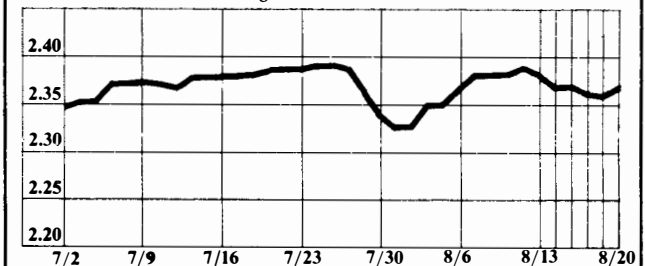
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



## DM revaluation rumors premature

*Why the European Monetary System has been able to stabilize the cross-rates.*

Most American and British commentary predicts a revaluation of the West German mark inside the European Monetary System early this fall. However, continental foreign exchange specialists point to the opposite trend in recent weeks, i.e., stabilization of the cross-rates of European currencies within the EMS "snake." They believe that expectations of an early DM revaluation are overblown.

The major concern that Western European bankers have for the EMS is not inflation or relative interest rates differentials, but is a strategic one. Their view is that the against frequent revaluations. has kept a large volume of hedge funds in the American dollar, because any adverse development for the flow of Mideast oil would impact the Western European economies more than the American.

Two major factors are at work for the stability of the EMS.

First, the gold-reserve system established by the EMS, under which central banks may repay swap credits used for currency market intervention through transfers of European Currency Units, has worked far better than critics of the EMS had imagined. EMS gold contributions made by members are matched against a volume of ECU drawing rights defined by the market price of gold.

Since the founding of the EMS, the market value of the EMS gold

reserve has more than doubled to about \$60 billion, about one-third of which has already been drawn into foreign exchange market activity. This enables EMS members to intervene heavily without excessive drains of their foreign exchange reserves, and buffers the system against frequent revaluations.

Critics of the system, including former Bundesbank President Otmar Emminger, have complained that this permits EMS members to evade necessary domestic economic adjustments. However, the current view of the European monetary authorities is that the strains on currency parities are heavily influenced by speculative and other exogenous factors, which should have no business dictating harsh domestic policy measures.

In a commentary Aug. 15, the Swiss financial daily *Neue Zürcher Zeitung* commented on the unusual stability of the habitual candidates for devaluation against the mark, namely the Benelux currencies, and on the determination of the Benelux monetary authorities to avoid devaluation.

"The European Monetary System has portrayed an unusual situation since March of this year," wrote *NZZ*. "The previous engine of all European currency systems since 1972, the D-mark, has been the caboose of the EMS for several months. Less spectacular but still noteworthy is the simultaneous up-

swing of the D-mark's old 'sidecars' from the days of the old European snake, the Dutch guilder and the Belgian franc. As long as the D-mark basked in the inflow of foreign funds and ran from one revaluation to another, the troubled Benelux currencies constantly threatened to fall by the wayside."

"Now," *NZZ* concludes, "the D-mark's smaller neighbors have gotten time to breathe."

The Swiss newspaper attributes this strength to the success of economic and monetary policy in both countries and to the central banks' determination to avoid further devaluation. Previously, *NZZ* writes, the close tie between the Benelux currencies and the mark was maintained "at sometimes considerable cost both in terms of foreign exchange reserves and unwanted austerity measures in the home economies." In the last several months, both the Dutch and Belgians have managed to lower their interest rates.

German bankers simultaneously predict a gradual easing of credit market conditions in West Germany starting with this week's central bank council meeting.

In any event, *NZZ* concludes, both the Dutch and Belgians will place currency stability above other goals. "In Amsterdam," the Swiss newspaper writes, "the advantages of a stable guilder are valued more highly than all the disadvantages of the effects of high interest rates," and other measures to protect the guilder rate.

In Belgium, *NZZ* reports, "the National Bank shows itself to be decisively committed to use its gold reserves to the last kilogram, if need be, to prevent a devaluation of the franc."

## World Bank presses 'delinkage'

*Last year its goal was eliminating modern technology; now it frankly proposes eliminating children.*

The World Bank has just released the 1980 installment of its World Development Report, the third volume of a survey project launched in 1978. In reviewing the contents of this report, it is useful to remember that the World Bank is nothing more than the postwar successor to the British Colonial Office.

The latest report signals that the British technocrats and their London-New York financial networks have in recent months come to complete agreement with the People's Republic of China on how to design a "final solution" for the economic problems of the Third World. While the contents of the report itself provide ample evidence that a "Chinese model" for the Third World is now on the agenda, the importance of the rapprochement with the PRC for Third World policy is also shown by the PRC's decision earlier this year to become a member of the World Bank's sister organization, the International Monetary Fund.

The 1980 World Development Report diverges from the first two World Bank surveys. Last year, the World Bank report focused on a push for the policy of "appropriate technologies." Its aim was to convince developing nations that it is in their own interest to steer away from large volumes of borrowing; for reasons of social and political calm, it argued, developing nations should strive to implement low-technology, labor-intensive pro-

grams of minimal subsistence and small-scale farming.

Remarkable as it may seem, this year the World Bank asserts that economic policy is only a facet of Third World problems; the largest sections of the report focus on social policy, in particular, family planning and birth rates. Taking as its assumption that for the next 10 years, capital infusions and real economic development in the Third World will stagnate, it argues that simply training impoverished populations how not to overly reproduce can suffice to stabilize income, life expectancy and output.

For example, its section on sub-Saharan Africa, where a savage drought is currently threatening 10 million lives, only discusses agriculture problems in passing. The report instead focuses on human 'fertility' in Africa. It states: "Africa is the only region where fertility still shows no sign of decline—women surviving to the end of their child-bearing years average six to eight children. . . . The contribution slower population growth can make to raising incomes is particularly marked in Africa. The region's high infant mortality and low adult literacy are major reasons that population growth remains high. . . . Extending and strengthening family planning efforts, however, would cause an earlier and faster decline in fertility."

This is a polite version of the Chinese-model of genocide prac-

ticed from 1975 to 1978 in Cambodia. It is also the policy of "delinkage" or "economic decoupling" defined and recommended for the Third World by the "Project 1980s" study published by the New York Council on Foreign Relations. The outcome would be the elimination of 1 billion "useless eaters" over the next decade.

The World Bank report makes it clear that "delinkage" assumes a continuing severe economic crisis in the industrialized nations. The argument in favor of "delinkage":

The industrialized countries all suffer from current-accounts deficits. These deficits mean it is impossible for them to finance large bilateral aid programs. While loans to the developing sector will continue to rise, reaching at least \$175 billion in 1990 (compared to \$96 billion for 1980), only 20 percent of those 1990 funds will represent new deployable income; the remaining 80 percent will go to finance old debt.

Simultaneously, the continuing economic crisis in the developed countries will make it virtually impossible for the Third World to generate income by exporting to industrialized countries. In fact, since 1973, developing countries' exports to each other have been growing at a much faster rate than their exports to major capital-goods producing nations.

Nor can developing countries expect assistance from the surplus-generating oil producers in OPEC, according to the World Bank. The OPEC countries themselves are rapidly facing a decline in their surplus generation due to energy cut-backs in the industrial nations. By 1985, the report predicts, OPEC countries will be borrowing funds to finance their own development.

## The Laffer plan

*Reagan's real advisers don't like it, and Europe sees it as too deflationary.*

**D**espite abundant press publicity for Reagan adviser Art Laffer's scheme for a return to the gold standard, seasoned political observers view the Laffer plan as pure window-dressing, to be swept aside as soon as the former actor steps into office.

One reason for this is that those Reagan advisers who are most likely to hold top economic posts in his administration are traditional monetarists. Arthur Burns, Alan Greenspan, William Simon, and George Schultz are all "against" the Laffer plan, according to Charles Stahl, publisher of a widely-circulated newsletter on gold and commodities. Sources at Georgetown University's Center for Strategic and International Studies (CSIS) say that Laffer has no real clout within the Reagan camp. Burns has just been named Reagan's top adviser on international economic policy, heading a committee which includes Rimmer de Vries of Morgan Guaranty, Gotfried Haberler of the American Enterprise Institute, and Richard Whalen. None of them are gold enthusiasts.

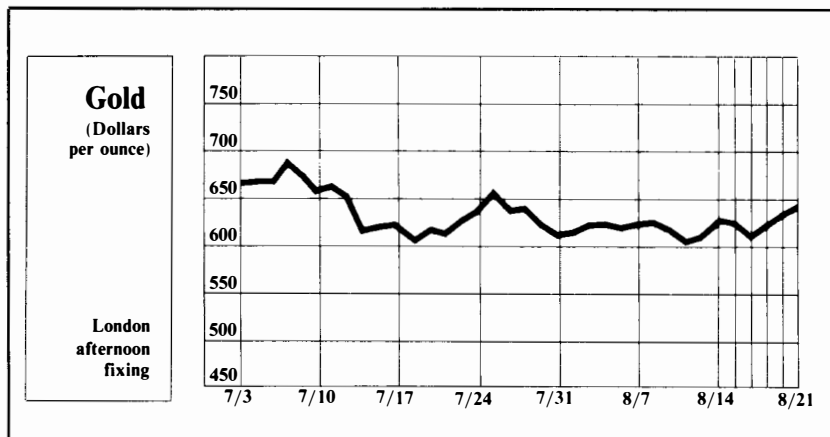
More important, the Laffer plan has run into opposition among Western European governments, who normally favor gold but are wary of the deflationary consequences of a gold standard as defined by Laffer. In a recent issue of *Le Monde*, columnist Paul Fabra reports that "the U.S. would run into objections from most of the European countries, starting with France" if it went with the

Laffer plan. The problem, as Fabra sees it, is that Giscard, like de Gaulle, views the return to gold exclusively "as a matter of international relations" rather than as a tool for imposing monetary discipline within individual countries. (Fabra, no Gaullist, favors the latter approach.)

In a paper he prepared for the Reagan campaign entitled "Reinstatement of the Dollar: The Blueprint," Laffer proposes that the U.S. accomplish such monetary discipline by "pre-announcing" a return to a fixed, official dollar-gold parity. The new official price would be determined by the "free market" involving a three-month transition period, during which time the Fed and Treasury would not intervene in the foreign exchange market and have no net gold market interventions. Once the gold price was fixed, the Fed would be required to maintain official gold reserves at between 30 to 50 percent of the domestic mon-

etary base. The Fed would be forced to contract monetary supply whenever official reserves dipped below this target level.

Laffer's approach is incompetent because it ignores the fact that the U.S. has \$800 billion in liabilities in the form of deposits on the "offshore" Eurodollar market, much of which turns over on a weekly and even daily basis and is a major source of global inflation. There is presently no way to control this much-overlooked portion of the money supply, except through deflationary measures on a scale which would bankrupt most of U.S. industry. The alternative would be to negotiate a set of international agreements among the U.S., other industrialized countries, and OPEC dollar holders, to consolidate these "excess dollars" so that they can be channeled into productive investments. In other words, Giscard's dealing with gold "as a matter of international relations" makes infinitely more sense than Fabra's call for deflation on a country-by-country basis, an approach which even Fabra admits would collapse every French bank.



# Trade Review

Cost	Principals	Project/Nature of Deal	Financing	Comment
<b>NEW DEALS</b>				
\$952 mn.	Iraq from France	Britain's Plessey announced that it has probably lost a \$952 mn. electronics contract which it had negotiated over two years and believed it had clinched to its French competitor, Thompson CSF, which moved in with a last-minute offer.	U.K. was offering generous export credits; French deal not signed or announced yet.	
\$940 mn.	Senegal from W. Germany, France, Japan	Iron ore mining complex, railroad, port and other infrastructure for 12 mn. tons per year ore exports being built by Senegal, French BRGM, Krupp, and Japanese Kanematzu.		Not yet officially announced.
\$800 mn.	Indonesia from Spain and U.S.	Indonesia has awarded construction contract for 85,000 bpd hydrocracker unit at Dumai oil refinery to Technicas Reunidas and Centurion of Spain. UOP subsidiary of America's Signal won design contract.	Spanish and Austrian gov'ts. providing \$290 and \$150 mn. export credits, respectively. American Express lending \$200 mn. Eurodollar loan.	
\$520 mn.	Egypt from Japan	A Japanese consortium of Nippon Kokan, Kobe Steel and Tomen will build a 360,000 tons per year steel plant to be 86 percent owned by the Egyptian gov't.	World Bank lending \$150 mn.; Japanese Gov't. lending \$80 mn. (in yen).	
\$244 mn.	Japan from U.S.	Japan Air Lines ordered two Boeing 747-200B jumbo jets and two DC 10-40's. Pratt & Whitney will provide engines worth over \$45 mn. for the four planes.	Ex-Im Bank	
	Switzerland from Iraq	Swiss private oil importers are negotiating long-term crude contracts with Iraq, which is considering making an exception in its policy of selling only to governments. Iraq is a major buyer of Swiss products.		Swiss group wants to avoid multi-national-rigged Rotterdam spot market.
	Germany and Japan from Australia	German and Japanese firms signed delivery contracts for 34,000 short tons of uranium oxide from a semi-nationalized Australian consortium.		Deliveries subject to approval by Japanese-Australian nuclear authorities and the European Atomic Energy Commission.
\$100 mn.	U.S.S.R. from France	Technip (France) is competing with an Occidental Petroleum-Entrepos joint venture for secondary recuperation of the Romashikino gas field in the Soviet Union.		

# Dryland farm plan threatens Western states

by Susan B. Cohen

Is it an accident that this spring and summer—while Montana and the Dakotas were suffering a prolonged and devastating drought that caused billions of dollars worth of damage to agriculture and drove many crop and livestock producers out of business and off the land—President Carter refused requests for a Presidential declaration of emergency and financial aid? Instead he took the occasion to award a \$250 million loan guarantee to developers of a \$1.5 billion coal gasification plant in North Dakota.

In the view of an influential think-tank spokesman interviewed this week, the energy-versus-agriculture conflict in the West will “of course” be solved by the exit of agriculture from the West.

It is well known that the Carter administration has pitted energy developers against agriculture for Western water supplies. Less recognized is the fact that a conspiracy is well under way to settle the matter against agriculture long before the fight starts.

## Irrigation under attack

Dryland farming—now being aggressively advocated—is farming without irrigation. In the eastern United States, where rainfall is generally dependable and adequate in quantity, so-called dryland farming is the norm. West of the Mississippi, in the otherwise fertile High Plains running north-south from Montana and the Dakotas through Texas, rainfall is erratic and averages only 12 to 22 inches per year.

Plains states’ agriculture, which annually produces more than \$20 billion worth of crops and livestock, rests on irrigation, principally the development of underground water resources in the Ogallala aquifer. The implications of irrigation are striking: In Texas, for example, where without irrigation corn could not be grown at all, an irrigated acre can yield 180 bushels of

corn compared to average national yields of 100 bushels per acre.

The 1980 drought, centering as it has in the southern High Plains, especially Texas, has occasioned an outpouring of commentaries on the “water crisis,” on the one hand, and on the other, the growing trend toward dryland farming. It is scarcely by mistake that Agriculture Secretary Bergland appointed a man opposed to irrigation as his chief drought aid coordinator. Upon appointment, Roger Sandman promptly told the press, “We’ve gotten awfully irrigation-crazy in the last few years. Water is not an unlimited resource.”

In the Texas High Plains generally, an Interior Department study projects a 45 percent drop in irrigated acreage by the year 2000—provided that water conservation meanwhile cuts water use by 20 percent. By the same time, according to the study, irrigation in western Kansas will have dried up. Although many environmental seers, such as Resources for the Future, expect an increase in irrigated agriculture in the West overall in the next ten years, they point to the more vulnerable Southern Plains, where the dryland trend is most advanced, as the wave of the future which will become an avalanche by 1990.

## Cost-cutting hurts productivity

The “limited inputs” dryland farming method is widely celebrated despite the fact that it significantly reduces productivity, and thus gives the lie to its alleged cost-effectiveness. There is little doubt that producers themselves are being driven to this regressive accommodation to nature by a policy which has forced them to produce at below cost of production since the early 1950s. “We’ll run out of money before we run out of water,” is the way one producer put it.

Energy costs have pushed irrigation charges through the roof. In the Oklahoma Panhandle, for instance, natural gas prices have tripled in the past two years. An area U.S. Soil Conservation Service official estimates that it costs about \$70,000 to irrigate a half-section, or 320 acres of land, today—when you add up the cost of purchasing pipe, a sprinkler, laying an electrical line and drilling a 300-foot well.

Similarly, a Texas High Plains producer who closed down four irrigation wells last year because they had lost 25 percent of their capacity in the last five years plans to reduce irrigation even further on his 220-acre farm because of the drought. He is looking forward to saving \$150 per month in electricity bills, and *hopes* that he won’t lose more than 10 percent of his yield.

The demoralization and cynicism fueled by these developments was expressed in the remarks of one Kansas farmer to the *Wall Street Journal* recently. “Maybe we overdeveloped the area beyond its real potential,” he said. “Maybe we can’t maintain this



standard of living." The abandonment of irrigation will sorely impact the whole economy of these regions where much manufacture and commerce is based on supplying high-technology agriculture.

A host of polemics has been marshaled in defense of the dryland trend. The avowedly Malthusian *Christian Science Monitor* has recently rehabilitated John Wesley Powell, a 19th-century propagandist against Western development. Powell argued against the railroad builders and land developers—whose slogan was "Rain follows the plow"—that the West should properly be named the Great American Desert and that it was unfit for agriculture or settlement at all. The 1980 drought, said the *Monitor*, proves that Wesley was right.

Then there is the argument made by by Dr. David Campbell of President Carter's Water Resources Council—headed by Interior Secretary Andrus and opposed to water development—that the new dryland farmer benefits not only by cutting pumping costs, but also by reducing his vulnerability to drought. As shown in Texas, the country's third largest agricultural state, that is a lie: the dryland operations were wiped out first and most thoroughly this year. More basically, the dryland operation will tend to blow away with the wind for obvious reasons.

It is ironic, and illustrative, that the same environmentalists advocating a reversion to dryland farming are now jumping on the "soil conservation" bandwagon, scolding producers for not preventing soil erosion on their land and in some cases arguing that farmers are incompetent to take care of their land and that therefore should be taken from them to be administered as a "public trust."

The environmentalists view irrigation in any case as a squandering of limited resources. More sophisticated Malthusian propagandists argue that since irrigated agriculture consumes larger quantities of water per unit of output than any other economic sector, it qualifies as a "low-value," and therefore wasteful, use. These individuals cheer the "effective restraints" on water use for agriculture that have begun to be imposed by the high cost of energy for pumping. Some, like the Rand Corporation, echo the earlier proposals of Professor Milton Friedman in this regard. Rand, in a just-completed three-year study of California water use, advocates the establishment of a "water market" where water would be bought and sold according to the highest bidder.

### **The goals and the record**

What all of this adds up to is an unambiguous campaign in which austerity economics, water policy and land policy are being wielded in concert to severely delimit if not shut down altogether Western agriculture.

The land and water are to be delivered to the Carter administration's synfuel boondoggle; farm producers are being delivered to bankruptcy court.

Review the record.

- During its first year in office, the Carter administration established its opposition to Western water resources development with the famous "hit list" of 18 water projects targeted for termination. Twelve have already died, and there is currently a \$38 billion backlog of uncompleted projects stalled by Carter. In some cases, the administration has held critical water projects, such as the Central Arizona Project, hostage to state passage of restrictive water use laws. In December 1979 the Carter administration presented a new set of regulations governing water project evaluation. Premised on competition for scarce, fixed water supplies, the regulations make it impossible to define a given water project as in the *national* interest and therefore worthy of federal support. Further, as in its energy policy, the Carter administration has taken every opportunity to enforce water "conservation" by raising users' fees.

- Shortly after attacking the water projects, Carter and his Interior Secretary Cecil Andrus launched a demagogic campaign to dismantle Imperial Valley agriculture on the grounds that the strict letter of the 1902 reclamation law, which limited farm holdings using federally developed water to 160 acres (a large farm at that time), was being violated in California, where producers farm 1,000 and more acres of irrigated land at once. Now the administration threatens to veto the compromise reclamation reform legislation pending in Congress which increases the farm size limit to between 900 and 1,000 acres, with additional leasing allowances. This week, the National Farmers Union (NFU) gave a big boost to the administration's effort. "Why subsidize a further shift of production to the Far West?" the NFU asked, claiming that Western water development gave an unfair advantage to agriculture there.

- Interior Secretary Andrus has been carrying out a campaign to prevent the use of public lands for grazing in the West. A series of executive orders and de facto regulatory decrees has been resisted by Western governors and producers, who have forced the Interior Department and Bureau of Land Management to hold hearings on the subject. On a parallel track, the Agriculture Department, pursuant to the so-called Resource Conservation Act of 1977, is now exploring means of coercing producers to use prescribed soil conservation techniques on penalty of losing eligibility for federal farm programs. It is by aggressively holding farm prices below cost of production, much less parity, that the Carter administration and its predecessors have systematically denied farm producers the capital to make the necessary investments in land conservation and improvement.

*The U.S. recession*

## Why the EIR model beat Wall Street's 1980 predictions

by David Goldman

With one exception, the entire range of computer economic forecasts completely missed the steepest fall in industrial production since World War II, predicting either a mild recession or no recession at all. The single correct computer forecast was made by the *Executive Intelligence Review*, employing the LaRouche-Riemann econometric model.

On Nov. 6, 1979, *EIR* projected a 15 percent drop in industrial production during the first eight quarters of a recession beginning in the first quarter of 1980, with most of the fall concentrated into the first year of recession. So far this year, industrial output has fallen by 7.9 percent. This puts our forecast almost exactly on target.

Figure 1 shows the *EIR* forecast compared to the projections of Data Resources Inc., Wharton Econometric Associates, Chase Econometrics, and the University of California at Los Angeles models. Without exception, these forecasts made in April 1980 were six percentage points or more off the mark. *EIR* was within 1½ percentage points of the correct figures for the decline in the industrial production index.

*EIR's* econometric model was first brought on line in February 1979. Elaborated by physicists Uwe Parpart and Steven Bardwell of the Fusion Energy Foundation on the basis of Riemann's mathematical physics, the model was designed by economist Lyndon LaRouche, contributing editor to *EIR*. LaRouche had proposed the application of Riemann's mathematics to deterministic economic models in the early 1950s, and used this method in an extraordinary series of long-range predictions which correctly foresaw the late 1960s and early 1970s monetary crisis in 1957.

The computer realization of the LaRouche model created a predictive tool of unparalleled power, as indicated by the success of the November forecast. *EIR* clients had available to them accurate estimates of the behavior of the tangible economy, and related correct forecasts of the behavior of securities, foreign exchange, and commodities markets throughout the first half of 1980.



Immediately after Paul Volcker shifted monetary policy into an austerity mode on Oct. 7, 1979, *EIR* predicted a major economic downturn, and followed this prediction in early November with a multi-sector forecast for the American economy.

During the same period:

- Data Resources Inc., the nation's largest computer consulting firm, foresaw a mere 2.5 percent drop in output during the second quarter of 1980, followed by a rapid improvement during the third quarter. In an April update forecast, DRI reduced the predicted drop to a mere 0.5 percent!

- Chase Econometrics predicted a 3.7 percent drop for the second quarter of 1980 as of November 1980. In March, Chase Econometrics threw out its old forecast and predicted that the second quarter would be virtually unchanged, with a slight decline during the third quarter.

- Michael K. Evans of Evans Econometrics, who founded Chase Econometrics, announced in March 1980, "I've called off the recession," just as the downslide got underway. He gave the no-recession scenario a "better than 50 percent chance."

- The Wharton School predicted a 2.5 percent GNP drop during the first quarter of 1980, 1.2 percent growth during the disastrous second quarter, and a faster growth rate for the rest of 1980. In April, Wharton threw out its first forecast, and projected a mere 0.2 percent drop during the second quarter.

- Townsend-Greenspan, which projected a recession less than half the size of what has already occurred

during 1980 in a late 1979 forecast, told its clients during the first week in March that a mild recession would appear during the end of 1980.

The largest computer-based consulting firms in the country were all dead wrong.

*EIR* not only produced an accurate forecast in November 1979, but stuck to its guns, asserting on Feb. 18, 1980 that unless a drastic policy switch took place, the recession would sharply intensify.

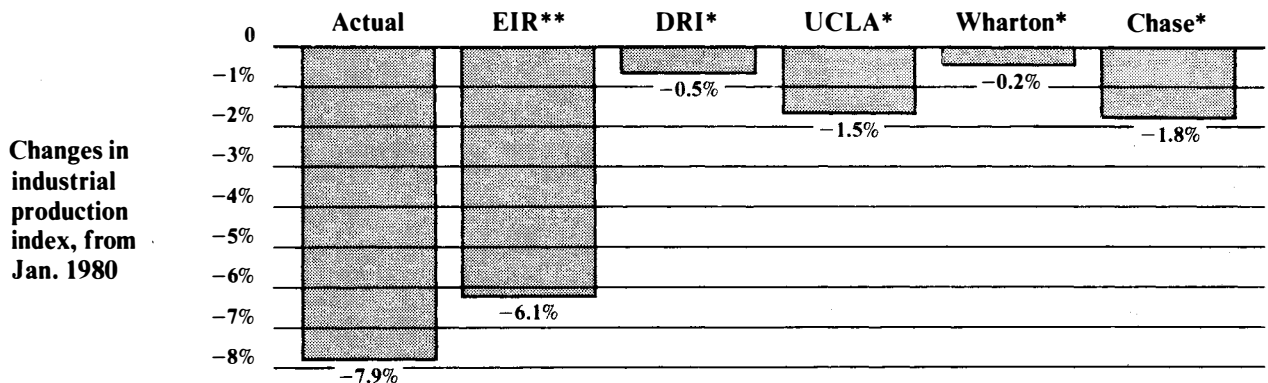
Embarrassed by DRI's dismal results, a spokesman for the firm told *EIR*, "Well, people don't buy us for our track record." Any company or investor making decisions on the basis of DRI predictions would have lost money on a grand scale, and many did.

The LaRouche-Riemann model is the first to reject the conventional method of attempting to project past economic performance and interrelationships into the future. A model of the DRI or Wharton type assumes that the relationship between different sectors of the economy, and between different categories of the national income accounts, will remain essentially static in future periods. Qualitatively new features of the economy which may affect productivity in a fundamental way cannot be interpreted through conventional models. The LaRouche-Riemann model was designed to take such basic changes into account through simulating the underlying causal relationships in the economy, rather than merely crunching out correlations of past behavior. *EIR's* clients have been able to employ our econometric service to make sophisticated and accurate judgments concerning

Figure 1

## Comparison of econometric forecasts

(economic behavior for first half of 1980)



Source: Federal Reserve Board, *EIR*, Robert Eggart

\* April 1980 forecast

\*\* November forecast restated in April

both economic trends and financial market behavior throughout the sharp swings of the last two quarters.

### The basis of our forecast

Two elements made up the November forecast of rapidly declining tangible output during 1980:

- 1) That the economy was running at a loss after the costs of real depreciation and living standards, relative to growth needs, were taken into account.
- 2) That the deficit in the real economy's investment in capital and labor also showed up as a financial deficit of households and corporations.

What threw most of the forecasters is that the events of late 1979 were entirely unique in postwar economic history. The underlying physical structure of the economy had undergone a "phase change," a change in state which the conventional models have no means at all to consider, let alone measure in any accurate way.

An economy, after all, is a machine producing a certain amount of tangible output. Most of its output is spent in the following ways:

- Maintaining existing capital plant, i.e. replacement cost.
- Maintaining the existing goods-producing labor force, at a living standard specified by a certain level of culture and a corresponding level of productivity
- Paying society's overhead costs, including education, health, national security, entertainment, and so forth.

What is left over from a given period's output when these costs are met is *net social surplus*. This corresponds

to the *net work* accomplished by a thermodynamic engine. If an engine deteriorates physically to the point that it produces a net loss of work, all the normal parameters used to describe the workings of that engine will cease to apply.

### Real flows and financial flows

In physical terms, the American economy has been operating at or below breakeven since the 1975 recession, and went deeply into net deficit at the end of 1979. In a May 6 survey, *EIR* presented a new depreciation index and related measures of the "breakeven" for the post-1979 economy.

However—as *EIR* contributing editor Lyndon LaRouche pointed out in a 1958 long-range forecast that caught the timing of the late-1960s monetary crisis—the economy's underlying problems will show up first in the monetary system.

A set of financial flows is attached to the real flows of tangible goods identified above. The corollary of gross economic surplus—everything in excess of maintenance payments to labor and capital—is gross household and corporate savings.

If the majority of savings are invested in either non-goods-producing or less productive areas of the economy, the economy will suffer inflation. The nominal rate of profit on invested capital will be in excess of the real rate of profit in terms of new tangible output arising from the total investment. This requires a markup of the prices of the existing tangible output to balance the economy's collective books.

The opposite applies as well. In the American computer industry, for example, investment in new technologies has cut the cost of data processing by 50 percent per year for the past 10 years. There is no reason why comparable technological advances in, say, steel, auto and machine tools would not produce similar results over the medium term. Indeed, falling prices for industrial goods were the norm during the American economy's great 1865-1914 expansion period.

### Projecting inflation

The actual rate of inflation is different from the "structural inflation" identified above. Once started, the inflationary cycle takes on a life of its own. A small inflationary margin due to an adverse structural shift away from high-technology capital formation produces a couple of percentage points of inflation. But this inflation level is added to interest rates, which raise costs and further raise inflation. At a certain point capital investment favors a shift into short-term quick-buck speculation, raising land and raw materials costs, and so forth. For this reason, the actual rate of inflation is volatile and difficult to predict.

However, after the fact, certain patterns are obvious. During the first nine months of 1979, the following conditions prevailed:

- 1) Total industrial and related tangible output had changed by no more than a percentage point since the beginning of the year.
- 2) The rate of inflation, measured by the Consumer Price and Wholesale Price Indices, stood at 12 percent.

3) The volume of credit expansion, measured by total lending to the non-financial sector including consumers, was rising at a 20 percent annual rate.

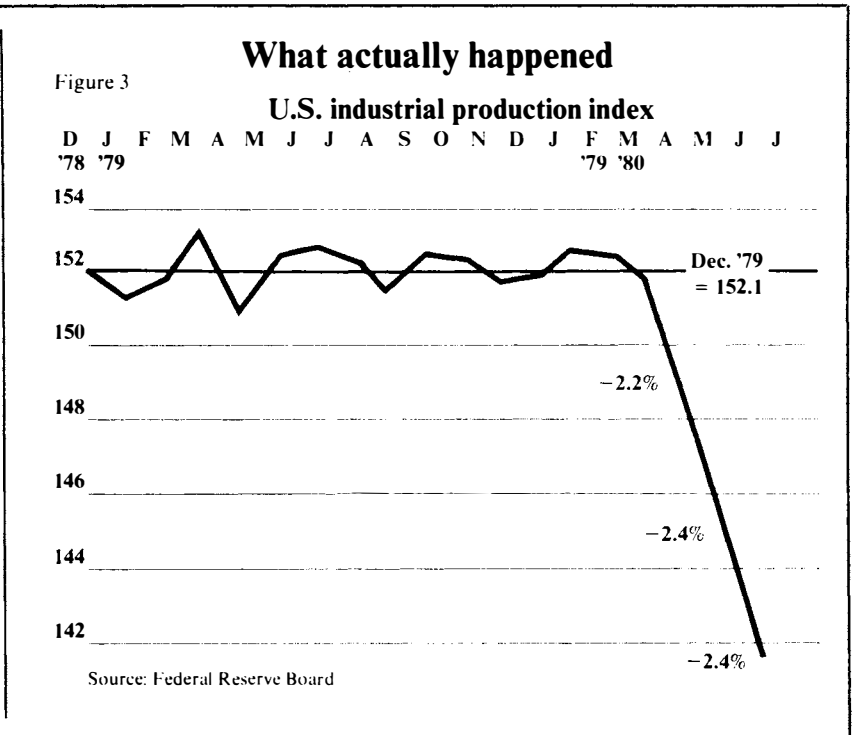
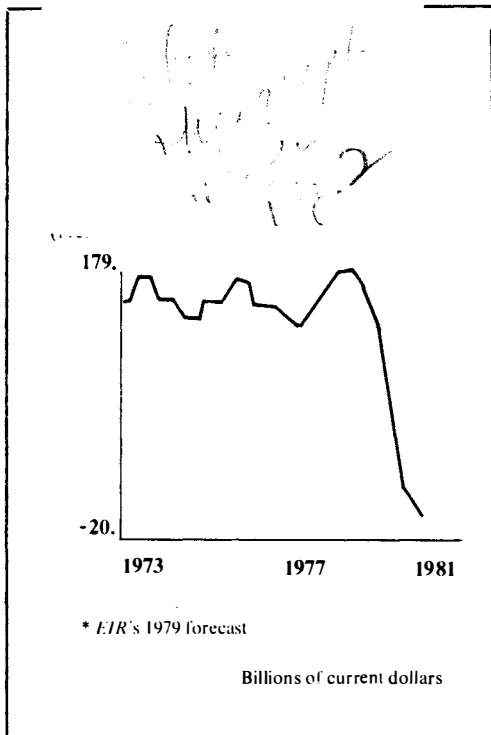
An analysis of the Federal Reserve's Flow of Funds tables for the first half of 1979, and of comparable data for the third quarter, indicated that the reason for credit expansion in excess of the inflation rate was that households and corporations were running in *net deficit*, by about 8 percent. In other words, the marginal inflationary cost of the last 8 percent of output could only be financed through borrowing, not through existing income levels.

For purposes of our November forecast, we assumed that Federal Reserve Chairman Volcker would endeavor to hold borrowing down to the rate of inflation, or about 12 percent, rather than the 20 percent that prevailed until February 1980. We then assumed that the difference between the rate of borrowing and the rate of inflation at 1979's unchanged production levels measured the operating deficit of the U.S. economy as a whole. We distributed this operating deficit differentially through 25 sectors of our multi-sector economic model of the American economy, using the standard liquidity measures as a guide.

We next used these financial criteria to predict the 1980 to 1981 path of the tangible economy.

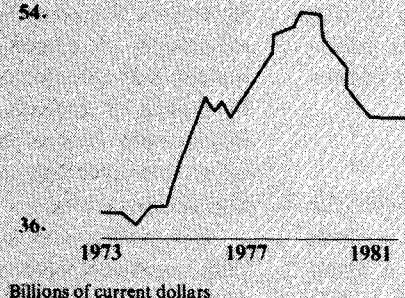
### The physical system model

From an engineering standpoint, the economy operates according to the same laws that apply to an engine: a given force, i.e. employed productive labor,

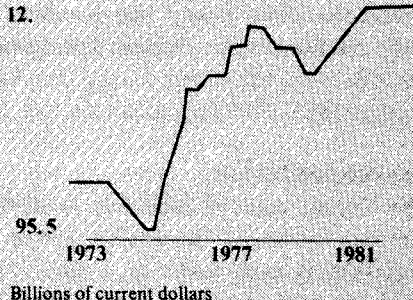


**From EIR's multi-sector forecast in November 1979**

**Figure 4  
Transportation  
Surplus  
54.**



**Figure 5  
Textiles  
Surplus  
12.**



moves through a given volume, i.e. the capital stock, at a given productivity level. The result is work done, in the form of investible surplus product, plus "heat loss," or overhead expenses. The model measures these criteria through six equations (comparable to the basic thermodynamic equations) for each sector, or 150 equations for a 25-sector model.

Programmed to show the impact of an unevenly-distributed operating deficit, the computer model produced new quarterly output levels for each sector, new productivity levels after each cycle, and new investment patterns in each sector in the economy and for the economy as a whole.

The result, as we have seen, was strictly accurate.

Figure 2 is reprinted from *EIR*, Nov. 6-12, 1979. It shows the actual volume of surplus production in current dollar terms, without deduction of actual depreciation costs. It is the closest equivalent to the industrial production index of the Riemann-LaRouche model. It

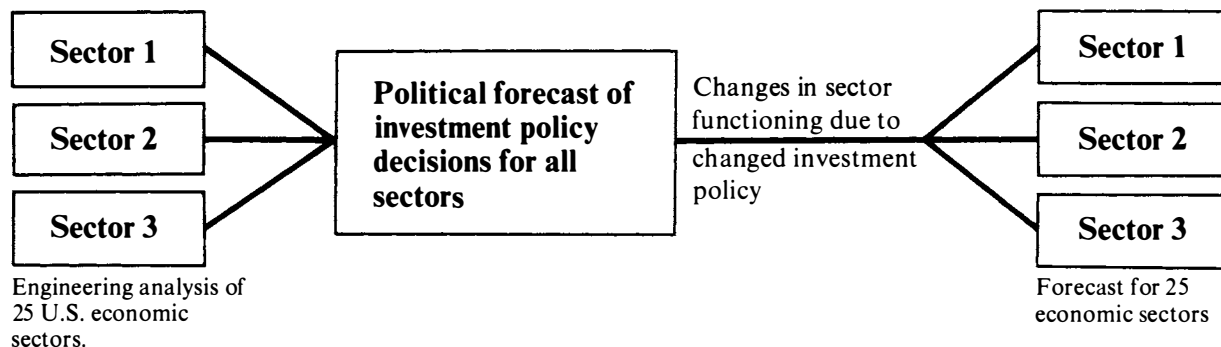
shows a fall to zero net surplus through 1981. In matter of fact, when real depreciation costs are taken into account, the U.S. economy would be in net deficit by 60 billion constant 1972 dollars. For purposes of the forecast, however, we left the data in undepreciated, current-dollar terms, since unmet depreciation costs have only a longer-term effect on productivity; the purpose of this forecast was to show the short-term developments.

Figure 3 shows the actual behavior of the industrial production index through June 1980. The shape of the curve is strikingly similar to that in Figure 2. Superimposed on Figure 3 is the projection, transformed into industrial-production index equivalent. Our projection was somewhat conservative. However, since the speed of industrial shrinkage will taper off during the third and fourth quarters, our projection will probably be precisely on the mark by the end of the third quarter.

Figure 1 compares the first-half 1980 projections by

Figure 6

**Why EIR's model succeeds**



different econometric services. The actual fall in industrial production of 7.9 percent is compared to forecasts by *EIR*, Data Resources Incorporated, UCLA, Wharton Econometric Associates, and Chase Econometrics. *EIR* stuck by its November predictions even though economic output failed to drop off during the first quarter. As the chart shows, *EIR* was extremely close to the actual numbers, while none of the other services was even remotely close.

### Catching the turning point

What confused the other econometric models is a new set of circumstances their computers had never seen before. Between October, when Paul Volcker instituted tight credit, and March, the industrial production index as a whole did not drop. However, it changed composition radically. Although consumer durables, such as auto, dropped off drastically, capital goods did not—until Volcker imposed an absolute limit of 9 percent on bank credit expansion on March 17 (confirming *EIR*'s earlier *political* estimate that Volcker would attempt to limit credit expansion to approximately the rate of inflation).

*EIR*'s multi-sector analysis caught this process with great precision in the November forecast.

Figure 4 shows the analysis for the transportation sector, originally published last November. Since this sector includes automobiles and airplanes, the dropoff is mitigated by the relatively buoyant performance of aircraft manufacturers. The sector as a whole does, in fact, stabilize in the second half of 1980 and plateau during 1981. That corresponds to what now appears to be the trend in the auto sector.

Figure 5 shows our projection published in November for textiles, which shows no dropoff in current dollar terms. (As noted above, all results were shown in current dollars for analytical reasons). We wrote at the

time, "Textiles go through a recession, in terms of the rate of surplus creation, albeit a relatively mild one. In nominal terms, output remains steady, which means a fairly small dropoff in output in real terms. The same pattern applies for most of the consumer non-durables sector, including food processing, tobacco, and apparel, which are the last items to be eliminated from the household budget."

This estimate, of course, was entirely correct; consumer non-durables have fallen marginally, compared to the 25 percent year-on-year drop in auto sales as of July and the more than 50 percent drop in home construction over the same period.

### GNP and input-output

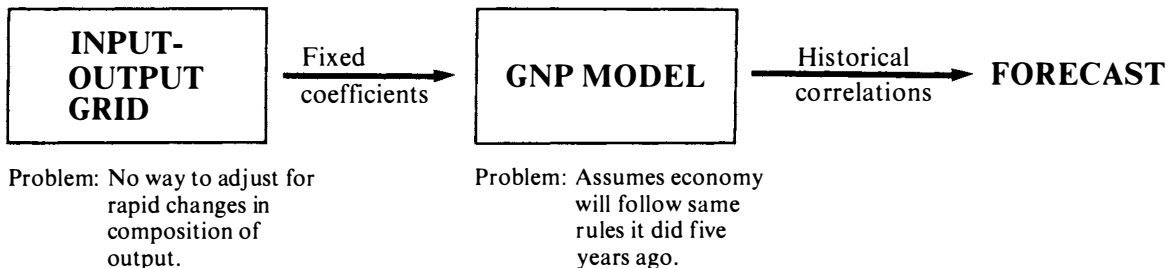
The changed composition of industrial production threw the other forecasters for a loop. These models rely on two devices which are entirely unreliable during a period of economic transformation. One is the Gross National Product accounting system. The other is the conventional form of input-output model.

The problem with Gross National Product is fairly straightforward. It merely adds up every sale in the economy, using tax data. If we invest every crumb of our output one year in baseball stadiums, for example, it is obvious that we will be short of machine tools, raw materials, and so forth next year. From an engineering or thermodynamic viewpoint, the impressive GNP growth of the American economy since 1966 was mainly fluff that did nothing to contribute to our future growth potential.

Nonetheless, the Wharton, DRI, Chase and other models all use the GNP accounting system, misleading as it is. They take correlations based on past experience, which go more or less this way: "Each \$1 of GNP during the past five years has contained 50¢ of personal consumption, 25¢ of capital formation, and 25¢ of

Figure 7

## Why conventional forecasts failed



government spending. We do not worry whether this was capital formation in baseball stadiums or machine tools. We will assume that each \$1 of next year's GNP will contain 50¢ of personal consumption, 25¢ of capital spending, and 25¢ of government spending." There is no reason whatsoever why any forecast based on such criteria should turn out correctly.

The second problem is the standard input-output grid. This tells us how much steel output goes to auto, and how much auto output (e.g. forklift trucks) goes to steel, and so on for scores of industries. The "coefficients" which show, on the big grid, how much of the others' products each industry consumes are very useful for telling us what happened in the past. They tell us very little about what will happen in the future. For example, during October 1979 to March 1980, the share of production to consumer durables dropped by 15 percent, while the share of production to capital goods rose by 6 percent. This was a drastic shift in the input-output grid. Merely having such a grid tells us nothing about how fast, and with what impact on productivity, it may change. All the conventional models assume either fixed or very slowly changing coefficients.

So, when the conventional models saw that first-quarter 1980 GNP had not fallen, and that industrial production as a whole had not fallen, they assumed things would be stable for some time to come.

### **The political dimension**

Flow charts 6 and 7 illustrate why the conventional models fail on two major grounds, and why *EIR*'s model is at least as good as the quality of the political intelligence that is used to program it.

At bottom, we do not claim the sort of miracles for our computer in forecasting future economic developments that many of the other forecasting services did, before events found them out. We can state authoritatively that our model accurately describes the functioning of the economy in physical terms, in a way that other econometric models do not even try to do. We believe that without this physical-systems approach as a starting point, no useful results can be obtained. The LaRouche-Riemann model, as we showed *EIR* subscribers in the case of India, is unparalleled for planning applications.

In the case of forecasting, *EIR* relies on a broad network of information and an economic-political analysis team that has been working together for six years to make reliable political forecasts. In the short run, at least, political decisions can have tremendous sway over the physical processes of the economy. Therefore, our political track record is as important to subscribers who require sound economic forecasts as the quality of our model itself.

## **BOOK REVIEW**

# **The wrong way to achieve high capital formation**

*Capital, Efficiency, and Growth*. George M. von Furstenberg, editor. Cambridge, Massachusetts: Ballinger Publishing Company, 1980.

The American Council of Life Insurance has sponsored a series of volumes entitled *Capital Investment and Saving*, of which this is the third. Within the limits of conventional econometrics, contributors including Dale Jorgenson, the Harvard econometrician, state some unassailable truths and provide important and useful information. However, the conclusions as stated by the book's editor, University of Indiana professor George von Furstenberg, are wrongheaded and dangerous.

Furstenberg represents a reduction in consumption as the basic solution to America's longstanding economic problems. He is not alone in this view. Federal Reserve Chairman Paul Volcker, who has more to do with the present 13 percent annual rate of decline in personal income than any man alive, stated in hearings before the Senate Banking Committee last October that the American living standard had to fall. What is important about Furstenberg's conclusions is that they are supported by one of the most impressive arrays of econometric research recently assembled.

The terribly misguided nature of the conclusions compels us to set aside our enthusiasm for the quality of some of the research and zero in on the flaws which make these erroneous conclusions possible.

### **'Disquieting consumption'**

"Over the period 1948-1976, the capital stock grew at an average annual rate of 3.68 percent per year for households, 2.80 percent for corporate business, and 1.42 percent for noncorporate business," Furstenberg summarizes the study's results. The formula devised for measuring the capital stock is, compared to *EIR*'s depreciation index (see Survey May 6), fairly generous, but that is a secondary point. Furstenberg continues:

"It is disquieting that household capital (primarily residences) has grown almost twice as rapidly as busi-



ness capital.” He continues, “Before declaring a generalized capital shortage, one should also recognize that there is relatively too much capital in sectors with low efficiency,” by which he means household “capital.” This is an extraordinary piece of nonsense, on several grounds.

First, the question of whether there is a generalized capital shortage is a matter of determining what rates of investment are necessary to obtain the capital stock and labor pool the country will require in the future. Relative to investment requirements, we are currently investing \$50 billion in constant 1972 dollars per year less than required to maintain our capital stock in the condition it enjoyed in 1965, as *EIR*'s own depreciation index, backed up by studies on the part of the Econ group in Princeton, demonstrates. Secondly, the economy's greatest shortage is in skilled labor, and the state of secondary, vocational, and advanced educational institutions promises a much worse shortage down the road.

### Capital allocation

What is Furstenberg talking about? In the case of housing, to which he believes capital was overallocated, the pre-recession rate of homebuilding of 2 million units per year is less than replacement, even using the questionable 40-year depreciation usually applied to single-family homes.

What is more interesting is the lumping together of home investment and plant investment as “capital formation,” standard procedure in demand economics (and also the so-called “supply-side” variants of demand economics). How does one measure the “productivity” of a home compared to the productivity of a steel mill? Ultimately, there is a means of doing so. Homes produce human beings.

All data for productivity and living standards show that these data move in tandem for all countries in all periods studied, for obvious reasons. Without oversimplifying too much, we can say that better homes produce human beings more likely to acquire the education and skills that will equip them for expertise in handling new technologies.

Furstenberg is saying, without the gumption to be entirely open about it, that the American economy should try to get away with permanently lower living standards, and hope that this does not adversely affect productivity. Since skilled labor is the biggest bottleneck in the productivity problem, even worse than the deterioration of our capital stock—as any industrial engineer will say with little prompting—the proposal is disastrously wrong.

Yet Furstenberg's volume probably represents the dominant viewpoint in the business community con-

cerning this problem.

There is a big hole in the methodology of Barbara M. Fraumeni and Dale W. Jorgenson of Boston College and Harvard University, whose study, included in this volume, “The Role of Capital in U.S. Economic Growth, 1948-1976,” is otherwise of great merit. They seek to establish the rate of technical improvement in the American economy over this period by attributing to technology whatever cannot be accounted for by increases in capital and labor inputs. By and large, their conclusions correspond to measures published earlier by *EIR*: that the rate of technical change was at a maximum from 1960 to 1966, the height of the NASA research and development program, and that it fell into the negative—due to deterioration of the capital stock—during 1973 to 1976.

However, Fraumeni and Jorgenson lump together among the “industries” studied, all the goods-producing sectors, the financial and other non-goods-producing services sectors, and “private households.” Aggregating these elements jumbles up the causal nature of the workings of the economy, and permits certain wildly misguided conclusions to be drawn—as Furstenberg proceeds to do.

### 'Into a minefield'

The assumption built into the classical “Cobb-Douglas” production function and its variants, such as the one employed by Fraumeni and Jorgenson, is that output can be broken down as the product of “factors,” and the factors can be measured by their relative share of income.

However, to equate income and its distribution to the actual, engineering side of the economy brings us into a minefield.

Income is either productive or non-productive, i.e., it causes future tangible wealth to be produced or it does not. The income of wholesale, retail, financial and similar services is nonproductive; what these sectors do may or may not have any relationship to the future growth of the economy. In the United States they have grown at the expense of the goods-producing sector of the economy.

Household income is productive insofar as it employs goods-producing workers; other household income is an overhead expense to the productive sector.

Secondly, what matters is not the size of total output, but how it is deployed for future production. What proportion of this output represents free energy in the form of tangible wealth available to expand the economy, above and beyond maintenance costs? The profits of a gambling casino, i.e., the “payments to the capital factor” in the gambling casino, represent nothing in terms of economic expansion; their existence

tends to be inflationary. The profits of a machine tool firm, in the form of a certain volume of machine tools above and beyond the number of units required to pay the labor and depreciation costs of the firm, represent a margin of actual expansion.

Fraumeni and Jorgenson ignore those questions. Although their basic point concerning technical change is of great value, the impressive statistical battery they assemble tells us no more than we knew at the start about what rates of increase in capital, labor, or technical change are *necessary* to end inflation, restore the capital stock to previous health, produce the skilled labor we will need in the future, get high-technology solutions to the energy crisis on line, or other basic questions.

In their analysis there is no causal relationship between the “factors,” only values “imputed” after the fact from income schedules. Furstenberg uses this absence of causal features in their model to propose a shift in capitalization from homes to industry, not inquiring whether this will disrupt the causal basis of productivity in the first place.

### Free energy

As the authors are only too well aware, the basic difficulty in taking the measure of technological change as the residue after capital and labor are accounted for is that any change in technology changes the valuation of all other factors. New equipment knocks down the value of old equipment. The elaborate depreciation schedule they have built, based on the vintage of plant and equipment is only meaningful to the extent that technological change in the American economy since 1948 has been so negligible that its effect on the valuation of capital can be safely ignored!

What has been done in the LaRouche-Riemann model is to treat the issue of productivity, which derives from technology, as causally primary. Instead of treating the absolute quantities of output as independently meaningful scalar magnitudes, we consider as primary the way in which technological change alters the proportions within that output. Tangible wealth, as Alexander Hamilton insisted two centuries ago, only mediates between one state of productivity and another; it is there to be consumed. What it produces is productivity.

The measure of the rate of change of productivity, or the economic “free energy ratio,” the ratio of investible surplus to maintenance requirements, is primary. Of course, the same bookkeeping headaches remain that Fraumeni and Jorgenson struggle with, particularly given the abysmal state of available data. But this methodology, in contrast to the old production function, puts us inside the problem in a way that permits of solution.

# Austerity leads to ‘double-dip’ 1981 collapse

Econometric simulation of the expected behavior of the American economy through the second half of 1980 and through 1981 shows that the present combination of Federal Reserve and administration policies will not produce a recovery at any time in the foreseeable future. The pattern shown by the computer is a “double-dip recession,” i.e., a brief trend towards recovery during the first half of 1981, followed by a renewed collapse before even half the losses of 1980 have been regained.

We do not present this scenario as a forecast so much as a guide to the problems ahead during the next 18 months. Assuming that the policy environment defined by Federal Reserve Chairman Paul Volcker prevails through the coming period, this is a “best-case” scenario. What it tells us is that, contrary to what Mr. Volcker, Reagan adviser Alan Greenspan, and others have contended, austerity will not produce recovery. At best, lowering living standards will produce a short-lived false recovery, followed by a second sharp downturn.

Lower living standards created an artificial, temporary increase in productivity sufficient to lift the economy momentarily. However, the task of economic analysis is to determine whether this “lift” is sufficient to compensate for the overhead burdens of a depressed economy or other factors reducing productivity.

The dropoff in living standards raises productivity by shifting investment from low-productivity industries in the consumer sector to high-productivity industries, principally in the capital goods sector. That is the explicit recommendation of most of the “reindustrialization” planners such as George von Furstenberg, whose book is reviewed in this report, and Amitai Etzioni. A shift in the composition of the economy will raise average productivity in output-per-manhour terms.

Such a shift is strongly implied in the first-half profit results for major corporations, as reported by Computat:

The major losers are associated with the collapse of auto and housing, except for airlines, suffering the effects of deregulation. Trucking will show up in the minus column for the third quarter of 1980, due to the sudden

implementation of deregulation under the quasi-legal direction of the Interstate Commerce Commission.

**Change from First Half 1979**

GAINERS	LOSERS
Oil Services and Supply . . . . .+41%	Steel . . . . .-57%
Natural Resources .+32%	Savings and Loan .-88%
Services . . . . .+31%	Tire and Rubber ..-94%
Banks . . . . .+21%	Airlines . . . . . Net Loss
	Automotive . . . Net Loss

What is most disturbing, however, is the extent to which oil and its supply industries dominate the plus side of the first-half profit picture. *Business Week* has devoted its two most recent issues to major public anxiety over the extent to which oil and related industry profits have built up at the expense of manufacturing in general. What this means for productivity, we will discuss below.

A transfer of resources from the consumer sector provides a one-shot improvement in productivity. However, it does nothing to compensate for the long-term decline in productivity.

Viewing the output of an individual sector, we must distinguish between the productivity with which it is produced, and its effect on the productivity of the economy as a whole. This distinction is fundamental to making sense out of the last several years' economic performance. Ignoring intangibles, we find that the product mix of the American economy has shifted in such an adverse fashion from the standpoint of national productivity that the *EIR's* productivity measure, as calculated by the LaRouche-Riemann econometric model, has *fallen* by four percent per year during the past four years.

*EIR's* measure of productivity is far more accurate than the Bureau of Labor Statistics' output-per-man-hour series. Of what avail to the national economy is a method which allows men who have been digging holes in the ground and filling them up again to dig and fill in holes twice as fast?

Our alternate measure of productivity takes the *tangible value added* of the economy (the value added in deflated 1972 dollars for the manufacturing and other goods-producing sectors of the economy) and divides it by the gross consumption of goods-producing workers. I.e., the economy must devote a certain portion of its total resources toward maintaining the households of goods-producing workers at some acceptable living standard; the total goods produced in the economy is some multiple of this sum. What counts is the multiple of goods produced above and beyond capital and labor inputs, or gross surplus in Ricardian terms.

That ratio has fallen by four percent annually since 1976, from roughly 2.4 to about 2 at present. That does not, and need not, match the comparable productivity

figures calculated in output-per-manhour terms. As *EIR* showed in its April survey, entitled "Energy Conservation: Building Inflation into the Economy," what is important is how the economy's product is realized in future production.

To summarize the results of that survey: the American economy has borne an *overhead cost* to industry in the form of expenditures for energy conservation which has drained resources away from investments in productive areas of the economy. These include a switch away from nuclear power, the most cost-efficient means of producing energy; the immense cost of downsizing automobiles for conservation purposes; and retro-fitting of energy-saving equipment. In addition, investment has shifted towards non-goods-producing areas and labor-intensive goods-producing areas, away from energy-intensive fields. The result is a fall in productivity by our measure.

*EIR* further showed in its May 6 economic survey, which introduced a groundbreaking new index of real depreciation, that the net deficit of capital investment in

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*On its own merits, the austerity policy does not work. Unlike the introduction of new technologies, which tend to diffuse productivity throughout the economy, the reduction of living standards yields only a one-shot, temporary rise in productivity.*

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the American economy has risen to \$50 billion per year as of 1979.

These adverse trends have "built in" a 4 percent yearly rate of decline in productivity. A sweeping reversal of the energy, regulatory, and credit policies of the past several years along lines *EIR* has suggested would be required to turn this collapse around. However, the Federal Reserve and its co-thinkers outside government do not choose to do this, although they pay some lip-service to the requirements of industrial investment. Their central proposal is what we identified above, i.e., shift the output and investment mix towards the higher-productivity end of the spectrum.

The problem is that total economic productivity is not the simple sum of the productivity of individual economic sectors. Shifting economic weight toward sectors of high individual productivity can accomplish a one-shot increase in productivity. However, the economy's basic problem is the unproductive use of much of the economy's tangible product.

**Projection of  
double-dip recession  
for 1981 and 1982**  
(billions of constant 1972 dollars)

Figure 1  
Total economic surplus (S)

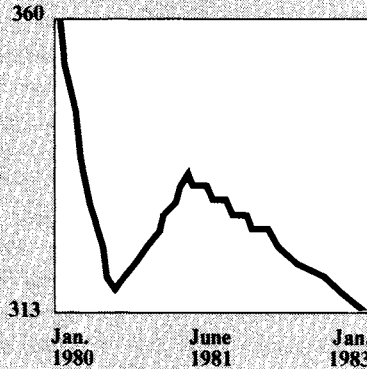
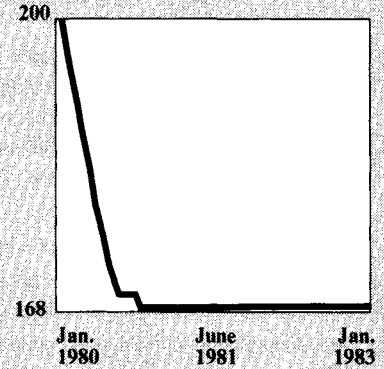


Figure 2  
Variable capital (C)



In terms of the LaRouche-Riemann econometric model, the result of such a shift can be expressed as follows: the production of consumables will fall while other production will not, corresponding to a fall in living standards. Personal income data shows a 13 percent annual rate of decline since last October. The LaRouche-Riemann model calculates a 10 percent reduction in tangible-goods consumption of goods-producing workers' households with respect to 1979 levels, or a 20 percent per annum rate of fall.

That will lead to a rise in the multiple of tangible value added, or gross surplus, to this tangible consumption, or variable capital in the Ricardian terminology. The productivity rate,  $S/V$ , will therefore rise.

We are saying, in other words, that the decline of the consumption-goods industries and the relative cheapening of labor costs through lower living standards will give a fillip to the rest of the economy. This is the *causal* reason for the anticipated uptrend in the economy. British commentators tend to recognize this with greater frankness than American ones, with a few exceptions.

One American exception was a recent optimistic report in *Financial Digest*, reported by Manufacturers Hanover Trust, which said that U.S. unit labor costs had risen more slowly than those of any other major industrial country, even though productivity—a major determinant of unit labor costs—had risen the slowest of any industrial country save Britain. The reason for this reassuring result, the bank reported, was the even slower growth, or rather the decline, in American living standards.

What must then be measured is whether this one-shot rise in productivity, deleterious as it is for future productivity, will compensate for two other factors: 1) the economy's overhead burden, and 2) the decline in productivity due to non-productive expenditures by

industry and industrial obsolescence.

In the forecast presented herewith, *EIR* projected the new productivity rate established by the trend in falling living standards against the economy's large overhead burden, and the baseline decline of productivity by our measure. Overhead includes non-productive activities, necessary or not, such as the military, education, health, football stadiums, gambling casinos, and so forth.

The results we see in the following series of graphs.

The current rate of decline of living standards is only sufficient to push our measure of gross surplus from \$315 billion (in constant 1972 dollars) to a top of \$334 billion in mid-1981, before falling off again; this sum stood at \$360 billion at the beginning of 1980 (see Figure 1).

The forecast includes the assumption, shown in Figure 2, that tangible consumption by goods-producing households will level off during the fourth quarter of 1980 and stabilize, following a sharp fall from about \$200 billion (in constant 1972 dollars) to \$168 billion.

Intermediate goods utilization, Figure 3 shows, will remain stagnant at a level of \$433 billion (again in 1972 dollars), down from \$468 billion at the start of 1980. The reason that intermediate goods do not rise along with gross surplus is that the scenario contains the assumption of a shift into industries using less energy-costly raw materials, away from steel and auto, i.e. industries with a higher value-added per labor input.

Figure 4 shows the *potential growth rate*, or free energy index, for the economy. At the sharp peak of this graph, the growth rate registered on the left-hand scale is a mere 0.011, or 1 percent per year, before turning down. This is the LaRouche-Riemann's model's key indicator. The potential growth rate is expressed as the volume of surplus minus overhead divided by labor and capital inputs required to maintain the economy at

Figure 3  
Crude and  
intermediate materials ( $C_1$ )

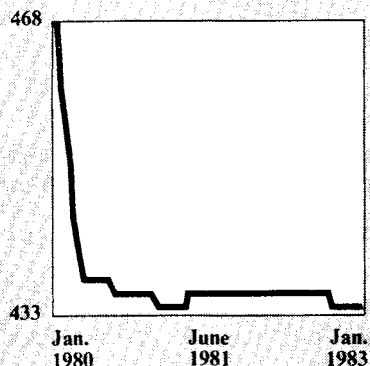


Figure 4  
Free energy ratio  
( $S'/C+V$ )

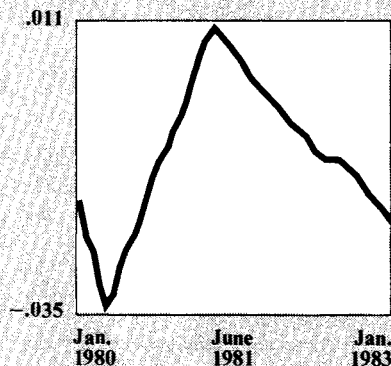
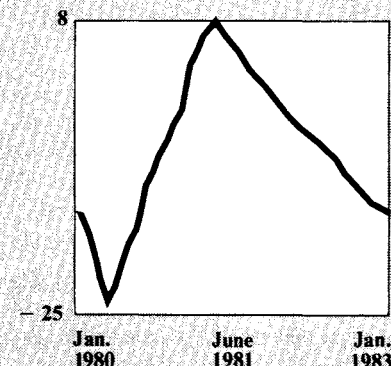


Figure 5  
Surplus available for  
productive investment ( $S'$ )



pre-existing levels of output. What this shows is that the economy, except momentarily, is incapable of climbing out of the red.

Figure 5 shows the absolute volume of net investible surplus, which rises from a negative \$25 billion in constant 1972 dollars, i.e., a net loss for the economy as a whole, to an insignificant positive \$8 billion, before falling off again. In fact, the data series for this computer study were not adjusted to show real depreciation, only the Commerce Department's highly inadequate depreciation scale. The real depreciation, which would show the economy operating closer to \$90 billion in the red at the start of 1980, was not included in these figures, because it operates on the economy through a long-term erosion effect on productivity. It was taken into account through the above-mentioned projection of productivity.

What do these results imply for "reindustrialization"? In the first place, there is little expectation that any significant volume of capital investment will take off—with a few exceptions—before sometime in 1982. The exceptions are overwhelmingly energy-related, including the current all-time record for oil drilling, railway investment in coal-carrying routes, and the beginning of investment in synthetic fuels, which could balloon much faster than some industry analysts expect. The major exception is in electronics, where the semiconductor industry could well septuple its size during the 1980s at current rates of investment.

However, the volume of actual physical surplus required to maintain this pattern, let alone carry it into actual recovery, is huge. In our May 6 survey, we showed that the economy will reach a point of no return sometime around the turn of the year, after which America will no longer be able to generate sufficient tangible wealth to compensate for the productivity-eroding deterioration of its physical capital stock. The

annual falloff in productivity will have become irreversible. That implies that no matter what the "opportunity price" of synthetic fuels and similar costly and wasteful investments, the "opportunity cost" of putting down mines, track, plumbing and so forth will *always be higher*.

To what extent do our policymakers realize this? We have shown, that, on its own merits, the austerity policy they have put into effect does not work. Unlike the introduction of new technologies into the nation's economy, which tend to diffuse productivity throughout the economy, the reduction of living standards yields only a one-shot, temporary rise in productivity. As we discuss elsewhere in this survey, the decline in living standards will eventually have an adverse effect on the availability of skilled labor; and, among an array of imposing bottlenecks, the shortage of skilled labor is the worst of all.

Nonetheless, the Carter administration and corporations operating under its economic environment seem determined to drill themselves deeper into the earth. A possible precedent was set last week when the United Rubber Workers Union president negotiated a 13 percent wage cut (close to 30 percent in real terms) with the chairman of near-bankrupt Uniroyal Tires. This is roughly double the rate of decline of living standards registered so far. Like loan-sharking, the not-so-distant ultimate consequences of this policy are horrifying to consider.

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EIR now offers an economic consulting service to individual clients, including quarterly econometric forecasts and related political and economic analysis, and conducts special analyses using the LaRouche-Riemann model on a contract basis.

For further information, contact Mr. Peter Ennis, Director of Special Services.

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# International Intelligence

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## Lebanon attacks reflect Israel's strategy

Israeli military thrusts into Lebanon this week were carried out in accordance with a new Israeli strategic doctrine announced Aug. 20 by Prime Minister Menachem Begin: "to hit the Palestinian encampments wherever and whenever we can." According to the daily *Le Matin de Paris*, Begin wants to force Syria and Jordan into a conflict so both can be knocked out of the picture. Then Israel will go directly after Iraq, described as the real target of Israel's Lebanon operations. *Le Matin* asserts that Israel is willing to start a war to prevent Iraq from becoming a regional nuclear power.

A well-informed Lebanese source gave *EIR* his time perspective this week on Israel's moves: "Israel will heat up the Lebanese situation over the next two weeks to the point of drawing Syria into combat. I foresee Israel attempting to annex southern Lebanon or to bombard Syrian encampments in southeast Lebanon, either one of which could draw Syria into war. The Israelis will be free to move on from there." The source said that Israel counts on unrest in Poland to keep the Soviet Union from intervening to aid Syria.

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## Prof. Cottam deplors EIR's influence

University of Pittsburgh Professor Richard Cottam is reportedly distressed by *EIR*'s growing repute among the Iranian exile community. More than a year ago, *EIR* exposed Cottam as one of the long-time controllers of such prominent figures as Iranian Foreign Minister Sadegh Ghotbzadeh and his predecessor Ibrahim Yazdi. Since then, Cottam admits, he has had to "lie low."

Cottam recently told a university colleague: "Empress Farah's charges that Brzezinski was behind the Shah's overthrow comes straight from *Executive Intelligence Review*. I have been trying to

get it across to the exiles that the conspiracy theories put forth by the magazine about the Khomeini takeover are not true.

"But the problem is that they see me as part of it—they think I run the Muslim Brotherhood, that I was somehow behind the Khomeini takeover. What disturbs me is not so much that the exile community *believes* everything in the magazine, but that they are *operating* on the basis of it. All the exile newspaper from all over the world print articles from *EIR*.

"What the Iranians here don't realize is that they are going after the wrong targets. Kissinger, Rockefeller and Brzezinski are their best friends, not their enemies!" Cottam went on to complain that he is now *persona non grata* in the Iranian community. "What the *EIR* has written and the influence it has cuts access for me, and access to Iranians is very important. Most of them just won't meet with me any more."

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## Iraq charges Britain with nuclear sabotage

The Iraqi government newspaper *Al-Jumhuriyah* has leveled charges that Britain is out to sabotage Iraq's nuclear energy program. The U.K., Baghdad says, is working to undercut Iraqi nuclear technology while London supplies enriched uranium to Israel and facilitates a nuclear cooperation agreement between Israel and South Africa.

Earlier this month, Baghdad television carried a special program on the historic role of the British embassy in Iraq and its use of "sabotage and espionage" to keep Iraq "a backward and weak country." "Britain still believes Iraq to be as it was," the broadcaster stated, charging Britain with "fabricating lies and falsehoods" about Iraq.

Meanwhile, reaffirming Iraq's commitment to its nuclear program, the government's Revolutionary Command Council issued a call to Arab nuclear experts to locate in Iraq to contribute to the program. Iraq has also withdrawn a

\$1 billion electronics equipment contract from the U.K. and will reportedly grant it to France instead.

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## Japan's defense stance: less than a buildup

In his first major speech, the new Japanese Premier, Zenko Suzuki, this week indicated that Tokyo will maintain a moderate military expansion, but not to the extent Washington demands. He also carefully avoided any direct reference to the Soviet Union as a source of danger. The statement was regarded as a confirmation of Suzuki's understated turnaround from the policies of his predecessor, Masayoshi Ohira, who had actively cooperated to create a U.S.-Peking-Tokyo alliance against the U.S.S.R.

Suzuki reiterated that Japan's defense spending will rise by 9 percent, equal to the expected rise in GNP, and said that "we must first and foremost avoid any occurrence through our diplomacy that would generate any external threat to Japan." He added: "We are committed to not becoming a military power." *EIR*'s sources had predicted that without publicly disavowing Ohira's policies, Suzuki would revert to something approximating Japan's traditional "equidistant diplomacy" regarding the U.S.S.R. and China.

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## New Korean leader gains support

General Chon Doo Hwan, expected to become the new president of South Korea, has won "acceptance" from both intellectuals and much of the population at large, according to Korean sources. The reason in large part is that his purge of some 20,000 officials for corruption has convinced people he is not simply a venal powerseeker. But the key to Chon's long-term survival will be the economy.

Park Chung Hee's regime had taken

hold in the 1960s because of the stupendous success of his high-growth program. Chon will maintain this policy and has announced that businessmen will be exempt from the purge so as not to disrupt the economy.

Chon is described as "a daring man with a strong sense of mission." His move this year to secure the presidency had been unexpected. He reportedly will not seek to rule as a "benevolent Confucian father" in Park's manner, but will campaign to establish himself as a popular leader.

The U.S. State Department has issued repeated statements "regretting any interruption of the process of democratization" and protesting the possible conviction and execution of opposition leader Kim Dae Jung. Part of Washington's solicitude is based on the fact that Kim supports "the China card" and Chon does not.

### ***Rabin torpedoed inquiry into West Bank terror***

Former Israeli Prime Minister Yitzhak Rabin is responsible for quashing an inquiry by the opposition Labour Party into charges that current Prime Minister Menachem Begin deliberately obstructed investigation of Zionist terror bombings in the occupied West Bank, an Israeli source said this week.

The Labour leadership, including party chief Shimon Peres, considered following up the charges by *Washington Star* correspondent David Halevy in an Aug. 8 dispatch from Tel Aviv. Halevy claimed that Begin had forced the resignation of Shin Beth internal security chief Avraham Ahtuv by impeding Ahtuv's investigation of the Gush Emunim religious fundamentalists' involvement in the early June bombings and maiming of West Bank mayors.

But, the source continued, Peres's Labour Party rival, Rabin, "insisted that pursuit of the Halevy story would undermine Israeli national security. Rabin's strange behavior," he added, "licenses

Begin's policies and prevents Labour from winning real support from the substantial forces in Israel that want peace." He attributed this obstruction to Rabin's political affiliation with Henry Kissinger, and to a fear that Begin's people will put out a fuller dossier on the dirty financial dealings that brought Rabin down as premier in 1977.

### ***Energy deals to help stabilize Poland?***

Polish Communist Party head Edward Gierek was scheduled to visit West Germany Aug. 19-20 for talks with Chancellor Helmut Schmidt, but the visit was canceled because of Poland's domestic unrest. European observers had predicted that the talks would be a turning point not only for consolidating détente but also for countering the critical energy problems of both Eastern and Western Europe.

West German political and business circles believe Polish coal is the key to central Europe's future energy needs, said a leading expert on the East bloc at a think tank in Cologne, West Germany, this week. Poland's abundant coal reserves will soon replace a large part of Europe's oil imports, he added. The Austrian government announced Aug. 20 that a consortium of Austrian banks will give Poland a \$300 million loan in exchange for long-term delivery of coal to Austrian utilities.

The Polish destabilization also prompted Chancellor Schmidt to cancel his planned trip to East Germany the last week in August. Nevertheless, reports from Bonn are that he has put economic diplomacy vis-a-vis the East bloc into high gear. A cabinet meeting Aug. 21 reportedly focused on energy cooperation with East Germany, specifically construction of a coal power station and electrification of railways. Government spokesman Armin Gruenewald this week stressed Bonn's intention to intensify energy and economic cooperation with Co-meccon.

## ***Briefly***

● **JAPANESE SOCIALISTS** donated \$60,000 to the Khmer Rouge in the form of medical supplies for the soldiers of Pol Pot, according to the Aug. 18 *London Times*. Aid was personally delivered by Hideo Den, leader of the pro-China United Social Democrats and a close associate of Second International leader Willy Brandt.

● **A NEW POLICY PAPER** entitled "Political Islam" has just been released by Georgetown University's Center for Strategic and International Studies. It states that the spread of Khomeini-style Islamic extremism is "less alarming" than is commonly thought. Bernard Lewis, architect of the 1970s plan to redraw Middle East territorial lines according to tribal and sectarian criteria, advised the Georgetown project.

● **MOHAMMED TABATABAI**, brother of the slain Iranian exile leader Ali Akbar Tabatabai, confirmed last week that General Hossein Fardoust, the head of Khomeini's secret police, was in the United States shortly before the murder of the opposition leader on July 22. Tabatabai also spoke of a deal worked out between President Carter and Khomeini to allow Iranian terrorists free rein in the U.S. in exchange for a settlement of the hostage crisis that would boost Carter's political fortunes. Tabatabai's charges were aired by NBC-TV.

● **A YOUNGER** generation of intelligence agents without "ideological blinkers" has developed a new strategy for Israel's Mossad, the West German daily *Frankfurter Rundschau* reported Aug. 14. The key points are intimate relations with the Egyptian security services as long as Sadat stays alive; identification of the PLO as the "central target" of Mossad operations; logistical support for the opposition to the Syrian president; support for various "minorities" in Iran; and strengthening of relations with China.

## The policy choices that confront the Kremlin

by Criton Zoakos

Since the conclusion of the Democratic convention, the Soviet High Command is engaged in a thorough reevaluation of options available to them for the remainder of the year. The internal parameters that will determine Soviet decisionmaking in the weeks ahead are discussed in this issue by *EIR* Soviet editor Rachel Douglas. We recommend that Mrs. Douglas's evaluation be taken very seriously in the policymaking circles in this country and in Western Europe who have been expressing their apprehension at the flight-forward mode of operation which has been adapted by Zbigniew Brzezinski's National Security Council, by Defense Secretary Harold Brown and by President Carter himself. As the world is sliding into a pre-programmed crisis period in late September-early October, virtually nothing is of greater value for Western policymakers than a competent, down-to-earth comprehension of how the Soviet leadership is making its decisions during this period.

As the Soviet High Command reviews the world map each evening, they focus on four simultaneously evolving military-confrontation situations:

First, the Persian Gulf, where the United States, or, more specifically Defense Undersecretary Robert "Blowtorch" Komer and General Paul X. Kelley, have now completed a three-echelon military deployment (1,800 invasion-ready Marines, 20,000 additional invasion troops on standby, and the tactical nuclear capability of the two aircraft carrier task forces). This force has been organized to invade Iran sometime in late September or early October in the general area of Kuzistan, after a token prearranged popular uprising reinforced by a nominal invasion force of exiled Iranians.

Second, the United States-China arrangement to launch a two-front war against Vietnam, with the Chinese army attacking from the north and Thailand from the west. The principal objective of Chinese diplomacy and of NSC officer Richard Holbrooke in this matter is to compel the United States to honor its treaty obligations to Thailand and introduce American ground troops into Thailand once hostilities begin. The acknowledged timetable for this operation is the end of the monsoon season: late September and early October.

Third, the escalation in India of Muslim fundamentalist rioting, especially in Kashmir and Uttar Pradesh, to full-scale civil-war proportions; this is also acknowledged within the international intelligence community to be scheduled for late September-early October, and it is timed to coincide with a massive destabilization of the Kingdom of Saudi Arabia during the traditional period of pilgrimage to Mecca in October. These two commitments account for the fact that the hardline ayatollahs were helped to consolidate their grip within Iran in the last three weeks.

Fourth, Israel's adoption since Aug. 15 of a new ultra-hardline military posture is generally viewed as part of preparations for launching any number of massive military strikes against targets in Lebanon, Syria, Jordan, Iraq, and possibly Saudi Arabia. The Soviets view Israel as having shifted to a total "runaway ally" mode in preparation for military action.

The Soviet outlook superimposed over this map-reading is influenced by two additional factors: namely, the ongoing attempted destabilization of Poland, and the proclamation by the Carter administration of the doc-



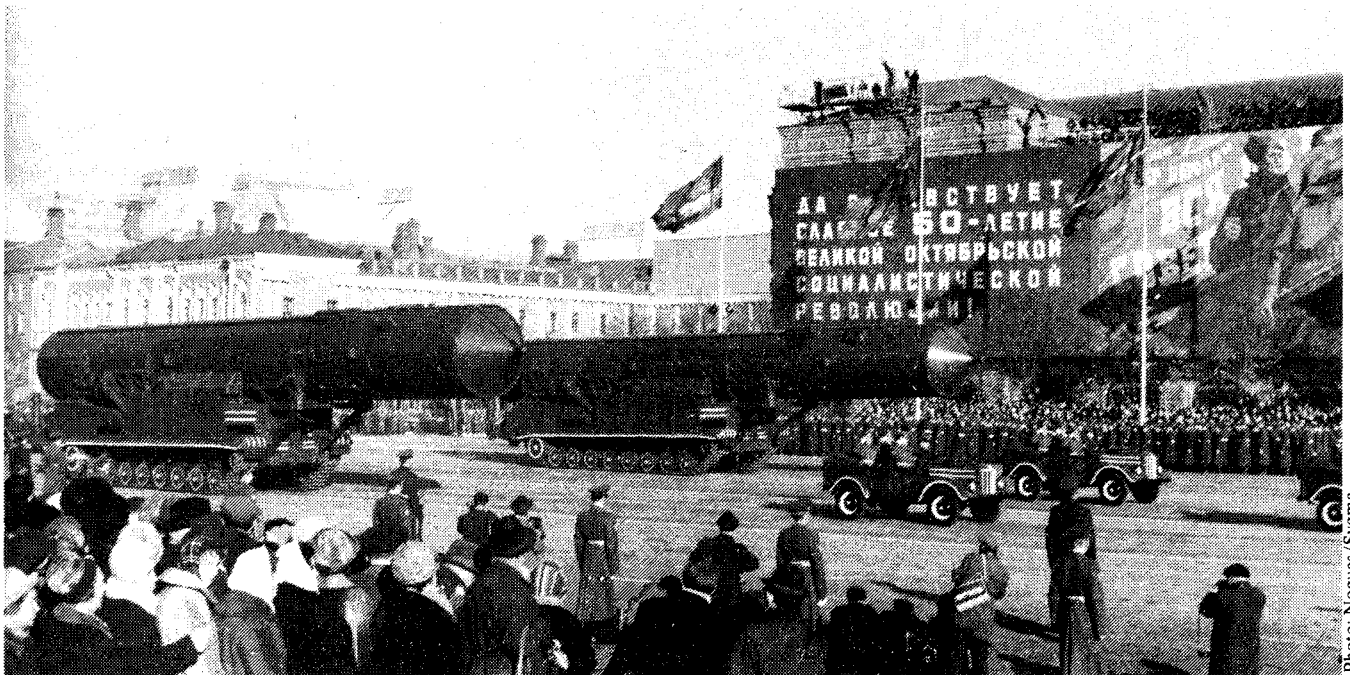


Photo: Noguez/Sygma

*At Moscow's 50th anniversary commemoration of the October Revolution.*

trine of "limited nuclear war" in the recently announced "Presidential Directive 59." The public declaration of PD 59 is generally read as a U.S. signal to the Soviet leadership that if the conventional forces favored by the United States in any of the above four situations is threatened with defeat on the conventional level, then the United States will proceed with utilization of "limited tactical nuclear weapons." The destabilization of Poland, despite efforts by Western Europe and Great Britain at this point to cool the situation, is an attempt by the NSC-allied forces to provoke and precipitate an actual Soviet invasion of Poland—for the purpose of severing continental Western Europe from the war-avoidance mechanisms the Brezhnev strategy has put in place since 1978.

Soviet intelligence at this time seems to proceed from the strategic evaluation that all the multiple deployments identified above are the work of an axis centered around the close coordination of the Israeli Mossad, the Keith Joseph wing of the British Tories, Chinese intelligence, and the Brzezinski-Brown coalition in the National Security Council. The Soviets also seem to be aware that the multiple deployments of this coalition are undertaken for an array of purposes, the principal one being to isolate and wreck the emerging self-assurance of continental Western Europe and the European Monetary System. It is also known to the Soviets that if the EMS forces succumb and abandon the war-avoidance mechanisms they have built up with the Brezhnev leadership over the years, then the entire Brezhnev war-avoidance policy outlook will have to be reviewed from top to bottom, and then, if it proves unsalvageable, will be abandoned.

What virtually every Western analyst fails to think through is what the Soviet posture and Soviet moves will be if the U.S.S.R. is forced to abandon their war-avoidance partnership with Western Europe. For instance, if the Polish situation deteriorates to the point of requiring a Soviet armed intervention, it does not necessarily follow that the Soviets will make their move in Poland *per se*. It is possible that after they sound out the Western European reactions to a potential move into Poland, the U.S.S.R. may make its move in another part of the globe, from Manchuria and Sinkiang to Pakistan, Iran or elsewhere.

The point to be made is that the strategists who are preparing the late September-early October confrontation scenarios do not quite know what kind of Soviet reaction they are going to harvest. If the Soviet High Command is cornered into abandoning its current Brezhnev-centered war-avoidance strategy, no ordinary ways of predicting and pre-profiling Soviet reactions can possibly work. For example, very few analysts have understood that the Soviet move into Afghanistan last Christmas was part of the U.S.S.R. war-avoidance posture motivated by NATO's Dec. 12, 1979 "Euromissile" resolution. As the Soviets claimed then, and as demonstrated by the Aug. 8 announcement of Presidential Directive 59, that Euromissile resolution was an important component of Brzezinski's commitment to impose a "limited nuclear war" doctrine on the Western Europeans. This mode of Soviet reaction under a "war-avoidance" commitment should provide food for thought to those who are attempting to fathom how the U.S.S.R. will react to the pre-planned autumn crises.

## STRATEGIC POLICY

# Detente under Soviet debate

by Rachel Douglas

Now that Jimmy Carter has been renominated, the prevention of nuclear world war depends on how much the Soviet leadership believes European leaders can defuse the danger of war. Yet the ties forged by Soviet President Leonid Brezhnev with the nations of continental Western Europe are facing their most serious test.

The destabilization of Poland could destroy what remains of Brezhnev's détente policy. The announcement of Presidential Directive 59, a codification of "counterforce" and "limited nuclear war" as the strategic doctrine of the United States—for itself and NATO—further undermines the Europeans' independence of action to prevent war.

The Soviet response to these and other developments includes attacks on the Carter administration as a gang of "nuclear maniacs." Such attacks are now appearing daily in the pages of *Pravda*. The responsible politician will note that Moscow has issued more urgent and severe judgments about Washington now than at any time in the past four years. And the Soviets have said in advance that a victory for Ronald Reagan or another presidential term for Jimmy Carter would be equally dangerous in their view.

But that is not all.

The mainstay of Leonid Brezhnev's détente policy is a series of treaty agreements and a process of dialogue between the U.S.S.R. and the nations of continental Western Europe. Now, at the same time that those ties are jeopardized by the shaking of Poland, their value is being questioned from inside the Soviet policymaking establishment.

When the Soviet Union dispatched troops into Afghanistan at the start of the year, *EIR* reported that that military move was part of a profound shift in the Soviet strategic posture from a policy of war-avoidance to a war-fighting footing.

We explained Soviet thinking in terms of a cumulative response to Western, particularly American, policies. Those policies center on three efforts.

First, encirclement of the U.S.S.R. along an "arc of

instability" where the Afghanistan-Iran-Pakistan complex and an increasingly United States-allied China were milestones.

Second, institution of "limited nuclear war" strategy for the European continent, through the December 1979 NATO weapons and strategy resolution designed to tie the Europeans to this approach.

Third, the economic collapse, interpreted by many Moscow analysts as an irreversible decline which would prod Western leaders into desperate foreign-policy adventures, by analogy with the Soviet view that depressions have precipitated military conflicts throughout the 20th century.

"To restore even a modicum of détente," we said, "much less open the door to economic cooperation which could bring long-term stability, will require not only strenuous efforts from Western Europe, but a decisive change in the foreign policy of the United States away from those actions which encourage the U.S.S.R. to expect nuclear war in the very near future."

The Carter administration has kept right on the track that led to the international crisis, but the Europeans made initiatives to save détente. French President Valéry Giscard d'Estaing and Chancellor Helmut Schmidt of West Germany each arranged to meet Brezhnev in person, and each meeting yielded results: steps toward political consultations to settle the Afghanistan crisis and reopening arms talks on which the December NATO package had slammed the door.

The relative vitality of the Europeans' détente attempts reverberated in Moscow to the advantage of those foreign-policy specialists whose conception of East-West cooperation is the most sophisticated and potentially beneficial to the West.

Among them are economists who favor Soviet support for rebuilding a gold-based international monetary system, presumably starting with the European Monetary System of Schmidt and Giscard as the kernel.

This group believes that international monetary stability, leading to a revival of trade and industrial development efforts, is a precondition for defusing the threat of war, and its views have gained press access repeatedly in recent months.

Nevertheless, Europeans fear that an explosion in Poland could torpedo their confidence-building measures once and for all. Chancellor Schmidt has voiced this concern. French columnist Paul-Marie de la Gorce, known for his familiarity with French government views, wrote Aug. 12 of the current Polish unrest and its possible international consequences:

"One should not minimize the shifts in Poland, but one cannot exaggerate them either. Their present and future limits are determined by realities it would be mad to ignore"—the security perimeter of the Warsaw Pact.

## FOREIGN POLICY

# Party spokesmen defend Brezhnev

by Rachel Douglas

On June 24, the Central Committee of the Communist Party of the Soviet Union met in plenary session. Its two items of business were to confirm the schedule for the party's 26th Congress in February 1981 and to hear a report on foreign policy prospects from Foreign Minister Andrei Gromyko.

Gromyko's report as such was not published, but the plenum debated it and then adopted a resolution highlighted by the characterization of China's rapprochement with the United States as "a new, dangerous phenomenon" and by the conspicuous statement, clearly referring to continental Western Europe, that some Western leaders do espouse "the objective possibilities . . . of preventing a slide back into Cold War and . . . averting the threat of world thermonuclear conflict."

Listed among the participants in the discussion of Gromyko's report was the Georgian Communist Party leader, E. A. Shevardnadze.

Two weeks later, Shevardnadze spoke in Tbilisi to a meeting of Georgian party activists. His speech combined unusually effusive personal praise for party chief and U.S.S.R. President Leonid Brezhnev with a biting attack on "the incompetence of party members in understanding or explaining foreign-policy issues." It is unlikely, given that Shevardnadze was reporting back from a national meeting at which he had spoken out, that he had in mind only some foreign policy militants from Stalin's home republic of Georgia.

Here is what Shevardnadze said:

The plenum expressed confidence that the party's international activity would also be examined in the course of the report and election campaign. . . . This is a crucial matter, and amateurishness, incompetence and a primitive approach are inadmissible when elucidating the international situation. . . . We must constantly explain to communists and all working people that, at the present stage, the international situation is complex and contradictory in nature.

Continuing, Shevardnadze virtually said that only Brezhnev's approach stands between the present crisis and world war.

We said at the . . . plenum that the struggle for easing tensions is a difficult one. To win the peace under such conditions is no easier than to win a war. And if peace is, nevertheless, maintained, then this is decisively to the credit of the socialist community, our country, the party, the Central Committee's Politburo and Comrade L.I. Brezhnev. We are convinced that were it not for this main factor and were it not for the daily growth in our state's defense capability, the conflagration of thermonuclear war would be unavoidable.

### Lenin invoked on Brezhnev's behalf

In the issue of the party theoretical journal *Kommunist* published shortly after the Central Committee plenum, there appeared another defense of Brezhnev's foreign policy.

This one, by journalist A. Bovin, used a historical account of how Lenin shaped Soviet foreign policy to uphold Brezhnev's principles. Point by point, Bovin appeared to be answering criticisms applicable to current issues:

- 1) Gradually . . . Lenin's conviction grew that coexistence was inevitable and would be lasting. From this came his policy of advocating firm, stable relations with the capitalist world, above all economic relations.
- 2) "Handing out ultimata," argued [Lenin], "can be ruinous for our cause." . . . We ask ourselves: wasn't [Lenin's] flexibility forced on him and explainable by the weakness of the international position of the newborn state? . . . There is a grain of truth in this. . . . But only a grain. Lenin's idea was not just due to the difficult times. It is more general: handing out ultimata enfetters. Handing out ultimata narrows the space for political maneuvering.
- 3) Lenin expresses thoughts which, in their significance, go far beyond the limits of the concrete situation in those days. He teaches us to see that there are different layers, groups and factions of the bourgeoisie, differing from one another in their political orientation, degree of militance, and different attitudes towards contacts with Soviet Russia.

### A war party in Moscow?

Who is the unnamed partner to the discussion launched by Bovin and Shevardnadze? Someone who

doubts the efficacy of Brezhnev's dialogue with the "different layer" of leaders now heading Western European nations; someone who thinks that East-West European economic deals are insufficient foundation for a lasting détente, and is arguing that the Brezhnev leadership has made too many concessions to revive détente with the Europeans; individuals or groups who hold that the time has come for a more "ultimative" line from Moscow.

We presume that some Soviet military men, with party posts of their own and allies in the party, are making these arguments, pressuring to jettison the Brezhnev détente policy.

The debate has not yet surfaced explicitly in the major Soviet press, but there are harbingers. On Aug. 14, the military newspaper *Red Star* published an assertive appeal for allocation of more funds to the military in a lengthy feature article titled "The Economy and the Defense of the Country."

*Red Star* stated that while the military was not asking for "more than we need," it has to be understood that a degree of flexibility in deployable resources was critical in military production and was not a "deviation" from the principles of balanced economic development.

Kremlin deliberation on the value of Brezhnev's détente overtures to Schmidt and Giscard became more heated after the West German Chancellor's visit at the beginning of July and the subsequent Giscard state visit to West Germany.

At the point when the Soviet Union withdrew the first contingent of a 20,000 troop and 1,000 tank reduction from East Germany—a reduction that had been declared unilaterally by Brezhnev on the eve of the NATO missile production and deployment decision last year—East German Defense Minister General Heinz Hoffmann made a pointed statement that there could be no more unilateral moves by the Warsaw Pact until NATO reciprocated.

Since then, the Soviets have drafted a proposal at the Mutual Balanced Force Reduction (MBFR) talks in Vienna, providing for further Soviet pullbacks of 20,000 men in return for a withdrawal of 13,000 American troops from Central Europe. More serious from the standpoint of the Soviet military, Brezhnev reneged on the *ultimatum* that the NATO decision would make negotiations on medium-range missiles "impossible." However, he offered through Schmidt to begin talks on that class of weapons without prior abrogation of NATO's resolution.

### **Public lines on West German policy**

Soviet press treatment of Schmidt and his government has varied from newspaper to newspaper and

week to week since he was in Moscow. After the British government adopted its Trident missile program in July, and one Soviet commentary criticized Bonn for doing nothing to block it, the weekly supplement to *Izvestia*, *Nedelya*, printed the extreme evaluation that West Germany was "skidding off the highway of détente."

In *Pravda*, however, Bonn correspondent Mikhailov adopted the more cautious line that West Germany could be using its international prestige more effectively to influence the United States and stem the tide toward international confrontation.

The same point was made in the weekly *Literaturnaya Gazeta* right after the Schmidt visit by journalist N. Portugalov, who has had a long career working on the staff of Brezhnev's "Bonn hands" in the Soviet diplomatic community. He is also known as a mouth-piece for tough-line opinions.

### **New attacks against Europe's emerging role**

On Aug. 6, however, Portugalov lowered the boom. He wrote in *Literaturnaya Gazeta* (whose editor, A. B. Chakovskii, is famous for his novels lauding Stalin's foreign policy and was also a speaker at the June 24 Central Committee plenum) on Franco-German military ties, a feature of the Giscard-Schmidt talks that the Soviet press had benevolently passed over.

"The plans for creating an 'independent Europe' on a Franco-West German nuclear foundation cannot, in the view of Soviet political commentators, promote the cause of détente," said Portugalov. While the Schmidt-Giscard *political* axis was to be welcomed, their military cooperation would "ultimately supplement and, as it were, duplicate NATO . . . and culminate in the creation of so-called 'European nuclear forces' on a French or, if possible, Franco-British basis."

This is the very argument which Anglophile elements in the Soviet Union used to squelch potential Soviet support for the de Gaulle-Adenauer effort to buck Anglo-American control of the continent in the 1960s. Its application to the different case of Helmut Schmidt augurs poorly for the Franco-West German-Soviet linchpin of European détente.

We conclude by noting a coincidence. In July, as Moscow's debate over Eurocentric détente intensified, the most important agent of British influence in the Soviet Union, KGB General Harold "Kim" Philby, was treated to a public relations tour de force in *Izvestia* and *Nedelya*: his autobiographical cover story *My Secret War* has been published in Russian, and Philby was interviewed, photographed for the first time ever in a Soviet newspaper, and hailed as a heroic contributor to the U.S.S.R.'s strength.

## PLANNING POLICY

# Soviet economic revolution?

by Clifford Gaddy

In a recent feature article in the Communist Party newspaper *Pravda*, a Soviet economist has presented views which could revolutionize Soviet economic theory.

The problem posed in the Aug. 8 *Pravda* article by Professor V. Lebedev is a common one in Soviet economic texts of the last decade and a half; how to fully exploit the potential of the scientific and technological revolution in the national economy. But Professor Lebedev's suggested solutions are far from conventional, and if debated and pursued by others, they could have the most far-reaching practical and theoretical consequences for the U.S.S.R. since the famous planning debates of the 1920s.

There is every reason to believe that this will take place. The principles of economic planning and management which Lebedev elaborates are closely related to the views of a faction of Soviet economists and scientists from the Siberian city of Novosibirsk and elsewhere, who are charting how to make frontier scientific breakthroughs work for the Soviet economy. With Lebedev's article, this tendency is making a new bid for the upper hand in drafting the U.S.S.R.'s 11th Five Year Plan, which will be announced late this year or early in 1981.

The publication of Lebedev's article came four days after a "conference on stepping up scientific and technological progress in the national economy," held in the Communist Party Central Committee. Presiding was Central Committee Secretary A.P. Kirilenko, a Politburo member. Academician G.A. Marchuk, the former director of the Academy of Sciences branch in Novosibirsk, now head of the State Committee on Science and Technology, delivered the report.

### Fundamental science

Emphasis on the role of science and technology in the economy has become a stock feature in Soviet writings during recent years. Lebedev, however, specifies that to be meaningful, any such discussion must focus on what he terms "the fundamental achievements of science."

By stressing the word "fundamental," Lebedev wants to avoid confusion between mere innovations within an existing structure and those developments which create a new dimension for the economy. Examples of the latter which he cites include nuclear technology, magnetohydrodynamics (MHD), plasma technologies and genetic engineering. All these technologies, he writes, are characterized by "enormous speeds, continuous processes and qualitative transformations of the substances being processed."

If universal application of existing technologies could increase productivity in industry by a factor of four to five, argues Lebedev, these frontier technologies can raise it anywhere from five to 10, up to 20 times or more. Lebedev makes the crucial point that it is virtually impossible to predict the real potential of productivity increases.

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*"The struggle for raising the rates of the scientific and technological improvement of our social production, for the most rapid introduction of advanced technology, inevitably assumes a social and political character and becomes one more field of competition between the two opposing social and economic systems."*

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With this line of argument, Lebedev has addressed one of the most persistent disputes in Soviet economic literature: the relationship of "fundamental" and "applied" scientific research. His endorsement of basic scientific research as the way to unleash untold potentialities for the economy signals that there is likely to be no skimping on the basic theoretical and experimental work that for the Soviet Union has borne very practical fruit in thermonuclear fusion breakthroughs, weapons technology and the tools for developing the Siberian frontier.

Lebedev clearly believes that the planning process itself must be adapted to this awareness of the fundamental importance of science. He emphasizes that much more can be done to draw up a long-term scientific development program than has so far been the case in

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Note: The quotations highlighted in the course of this article are translated from Professor V. Lebedev's Aug. 8 *Pravda* article "The Economic Potential of the Scientific-Technological Revolution and Its Utilization."

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*“We are only in the initial stages of mastering the achievements of human genius. Civilization for the first time is approaching the frontier, beyond which open up the scientific and technological preconditions for a significant increase of free time and the production of an abundance of material goods.”*

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the Soviet Union. He calls for “a strategic outline of the course of the scientific and technological revolution,” a program which would become—as mandated in a summer 1979 Central Committee resolution—the most important guideline for the development of the entire economy.

Lebedev also suggests that new institutions may be needed to put these ideas into practice in the Soviet economy. As in many criticisms of parochialism in the management of industry which the Novosibirsk economists have published, Lebedev recommends the creation of nationwide organizations to carry out certain tasks for the whole economy. He calls for a new type of production association—the Soviet version of a corporate group—which would combine applied science centers with enterprises for the production of the necessary technology.

Such a new association, e.g. in the field of laser technology, could concentrate resources and management functions on a scale that no narrow industry could handle. Other areas ripe for this approach, according to Lebedev, are an “Atomic Center” and a “Biosynthesis Center,” for testing and applying scientific breakthroughs in those two fields.

Even more significant than Professor Lebedev’s practical recommendations are the implications of some of his arguments for Soviet economics. On several basic points, Lebedev breaks with all previous doctrine.

Until now, virtually the whole story of the Soviet economic debate—including both the traditional central planning advocates and the market-oriented reformers—has been a quest for some absolutely reliable, stable “fundamental metric” of economic planning. The underlying assumption was that once the ideal unit—be it gross volume of production, natural units, market price, or a slightly more sophisticated, administratively determined “norm” of output—was discovered, the system would essentially run itself. Development would be balanced, proportional and without

crises. Having “out-Adam Smithed Adam Smith,” the Marxists could finally sit back and let the “invisible hand” do for them what it couldn’t do for the capitalists.

Lebedev clearly rejects the premises of such a debate. His arguments in *Pravda* are in the dirigist tradition of Soviet economics, a tradition that predates the Soviet system altogether. Rooted in the work of the modernizers of ancient Russia, Czars Ivan Grozny and Peter the Great, and in the continuation of that work by Count Sergei Witte at the end of the 19th century, this tradition was the actual basis of Lenin’s economic policy even when it was not always theoretically articulated.

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*“It is becoming realistic to create technological systems which will raise productivity dozens of times over.”*

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For that dirigist tradition, the guiding principle is not the search for a fundamental metric to guarantee balance or equilibrium—not even the “dynamic equilibrium” some Soviet economists refer to in order to justify a growth economy in practice while sidestepping the crucial epistemological issue. Rather, for the dirigist, as opposed to the mere advocate of state control of the economy, the role of economic leadership at any level from plant manager to top politician is to intervene constantly, to make active, subjective decisions about the best possible course of development and to use all available economic and political means to implement that course.

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*“Each ministry is called upon to function as a national economic leadership staff for scientific and technological progress.”*

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It is on the basis of such an understanding of economics that Lebedev makes a daring criticism of one of the most basic concepts in current Soviet planning theory: the *normativ* (“norm” or “standard output”).

Current practice, says Lebedev, is to define the *normativ* as an average of what can be expected in terms of development. This, he writes, is insufficient. Instead, what must be done is to take a different type of *normativ*: one which could serve as “the index of correspondence between our actions and the *maximum* utili-

zation” of the potential of the economy. In the new approach, there would be a “comparison of a large number of variants of development and the selection of the best of them.”

Those are nearly the same words used by Marchuk’s successor at the helm of the Novosibirsk scientific center, Academician V. Koptuyug, in a winter 1980 description of Novosibirsk’s computerized “Sibir” model for planning Siberian development.

The implication of Lebedev’s remarks is that true economics should assume that doing the *best* thing should be considered the normal, “natural tendency” of an economy. *Not* following the optimal course is abnormal.

As a practical corollary of this theory, Lebedev suggests finding ways to penalize those who fail to move along the optimal course. He also proposes a “beacon” principle—the creation of plants such as a five to six times more efficient steel processing center, which would light the way for an entire industry.

Lebedev concludes with pointed remarks on the issue of economic responsibility for the use of scientific achievements. The bulk of all scientific and technological breakthroughs, he writes, is made available without cost to any enterprise in the Soviet Union that chooses to apply them. Yet these breakthroughs are “the most important part of the intellectual wealth of the entire society and the fruits of great labor.”

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*“It would be advisable in the future to provide plans for the creation of a special type of association, designated for the experimental industrial testing of the most important, fundamental results of the scientific-technological revolution....”*

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Lebedev calls these achievements “intellectual credit” extended to the nation’s enterprises and argues that there should be demands placed on those to whom it is granted. “It would even be appropriate to apply economic sanctions for failure to use the achievements of the scientific and technological revolution within a specified time period,” he concludes.

The U.S.S.R. is forging a national scientific policy that will maintain its economic and military weight as a superpower despite tight spots in the Soviet economy. In case anybody was inclined to miss the point, Lebedev has spelled it out as a matter of international strategy: the reach for progress in science and technology is “one more field of competition” between East and West.

## Soviet doctrine is ‘total war’

by Susan Welsh

The Carter administration’s official endorsement of “limited nuclear war,” in the new Presidential Directive No. 59, blithely ignores what every one of Carter’s defense advisers knows to be the case: that Soviet military doctrine absolutely rejects the policy and insists that war between the United States and the Soviet Union could only be total war.

The documents we excerpt here to prove this were all translated by the U.S. Air Force over the last several years. They are taken from Soviet officers’ training manuals, and were written by top-ranking leaders of the Soviet armed forces—including late Defense Minister Marshal A.A. Grechko—between 1970 and 1975.

More topical statements from the daily Soviet press on “limited nuclear war” and PD 59 are covered regularly by this and other news services.

Yet now both President Carter and Governor Reagan have declared their intention to replace the U.S. doctrine of nuclear “deterrence” with a limited “war-fighting strategy” that would target Soviet military facilities rather than cities (“counterforce” targeting). PD 59 orients U.S. strategic planning to a “limited but prolonged nuclear war,” hitting Soviet missiles in their silos as well as “politically sensitive” targets like the bunkers protecting Soviet leaders. These measures, it is claimed, will shatter the Soviet political power structure, leading to victory for the NATO side short of full-scale nuclear war.

In fact, due to the Soviets’ well-publicized commitment to engage the full depth and breadth of its nuclear arsenal in the opening salvo of a nuclear war, NATO missiles seeking selected military targets would find empty silos when they arrived.

It is sheer bluff, and the policy makers of the Carter and Reagan camps know it, to posit the strategy of limited nuclear war against an enemy whose adopted strategy rejects the very concept of a limited war.

### Clausewitzian tradition

Today’s Soviet military doctrine forms an unbroken continuity with the Clausewitzian tradition of the 19th

century. One of the chief theoreticians of Soviet doctrine during the 1920s and 1930s, M.N. Tukhachevskii, had been an officer in the Tsarist army and was incarcerated in the same German prison as France's General Charles de Gaulle during World War I.

Tukhachevskii developed the famous "theory of the offensive," which included use of armored vehicles and "depth operations" like parachute drops deep behind enemy lines. The core concept remains very much a part of Soviet doctrine today, under the changed conditions of nuclear warfare, as the following quotations show. Tukhachevskii sought agreement from Britain and France for a combined offensive against Nazi Germany in the mid-1930s, but the Soviet overture was rejected, and Tukhachevskii himself perished in the bloody purge of the Soviet officer corps in 1937, a purge that was set up by Hitler's Gestapo with the help of the British. Master strategist Marshal Zhukov and his associates developed the doctrine further during World War II, in the counteroffensive which crushed the Nazi armies.

The basic concepts developed in these battles remain in force for the Soviet armed forces today, and in some ways are even heightened by the advent of nuclear weapons and the hideous destruction a third world war would mean. Nuclear war is seen as the last resort, when the strategic interests of the superpowers are at stake. Neither superpower would refrain from using its most powerful weapons if threatened with conquest by the other, so war would be *total*, with combined strikes by all branches of the armed forces globally.

Soviet analysts do not use Western terms like "deterrence," "counterforce," or "countervalue" except when discussing NATO doctrine. They make no distinction between "strategic" intercontinental strikes and "tactical" nuclear warfare, since all weapons and targeting options are merely parts of overall war-fighting.

The Soviet officers quoted here stress frankly that their doctrine is *offensive*. This does not, of course, say anything about their *political* intentions; it is a doctrine for war-fighting, when political solutions fail. There is no reason to doubt the assessment of the Soviet political leadership made by West German Chancellor Helmut Schmidt: "General Secretary Brezhnev, Mr. Kosygin and the other gentlemen are not adventurers. . . . Brezhnev and his colleagues in the Soviet leadership fear a war as much as we do here." Schmidt said this in an interview to *Der Spiegel* magazine July 7, following a two-day visit in Moscow.

But if war begins, any sane American who reads the following Soviet statements should realize that "these guys mean business." Anyone who thinks that such statements reflect only "fear for the morale of the Soviet armed forces, should it be admitted by the high command that victory in nuclear war was meaningless," in the words of *New York Times* reporter Anthony Austin Aug. 15, is not qualified to play with toy soldiers.

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## In the words of the military planners

### Marshal A.A. Grechko: "1930s 'Depth Operations'":

The theory of in-depth operations and battles developed by Soviet military science in the middle 1930s reflected qualitative changes which had occurred in the technical equipping of troops. Military thinking in the West was not able to rise to such generalizations. There, they were carried away with the then fashionable one-sided concepts such as "aerial warfare" and "tank warfare," which overestimated the role of individual types of weapons. The Soviet theory of in-depth operations and battles was a fundamentally new theory on the conduct of war by massive, highly mobile and technically well-equipped armies. *Its basic idea was the delivery of a simultaneous blow against the entire depth of the enemy's defenses and destruction of his main grouping through the decisive offensive actions of infantry and the mass employment of aviation, artillery, and airborne troops.* [emphasis added]

The principal tenets of this theory had great influence on the course of the Red Army's combat and operational training, and subsequently became the basis of its offensive operations during the Great Patriotic War. To a certain extent, the provisions of the theory of in-depth operations and battles have retained their significance even for present conditions.

### Marshal M.V. Zakharov: "The theory of the offensive in World War II and today":

The appearance of nuclear weapons and other modern weapons of war have caused a total revolution in military affairs. . . . Today, the question of the strategic target of war has been raised in a new way. *Whereas in past wars the armed forces as a whole were such a target, now one should add the economy of the warring countries, industrial regions and communications centers, and the system of state and military control.* [emphasis added] All this confronts military science with new tasks both in the sphere of determining the nature of a future war and in the plan for seeking the most expedient forms and methods of conducting it. . . .

The progressive nature of Soviet military strategy was clearly manifested during the Great Patriotic War. It was reflected in the assertion of the strategic offensive as the principal and decisive form of action of the Soviet military and in the theoretical development and practical implementation of the strategic operation of the group of fronts as a new phenomenon in military art. The most expedient methods of breaching the enemy's strategic front and effective forms of mounting offensive



operations and counteroffensives were devised; solutions were found to the problem of organizing strategic cooperation between services of the armed forces and groupings of ground forces acting along different strategic axes in the interests of accomplishing the military-political aims of strategic operations. Fundamental tenets connected with the implementation of strategic defense were also developed further.

The experience gained during the Great Patriotic War in the sphere of military strategy has not lost its significance for the present either.

**Maj.-Gen. M.I. Cherednichenko: “‘All-out war’ in the missile age”:**

... [In the second stage of the nuclear period of Soviet military thought, since the development of ballistic missiles in 1960] primary attention was given to the development and perfection of methods of conducting an all-out nuclear war. In an address by the U.S.S.R. Minister of Defense at the 22nd Congress of the CPSU [Communist Party of the Soviet Union] it was emphasized that we were compelled to prepare our armed forces, country, and all the people for a struggle with an aggressor, primarily under conditions of a nuclear war. . . .

As before, it was felt that the primary method in which an all-out nuclear war would be unleashed would be a sudden nuclear strike by imperialist aggressors on the Soviet Union and other socialist countries, though the possibility of starting a war by escalation was not excluded. It was felt that any armed conflict would suddenly develop into an all-out nuclear missile war, if the nuclear powers were drawn into it. . . .

In determining the methods for conducting an all-out nuclear war, our military art was governed by the assumption that military-political and strategic aims of such a war could be achieved by undermining the military-economic potential of an aggressor, disrupting the system of control, destroying strategic nuclear facilities, and simultaneously annihilating its military forces within a short time. *The massive nuclear strikes of strategic forces—Strategic Missile Forces, atomic missile submarines, and long-range aviation capable of carrying out the basic war aims—acquired decisive significance.* . . . [emphasis added]

The methods of conducting military operations in ground theaters of war received further development. Mass nuclear raids using medium-range missiles and long-range aircraft were of primary importance in achieving the aims of strategic operations in theaters. The Ground Forces were charged with the task of destroying enemy troop formations and aircraft using operational-tactical nuclear weapons. A special role was assigned to the organization of coordinated nuclear strikes between operational-tactical missile forces and tactical aviation, and also to the mobile operations

involving troops with tanks, armored personnel carriers, and helicopters. Meanwhile, radioactive contamination of the land, as well as the damage, fire, and flooding which could result from mass nuclear strikes, was being studied.

**Lt.-Gen. I.G. Zav’yalov: “Total warfare”:**

Nuclear weapons have established even more firmly the role of attack as the decisive form of military action and have made it necessary to accomplish even defensive tasks by active offensive actions.

One may suppose that future offensive operations will be characterized by a significant increase in the breadth and depth of missions, a more widely dispersed operational structure of fronts and armies, an increase in the pace of advance, and an increasing dynamism in combat actions. . . .

Finally, the emergence of nuclear missiles has revealed the material basis of *the principle of simultaneous destruction of the enemy throughout the entire depth of his combat and operational deployment as well as destruction of the most important military-economic targets deep in the rear of the belligerent states.* [emphasis added] This has aggravated such problems of the military art as the restoration of the combat capacity of units, formations and control organs and also the organization of subsequent combat actions. Fulfillment of all the measures related to this problem will take place under extraordinarily complex conditions, in a confused situation, and with a sharp struggle to gain time. . . . Success on the battlefield is possible when all the decisions of the commanders and the troops are imbued with the aspiration to achieve the assigned objectives whatever the cost.

The art of conducting military actions involving the use of nuclear weapons and the art of conducting combat actions with conventional weapons have many fundamental differences. But they are not in opposition to one another and are not mutually exclusive or isolated one from the other. On the contrary, they are closely interrelated and are developed as an integrated whole.

**The Officer’s Handbook: “Combined-arms strategy is decisive”:**

Soviet military doctrine is offensive in character. However, the offensive nature of our doctrine has nothing in common with the aggressiveness and predatory tendencies of the military doctrine of the U.S.A. and its allies, which reflect the criminal aims of the ruling classes of these countries. The Soviet Union and other countries of the socialist community do not intend to attack anyone at all; but, if they are attacked, they will wage the war imposed upon them by their enemies in the most offensive fashion in order to bring about the rapid defeat of these enemies.

Soviet military doctrine assigns the decisive role in modern warfare to nuclear missiles. At the same time, it assumes that, in addition to nuclear missile strikes of a strategic and operational-tactical nature, the armed forces will use conventional weapons. *Our doctrine is based on the fact that success in modern armed combat is achieved not by any particular weapon or fighting service, but by the united efforts of all the services and branches of the armed forces with the Strategic Rocket Forces in the leading role.* [emphasis added] Only as a result of carefully organized cooperation, taking into consideration the role, place, and importance of each service and branch of the armed forces in a specific situation is it possible to achieve strategic objectives in a war, and success in battles and operations.

**Col. A.A. Sidorenko: "The offensive in a nuclear age":**

The actions of the troops on the battlefield are coordinated first of all with the nuclear strikes and are directed toward the exploitation of their results. Nuclear strikes, the destruction of enemy means of nuclear attack, and swift, highly maneuverable actions with the exploitation of gaps, breaches, and intervals in the enemy combat formation form the basis of the attack of the motorized rifle and tank subdivisions in modern battle. . . .

The presence of nuclear missile weapons will give strikes against enemy objectives in depth a new quality. The launching of such strikes permits inflicting such destruction on enemy troops disposed in the depth in such a short time that it will make them incapable of stubborn resistance for the execution of a rapid maneuver to oppose the attackers. At the same time, the use of nuclear missile weapons will give the attacking troops the opportunity to break through quickly into the operational depth, employ airborne forces widely, and complete the utter defeat of the enemy right after the nuclear strike. . . . [emphasis added]

A new characteristic feature of the offensive in nuclear war is the *conduct of combat actions under conditions of the presence of vast zones of contamination, destruction, fires, and floods.* [emphasis added]

As a result of the mass employment of nuclear weapons by the warring sides, tremendous areas will be subjected to radioactive contamination; populated places, bridges, and other structures will be destroyed; and big centers of conflagration and inundation will be formed. The subdivisions will not only be forced to fight on contaminated terrain, but also to overcome destruction, rubble, and other obstacles which may also be contaminated with radioactive substances. All this will have a great influence on the nature and methods of operation by the attacking troops. . . .

Under contemporary conditions the radioactive contamination of the terrain is an ordinary and constant

phenomenon. It may arise at various stages of the attack as a result of the enemy's delivery of nuclear attacks involving a surface burst. Most often, however, we should expect the employment of such nuclear bursts by the enemy in the situation most crucial for him. As a rule, this is during the withdrawal. By creating zones of contamination with high radiation levels, the enemy will attempt to cut the pursuing troops off from his main body making the withdrawal, hinder their advance, win time, isolate the combat operations from the approach of reserves, and attain a fundamental turning point in the situation in his own favor.

Under these conditions, the pursuing subdivisions inevitably will be forced to cross zones of radioactive contamination. . . .

In going over contaminated terrain, especially in dry weather, the subdivisions move at maximum speed with increased intervals between vehicles so as to preclude or reduce the amount of dust formed on vehicles following behind. Protective gear may be employed by personnel depending on the nature of contamination and weather and terrain conditions. When there is abundant dust formation, the personnel cruising contaminated areas on APCs [armored personnel carriers] and vehicles wear gas masks and protective capes, while tank crews wear only gas masks. In wet weather and after a rain, these same subdivisions may use protective capes, while tank crews may operate without protective gear. . . .

As can be judged from materials in the military press of various countries, the role and importance of combat operations at night will increase sharply in a future nuclear missile war. Night operations will be more frequent. They will develop on a broader scale than during World War II, and they will become an ordinary phenomenon. This is explained, first of all, by the decisive character of the attack, which demands uninterrupted conduct of combat operations day and night; secondly, by the wide development and adoption by the troops of night observation instruments, which has permitted solution of the problems of driving combat vehicles at night and has eased the location of objects on the battle field and the conduct of aimed fire; and thirdly, by the specific advantages and benefits which stem from a night attack.

Nighttime facilitates secrecy in moving troops up to the forward edge and shifting into the attack. . . .

Nuclear weapons employed at night have a stronger moral-psychological influence on the enemy troops. In employing nuclear weapons at night there is a considerable increase in the effects of light radiation, which leads to a temporary loss of sight in personnel located beyond range of other destructive effects of the nuclear blast. Due to the temporary blindness of enemy troops, greater time will be required for the enemy to determine the results of the nuclear attack and to take measures to eliminate its consequences.

# Washington, IMF legitimize Bolivia's drug economy

by Cynthia Rush

This week the Carter administration confirmed that the Bolivian coup carried out a month ago was controlled and financed by the powerful cocaine mafia based in Bolivia's eastern capital of Santa Cruz. In the same breath, however, the administration abdicated all responsibility for attempting to halt the drug takeover, and announced instead that it had ordered the withdrawal of Drug Enforcement Agency (DEA) personnel from Bolivia.

"As long as the Bolivian government is in power, we can't get at the [drug] problem," one official was quoted as saying. The general sentiment expressed was that "nothing can be done," and that the Bolivian coup is a terrible setback for the cause of human rights.

While the events unfolding in Bolivia are indeed horrifying, no one should be fooled by the Carter administration's crocodile tears. The action taken this week reflects a decision on the part of the policymakers behind the Carter as well as any future Reagan administration—located at New York's Council on Foreign Relations—to endorse Bolivia's conversion into a full-fledged drug economy. With this decision, Bolivia's destruction as a nation is assured, and the implications for the rest of Latin America are ominous.

The Carter administration's complicity in the drug mafia's takeover in Bolivia is seen not only in its refusal to take action, but in the nod of approval it gave this week to the granting of loans to the new junta by both the International Monetary Fund and the Inter-American Development Bank (IADB). The IMF granted Bolivia the right to draw down a \$17 million loan, and the IADB forked over another \$86 million loan. Further loans are promised by the IMF, the World Bank, and private commercial banks if the junta promises to meet the stiff conditionalities established by these institutions.

These international lending agencies, together with Carter officials, have thus legitimized a government whose economic existence depends solely on the drug trade. Worse, they have given junta leader Gen. García Meza the go-ahead to continue the repression of the past month, which rivals the 1973 Chilean coup in its barbarity.

It is increasingly clear that, together with the Carter camp, the forces controlling the Reagan campaign have endorsed the shift toward dope in Latin America. In fact, the Bolivian coup is merely the first of the "Reagan coups" that can be expected in Latin America should the Republican Party candidate win this November's elections. Two facts demonstrate this.

First, the Bolivian coup, carried out with the aid of Brazil and Argentina, is in accord with the plans of Reagan's top advisers at Georgetown University to consolidate a South Atlantic Treaty Organization (SATO) between the countries of South America's Southern Cone and South Africa. Those of Reagan's advisers closely associated with Henry Kissinger, and the related drug and dirty operations coordinated by the infamous Permindex organization, view SATO as an important vehicle through which to monitor and expand the international drug trade.

Secondly, the new junta is setting up in Bolivia what faithfully follows Reagan adviser Milton Friedman's recommendations that all countries should follow the model of Hong Kong's "free market" economy—the world's most renowned drug economy. It is already the case that coca-based narcotics bring Bolivia more export earnings than traditional exports, and the guidelines established by new financial authorities are not expected to change that.

Conveniently, Bolivia's new Central Bank director Marcelo Montero is an avowed Friedmanite trained by the Chicago School boys at Chile's Catholic University. Reached yesterday at the University of Chicago, Friedman's top aide, Professor Arnold Harberger, remarked that Montero's name "has good vibes to it." The IMF's Bolivia desk officer raved about Montero's "competence."

## Bad publicity

The only thing that bothers the financial backers of the Bolivian coup is the fact that the new junta's links to the cocaine mafias have been made public.

A spokesman for Crocker Bank, one of eight involved in rolling over the more than \$200 million in

private debt owed by Bolivia in the next five months, told a reporter yesterday that "until this little [drug] scandal popped up . . . we thought the coup would hold and bring stability. . . . I hope people are mature enough to see their way through this one." The same spokesman complained that the wide publicity given the junta's drug ties had inconveniently led to a postponement of the meeting of private commercial banks to discuss renegotiation of Bolivia's debt.

### Another Chile

Ronald Reagan would most certainly have a tough time with his large conservative base in this country explaining support for an "anticommunist" Bolivian junta which plans to export larger quantities of cocaine to the United States to destroy American youth, while murdering its own population to eliminate resistance to

these policies of destroying human resources.

Gen. García Meza has stopped at nothing to fully impose a drug economy. Reliable estimates indicate that as many as 2,000 people are imprisoned, and that torture, mass murder, and "disappearances" similar to those occurring in other Southern Cone countries, are commonplace. Aside from the documented torture and repression, the economic destruction and conditionalities exacted by foreign lending agencies as guarantees for loans will take a terrible toll in human life.

According to one diplomatic source, the new cabinet and the personnel it is placing in government and civil service posts are incompetent "clowns." But, as one press source admitted, it hardly matters who occupies those posts: "The only business that is booming in Bolivia is the cocaine trade," and that doesn't take much brains.

## World Bank commends coca export revenue

*The EIR charged in September, 1978 that the World Bank and International Monetary Fund encourage drug production in the developing sector. A more recent conversation with the World Bank confirmed that evaluation for the case of Bolivia.*

*John Holdson, the senior official for Latin America in the World Bank's International Trade and Monetary Flows department, said the following on Sept. 8, 1978:*

I've just returned from Bolivia, and I know that the coca industry there is highly advantageous to producers. In fact, from their point of view, they simply couldn't find a better product. No elaborate technology is required, no hybrid seeds; the land and climate are perfect. . . .

*Kunio Kikuchi, Bolivian Desk Officer at the World Bank, gave the following interview on Aug. 15, 1980:*

**Q:** What's the situation with the cocaine charges [against the Bolivian junta]?

**A:** The entire burden of proof is on those making the charges. Let me explain to you they way it works. Most of the population, which is Indian, works and lives in the Altiplano [high plains]. They chew coca the way you or I take a cup of coffee in the morning. . . . Now the coca is grown in Chapare, near

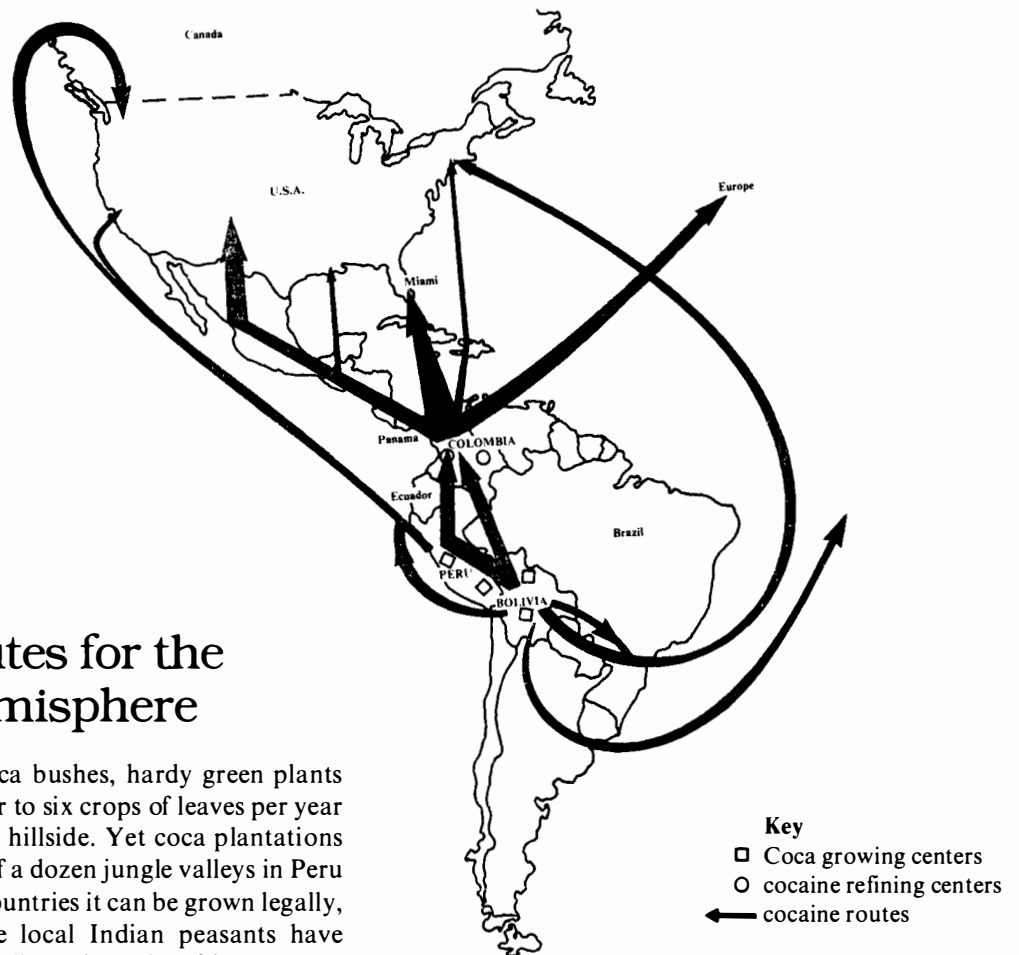
La Paz in the Yungas Valley, and to the northeast of Santa Cruz. For the last 2 to 3 years, there has been a burgeoning trade in the coca. But whether it can be dealt with at the level of Bolivia, where it's an essential element of a longstanding situation, well, I'm not sure. . . .

**Q:** Is there any chance of bringing some of the funds involved in the drug trade into the banking system, for more productive use?

**A:** You mean like Switzerland, where the money comes in and then gets lent out again—for things like World Bank bonds? Well, I don't think it could be done in Bolivia, it would seem like too much of an admission that the drug charges are true.

**Q:** So you think the current situation will hold? Another group of military officers won't be moving to throw out the García Meza group?

**A:** Don't look for the next week, the next two weeks. Look longer-term, a half-year or a year. Things will be OK then; they'll stabilize in a year. If the government were to maintain control through that period, there would be nothing to attack it for—except for the drugs. That what's so pernicious and vicious about the drug charges. It involves something which is not just right- or left-wing, but something abominable to everyone. Given the current election situation in the United States, if Reagan won, there would be no more problem about the Bolivian coup. But even Reagan would have a problem with the drug issue. . . .



## Cocaine routes for the Western hemisphere

Cocaine starts with coca bushes, hardy green plants which will produce four to six crops of leaves per year on almost any tropical hillside. Yet coca plantations are concentrated in half a dozen jungle valleys in Peru and Bolivia. In those countries it can be grown legally, since for centuries the local Indian peasants have chewed the leaves to relieve the pain of hunger, exhaustion and hopelessness.

In Bolivia, for example, 6,000 of the 25,000 acres planted with coca supplies the local chewing market. The remainder of the coca leaves are concentrated in nearby primitive "kitchens" into a damp greenish "cocaine paste" or a dry powder "base" which can be more readily transported than the bulky leaves.

Only a small proportion of this concentrate is refined into pure white cocaine powder in the coca-growing countries and smuggled directly or through neighboring countries to North American and European markets. 70 to 90 percent of the crude cocaine is smuggled by land, sea or air to refining laboratories located near Colombia's major industrial cities. The basic land route follows the Panamerican Highway north from Bolivia and Peru through Ecuador to Colombia. The drug is ferreted across borders in small quantities under the skirts of thousands of peasant women, or in bulk on fishing boats or trucks loaded with 700 bags of cement which no customs officer would want to unload for inspection. In Colombia's

cities, the industrial chemicals needed for removing impurities can be obtained.

The international cocaine cartel centralizes its activities in Colombia in order to enforce strict control over the world market. Much more cocaine enters Colombia than goes out. The difference is far greater than would be accounted for by losses in processing, Colombian cocaine consumption, or smuggling. Hence, it seems that Dope, Inc. maintains warehouses with buffer stocks and decides exactly how much goes out to the coke markets in order to keep prices from falling.

From Colombia about 100 tons per year of the deadly commodity are dispatched into the United States over a plethora of routes. Light planes take off from 1,500 landing strips scattered around the country and head for a comparable number of unpoliced landing sites in the Southern states. Panama serves as a major transshipment point to canal traffic, to Mexico, and to Central America for export via United Brands' "great white fleet" of banana boats.

# The continental narcotics buildup

Last month's "cocaine coup" in Bolivia is unfortunately not an exception in what the Carter administration's foreign policy is producing in Latin America—nor what can be expected of a possible Reagan one. Despite Washington's profuse public protestations over the Bolivian coup, the fact of the matter is that U.S. policy—in particular the support for World Bank and International Monetary Fund austerity dictates—has driven a number of Latin American nations into producing drugs as a quick "cash crop" to pay their foreign debt.

For example, between 1976 and 1980—the four years that Jimmy Carter has been President of the United States—Colombia has gone from exporting about \$1 billion in marijuana to the U.S., to exporting \$6 billion—over 75 percent of what our youth currently consumes of that destructive drug. As the table indicates, Colombia now makes close to twice as much from drug exports as it does from all other exports combined!

Jamaica is another notorious example of how the Carter administration and the IMF push drugs. As this magazine has previously documented, the financial squeeze Jamaica has been subjected to has given the advocates of drug legalization there a powerful argument and incentive for their cause. That country's production of marijuana has skyrocketed by almost 700 percent during the Carter years.

And Peru is a further tragic example of how a jump in cocaine exports of over 1,500 percent was achieved

between 1976 and 1980. This case is particularly telling: here the IMF's application of strict conditionalities for extending loans to Peru ultimately forced that country to resort to the narcotics trade as a means of eliminating its balance of payments deficit and satisfying its IMF creditors.

Scarcely a week after the Bolivian coup was executed, neighboring Peru was returned to "democracy" under President Fernando Belaunde Terry, re-elected after 12 years of military rule.

Journalists and news services across the world could hardly contain themselves from expostulating on how "different" Peru and Bolivia had become. But as is usually the case with such homilies, the truth is exactly the opposite. In reality, the Belaunde inauguration in Peru was *also* a complete victory for Dope, Inc.

"Democratic" Mr. Belaunde is hardly opposed to drug policies. Key members of his cabinet, such as Finance and Prime Minister Manuel Ulloa and Economics Minister Pedro Pablo Kuczynski, are longtime agents of Wall Street investment houses like Kuhn, Loeb, which are heavily involved in the international drug trade.

A dead giveaway of what to expect from Belaunde, the U.S. State Department's prize case of successful "democratization" in Latin America, was his reaction to the bloody Bolivian coup. When every democratic government in Latin America was condemning the takeover and issuing sharp diplomatic protests, Belaunde judiciously explained that he could do nothing of the sort, since it would constitute an unacceptable "intervention into the internal affairs" of Bolivia.

An interesting sidelight of the Peru-Bolivia connection is the fact that Peru two years ago legalized casinos and gambling in its border towns with Chile, Ecuador and Bolivia—a classic cover for laundering dirty drug money.

## Drugs in Latin America, 1976-1980

(figures are estimates)

Country	Drug production (metric tons)	Area cropped (hectares)	Drug exports (millions \$)	All other exports (millions \$)	Drug exports/Other exports (percentage)
<b>Cocaine equivalent</b>					
Bolivia 1976		2,500	\$50	\$550	9%
Bolivia 79/80	25 120	10,000	\$1,000	\$800	125%
Peru 1976		2,500	\$100	\$1,350	8%
Peru 79/80	25 170	15,000	\$1,500	\$3,500	43%
<b>Marijuana</b>					
Jamaica 1976		NA	Minimal	\$575	Minimal
Jamaica 79/80	300 2,000	5,000	\$500	\$1,000	50%
Colombia 1976	3,000	10,000	\$1,000	\$1,750	55%
Colombia 79/80	15,000	50,000	\$6,000	\$3,500	170%

### Note:

The cocaine equivalent figures above include about 20 tons per year in each of Bolivia and Peru which is consumed by the local peasants in their chewing of coca leaves as a depressant.

The figures for all other exports are those given by the respective governments and the IMF. Although much of the drug exports are probably disguised as exports of other goods, we have not adjusted official export figures.

# Destroying Britain's workforce

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*Tory monetarists have a 'Northern Ireland' strategy against the unions, reports Susan Welsh.*

"The crash of recession all around is music to the British government's ears," wrote the London *Economist's* editors on July 5. That opinion was justified. Last month, Britain hit a record unemployment rate of nearly 2 million people, and a manufacturing output below the 1973-74 recession levels when the country was on a three-day work week, all to achieve a .9 percent drop in inflation. This fact was hailed by cabinet officials as a "success for our policy."

Prime Minister Margaret Thatcher's "monetarist" policy is identical to what economist Milton Friedman has sold to the Reagan campaign in the United States, and—with fewer ideological overtones—is the current policy of the Carter administration, exemplified by Federal Reserve chairman Paul Volcker's high interest-rate policy which triggered the recession in the United States.

Thatcher, her mentor and closest adviser Industry Secretary Sir Keith Joseph, and their guru Milton Friedman of the University of Chicago have a conscious policy of the destruction of manufacturing industries, and intend to drive the unemployment rate up further still.

Britain is making the planned shift toward a "post-industrial society" in which the only industries remaining will be tied to military production, like certain kinds of specialty steel and the silicon microchips for computers of which Thatcher is so fond.

Two of Britain's largest industries, steel and shipbuilding, recently announced whopping losses for the 1979-1980 fiscal year, totalling £720 million (\$1.699 billion). The British Steel Corporation's £545 million loss was the largest ever recorded by a British firm.

The company is axing about a third of its workforce—52,000 workers by the end of this year. In addition to the eight steel plants closed since last year, plans were announced last month to further reduce steel production from 21.5 million tons last year to 15 million tons this year.

As the July 5 *Economist* commented: "Britain's ministers want a recession like America's, sudden and sharp, to bring down interest rates (and then sterling)—and, of course, wage settlements. Order books emptying like sieves; 40,000 redundancies [layoffs] a month; unemploy-

ment rising even faster: all add up to the ministers' best hopes of starting the new pay round with some settlements close to the 10-12 percent they need to haul price inflation down from today's 22 percent to the 13-14 percent the treasury has forecast for next spring.

## **An anti-inflation policy?**

Although "Thatcherism" is billed as a bite-the-bullet program to combat inflation, the rate of inflation has doubled since she took office in May 1979, to its present official level of 21 percent. The money supply [sterling M3] has grown over 9 percent since February, or an annual rate of 23 percent, compared to the 7-11 percent target rate of increase.

Of all the major Western countries, only Britain has maintained sky-high interest rates even after the U.S. Federal Reserve began to ease up. This led the Confederation of British Industry to issue a new cry of alarm July 29, calling for a lowering of interest rates to prevent industry from going under. The statement cited the unprecedented drop in the prospects for export orders, employment, and investment. But the CBI national leadership is demanding a slight easing of credit availability—not a fundamental shift (referred to as a "U-turn") in government policy, and the Confederation supports the government's "anti-inflation" effort.

Neither is the opposition Labour Party offering any real resistance to Thatcherism, though every government pronouncement on the economy is met with boisterous catcalls and foot-stomping from Labour's back benches in the House of Commons. James Callaghan, the Labour Party head, called for a vote of no-confidence against the Conservative Thatcher government July 29, warning that "industry is now in danger of being sucked into a downward spiral of fewer orders, leading to lower output and lower productivity."

But nobody was listening, and Labour has come up with no alternative program. In fact, it was under Callaghan's Labour Government that the precipitous drop in manufacturing production began.

Now the Labour Party is riddled with factions on every issue from disarmament to nationalization, and

## Bringing Hong Kong home to Britain

In a parliamentary debate July 28, Prime Minister Thatcher announced a "new" strategy to help industry and create jobs. The measures include a £25 million (\$59 million) package to the National Enterprise Board to establish the first silicon microchip production plant in the UK; a £6.1 million grant to the Dunlop rubber products group; and the establishment of seven "free enterprise zones" in depressed urban areas.

The free enterprise zones will set aside a maximum of 500 acres of blighted urban real estate to encourage business investment. Businesses will be offered investment allowances, exemptions from national and local taxes, and reduced bureaucratic red tape. A free enterprisers' paradise, the scheme is expected to cost about £20 million in capital allowances and £50 million in loss of tax revenues.

The enterprise zone concept was first established in the Far East, then reimported by Professor Peter Hall, a former chairman of the Fabian Society, after a visit to Singapore, Kowloon and Hong Kong in 1977. Sir Geoffrey Howe, Thatcher's Chancellor of the Exchequer, took up the idea and incorporated it into his last government budget.

The likely effect of the project will be to recreate the sweatshops and fleshpots of Hong Kong and Singapore in Belfast, Newcastle, and Manchester. It is as though New York's Mayor Edward Koch announced that the South Bronx was open to business tax free. What kind of business would it attract?

One Labour Party MP predicted, according to the *Financial Times* July 30: "Scrap metal dealers, warehouses, used car lots and sex shops—possibly the only imaginable development which would be worse than the derelict sites themselves." Manufacturers are reluctant to move into areas with poor transportation systems, inadequate housing, shortages of skilled labor, and a history of poor labor relations, the *Financial Times* reported.

One of the cities slated to receive a free enterprise zone is Manchester, which announced a £20 million package of cuts from its budget July 21. The cuts include £6.2 million from the education budget (\$14.6 million) and £1.7 million from other social services. Any industrialist thinking of relocating to Manchester will have to think twice about the skill level of the workers he may find there.

groupings from the left, right and center are all threatening to split the party if the policies of the others are implemented. Callaghan is widely expected to retire in the fall, leaving the leadership of the party up for grabs.

Thus the sole remaining vehicle through which the interests of trade unionists could be politically expressed in Britain—however inadequately—is now a shambles.

### 'Low-intensity operations'

A recent survey of British industry revealed that wage settlements averaged about 16 percent between last November and April, while retail prices were rising at 22 percent. Many firms anticipate holding wage increases down to 12 percent in the next round of negotiations—approximately the government's goal. In the public sector, Thatcher announced July 29 that wage increases will be limited to 9.6 percent, as an "example" to the private sector.

Despite this plunge in workers' buying power, there remain a few obstacles to the full imposition of Thatcherism. Last week, for example, a pay raise was granted to teachers way above target, due to government fears of an uproar in the House of Lords. The existence of unions, however weakened, remains a potential threat.

Therefore the government is gearing up what British intelligence calls "low-intensity operations" to finally obliterate those unions. The Civil Contingencies Unit (CCU) of the Cabinet Office, one of the most secretive of all cabinet committees, has been authorized to undertake a study of the feasibility of using civilian volunteers to replace striking workers in "essential industries." Although the army has been used before to break strikes, the idea of using civilian strikebreakers has been regarded "as both qualitatively and constitutionally different," in the words of the *London Times* July 17.

The investigation will be headed up by Home Secretary William Whitelaw, known as the Butcher of Northern Ireland for his role as head of the Northern Ireland Office during Edward Heath's tenure. Whitelaw presided over the largest bloodbath in modern European history outside of a declared war, as the British army's special forces carried out assassinations on a mass scale.

Whitelaw's tenure in Northern Ireland overlapped briefly with the deployment of Frank Kitson, an army counterinsurgency specialist and author of the book *Low-Intensity Operations*, as commander of the British Army's Belfast garrison.

Secretary of State for Industry Keith Joseph announced July 16 that Britain would end the 300-year-old government monopoly of the Post Office, and that private carriers would be allowed to carry certain classifications of mail. In the event of a strike by public-sector postal workers, Joseph said, private carriers would therefore be available to replace them.



The government has now listed the maximum number of labor pickets to six, while banning secondary support pickets unless the employer is an immediate supplier or customer of the employer in dispute.

The unemployed will provide the strikebreakers to destroy the unions. Unemployment is now officially 1.9 million, although trade union leaders charge that in reality it is over 2 million. Two and a half million people are expected to be out of work by the end of 1981, according to a recent survey by the Charterhouse Group.

The structure of unemployment reflects a number of new trends:

- For the first time, the wealthier southeast regions of England are showing high unemployment rates.
- Long-term unemployed (over three years) now consist of almost 25 percent of those out of work, triple the number ten years ago. Of these, about 75 percent are unskilled or semi-skilled manual workers. Some are almost illiterate, and over 60 percent are over 35.

- Youth unemployment is rising proportionately, as a third of the total unemployed are now under 25.

This huge manpower pool has generated a hideous system of exploitation known as the "Euro-lump," which has received growing attention in recent weeks. About 50,000 British workers are now estimated by the Foreign Office to be working in continental Europe, 20,000 "on the lump" (illegally, without paying taxes.) These workers are recruited by unscrupulous agents and brought to "human cattle markets" in Nijmegen, Holland, where they are signed up for construction work and other manual labor in Holland, West Germany, and even the Mideast. High wages are promised, but the agents frequently disappear before the workers are paid; 1,600 of these workers ended up penniless on the steps of the British Consulate in Düsseldorf last year. So far this year the figure is already higher, and this is just a hint of things to come. Thatcher is now calling for increased "labor mobility" to solve the unemployment problem.

## The 'bonkers' Sir Keith

The influence of British Secretary of State for Industry Sir Keith Joseph on his Prime Minister, Margaret Thatcher, might best be compared to that of Zbigniew "Rasputin" Brzezinski on President Carter. A fanatical monetarist and member of the free-enterprise Mont Pelerin Society, Joseph is Britain's leading public advocate of the shift to a "postindustrial society." He and a few others in the inner clique of the Thatcher cabinet have effectively isolated the Prime Minister from differing counsel, including that of the "wets" (skeptics) in the Cabinet itself.

A recent profile of Sir Keith by Simon Hoggart, published in *The Guardian* July 31, included the following observations:

"'Keith Joseph?' the late Reginald Maudling used to remark. 'He's as nutty as a fruit cake.' It's a judgment that few people have felt the need to revise drastically since. It is often said that, with the significant exception of the Prime Minister, the Tory Party divides into two groups on the subject of the Industry Secretary: those who think he is mad, and those who think he is stark, staring bonkers. . . ."

"You can see how he got his reputation. When he is worried, which is usually, a vein throbs in his forehead giving an instant read-out on the state of his inner mental turmoil. A former Minister who chatted with him the other day said: 'His hand was shaking like

an alcoholic's yet I know he barely touches the stuff.'

"During election tours he appears obsessed by the need to avoid the public, terrified that he will divert them from their quotidian round. On public platforms he often sits with his head buried in his hands as if news has just been brought of some ghastly personal catastrophe. Now and again, if you listen to him on the radio, you can hear him sigh deeply. For years now, certainly since he was appointed to his present job in May last year, politicians on both sides of the House have been predicting his imminent nervous breakdown, yet, like Billy Bunter's postal order, it never comes. It seems that he is always like that. . . ."

"Some MPs . . . wonder why his considerable political skills should often be interlarded with the most amazingly back-handed behaviour. The most damaging example of this was his notorious Edgbaston speech in October 1974. In it he said that more and more children were being born to mothers in the lowest social classes, the people who were least able to bring up children because of the social deprivation they were already suffering. So, he said, 'the balance of our population, our human stock, is threatened.'

"What he meant was that a higher proportion of children are being born into poor and feckless homes and that, because of the 'cycle of deprivation'—his own phrase—they went on to produce yet more underprivileged children, in a continuous vicious circle. It's a fairly obvious point, almost a truism, yet it was phrased so badly that it sounded like a Nazi demand for genetic engineering. . . ."

## Straws in the wind for 1982

*Though the choice of successor for López Portillo is still a year off, the jockeying for position is well under way.*

**C**lose analysts of the political scene in this capital confirm the intensification of political maneuvering aimed at securing "inside track" toward the nomination to succeed José López Portillo as President of the Republic.

López Portillo's term ends Dec. 1, 1982, but the successor is traditionally selected in a process of intense intra-party consultation at least a year earlier. López Portillo, for instance, was *destapado*—unveiled—in late September 1975, 14 months before the end of Luis Echeverría's term.

Longtime observers of the Mexican political scene stress three important events of the last three weeks in particular.

The first of the events to set the internal corridors of *politica à la mexicana* buzzing was the July 30 speech of Defense Minister Gen. Félix Galván López.

Gen. Galván gave President López Portillo a pleasant surprise, speaking to the 7th Regional Meeting of the Chiefs of Military Zones, when he showed mastery of the thinking of such figures close to López Portillo's heart as Hegel and Machiavelli.

But more important were declarations such as this: "The concept of national security in the current time cannot be found, and perhaps never could be found, separated from the concept of justice, liberty and progress."

To some observers, Galván's

speech implied that he had entered the presidential sweepstakes. In fact, as far back as last March, the French weekly *Le Monde* had suggested that the next Mexican president might well be a military man.

Although this analysis is generally viewed as extreme, it is certainly the case that the Mexican armed forces have increased their political weight substantially under López Portillo, and are expected to have a growing political role as the constitutional defender of Mexican sovereignty as the country's oil wealth grows.

In a highly unusual formulation of praise, López Portillo responded that "I would have liked to have conceived and written the speech myself; it is made up of the most massive, complete, and structured foundation that I have ever heard."

The second development is the surprising frequency with which, in each government office, in the Chamber of Deputies, and in the private business sector, one comes across the rumor that López Portillo will announce the creation of an Energy Ministry in his fourth State of the Union address Sept. 1. There is no question that the person to get the new cabinet post—and thus enter the lists of the *presidenciables*—would be Pemex chief Jorge Díaz Serrano. A source linked to PEMEX told us that the announcement could come at the time a new PEMEX building is inaugurated in Mexico City shortly after the Presi-

dent's Sept. 1 speech.

Lastly, López Portillo designated Dr. Rosa Luz Alegría as the new Secretary of Tourism, replacing Guillermo Rossell de la Lama, who accepted the PRI party's nomination for governor of *Hidalgo*. Alegría, the first woman cabinet member in the history of Mexico, was formerly the Undersecretary for Evaluation in the Planning and Budget ministry, and is known to have enjoyed the President's complete confidence in that role. Her replacement in the key Evaluations post is none other than the president's son.

The appointment of Alegría did not so much bring a new figure into the presidential sweepstakes—she herself is not viewed as *presidenciable* at this point—it struck a blow against an old one.

Rumors had been rife that Mario Moya Palencia, Interior Minister under Echeverría and frontrunner to have succeeded him, would get the post and vault to a strong position for 1982.

The other, even greater, significance of the designation, is to have placed someone in the tourism post not controlled by former president Miguel Alemán, long-time czar of Mexico's extensive tourist industry. Alemán for a generation has used tourism—together with communications and real estate speculation—as the base for a powerful political machine heavily influencing presidential succession choices.

Alegría, who comes from the pro-industry wing of the PRI party, is expected to promote tourism as an adjunct to more fundamental development in the country and not a replacement for it, as Alemán has attempted to do.

## **Mossad faction plans Iranian pogrom**

*Israeli intervention there could be a pretext for a NATO showdown in the Gulf.*

**W**arning signals are emanating from Ayatollah Khomeini's Iran that a major international incident is about to be triggered by a mullah-dictated terror campaign against Iran's 50,000 Jews.

Iranian sources warn that this campaign will be highlighted by a Khomeini declaration that Iran's Jews are being held as "hostages" until Israel reverses its recently announced decision to annex Jerusalem. These sources forecast that such an edict might be followed by Israeli "Entebbe"-style raids into Iran, or joint Israeli-U.S. military actions against Iran, or both.

Two recent developments suggest that this forecast is plausible. First, earlier this month, the *New York Post* leaked a report that Khomeini was on the verge of promulgating an edict requiring Jews to wear special identity insignia; while this report has not been officially confirmed, it is regarded seriously in émigré Iranian Jewish circles. Second, this week the sole Jewish member of Iran's Parliament, Eshagh Farmandpour, was stripped of his Parliament seat following a tirade against him by former Foreign Minister Ibrahim Yazdi, a leading member of the international Muslim Brotherhood organization who lost his government position last year in large part because of *EIR* exposés linking him to British intelligence.

What has surfaced publicly,

however, is only a small component of the fate awaiting Iranian Jews. The real story is much uglier, and traces back to the designs of a faction in Israel's Mossad intelligence agency which seeks to use Iran's Jews as sacrificial pawns to achieve larger immediate geostrategic ends.

This Mossad faction, which maintains close ties to Prime Minister Menachem Begin, traces back to the old 1930s Zionist Revisionist Party of Begin's mentor Ze'ev Jabotinsky. It is committed to engineering a drastic shift in the strategic climate in the Middle East-Persian Gulf arena. In league with the Chinese and a grouping in British intelligence, faction members are determined to stage a configuration that will ensure a Warsaw Pact-NATO confrontation in the Gulf region in the immediate period ahead. They are using their assets in Iran, such as Islamic Republican Party head Ayatollah Beheshti and Ibrahim Yazdi, to create a pretext for Israeli military moves into the Gulf, with or without U.S. and British participation.

The process by which Beheshti has become an accomplice in Mossad operations was indicated by an Iranian source this week.

According to this source, over the past two years Beheshti has inherited the mantle of chief Iranian representative to a very important English Rite of Freemasonry lodge in Hamburg, West Germany, the

city where Beheshti spent most of his years in exile from Iran. This Hamburg lodge was one of the two the English Rite selected in Europe for intelligence operations in the 18th and 19th century, the other being in Calais, France.

In the late 19th century, the Hamburg lodge brought into its fold Jamal al-Afghani, the generally accepted founder of the modern "Pan-Islamic" movement. Following al-Afghani's death, a certain Tarizadeh assumed the role of chief Persian intelligence operative at the Hamburg lodge. Tarizadeh was also the chief agent of British Petroleum in Iran on through the 1950s and 1960s, when he was president of the Iranian Senate. Upon his death, Tarizadeh was succeeded by Jaafar Sherif-Emami as chief Iranian member of the Hamburg English Rite lodge. Sherif-Emami served as the Shah's Prime Minister during the crucial early 1960s when Ayatollah Khomeini was first activated by the British and Israeli intelligence circles. Later, in 1978, Sherif-Emami was one of the last prime ministers to serve under the Shah, and is now considered to have aided Khomeini's assumption to power in February 1979 by weakening the Shah's resolve to outflank Khomeini.

With Sherif-Emami now in exile, the Hamburg lodge mantle has fallen on Beheshti, a long-standing protégé of Tarizadeh. It was, after all, the English and Scottish Rites of Freemasons which in the two centuries leading up to the appearance of Zionist founding father Theodore Herzl, concocted the ideology which later became known as "political Zionism." Experiments in pseudo-Islamic cultism were part of the same operations.

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# National News

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## U.S. opens door for liberalized China trade

At a recent press conference in Los Angeles, Secretary of Commerce Philip Klutznick announced that the U.S. has shifted its standards for sales to China of computers that could have military uses.

"President Carter now has approved export-licensing criteria which will treat exports to China more liberally than those to the Soviet Union and its controlled countries," declared Klutznick. Acknowledging that the move would allow China to receive goods with military potential, Klutznick said that the new criteria "demonstrate in a practical way our interest in a strong and secure China—a nation able to provide for its people and maintain an independent foreign policy."

Deputy Assistant Secretary Eric Hirschhorn emphasized that China could now buy more sophisticated computers than any other communist nation except Yugoslavia. In addition, he said, his department would no longer automatically refuse to grant an export license to consignees who are military organizations.

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## Pressure mounted on Polish crisis

The State Department Aug. 21 broke its official silence on developments in Poland and issued a terse statement calling for the release of dissidents arrested in Warsaw. AFL-CIO and other sources report that the State Department and National Security Council intend to use Helsinki Accords mechanisms to press the issue. One Washington correspondent asked, "How would Brzezinski react if Gromyko had demanded the pardon of the Chicago firemen Mayor Byrne put in jail this winter?"

The AFL-CIO itself has issued a three-page statement approving "the heroic struggle of the Polish workers" for human rights and the "right to form free

trade unions." The federation proposes that the Helsinki II conference in Madrid take up the matter. The president of the International Longshoremen's Association Thomas Gleason, has announced his union's boycott of all goods going to and from Poland, in what he confusingly described as a show of U.S. workers' support for the Polish struggle.

Jay Lovestone, the veteran cold warrior who used to run the AFL-CIO's international affairs operations, said privately that the boycott will help "break the back" of the Polish government while bearing a "low risk" since it is not directly run by the Carter administration. Lovestone said excitedly that the next step will be for American union officials to join Europe's Second International leaders in "pouring money" into Poland to finance revolt.

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## FEMA to manage military crisis

A spokesman for the Federal Emergency Management Agency privately outlined on Aug. 20 the arrangements for the agency and the National Security Adviser to jointly supervise domestic deployments for a limited nuclear war.

Taking into consideration the new President Directive 59, the spokesman said, in the first phase the President declares a state of national emergency. This activates the Defense Production Act and Presidential Directives 41, 57, and 59, giving FEMA and Zbigniew Brzezinski control over U.S. industrial production.

In the next phase, described as the "showdown" phase, the President recommends evacuation of certain population centers under FEMA supervision. The FEMA source indicated that this would be intended to show an adversary that the U.S. was determined not to back down from the brink of war; he stressed that this evacuation policy is a component of limited nuclear war doctrine. He refused to rule out the possibility that a U.S. counterforce strike might occur during this phase of operations.

The final phase, occurring just before

an actual war, involves relocation of the U.S. command and government, he said.

The *Chicago Tribune* reported this week that the Carter administration is planning to announce a mammoth new civil defense program immediately after the elections. The *Tribune* stated that unnamed White House officials had linked the new plans to the new "limited nuclear war" policy.

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## Autumn invasion plans exposed

In a front-page article appearing in the Aug. 16 *Philadelphia Bulletin*, syndicated columnist Jack Anderson exposed details of a Carter administration plan to mount a military invasion of Iran in mid-October, called "Project Leap '80." Citing classified documents as his source, Anderson writes:

"A startling top-secret plan to invade Iran with powerful military force has been prepared for President Carter. The ostensible purpose is to rescue the hostages. But the operation also would exact military retribution. This would create a crisis on the eve of the election. Political studies show that support for the incumbent President has always soared dramatically during a national crisis. The tentative invasion date has been set suspiciously for mid-October. The President has assessed the political consequences and has concluded the invasion would be popular with the electorate. This raises a disturbing question about Carter's motive. The person he really wants to rescue, sources say, is himself. They believe he is willing to risk war to save himself from almost certain defeat in November. . . ."

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## AFL-CIO executives endorse Carter

The AFL-CIO Executive Council overwhelmingly, if coolly, voted last week to recommend the endorsement of the Democratic Carter/Mondale ticket in

November. The recommendation will now go before an early-September meeting of the larger General Board, where it is expected to easily pass.

Federation president Lane Kirkland mustered the comment that Carter "cannot be blamed for the depression and inflation," which he termed the work of "the big banks and big oil." Kirkland, a Trilateral Commission member, once more told the AFL-CIO leaders that Republican Ronald Reagan would be "far, far worse" than Carter.

Fred Kroll of the Brotherhood of Railway and Airline Clerks and J. J. O'Donnell, president of the Airline Pilots Association abstained from the council's vote. Both cited their opposition to the Carter administration's efforts to deregulate U.S. transportation. William Winpisinger of the machinists' union, who touted environmentalist Barry Commoner as a candidate, voted against the proposal. Several union presidents, who refused to be quoted, stated their reluctance to back Carter. Said one, "We know Reagan is bad, but the guy in the White House is throwing people out of work left and right."

## California proposes 20 percent energy cut

Under the rubric of "energy savings from effective conservation programs," the California Energy Commission will present to the state's legislature a plan which would enforce a 20 percent cut from 1979 levels in energy use by industrial, commercial, and agricultural users. Non-compliers would undergo a mandatory cutoff of utility service. The plan would make utilities responsible for identifying business customers who exceeded their "energy budget," as determined by the Commission staff.

The plan is currently being revised, but Commission staff personnel say the 20 percent reduction will remain, because in 1978, Assembly Bill 3539 was enacted into law with a directive that the Commission must develop a program to

achieve the 20 percent cut in the nonresidential sector by 1985.

Asked how the Commission expects to win utility cooperation for this program, staff referred to a proposal to transform the utilities into "Energy Service Corporations." The proposal comes from the Mello Report, which generated the Commission plan.

## Harold Brown 'ready for limited nuclear war'

In a speech to the Naval War College in Rhode Island, Defense Secretary Harold Brown made the Carter administration's first official statement on President Directive 59, the recent affirmation that U.S. military doctrine is one of "counter-force" nuclear targeting and step-by-step nuclear exchanges.

Brown announced that the United States is indeed "ready to wage a limited nuclear war." He elaborated: "Moreover, one purpose of my own exposition of the subject today . . . is to make clear to the Soviets the nature of our countervailing strategy. This is to assure that no potential adversary of the U.S. or its allies could ever conclude that aggression would be worth the costs that would be incurred. This is true whatever the level of conflict contemplated. . . . Strategic forces, in conjunction with theatre nuclear forces, must contribute to deterrence of conventional aggression as well. . . ."

Brown said point-blank that the United States will use both strategic and theatre nuclear forces to deter any adversary from any form of "aggression," including conventional or nuclear attacks against U.S. "friends and allies." Brown has committed the U.S. to use nuclear weapons against non-nuclear military action whenever it deems fit, i.e., to a nuclear first strike. The phrase "friends and allies" is a precise formulation that means China as well as NATO. Last Sunday, speaking on ABC's "Issues and Answers," Brown was explicit: "I wouldn't rule out the first use of tactical nuclear weapons if the Soviets overwhelmed U.S. allies with conventional forces."

## Briefly

● **GEN. JOHN PUSTAY** told a closed hearing of the House Defense Appropriations Subcommittee that the Carter Administration had appointed a special subcommittee to review the failed rescue operation of the American hostages in Teheran that took place last April and to apply the lessons learned to future operations. Subcommittee member Joseph Adabbo (D-N.Y.) indicated that he believed there was "every possibility" the U.S. might try another such operation.

● **THE WHITE HOUSE** is upset that during the Democratic convention, members of the President's cabinet were offering off-the-cuff advice to almost anyone who ran into them in the hotel corridors. Upon hearing that Treasury Secretary G. William Miller had let slip some details about delicate negotiations between the White House and the AFL-CIO, Ham Jordan told a reporter, "You people know better than to listen to those a \_\_\_\_s."

● **JOHN ANDERSON'S** antics appear to be determining the schedules of key administration figures. After Anderson meets Aug. 22 with New York State Liberal Party chief Ray Harding, Stu Eizenstat was sent to convince him not to give Anderson the Liberal Party ballot line. Other White House men talked to Les Aspin after the Wisconsin Democrat met with Anderson Aug. 19. And the President himself is trying to dissuade Boston Mayor Kevin White from Anderson support.

● **A VISITOR** to the Democratic convention was taken aback at the uproar that ensued when he asked a tattered old woman who had wandered into the Statler Hilton if she was a delegate. Embarrassed, he countered, "Well, a few of these delegates are kind of weird." "Don't you know who that was?" he was asked. "A shopping bag lady, I suppose." "No, that was Betty Friedan."

## China poses a test for Reagan's Asia posture

by Peter Ennis

George Bush, Ronald Reagan's running mate, went to Peking this week, after a stop in Japan, as part of an image-building operation for the Republican ticket.

Instead of the Chinese allowing Bush to use Peking to demonstrate the GOP's readiness to govern and its toughness toward the Soviet Union, their hosts have called them on the carpet. The immediate issue is the continuing Reagan commitment to restoring some form of official ties between the U.S. and the Republic of China on Taiwan, as opposed to the unofficial ties now existing.

This issue is complicated for Reagan; despite efforts to convince Peking that a Reagan administration will not backtrack on the U.S.-China axis, there is also a Reagan call to stand by American commitments and interests around the world. Taiwan is often cited as a prominent example of an abandoned commitment.

From Peking's viewpoint, however, the real issue is ensuring that the "American Card" is there to be played. That requires the elimination of any signs of bucking Peking's will.

### **Bush on the spot**

Bush and Richard Allen, Reagan's Asia policy adviser, arrived in Peking Aug. 21 after talks with Japanese leaders, and are being put through a not-so-subtle Chinese brainwashing program. The day before their arrival, the Republicans were treated to a major editorial in the most important Chinese newspaper, *People's Daily*. The editorial contained the most scathing attack on an American politician since normalization of rela-

tions with the People's Republic of China, accusing Reagan of "brazenly" trying to establish a "two-Chinas" policy. This is a "bankrupt" policy, and "sheer deception" on the part of Reagan, the editorial said. The paper also warned Bush that even though he may hope to focus discussions on strategic matters and trade, he must also "clarify" Reagan's statements on Taiwan.

Thus, even before Bush and Allen arrived, the Chinese put them on the spot, with reporters from all around the world waiting to see how Reagan's representatives would handle this foreign policy challenge. Bush was sent to China to demonstrate Reagan's competence and rationality on foreign policy matters. But the visit threatened to explode into a major incident even before Bush arrived. The Chinese basically told Bush and Reagan, either you agree to our position, or we will make things rough for you, and hurt your image back home.

### **High-level snub**

Many observers were surprised by the ferocity of the Chinese attacks on Bush.

He was not greeted at the airport by any high-level Chinese leaders. Instead, a reporter from the official Hsinhua news service greeted Bush as he stepped off the plane and walked the vice-presidential candidate the whole length of the Peking Airport corridor asking for "clarifications" of Reagan's China policy.

At first, Hsinhua completely blacked out Bush's visit, instead giving very prominent coverage to a statement made Aug. 19 by Assistant Secretary of State



Photo: Philip Ulanovsky/NSIPS

Richard Holbrooke that Reagan's policy toward Taiwan would disrupt Washington's ties with Peking and harm American "national interests throughout Asia."

Not until several hours after Bush arrived did Hsin-hua announce it, reporting only that "American visitor" George Bush, "formerly chief of the American liaison office in Peking before official relations were established," had arrived with his wife. No mention was made of Bush's candidacy for the vice-presidency.

### **Succumbing to pressure**

There is no indication that either Bush or Allen is resisting this pressure. In fact, they appear to be tripping over each other in their efforts to mollify the Chinese leaders.

Both Bush and Allen have tried to downplay the Taiwan controversy, saying it will be easy to clarify the matter. More important, Bush told reporters, is the common interests the United States and China have, especially working against the Soviet Union. "China's influence in foreign affairs continues to grow and the importance of China is recognized by all Americans," he said at an airport press conference. Allen, a former aide to Henry Kissinger, is reported to have talked with Reagan headquarters about the controversy with Peking, but it is not known what was discussed.

Despite the pressure from China on Bush, Peking is making a clear distinction between the vice-presidential candidate and Reagan. One Chinese source told reporters, "We have no problem with Mr. Bush. He's an old friend. The problem is with Reagan."

While Bush and Allen are undoubtedly willing to pay homage to the communist Imperial Court, it appears that more traditional Republican layers around Reagan are not happy about this. Reagan has formed a nine-member Far East Advisory Group chaired by former Central Intelligence Agency deputy director Dr. Ray Cline of Georgetown University. Discussions with several members of this advisory group indicate that Reagan is being told by some to slow down on ties with Peking, and reemphasize American relations with Japan, Korea, the Philippines and Taiwan.

One member of the advisory group voiced particular concern over the decision of the Carter administration to enter a virtual military alliance with Peking, arguing that U.S. interests with China diverge at many crucial points. While not ruling out military ties with China under a Reagan administration, this advisory group member argued that every step must be taken with caution.

A case in point is the upcoming trip to Peking of the Pentagon's top nuclear weapons systems experts, led by Assistant Secretary of Defense William Perry. The ostensible purpose of the trip is to negotiate with China the placing of American monitoring stations there, replacing stations lost in Iran when Khomeini came to power. The advisory group member said Reagan would not necessarily oppose this policy, but would ensure "we got something in return. Cautiousness is the word."

The divisions within Reagan's Far East Advisory Group are also evident in the fact that China specialist Michael Pillsbury is a member. Pillsbury, now a foreign policy analyst with the Senate Republican Steering Committee, was one of the first experts to call for a Chinese-American military alliance, including arms sales to Peking. He is believed to have helped formulate the Carter administration policy that Reagan is, at least nominally, opposed to.

Reagan himself reflected this dichotomy on the China issue in a speech before the Veterans of Foreign Wars convention on Aug. 18, just two days after Reagan had promised to restore "official" relations with Taiwan. He gave a rip-roaring speech in defense of the Vietnam War that many interpreted as a signal to Peking. Calling the war a "just cause," Reagan made it clear that he still views Vietnam as an enemy of the United States, effectively encouraging on-going Chinese and Thai hostilities against Moscow-allied Vietnam.

Should China undertake actions against Vietnam again, as it did a year ago, the Soviet Union is likely to become involved. At such a point, if Reagan is President, he will have to quickly decide whether alliance with Peking and defense of Chinese imperialist actions are worth the risk of a U.S.-Soviet confrontation.

# Terrorist threat over New York: the background elements

Had President Jimmy Carter failed to gain the Democratic Party nomination at last week's New York City Democratic Party convention, it is probable that terrorist forces targeting the convention would have been unleashed. That is the conclusion reached from a compilation of reports of numerous law-enforcement agencies, as well as from other antiterrorist intelligence and security entities.

As the New York press echoed such reports, the obvious danger of terrorist violence came from two violent organizations deployed into the New York metropolitan area for the period of the convention. The first, and most visible was the Communist Workers Party (CWP), a homicidal spin-off of the ultra-Maoist Revolutionary Communist Party (RCP). The CWP has scores of armed members deployed into the metropolitan area. The second force was more than a hundred violent agents of Khomeini's secret intelligence organization, the Savama. These were being safehoused in and around New York City by the American Indian Movement (AIM) and other sympathizer organizations.

The structure of the terrorist and proterrorist deployment against the convention was centered around the remnants of the same Yippie organization which spearheaded the bloody riots at the 1968 Chicago, Illinois Democratic nominating convention. Most important, the Yippies have undergone a transformation during recent years, becoming virtually taken over by the terrorist Jewish Defense League (JDL).

Immediately behind the overall terrorist deployment was the runaway faction of the Israeli secret intelligence agency Mossad, the faction of the Mossad for which the terrorist Jewish Defense League is the best advertised front-organization operating within the United States. Of lesser weight is the Chinese Communist intelligence services network inside the United States, including New

This report is based on information provided by the editors of *Investigative Leads*, EIR's biweekly service.

York Chinatown safehouses of the Peking services used to aid the Communist Worker Party forces.

The issue of greatest concern to antiterrorist intelligence forces involved in protecting the convention was the joint involvement of the American Indian Movement (AIM) and the Mossad's Jewish Defense League.

According to U.S. law enforcement and intelligence sources, AIM has substantial stocks of automatic weapons and sophisticated military-grade explosives available to it. This profile of the AIM was established years ago, including instances of massive coverup of AIM-linked drug-running and gun-running activities through interventions by both the Treasury Department's Bureau of Alcohol, Tobacco and Firearms (BATF) and elements of the Federal Bureau of Investigation (FBI). The AIM also has a longstanding connection to those Muslim networks presently coordinated by Khomeini's Savama. AIM's intervention to provide transportation and safehousing for pro-Khomeini "students" released after violent attacks on Washington reinforces the general picture.

The JDL has full access to the military capabilities of the Mossad in the U.S.A., Canada and Mexico, including not only automatic weapons and military-grade explosives, but also backup with professional assassination teams supplied by the Mossad. Worse, Brzezinski's National Security Council blocks all efforts by U.S. law-enforcement and intelligence agencies to hinder the free deployment of Mossad hit teams within the United States.

## **LaRouche was targeted**

The principal target of these combined terrorist forces was Democratic presidential candidate Lyndon H. LaRouche, Jr. In addition to a spate of new libels targeting LaRouche as a "powerful danger," attacks on LaRouche were the principal topic of street-rallies of Yippie-centered forces in the convention area. Known operatives of Israeli intelligence's hit-teams were sup-



porters of the rally targeting LaRouche as the “main danger.”

The prominent involvement of Roy Cohn protégé Dennis King in preparation of that proterrorist rally outside the convention underlined the seriousness of the threat. Roy Cohn, former business partner of the notorious “Joe Bananas” Bonanno, is a hired gun of the international assassination bureau known as “Permin-dex.” This was the organization expelled from Switzerland for its role in attempted assassinations of President Charles de Gaulle of France, and which left Italy hastily in the aftermath of Permindex’s role in preparing the assassination of President John F. Kennedy. Indications of a live “hit” option against LaRouche were strengthened by Cohn’s visit in the Greek isles for the period of the convention.

### **The deployment against LaRouche**

During the past year, Roy Cohn has been retained to play a prominent part in covert operations against the presidential candidacy of LaRouche. Normally, Cohn is retained by an Israeli intelligence nest inside the command of the Anti-Defamation League of B’nai B’rith. However, admissions volunteered to undercover operatives by Canon West of the New York Anglican Cathedral of St. John the Divine assert that the ADL was deployed against LaRouche on orders of the Order of St. John of Jerusalem—for which the Cathedral is the command center in New York.

This targeting of LaRouche was first signaled by a recent article featured in the London *Economist*, an article which targeted both LaRouche and LaRouche’s security consultant Col. (ret.) Mitchell L. WerBell. The London *Economist*’s targeting of LaRouche and WerBell has been subsequently replayed by the Cox press of Atlanta, Georgia, and by the Toronto (Canada) press. The slightly altered format of libel just published in the liberal *Nation* newsweekly is typical of a new round of libels being released through a variety of complicit publications.

The targeting of LaRouche was spontaneously confirmed prior to the convention by highly-placed political operatives of other candidates, figures well placed within the U.S. and European intelligence communities. According to these sources, if LaRouche’s name were placed in nomination on the floor of the convention, an attempted assassination of LaRouche was a near-certainty.

Consequently, the targeting of LaRouche as a lead-ing optional victim of a terrorist attack signifies that examination of the combination of forces conduiting libels, slanders and harassments against LaRouche is among the most effective lines of investigation for exposing the terrorist deployments as a whole.

From spring 1968 onwards, until May-June 1978, the principal covert operations against LaRouche in the United States were the sections of the Anglo-Canadian secret intelligence forces controlling the self-styled neo-Fabian networks of the Institute for Policy Studies. According to secret files released according to the Federal FOIA statute (“Freedom of Information”), Henry A. Kissinger personally played a leading role internationally against LaRouche from mid-1974 onward. The Kissinger operation was known in Department of Justice circles as “Kwaterbak,” and was run chiefly through the Washington Department of Justice and State Department intelligence units, using the Bonn embassy, Frankfurt consulate and U.S. Information Service in Germany in conjunction with British-directed NATO intelligence networks. Parallel and connected operations have been run against LaRouche from then to the present time through State Department channels in France, Italy, Mexico and elsewhere, as well as continuing in West Germany to the present time. For example, during the period of the New York nominating convention, a leading Mexican daily newspaper, *El Herald*, was conduited a report of lying defamation against LaRouche by the U.S. embassy in Mexico City.

During May-June 1978, a new dimension was added to covert operations against LaRouche. These were deployed by the Pan-European Union and its front organization, the Mont Pelerin Society, using the foreign-intelligence front organization known as the Heritage Foundation. At the same time, according to information volunteered to undercover operatives by highly placed British intelligence operatives, the Israeli intelligence nest embedded in the Anti-Defamation League was deployed to run a coordinated defamation and harassment operation against LaRouche and his associates.

The topmost levels of coordination of the campaign against LaRouche inside the United States are based in the New York Anglican Cathedral of St. John the Divine and Georgetown University. These centers, together with Anglo-Canadian intelligence networks associated with the Thatcher government of Great Britain, run both the New York East Side Conservative Club of Buckley, Safire and Cohn, and the Heritage Foundation. Just as the runaway faction of the Israeli Mossad (the faction represented by the Jewish Defense League) is run internationally as a subdivision of the Order of St. John of Jerusalem, so are the relevant elements in the Anti-Defamation League, according to testimony of Canon West, deployed under orders of the Cathedral of St. John the Divine.

That is key to the following elements deployed by Anglo-Canadian secret intelligence against LaRouche.

- Michael Deaver, of Ronald Reagan’s Citizens for



Photo: Philip Ulanovsky/NSIPS

*Communist Workers Party disruption of a New York Urban League convention just before the Democratic convention.*

the Republic, volunteered that he was deployed against LaRouche by Francis X. Watson of Rockford, Illinois, an operative of British intelligence. Watson confirmed this, also confirming Deaver's statement that Deaver was knowledgeably run by London's Robert Moss.

- The Heritage Foundation is the conduit for the activities of Francis X. Watson against LaRouche—from John B. Anderson's Rockford, Illinois.

- The *New York Times*, especially the notorious Howard Blum and dirty-tricks intelligence operative Paul Montgomery, were deployed, with agreement of the *Times* management, in cooperation with the notorious Roy Cohn.

- The other two principal press conduits for conveying large-circulation libel against LaRouche were the Marshall Field interests (e.g., *Chicago Sun Times* and *Chicago Tribune*), and the *Washington Post*-linked press empire of the Times-Mirror entity (e.g., *Los Angeles Times*, *Newsday*, Fund for Investigative Journalism, Investigative Reporters and Editors, and so forth.)

- Through these and related controls, Associated Press was used as a conduit for persisting dirty operations against the LaRouche presidential campaign.

- Involved through the Mont Pelerin Society in the same operation were the Copley News Chain, McGraw-Hill's *Business Week*, West Germany's *Capital*.

- Involved in cooperation with the Times-Mirror syndicate in Europe were the *Süddeutsche Zeitung*, the Swiss *Bündner Zeitung*, the *Rheinische Merkur*, and a contributor to the key German newsweekly, *Die Zeit*—a Kissinger-friendly publication.

In general, the overall international profile of the combined forces is the same gang which a Louisiana grand jury indicted as implicated in preparing the assassination of President John F. Kennedy, the Permindex organization of Bronfman representative Major Louis Mortimer Bloomfield, the same organization indicted in connection with repeated attempts to assassinate France's President Charles de Gaulle.

Permindex ("Permanent Industrial Expositions") is, like Rio Tinto Zinc and the Argus Corporation, one of the numerous corporate forms assumed by the Anglo-Canadian Special Operations Executive of Lord Beaverbrook and Sir William Stephenson at the end of World War II. Permindex specializes in political assassinations, an activity run through the British West Indies from Permindex bases in the Republic of South Africa and Latin America. The runaway faction of Israeli intelligence's Mossad—the JDL-linked faction—was a partner of Permindex in attempted assassinations against de Gaulle and is a partner of the Permindex network to the present date.

### **LaRouche and Israel**

Apart from its employment in the U.S.A. and Western Europe as a subordinate arm of the Permindex crowd, the runaway faction of the Israeli Mossad has a special hatred against LaRouche because of LaRouche's alliance with those factions of Zionism currently engaged in intelligence warfare against the JDL-linked elements of the Mossad.

Since 1975, LaRouche has been in varying degrees

of cooperation with those Zionist factions which seek a comprehensive Arab-Israeli peace agreement. LaRouche and his associates were invited at one point to mediate private communications between Arab and Israeli private citizens of prominence, to communicate to Arabs Israel's willingness to consider the sort of comprehensive peace package LaRouche had proposed. This was communicated to LaRouche through high-level elements of Israeli intelligence at that time.

At present, the crowd around Begin has imposed a de facto fascist dictatorship on the people of Israel. Estimates of slightly better than ten percent support for the Begin government in Israel, combined with the hideous, Nazi-modeled economic measures against the Israeli population generally, are feeding the growing impulse among Israelis to free themselves from what they see becoming a military fascist dictatorship.

LaRouche's commitments to the policies of anti-Begin factions among Zionists therefore intensifies the hatred against LaRouche among the runaway, JDL-linked elements of the Mossad. Since the runaway faction of the Mossad—actually the arm of the fascist, Jabotinski faction of Zionism—run the Begin government at this time, the Begin government is behind the use of assets of the Mossad in preparing potential assassination attacks against LaRouche.

This is the reason that the fascist, JDL-linked forces in the ADL cooperate with spreading the "fascist anti-Semite" lies against LaRouche. In part, this is intended to attempt to isolate LaRouche from his allies among both Zionist and non-Zionist Jewish opponents of the fascist Jabotinski crowd.

### **The command structure of terrorism**

The overall command structure behind the present international terrorism deployments into the United States is headed by the overlapping circles of the Anglo-Canadian, drug-running SOE crowd and the continental European "black nobility" behind the Mont Pelerin Society.

Underneath this command structure, Israeli and Chinese Communist intelligence services are presently deployed internationally as the up-front arm of the Anglican-Hapsburg-centered "black nobility" crowd.

This crowd created the Muslim Brotherhood in 1929, based on neo-Asharite projects earlier deployed out of the India Office of British intelligence, such as the 19th century al-Afghani caper.

This crowd created modern international terrorism beginning in 1957, with the Basque, Jesuit-created ETA, the first organization of the new series.

Through elimination of the CIA's last remaining field capabilities in the Middle East, especially during the Mondale-directed clean out of 1977, the Mossad

was able to take over entirely the Shah's Savak and the Iranian Air Force capabilities, thus orchestrating the London-directed, Brzezinski-supported Khomeini coup d'etat. Under combined secret agreements negotiated with Communist China, Begin and Washington—under the cosmetic cover of the Camp David rhetoric—the long-standing close cooperation between Israeli and Chinese Communist intelligence was upgraded. The Mossad took over up-front operational control of British secret intelligence operations in the Middle East and India, coordinating the supporting efforts of the Chinese Communist intelligence service.

On the continent of Europe, international terrorism was run both through conduits of NATO intelligence and through Italy, especially through Venice, Trento, the Genoese, the Circolo Rex crowd, and the Qaddafi funding supplied largely by way of the Arab-Italian Friendship Society linkages. The SOE's wartime project, the Sicilian separatist project, has played a pivotal role in this, just as it is pivotal in the Billygate scandal.

Since at least 1969, the Israeli Mossad has been the principal, up-front coordinating arm of all branches of international terrorism, including Muslim Brotherhood terrorist gangs run under the cover of the Palestinian Liberation Organization (e.g., Dr. George Habash).

This is also the case inside the United States.

The closest link to Israeli intelligence directly in the U.S. intelligence community has been Air Force intelligence (e.g., Major General George Keegan, former Meir Kahane partner Joseph Churba). Air Force intelligence officers have persistently played a leading, visible role in creating the sort of ultra-radical organizations (such as the "Venceremos" entity) feeding into pro-Maoist, anarchist organizations feeding into terrorist groups and into spinoffs from the RCP such as the CWP. The JDL takeover of the Yippies merely complements the long-standing pattern.

The Muslim Brotherhood structure inside the United States is exemplary.

The mother organization for the broad-based Muslim Brotherhood deployment inside the United States is the Muslim Student Association, with its Farsi-speaking Iranian Student Association subdivision. This, together with certain non-Muslim Arab-American conduits for Hospitaller and Israeli intelligence networks, controls a large chunk of the American Arab groups, including both Christian and Muslim Arab groupings. Israeli intelligence, which controlled the Shah's Savak and currently controls Khomeini's Savama, controls the Muslim Student Association, controls the Muslim Brotherhood network deployed within the World Community of al-Islam in the West, and totally controls other black Islamic groupings in the U.S.A. In fact, *EIR* has on tape statements by leaders of the Anti-Defa-

mation League explaining their top-down control over the Muslim Brotherhood elements penetrating the World Community of al-Islam in the West. These networks were used by the Anti-Defamation League to abort Imam Wallace Deen Muhammed's support of the Anti-Drug Coalition.

There are other elements controlling this network, including "solidarist" networks overlapping the Tolstoy Foundation. There is no conflict in this. Like the runaway element of the Mossad, the Eastern European fascist organizations inclusive of the Tolstoy Foundation's assets are coordinated by the Church of England, in fact, by the confessor to the Queen of England. This is the controlling connection for British agents within the hierarchy of the Russian Orthodox and Antiochan churches.

These elements of Anglican control over the Arab organizations have been interconnected with the American Indian Movement for years. The AIM's aid to Khomeini's Israeli-intelligence-controlled Savama was not a sudden, recent development.

For example, General Hussein Fardoust, the top agent of the Savama recently deployed into the United States is an Israeli-intelligence "asset" who performed a key role in assassinating Iranian officers opposed to the Khomeini coup d'état. He was the most notorious of the torturers of the old Shah's Savak, at a time when Israeli intelligence controlled the Shah's Savak. If Khomeini is assassinated, as part of one of the projected U.S. military-intervention scenarios, it will be the Israeli-controlled Savama which kills Khomeini—as a tool which has outlived its usefulness.

So, the runaway faction of the Mossad, the JDL-linked faction, controls the Muslim Brotherhood terrorist inside the United States, and also controls the infrastructure for the Yippie-linked RCP, CWP, and so forth.

This Israeli intelligence control of U.S.-placed terrorist capabilities is known to Brzezinski's National Security Council, as well as the counter intelligence sections of the FBI. It is not accidental that Brzezinski, the Department of Justice, and other elements of the Carter administration are intervening to prevent honest law enforcement and security agencies from closing in on these terrorists. The JDL-linked terrorist and murder organization has been given a free hand by the Carter-Mondale administration.

If there had been an open Democratic convention in New York City, the full, Israeli intelligence controlled riot and assassination capabilities would have been turned loose, with Carter-Mondale consent, upon the New York City convention environment. The Chinese Communist intelligence service, based in New York's Chinatown, would have been deployed in support of that bloodbath.

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## Documentation

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# Putting out the alert

A series of special memoranda issued Aug. 9-12 by the staff of *EIR's* biweekly counterintelligence newsletter, *Investigative Leads*, informed law enforcement agencies that "a conjunction of radical-instigated violence and disruption . . . [was] a 'live' option" prepared as cover for potential terrorism and assassination deployments against the Democratic National Convention Aug. 11-14 in New York.

According to the memoranda, "the most important 'wild card' element in this scenario" was the "Iranian and allied Moslem student demonstrators" deployed in the New York area. However, coordinated preparations were reported underway by the violence-prone Revolutionary Communist Party (RCP), the Yippies, the Jewish Defense League, the American Indian Movement, and the Communist Workers Party, an RCP spin-off. The deployments, asserted the memos, were linked.

## The Iranians

Leading the convergence on New York was an escalation and diversification of pro-Khomeini Iranian nationals' activities during the weeks immediately preceding the convention. Following the release in New York of 190 Iranians arrested for violence at a Washington, D.C. demonstration in the first week of August, three prominent intelligence controllers of pro-Khomeini students—Princeton professor Richard Falk, Georgetown University's Thomas Ricks and Norman Forer of the University of Kansas—each indicated that there would be both an increase in the number of public marches and rallies and a shift in their nature. Said the *Investigative Leads* memorandum of Aug. 9, "Some also implied that there would be an escalation in the kind of activities, implying disruptions, occupations and violence."

"In addition," the memo continued, "we have learned from sources extremely reliable in the recent past that new Savama-linked American networks are being pulled together to carry out these plans. It is not yet clear whether these networks will replace or merely supplement the apparatus previously centering around Bahram Nahidian," the Savama intelligence station chief in Washington who was recently exposed.

Following their stay in New York's Woodside Is-

Islamic Center after release from detention, some of the 190 Islamics arrested for violence remained in the New York area into the convention period, *IL* reported.

"In addition, there is a renewed contact between the Iranian students and the violence-prone Revolutionary Communist Party," the memo reported. The RCP newspaper *Revolutionary Worker* of Aug. 1 "notes RCP participation in Washington demonstrations by the Khomeiniacs. It will be remembered that these two groupings last surfaced together at the occupation of the Statue of Liberty last November, where chief suspect in the murder of Tabatabai, David Belfield, and controller Nahidian were both present."

In the memorandum of Aug. 11, *Investigative Leads* reported that it was attempting to "confirm reports of Iranian funding of both the CWP and RCP. The relationship between the Iranians and the RCP has been especially close. The day after U.S. embassy personnel were taken hostage in Teheran, a group calling itself the Islamic Guerilla Army (IGA) occupied the Statue of Liberty. After their arrest it was found that most IGAers were also members of the Revolutionary Communist Party. Again, at a 'Free [RCP leader] Bob Avakian Rally' called some months ago in Washington, many of those arrested along with Revolutionary Communist Party members were Iranians who had mobilized from around the country."

Law enforcement sources were able to confirm that RCP/CWP members in the New York area were armed. "Throughout the convention," reported the Aug. 11 memorandum, "they have been among the more militant" demonstrators. In addition, "The leadership core of the CWP" traveled "in carloads" to the New York area from as far away as North Carolina and the Houston-Dallas area. Approximately 30 CWP members appeared at demonstrations outside the Madison Square Garden convention hall on Sunday, Aug. 10 and Monday, Aug. 11.

## The Indians

*Investigative Leads* also detailed a multitude of links between the Iranian/Muslim Brotherhood networks and the American Indian Movement (AIM). "It is known that AIM provided a caravan of cars and vans which transported the Iranian demonstrators from New York's Woodside area back to Washington. AIM has moved into the very center of international environmentalist-terrorist networks over the years, and explicitly acknowledges its common outlook on Western industrialism . . . and the primacy of 'spiritual' over 'material' values with the Islamic Revolution. . . . AIM has been represented at numerous international radical meetings, supplied two members . . . as representatives to Iran since the hostages' seizure, and has numerous bilateral relations with foreign groupings, including Latin Amer-

ican and European radicals."

One recommendation was that Senator James G. Abourezk be investigated for involvement in AIM/Muslim Brotherhood coordination. Abourezk, a South Dakota Democrat, was both chairman of the subcommittee overseeing Indian affairs, and the legal representative of the Iranian students detained in Washington and then New York.

## JDL/Yippies

An added element in the converging scenario for violence was the overlapping Yippie and Jewish Defense League organizations. "Surveillance . . . of the joint demonstration Aug. 11 by members of the Yippies and the Jewish Defense League confirms that these two groups are working closely together in a joint 'anti-Nazi' campaign that specifically targets Democratic Party leader Lyndon H. LaRouche," reported the Aug. 11 memo. "According to several reliable law enforcement sources, the Yippies and JDL have been interconnected organizations for at least the last two years. These sources cite the fact that many JDL members have risen to high posts within the Yippies whose members have in turn joined the JDL."

"A demonstration called by the Yippies at Madison Square Garden," it reported, "included contingents from: Students Struggle for Soviet Jewry, an umbrella group among which JDL members are prominent; Rock Against Racism; the CWP; and the RCP. Speeches and 'direct action' taken by the demonstrators confirm that LaRouche is a special target of these organizations. Yippie leader Dana Beal attacked LaRouche as a 'Nazi,' while other demonstrators burned a LaRouche presidential campaign poster, shouting: 'This is what we will do to the LaRouche people.'"

The scheduled speaker at the rally cited by the *IL* memorandum was Dennis King, "a former leader of the Maoist Progressive Labor Party . . . [who] authored a 16-part series attacking LaRouche as a dangerous anti-Semite for *Our Town*, a community newspaper published in New York by associates of Roy Cohn.

"Other demonstrators carried banners with such slogans as 'Nazis should be turned into lampshades.' Members of Rock Against Racism—including Yippie militant Aaron Kay—circulated a leaflet attacking LaRouche and his security adviser, Mitchell WerBell. Kay, who once threatened to throw a 'pie filled with battery acid' at LaRouche, was observed provoking 12 CWP members to take action against the Democratic Party leader.

"One member of Mr. LaRouche's campaign staff was stabbed three months ago by a JDLer," the memo notes, "and the spring edition of the Yippies' *Overthrow* magazine called for direct action to be taken against LaRouche and WerBell . . ."

## Tarheels take on Bob Bergland

*A Carolina court battle could set a national precedent in federal land use.*

**I**n my investigatory efforts to open up our natural resources for development, I came across an important fight of the kind I am always eager to report on. It involves a legal action now in U.S. District Court for the Western District of North Carolina. The plaintiffs, Southern Appalachian Multiple Use Council, Save America Club, et al., have squared off against Robert S. Bergland, U.S. Secretary of Agriculture, over administrative action from Mr. Bergland involving the DOA's so-called Roadless Area Review and Evaluation ("RARE II") process.

Now, almost anyone going after the bucolic Mr. Bergland will draw my interest, but this case is especially noteworthy. Here's why.

The U.S. for the first time faces the prospect of importing uranium to supply its nuclear power plants by 1990 as resources in the Western states fail to provide the amount needed. One of the most promising areas for mining of further uranium, the eastern stretch of the Appalachian belt from Alabama and Georgia up through the Carolinas into West Virginia, is under threat of being cut off from both uranium and equally promising oil and gas development by some illegal sleight of hand on Mr. Bergland's part.

It seems that Mr. Bergland has invoked his administrative powers under the 1964 Wilderness Preser-

vation Act. Herein lies the "RARE" logic of Bergland's attempt to seal yet further vast national acreage into primeval, unsullied "wilderness." It's not enough that Bergland and his cronies in the Sierra Club, Wilderness Society and Friends of the Earth have boxed up millions of acres of economically vital lands in the Western states and Alaska. They seem intent on turning the entire nation into some kind of birdbrained wilderness preserve.

Under the 1964 Wilderness Act, the Secretary of Agriculture recommends to Congress those areas of national forest to be withdrawn from multiple use as wilderness areas. Congress alone has power to make such a wilderness designation. But, despite clear language, in 1977, Bergland and former Wilderness Society Forest Service head, Ruppert Cutler, invented a cute loophole allowing them to withdraw millions of acres from mineral development. They launched "RARE II," expanding the 12.3 million acres locked up under his predecessor's RARE I. Under Bergland's RARE II, land not recommended for wilderness designation or multiple use could be held indefinitely under administrative fiat for "further study," without congressional approval. Or so they thought until some people decided to challenge them.

Jack Brettler of the Carolina Uranium Company in Franklin, N.C., for one, after having his request held up for uranium prospecting on the affected land, decided enough was enough. He and some of the plaintiffs named above hired an attorney and proceeded to challenge Bergland's rule by administrative fiat. What they found has the government worried enough that they took the defense out of the hands of Forestry attorneys and put a Justice Department "hotshot" on the case.

After reviewing the case, I can see that Bergland has cause for concern. It seems that he and his Washington cohorts have violated explicit federal law. In 1975, Congress decided that perhaps the Agriculture Secretary had a little too much discretion and passed a new law taking primacy over lands east of the Mississippi—the Eastern Wilderness Act of 1975. Under this quite explicit law, Bergland does not even have authority to withdraw lands for "further study." That authority is given to Congress. And Congress has not designated the area in the Pisgah National Forest as a wilderness.

This area, by authoritative estimates, contains enough uranium to fuel 10 to 15 1,000 megawatt nuclear plants for their 30-year life span, the barrel equivalent of 4.65 billion barrels of crude oil, or 500,000 barrels per day! Just for reference, keep in mind that Mr. Carter's synthetic fuels program mandates a potential \$88 billion to produce this equivalent amount of oil by 1987. Those are your tax dollars, whereas Brettler and others eager to develop the known economic potential of this underdeveloped area, don't seek tax subsidies for their project.

## More trouble for Anderson

John Anderson appears to be running into some serious obstacles in his independent presidential gambit.

Beginning with the flap three weeks ago when he announced he would withdraw his candidacy if Ted Kennedy got the Democratic nomination—and his reversal a few days later amid media accusations of “gross political opportunism”—Anderson has found even liberal press outlets like the *Boston Globe* starting to dismiss him as “irrelevant.”

His standing in the polls is declining and attempts to enlist support from big-name Democrats appears to be heading nowhere despite Jimmy Carter’s extreme unpopularity.

From last month’s 25 to 30 percent range, he dropped this week to a low of 13 percent in both the latest ABC-Harris Poll and the AP-NBC Poll, and scored 14 percent in the Gallup Poll. These ratings panicked Anderson headquarters; since the candidate will be excluded from the League of Women Voters’ presidential debates this fall if he doesn’t climb back above 15 percent.

And it is generally acknowledged that if he does not appear in the nationally televised debates, Anderson won’t establish himself as a major alternative to Carter and Reagan. As of this writing, Anderson is on only 19 ballots nationwide.

At a press conference Aug. 19, Anderson’s chief counsel, Mitchell Rogovin, announced the League had granted them a week’s extension to Sept. 7 to get back up.

Whether they’ll succeed is an open question. White House sources reveal that President Carter’s campaign strategists are displeased with the idea of having Anderson participate in all three scheduled League of Women Voters debates.

Although Anderson held a series of meetings with key liberal Democrats, including Boston Mayor Kevin White, former Pittsburgh Mayor Peter Flaherty, American Federation of Teachers head Albert Shanker, and long-time Kennedy ally Patrick Lucey, the only significant endorsement he’s secured so far is from Joe Rauh, the Washington, D.C. lawyer and co-founder of Americans for Democratic Action.

In Boston last week, in an attempt that the *Boston Globe* characterizes as a “try to stop his eroding support,” Anderson was bluntly refused a meeting with former Massachusetts Governor Dukakis.

Back in Washington Aug. 19, Anderson also failed to get some anticipated endorsements from key Democratic congressmen. Not only did black Congresswoman Shirley Chisholm, whom Anderson has cited as a potential running mate, remain noncommittal after a Capitol Hill meeting, but Sen. Henry Jackson, who had a cozy tête-à-tête with Anderson two weeks before the Democratic convention, flatly refused to meet.

Jackson’s office explained, “The Senator is a lifelong Democrat, with no intention of leaving the party, nor running for Vice-President or anything else.”

Meanwhile, Anderson is keeping a high profile on Capitol Hill and insisting he’s the only U.S. candidate acceptable to Western European leaders.

Some observers believe that behind the sudden reversal in Anderson’s political fortunes are the

proverbial backroom boys who engineered his rise to media stardom in the first place; they want Anderson on hold now to stabilize Carter. Since they had deployed Anderson simply as a tool for throwing the election to Reagan—or into the House of Representatives—his campaign is on the back burner, while it will be maintained as a deployable resource as long as possible. Other analysts add that the backroom boys don’t want to order the McGovern-Kennedy faction of the party to bolt to Anderson, essential for a credible campaign, for fear of creating a vacuum in the party allowing conservative constituencies including farmers, Dixiecrats, labor, and minorities to regain their hold on the party.

In line with this analysis, prominent liberal Democrat George Wald, a Nobel Prize scientist and a former McGovern adviser, this week accused Anderson of being a “tool of the Trilateral Commission” in a letter published in the Aug. 19 *New York Times*.

“I have a suspicion approaching conviction that John Anderson’s try for the presidency was invented by, or with the connivance of the Trilateral Commission, to cut into the Democratic vote and so secure the election of Ronald Reagan,” Wald wrote in the CFR-Trilateral Commission house organ.

“In some sense, John Anderson represents a replay of Jimmy Carter’s 1976 candidacy. Anderson and Carter were both members of the Trilateral Commission from its inception. . . .

“What all this means, if I am right, is that David Rockefeller and his Trilateral Commission, having had four years of Jimmy Carter, have decided that they can do even better with Reagan and their man Bush. . . .”

## Senate Subcommittee investigates Vesco

The Senate Subcommittee on Improvements in Judicial Machinery, chaired by Senator Dennis DeConcini (D-Ariz.), opened hearings on Aug. 19 into allegations that the Justice Department had interfered in a grand jury investigation of fugitive financier Robert Vesco. While the official "Billygate" subcommittee investigating Billy Carter's ties to Vesco and Libya is garnering all the headlines, the DeConcini investigation may actually produce evidence more devastating to the President.

"Billy Carter is just a footnote in this affair. Vesco even told us that," declared a source close to the DeConcini investigation.

DeConcini and ranking subcommittee member Republican Orrin Hatch (R-Utah) have zeroed in on the Vesco investigation after several months of review of Justice Department handling of a dozen politically sensitive cases. The subcommittee has sought to find out if the Justice Department dismissed those cases because the individuals involved were politically close to President Carter.

The closed-door Aug. 19 hearings heard Ralph Ulmer, chairman of a New York grand jury empaneled to investigate allegations that Vesco tried to buy influence in the Carter White House. Ulmer reportedly confirmed that there was substantial Justice Department interference in the proceedings of the grand jury. Ulmer at one time attempted to quit this grand jury because of Justice Department activities, but was pressured to stay on.

Subcommittee sources reported that the Ulmer testimony should provide the basis for a full-fledged investigation into the Vesco affair.

## Finance Committee drafts tax cut bill

Having confirmed the tax-cut sentiment around the country during the two-week Senate recess for the Democratic convention, the members of the Senate Finance Committee returned from the recess and voted 11 to 1 Aug. 18 to immediately draft a bill. Specifically, they decided to reduce both personal and business tax liabilities from \$25 to \$30 billion, effective Jan. 1, 1981. The lone dissenter was Sen. Bob Packwood (R-Ore.). Moving with extreme speed, the committee voted unanimously to complete action on the tax cut bill by Aug. 22, in the hope that the full Congress could have a tax cut bill passed before recessing Oct. 4 for the national elections.

The bill being drafted includes major tax reductions for both businesses and individuals. Sen. Lloyd Bentsen (D-Tex.) substituted a new bill for tax incentives for business in place of the so-called 10-5-3 bill. This well-known tax proposal allowed for tax write-offs for buildings over 10 years old, for equipment over five years old, and for vehicles over three years old. Instead Senator Bentsen (D-Tex.) proposed a depreciation plan known as the 2-4-7-10 plan. This would permit depreciation for trucks, oil and gas drilling equipment in two years, for much of the auto companies tools and mining

and electronic equipment in four years, and for such goods as steel products and motor vehicle manufacturing assets in seven years. Property with a useful life of 16 years such as sugar and cement manufacturing could be written off in 10 years. The new bill also allows for real estate to be depreciated in 20 years.

This passed the committee unanimously on Aug. 20. In addition Bentsen proposed granting investment tax credits of 25 percent for rehabilitation of commercial and industrial buildings, a provision which, he stressed, would help revitalize older cities. Another proposal would let a small business write off in one year its first \$50,000 of investments in equipment. Senator Bentsen secured the co-sponsorship of an important committee Republican for his proposal, Senator Danforth of Missouri.

The Committee voted unanimously on Aug. 20 for a \$22 billion tax reduction for individuals, a 6 percent cut. Another key issue for review is the capital gains tax, and the committee has been considering a reduction in the amount of capital gains taxed from 40 percent to 30 percent.

While the Senate pursues tax reform, the House is moving much less vigorously. The House Ways and Means Committee is holding hearings on the matter, taking testimony from thrift institutions, charitable organizations and others. But committee chairman Al Ullman (D-Ore.) has stated that he does not think Congress should legislate such a matter in a pre-election atmosphere. His target is early next year with a bill retroactive to



Jan. 1. "The three essentials for next year are to offset the higher Social Security payroll taxes due to take effect Jan. 1, to adjust for increases caused when inflation pushes you into a higher tax bracket and to provide depreciation reform for business," declared Ullman.

## **Budget resolution stalled until after election?**

The Senate Budget Committee began work on the second concurrent budget resolution on Aug. 18, but it appears almost certain that Congress as a whole will miss the Sept. 15 deadline for the resolution and indeed will have to go into a lame-duck session after the Nov. 4 elections to complete work on the budget. At the first day's drafting session, Senate Budget Committee Chairman Ernest Hollings (D-S.C.) said, "The balanced budget we hoped for is now out of reach. Everyone knows that." Congress had passed a tentatively balanced budget in June, but high unemployment, causing reduced tax revenues and more government expenditures, threw those figures out of balance.

Capitol Hill sources report that the reason Congress will not act to resolve the fiscal 1981 budget prior to their Oct. 4 recess is that Democrats do not want to have to justify their support for an unbalanced budget during the electoral race.

In an effort to bring the budget closer into balance, Democrats on the committee ignored their party platform and cut another \$300,000 out of federal jobs programs Aug. 20.

## **Senate votes up Alaska Lands Bill**

The Senate finally voted up Aug. 19 the controversial Alaska Lands Bill and in doing so put 104 million acres of Alaska wilderness into parks and wildlife preserves. The legislation was a major contest between those who want to turn Alaska into an environmentalist haven and those who want to see Alaska's vast resources developed, and the state industrialized.

The Senate voted 63 to 25 to end a filibuster of the bill by Alaska's Senator Mike Gravel (D-Alaska). It then substituted a compromise bill that had been worked out in private discussions, after less environmentally oriented legislation bogged down in the Senate last month. The compromise bill puts 43 million acres into national parks and preserves, and 57 million acres into national wildlife refuges.

Senator Gravel denounced the bill as "going far beyond what is reasonable in locking up" oil and other resources. The other Alaska Senator, Republican Ted Stevens, voted against the bill but said it was preferable to no bill, because then the President's executive action would stand. In 1978 President Carter took 110 million acres out of development by executive order. Carter lauded the bill passed by the Senate, claiming that it struck a balance between "development needs and protection of the natural beauty of the state."

The Senate bill now has to be reconciled with the House legislation, which sets aside 128 million acres. Several senators are expected to pressure the House to accept the

Senate bill rather than to send it to a House-Senate conference committee, which would risk a filibuster against the conference bill in both the House and the Senate.

## **Tenn-Tom proponents on the offensive**

Senator Bennett Johnson (D-La.) convened a hearing Aug. 21 of his water and power subcommittee of the Senate Appropriations Committee to provide a forum for Army Corps of Engineers chief engineer Lt. General Morris to rebut growing criticisms of the Tennessee-Tombigbee Water Project.

Johnston reiterated his strong support for Tenn-Tom, "even though I represent a state with the competing port of New Orleans," and gave General Morris an open field to respond to the attacks on Tenn-Tom. In a particularly effective presentation, General Morris rebutted opponents' charges that the Army Corps of Engineers has exaggerated the projected benefits of Tenn-Tom. Asked by Sen. Mark Hatfield (R-Ore.), ranking Republican on the subcommittee, what the Corps' track record was on these kinds of estimations in the past, Morris detailed half a dozen projects, including Ohio and Arkansas river projects where Army Corps of Engineer improvements yielded traffic of anywhere from two to 10 times original Corps estimates. Morris pointed out that Corps estimates do not include the impact of a water project in attracting new industries to a region.

# Incompetence and miscalculation

In the aftermath of the contemptible proceedings of this year's Democratic National Convention at Madison Square Garden, the nation is once again being sobered by the new outpouring of ominous news on the state of the economy, and the more ominous news on the precarious international strategic situation. The corporate sector's liquidity has hit a 25-year low, unemployment an all-time post-war high, consumer price inflation is now well above 20 percent, and the Federal Reserve and Treasury are announcing a new round of liquidity squeezes. The national economy will enter the fourth quarter as the combined impact of the Carter recession and the continuing Volcker policy are moving toward the jugular. Yet President Carter descended once again from Camp David on Aug. 19 with a new plan for economic desolation based on the same logic as last October's "Volcker measures." More monetarist "anti-inflation measures," more austerity and more "conservation."

As the economic gutting proceeds apace, Washington, together with the other major capitals of the world, is rife with persistent and fearful speculations of an imminent, and probably unmanageable major strategic confrontation crisis during the late September-early October period. The sensational revelations of columnist Jack Anderson about the now notorious scenario of a Carter-inspired invasion of Iran in October merely scratch the surface. A systematic buildup for confrontation has accelerated since the formal proclamation of the "Limited Nuclear War Doctrine" (Presidential Directive 59) by Defense Secretary Harold Brown. Given that forces from the Carter camp as well as the camp of Governor Reagan's advisers are cooperating in shaping up this confrontation crisis, it would be inaccurate to claim that the projected confrontation crisis is simply a reelection ploy on the part of the Carter forces.

Something more sinister is occurring in the land which spans both nominally opposite Carter and Reagan camps. There is a clique of highly placed, highly influential, incompetent and miscalculating

bunglers who pull the strings on both sides and who are now toying with a "constitutional crisis scenario" that involves Rep. John Anderson's candidacy and an electoral deadlock in November.

What we have before us is the full unfolding of the bankruptcy and moral degeneration of what once passed as the American ruling elite, now the laughingstock of our European allies and the object of derision among Peking's mandarins. Events occurred in and around the Democratic convention this month which, when in due course they see the light of day, will provide the true flavor of incompetence and decay on the rarefied heights of the American Olympian elite.

What remains to be done by this publication, its collaborators and the increasingly influential circle of its readers and supporters is what Americans have always done in time of crisis: roll up our sleeves and get down to work on the fundamentals. Admittedly, the *EIR* is an exceptional sort of publication in these times. Not because we ourselves are in any sort of way exceptional, but because our competition in public life is exceptionally disoriented. We seem to be exceptional, but the kind of competence we represent ought to be ordinary in our republic.

In terms of the two matters of vital importance for the country, namely strategic intelligence and economic theory, embodied in the *EIR*'s Riemannian model, we have come to represent the kind of authority and competence ordinarily associated with a well-ordered republican elite. Thus it has been a matter of moral fulfillment and pride for this publication and its collaborators to have had its founder and contributing editor, Lyndon H. LaRouche, Jr., run for the Democratic presidential nomination. Mr. LaRouche's courageous effort shall continue after the national convention, and so will our efforts and those of our collaborators and our readers. The task ahead is to form a growing circle of national scientific and political leadership informed by the republican principles which founded this nation.