

# EIR

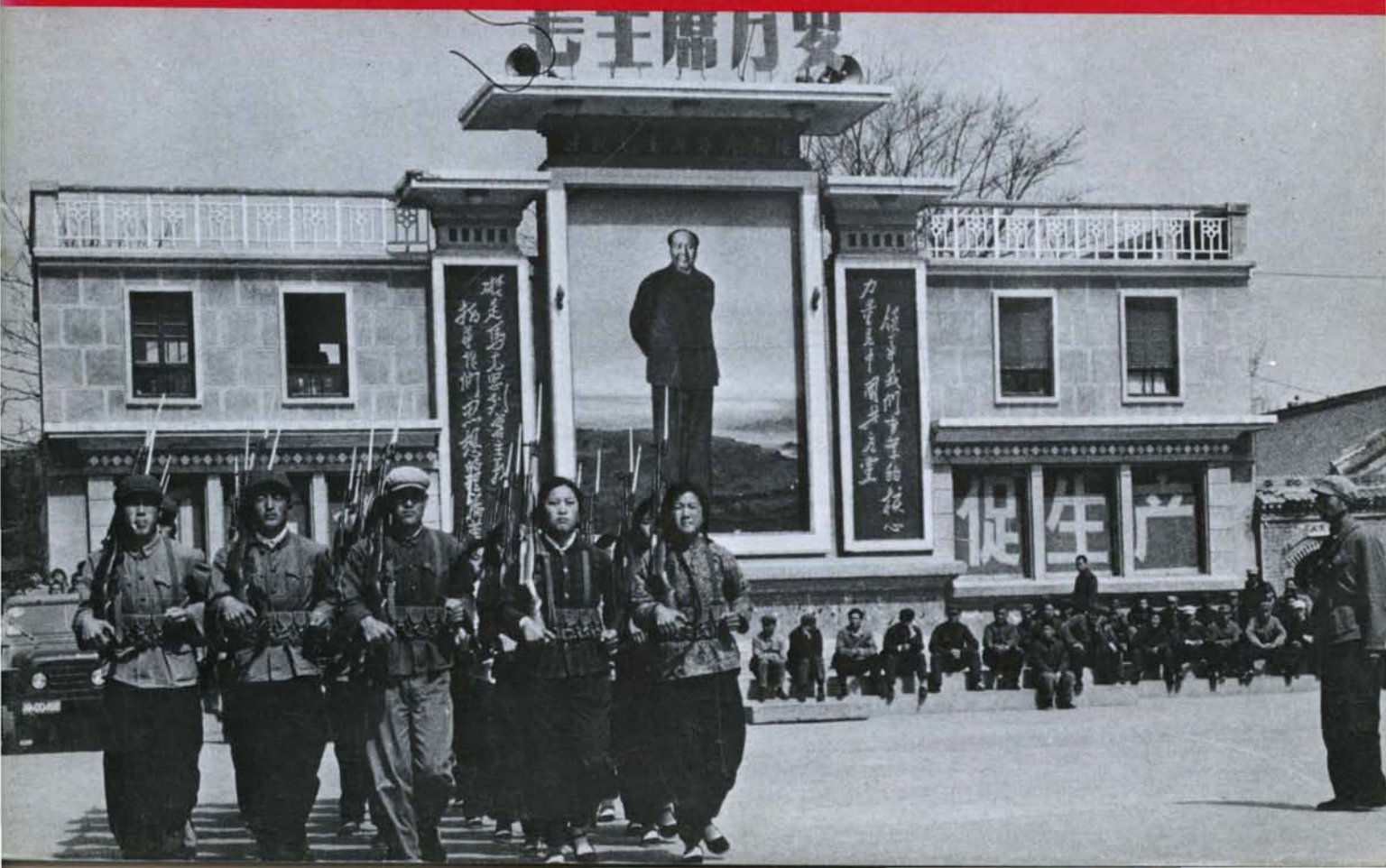
Executive Intelligence Review

November 25, 1980

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Who's doing what to whom in Poland  
Will Reagan let himself be Thatcherized?  
Expanding credit through a new Federal Reserve

**Power struggle in China:  
The myth of 'the new stability'**



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# EIR

## From the Editor

Since Henry Kissinger rediscovered Communist China, we have been inundated with successive waves of Sinophilia. While the uncritical adoration of Maoist China has slowed down somewhat, the media in this country, encouraged by officials in Washington, are still unabashedly biased toward our newfound "allies" in Peking.

The excesses of Maoism are supposedly over, and through the leadership of Deng Xiaoping, China has entered a new era of political stability and openness to Western influence, we are told. Even more, there are daily reports of the victories of "capitalism" in China, from Coca-Cola to hairdryers in Shanghai salons.

This is a rebirth of that turn-of-the-century myth of the great Chinese market. As many businessmen who have spent good hard cash waiting in Peking anterooms for the past few years have discovered, this time around the myth is no more real than before.

This week's Special Report is the first of a series which will give our readers hard facts inside of deliberate myths and wishful nonsense about China. The *EIR* made a decision several months ago to develop an intelligence capability on China that would be second to none, and we have been quietly assembling the expertise and the information to carry out that commitment.

The first installment focuses on the immediate political situation inside China. Future reports will follow the events discussed in this report, with lengthier background on Chinese history. And we are now in the initial stages of preparing a blockbuster analysis of the Chinese economy that we promise will wipe out more than a few of those myths.



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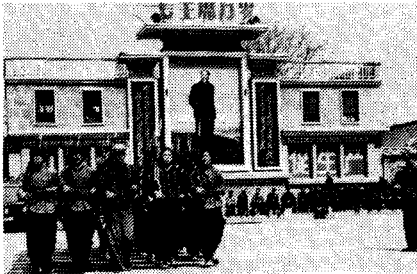
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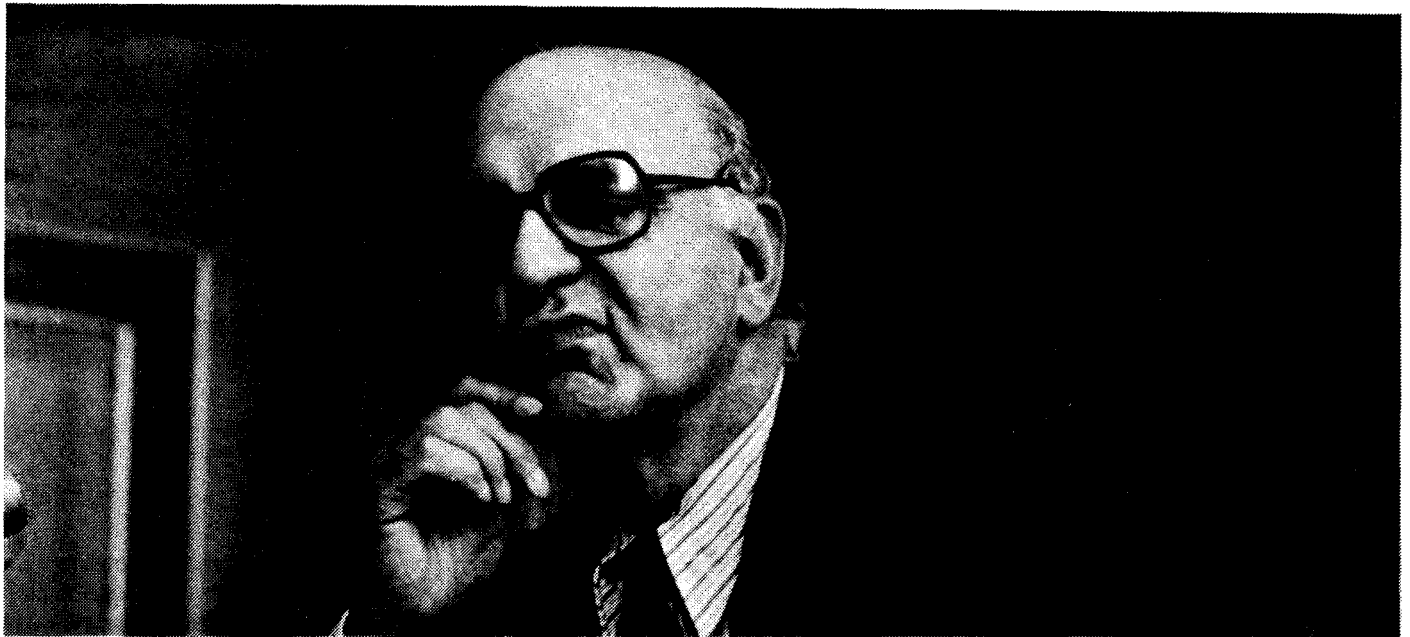
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#### Correction:

An error crept into our Nov. 18 book review heading. The publisher of Lyndon LaRouche's *How Credit Can Be Greatly Expanded Without Adding to Inflation* is the National Democratic Policy Committee, not the New Democratic Policy Committee. The latter does not exist.



**“Watchful observers tend to ask themselves whether Volcker and Miller are merely incompetent or downright insane.”**

— Lyndon H. LaRouche  
Contributing editor, *Executive Intelligence Review*

When Federal Reserve Chairman Paul Volcker introduced his credit control policies last year, the EIR was quick to sound the alarm to the danger of “Dr. Volcker’s horse liniment.” The Volcker package would not be anti-inflationary, EIR warned, but would carry the “Friedmanite stagflation” of the Nixon years to extremes.

Finally, red-faced economists and government officials are now admitting that “something” went wrong.

The Executive Intelligence Review is now making available a comprehensive series of studies on the American economy to show why the Volcker measures had to fail, why the country’s economists missed the boat in forecasting the trends for 1980, and why EIR’s LaRouche-Riemann econometric model was right on the mark.

### **Can the American Economy Recover?**

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# A new set of choices

On Election Day 1980 the American population went to the polls to rid the nation of the zero-growth austerity policies that have collapsed the economy, put millions out of work, and made the United States a second-rate power. Americans made a choice. Against a media charade designed to hide the immense dissatisfaction with the administration, the population threw Carter onto the unemployment lines. But will Federal Reserve Chairman Paul Volcker go with him?

Now a more active choice is demanded of the citizenry. Will the constituencies that handed Reagan a landslide victory ensure that his administration will junk Volcker's policies and rebuild the nation as an economic and scientific power?

Europe is eyeing the transition; both the monetarist faction, and the European heads of state committed to economic growth are out to influence the Reagan administration. French President Giscard and West German Chancellor Schmidt are said to be happy about the Reagan victory because it will mean a "strong America," unafraid of working together with a strong Europe.

"I think a functioning and growing economy in itself represents a major part of the security of a nation," said Schmidt shortly after the Reagan landslide. This perspective, the one that guided the creators of the European Monetary System, must also be the guide for rebuilding America.

The battle for and against four more years of Friedmanism is now totally out in the open. Last week a former British prime minister, Conservative Edward Heath, warned against the Friedmanite policies that Margaret Thatcher has imposed on Britain. Thatcher's policies have been "catastrophic," he said, adding that Milton Friedman, a Reagan adviser, intends to abolish the industrial base in the United States. "If you persuade Reagan to accept that, then the future of the American people is really bleak," he warned.

But from the side of Friedmanism, the pressure

is on. George Shultz and William Simon, who are mooted to be in line for top cabinet posts, are both on the record in favor of Friedmanite austerity policies. "Mr. Shultz says Mr. Friedman is his favorite economist and recently told the *New York Times* that Mr. Friedman is also Mr. Reagan's favorite," reported Reaganite Jude Wanniski in the *Wall Street Journal*. Simon went on record recently endorsing Volcker tight money policies, and calling on Volcker to "take even stronger action" than he has. "Nobody considers Paul Volcker the enemy," he told the *Wall Street Journal*.

An overwhelming majority of the electorate did consider Volcker the enemy, and as Wanniski recalls, Reagan smashed his opponents in the primaries on the basis of his call for economic growth.

That fact is being well-publicized by factions within the Reagan camp and the Democratic Party. A legislative draft proposal on banking reform that defines a way to expand credit on a sound basis to serve a growing national economy is being widely circulated by the National Democratic Policy Committee.

And within the Reagan camp a group of economists and elected officials are beginning to put the heat on to ensure that Reagan—who is said to detest austerity—can respond to his mandate.

Rep. Jack Kemp of New York charged this week that Paul Volcker, by adhering to Friedman's monetarism, is wrecking the American economy. "Austerity is the problem, not the solution," he told *EIR* this week. "The only solution to our economic problems is economic growth." To the *Buffalo Courier-Express* Kemp said on Nov. 9: "If we end up 'Thatcherizing' the economy, the voters will turn on us with a vengeance. We've got to make people feel good right away. If we go back to the old-time economics that I call 'root-canal' economics, we'll be turned out. The advocates of 'root-canal' economics argue that the worse you feel, the better off you'll be. . . ."

## Will Reagan dump Volcker ...or get Thatcherized?

by David Goldman

Certain of Milton Friedman's collaborators in President-elect Ronald Reagan's entourage have already figured out how to sell a depression policy to the incoming chief executive, *London Times* Editor-in-Chief William Rees-Mogg reports. They will explain to Mr. Reagan that if he causes the Federal Reserve to tighten credit and force a monetary bloodbath as soon as he takes office, the economy will recover in time for the 1982 congressional elections!

In the meantime, Jude Wanniski reported in the *Wall Street Journal* Nov. 10, that the Friedman gang is hoping Fed Chairman Paul Volcker will enforce "mindboggling interest-rate austerity" between now and Jan. 20, when Reagan takes office, in order to remove the blame for the hideous consequences from the new administration.

It is hard to imagine how, except by such twisted and cynical arguments, the monetarists who now advise the President-elect could possibly persuade him to continue the Volcker program, after the economic disasters in both the United States and Britain during the past year. Fortunately, much more will shape Governor Reagan's outlook than the advice of Bill Simon, George Shultz, Alan Greenspan, Arthur F. Burns, and other certified losers. What is most important now is not the infighting around the cabinet but how Reagan views himself as a world leader, and how he responds to his peers among other allied world leaders—as opposed to mere employees in Washington.

The most important events with respect to the new administration's policies took place last week in Paris, Bonn, and Riyadh, where a deal emerged to stabilize the European Monetary System (EMS). The EMS is now a stable currency zone of the European Community members (excluding the recalcitrant British), and plans to become an alternative monetary power center to the International Monetary Fund, the leading enforcer of Friedmanite policies on the developing sector.

### The Fed's putsch

As *EIR* reported Nov. 11, the Federal Reserve, i.e., FRB Chairman Paul Volcker and New York Fed President Anthony Solomon, decided to *pre-empt* the new administration's ties to European economic policy by breaking up the European Monetary System before Jan. 20. The chosen vehicle for the assault was what the French call "interest-rate warfare," i.e., a strong rise in dollar interest rates to draw hot-money flows into the dollar (and the pound sterling), and disrupt European monetary stability.

The dollar rose spectacularly, from less than DM 1.90 to over DM 1.96 Nov. 7, per the Fed's intention. But on Nov. 10, word reached the foreign exchange markets of negotiations between the West Germans and French for a \$10 billion credit package, in advance of the European Community's scheduled \$10 billion borrowing for next year. At the same time, according to



Saudi sources *EIR* considers authoritative, the Saudi Arabian Monetary Agency shifted funds from dollars into West German marks. In five hours, the dollar plummeted 5 pfennig, from DM 1.95 to DM 1.90, and fell below the 1.90 mark, where it remains as of this writing.

Of equal importance was the decision of Western European central banks to *support the price of gold* when it fell below \$600 per ounce last week, apparently due to high interest rates. (Eurodollar short-term rates exceeded 17½ percent by the end of last week, forcing many gold holders who had bought gold on credit to liquidate their positions.) The European Monetary System functions on a gold reserve basis: 20 percent of the gold reserves of its members are pooled and valued *at market price*, and each member is permitted to draw currency in European Currency Unit (ECU) denomination in order to defend the parity of its currency. Strategically, the EMS gold-reserve system is the potential vehicle for a re-linking of the dollar to gold.

### EMS, Saudi countercoup

The foreign exchange markets are now saturated with rumors concerning what the Europeans and Saudis are up to, particularly since the West German business weekly *Wirtschaftswoche* reported a \$9 billion Saudi direct credit facility to the West German Bundesbank Nov. 11 (a report denied by the West German finance ministry).

However, what is clear is that Western Europe has carried off a political coup with the Mideast's richest oil nation, for the combined purposes of Persian Gulf security, currency stability, and oil price moderation (see International). There is no longer serious discussion of a major oil price increase.

European leaders can now tell the new administration precisely why Paul Volcker is the first Carter official it must get rid of. They can point to the economic disaster brought on by 18 months of Friedmanite policies in Britain, including production levels lower than those of 1969 and nearly 20 percent inflation: a more advanced version of what has occurred under Paul Volcker's direction in the United States. They can indicate the prospects for world economic recovery through expanded international trade, provided the United States cooperates with the European Monetary System.

The Federal Reserve's "interest-rate war" turned into a rout at a central bankers' meeting at the Bank for International Settlements on the weekend of Nov. 8 and 9. Called to discuss means of stabilizing the West German mark, the meeting produced no results whatever, according to wire service accounts, except the conclusion that "the monetary policy of the Bundesbank and the Federal Reserve are totally incompatible,"

as the London *Financial Times* put it the morning of Nov. 10. But the events on the foreign exchange markets following the meeting show clearly who won.

### Reagan's choices

It will take some doing to transform this favorable strategic correlation into a policy profile for the Reagan administration in the United States. Regrettably, Reagan decided not to meet any foreign leaders personally in order to avoid Israeli Prime Minister Menachem Begin, and will delegate former Treasury Secretary George Shultz to meet with West German Chancellor Schmidt when Schmidt comes to the United States this coming week. One group of Reagan's advisers, including Rep. Jack Kemp and former *Wall Street Journal* associate editor Jude Wanniski, have started a spirited attack on the "Thatcherization of Reagan," as Wanniski put in his *Wall Street Journal* op-ed Nov. 10.

Kemp and his associates fall short, however, of being able to offer Reagan more than the suggestion that reductions in marginal tax rates will automatically cure the depression. Kemp told *EIR* that much would be decided at the four-day meeting the weekend of Nov. 16 among Reagan and Kemp, Arthur Burns, Milton Friedman, George Shultz, Alan Greenspan, and William Simon.

The New York congressman is probably wrong about the unique importance of this meeting. Reagan has a national constituency to answer to, one much broader than the spectrum of views among his advisers. Most of the Western senators who formed the backbone of his early campaign effort, including Paul Laxalt of Nevada, and Orrin Hatch and Jake Garn of Utah, are spoiling for a fight with what Wanniski called "The Eastern Establishment (Trilateral Commission, Council on Foreign Relations, international bankers)." The Democratic Party will have a resurgent conservative wing, characterized better by Lyndon LaRouche's National Democratic Policy Committee than the Americans for Democratic Action.

Whatever initial appointments Reagan makes for the senior cabinet jobs, he will have to come to terms with his peers among America's allies, and the real constituencies who voted him into office in protest against the consequences of Paul Volcker's atrocious blunders. All bets are off on what Reagan will finally do. It may be that the apparent dip in the Federal funds rate this week shows that Volcker fears the consequences of continued increases in the prime rate. It is too early to tell whether for political reasons interest rates have peaked, although the stock market apparently drew that conclusion Nov. 12. The point is that the rules of the game have changed in a fundamental way since the Nov. 4 elections, and unlike the Carter administration, Mr. Reagan has a margin for success.

# Expanding credit through a new Federal Reserve

by Kathy Burdman

The National Democratic Policy Committee announced this week the release of a draft "Federal Reserve Reform Act of 1981," reshaping the nation's central bank in order to halt the current inflationary expansion of money supply. The act would redirect expanded credit instead to high-technology capital-goods investment and a general expansion of production of real industrial and agricultural wealth.

The legislation is based on proposals by policy committee advisory board chairman Lyndon H. LaRouche, Jr. to return the United States to the form of central banking originally intended by Treasury Secretary Alexander Hamilton and embodied in the Constitution. The current Federal Reserve open-market creation of bank reserves is unconstitutional, states LaRouche, because it leaves "the power to create fiat credit in the hands of a powerful cartel of private bankers" led by Citibank and Chase Manhattan, "who dominate the federal funds market." Mr. LaRouche, a 1980 conservative Democratic presidential candidate, called instead for a return to "the constitutional obligation of the federal government" to ensure that the nation's credit goes directly to productive manufactures and agriculture.

The National Democratic Policy Committee is an organization of conservative Democrats formed after the August 1980 Democratic Party National Convention in opposition to the party's nomination of Jimmy Carter. The committee, which accurately predicted the disastrous loss by the Democrats on Nov. 4 under a Carter candidacy, rejects the no-growth economics of the Carter administration, and seeks to revitalize the party through the promotion of high-technology industrial development.

### The legislative agenda

The Federal Reserve Reform Act of 1981 would amend the Federal Reserve Act of 1913 which created the Fed system.

The aim of the amendments is: 1) to forbid the Federal Reserve from creation of new fiat credit through its current mechanism of *open-market operations*, commonly known as creation of net new money supply; 2) to provide the banking system instead with unlimited new credit through the Fed *discount window*, provided that all loans to the economy presented to discount by banks to the Fed are earmarked for new real capital investment, production, or transport of tangible wealth; and 3) to raise *reserve requirements charges* on the deposits of those banks whose total loans and other assets outstanding show an inadequate proportion of lending for purposes of tangible real production.

**Modification of open market operations.** "The core of the problem," the supporting brief to the new act asserts, "is to be found in the way that the Federal Reserve System creates money." The Fed currently adds net new money supply to the banking system each week by printing of fresh new Federal Reserve Notes, the familiar bills which circulate as currency, to buy a certain portion of U.S. Treasury bills or notes, the government's debt, which would not otherwise be purchased by money already in circulation in the banking system. This is known as "monetizing the government debt," printing fiat money to finance the government's deficit.

Even worse than this inflationary problem of "How much money supply?" the brief continues, "is the question 'Whose?'" In practice, the Fed does not purchase Treasury bills directly from the Treasury, but from the two dozen leading Wall Street government securities houses such as Salomon Brothers and Goldman, Sachs, who have bought the debt from the Treasury in anticipation. These big security dealers then deposit the proceeds of their Treasury debt sale—the new fiat-money of the Federal Reserve—into accounts at the top 20 commercial banks, led by New York's

Citibank and Chase Manhattan.

“The banks then have additional deposits, created out of thin air,” the National Democratic Policy Committee brief points out. “They then create more money out of thin air: they loan their deposits to a customer; the customer’s loan is redeposited and becomes a new deposit; and so forth.” Current reserve requirements limit the “money multiplier” to about 2.5 times the original creation of new money by the Federal Reserve System.

The control of the nation’s credit thus rests with a private banking cartel, not the federal government, the legislative brief states.

“In effect, the Fed shares its monopoly powers over money creation with a handful of big money-center banks. If these institutions made most of their loans to the goods-producing sector of the American economy, there would be no problem. They do precisely the opposite. Half the profits of the top 10 commercial banks accrue from the highly speculative Eurodollar market. The large banks are as likely to lend out the newly created money they received from the Federal Reserve into the Eurodollar sinkhole as they are to the American economy.

“That explains why the majority of the nation’s 14,700 commercial banks have suffered a deposit shortage during the past two years, even while money supply rose sharply. What the Federal Reserve pumps in does not reach the capillary system of the economy, because the aorta has a leak.”

The Federal Reserve Reform Act of 1981 therefore proposes to modify the Fed’s open-market operations such that net new fiat money is no longer created through money supply expansion, which the act accomplishes in Section 3 by setting a statutory limit to the amount of U.S. government debt the Fed may hold. The Fed may continue to perform the other functions of open-market operations, such as the short-term buying and selling of Treasury debt to stabilize the markets, but may not buy net new debt.

**A new, expanded discount window.** The new act then proposes that large amounts of new credit be issued to the economy, rather, by the reformed Fed’s getting back total constitutional federal government control over its new fiat money and directing it specifically to productive enterprise. “The Federal Reserve System may create new money indefinitely as long as the new money serves to create new wealth,” the supporting brief states.

The new act therefore proposes that the Fed open wide its discount window, which currently provides, by custom, only marginal amounts of credit for emergencies to the banks, for general productive lending. The advantage of the discount window is that it discounts, via the banks, bills of trade which represent chits in

effect on tangible goods or services, so that the central bank is assured new money goes to create real wealth.

### Criteria for borrowing

For example, U.S. Steel will be able to get a loan from the Pittsburgh National Bank if it can prove the funds will be used to build a new steel plant. In that case, the banker will be able to take the loan agreement to the Fed discount window under the new act and borrow cash up to 50 percent of the value of the loan. The 50 percent requirement is to make sure the banker continues to bear his share of the loan’s risk, to ensure sound lending.

If U.S. Steel wants to borrow, however, to diversify into real-estate speculation or casino gambling, Pittsburgh National will advise them that the Fed wouldn’t discount such a loan and that the bank cannot make it, except perhaps at exorbitant rates.

The new Act states in Section 4:

“Upon the endorsement of any of its member banks . . . any Federal Reserve bank may discount up to 50 percent of the face value of notes, drafts, and bills of exchange rising out of the production of actual tangible wealth or capital improvements. . . . This shall be defined as the purchase of raw and intermediate materials and capital goods, construction of facilities, or employment of labor to produce or transport manufactured goods, agricultural commodities, and construction materials; to work mines; to build manufacturing, transportation, and mining facilities or dwellings; to produce and deliver energy in all forms; and to provide public utilities.”

**Preventive reserve requirements.** To prevent banks generally from lending new Federal Reserve discount window credits, which may be redeposited by the borrowers or among banks many times, for nonproductive purposes thereafter, the new act further adds a safety reserve requirement.

The Federal Reserve now requires all banks to keep on deposit with the Fed a reserve against bad loans, calculated at an average rate of 16 percent of the bank’s total deposits. This in effect costs the bank money, since the funds are immobilized, and cannot be loaned out.

Under the new act, as long as banks maintain at least 60 percent of their loans in the real productive activities listed above, they will be subject to normal reserve requirements. However: “For every 1 percent by which the member bank’s proportion of tangible wealth-creating assets falls below 60 percent of total assets,” the new act states, “the Federal Reserve shall require” an additional 1 percent reserve-requirement charge. This should greatly discourage any bank from falling below the 60 percent productive-asset limit.

# The Federal Reserve Reform Act of 1981

*The following are excerpts from the National Democratic Policy Committee draft legislation:*

**Sec. 3.** Sec. 14 of the Federal Reserve Act of 1913 as amended is hereby amended to include the following new paragraph:

**Sec. 2.** Sec. 14 of the Federal Reserve Act of 1913 as amended is hereby amended to include the following new paragraph:

“The power of the Federal Reserve banks to purchase or sell bills, notes, and bonds of the United States shall be limited to these functions;

“a) the anticipation of tax revenues accruing not more than one year from the date of purchase of said bills, notes, and bonds, in order to help maintain an orderly flow of disbursements by the United States Treasury;

“b) to maintain an orderly market in the bills, notes, and bonds of the United States, and to meet the temporary liquidity needs of members of the Federal Reserve System;

“c) the purchase of such liabilities of the United States as may be presented by foreign governments for sale to the Federal Reserve System by said governments;

“However, the total holdings of the Federal Reserve banks of bills, notes, and bonds of the United States shall be set as an annual ceiling as of the date of enactment of this Act. Said holdings may vary in size in the course of each year, but may not increase in size at the end of the year, following enactment of this Act and at annual intervals thereafter, except as a result of purchases of official liabilities of the United States from foreign governments, i.e., the Federal government may not create money supply by monetizing United States government debt;”

**Sec. 4 .** Section 13 of the Federal Reserve Act is hereby amended to read:

“Any Federal Reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal Reserve banks deposits of current funds in lawful money, or checks and drafts upon solvent member or other Federal Reserve banks, payable upon presentation.

“Upon the endorsement of any of its member banks, with a waiver of demand, notice, and protest by such bank, any Federal Reserve bank may discount up to 50 percent of the face value of notes, drafts, and bills of exchange arising out of the production of actual tangible wealth or capital improvements for the production of tangible wealth. Any Federal Reserve bank may also pay in 50 percent of the value of any loan made by any member bank for the purpose of furthering the production of tangible wealth. This shall be defined as the purchase of raw and intermediate materials and capital goods, construction of facilities, or employment of labor to produce or transport manufactured goods, agricultural commodities, and construction materials; to work mines; to build manufacturing, transportation, and mining facilities or dwellings; to produce and deliver energy in all forms; and to provide public utilities for communications. Such definition shall not include notes, drafts, bills, or loans issued or drawn for the purpose of conducting business except in the areas so defined, or for carrying or trading in stocks, bonds, or other investment securities.

“Any Federal Reserve bank may discount the full value of acceptances which are based on the exportation of goods, or 50 percent of the value of acceptances which are based on the importation of goods, provided that such goods conform to the restrictions set forth in the preceding paragraph.

“All Federal Reserve banks shall meet all such requests for discount of or participation in notes, drafts, bills, and loans made by member banks, once the Federal Reserve bank has determined that the purpose of such credit conforms to the restrictions set forth above. There shall be no restrictions applied to such discounts in furtherance of tangible wealth creation on the basis of member banks' capital positions. . . .

“This Section shall stand as amended in Public Law No. 302, enacted July 21, 1932 (H.R. 9642 Sec. 210).”

**Sec. 5.** Section 19 of the Federal Reserve Act of 1913 shall be amended to include the following:

“The above reserve requirements shall apply in the case that member banks maintain 60 percent of their total assets in the form of loans, bills, drafts, and advances to tangible wealth-creating borrowers, of a type eligible for discount under Sec. 4 of the Federal Reserve Reform Act. For every one percent by which the member bank's proportion of tangible wealth-creating assets falls below 50 percent of total assets, the Federal Reserve banks shall require that member bank to place an additional one percent of demand deposits in reserve with the Federal Reserve banks. However, to permit an orderly transition to this reserve rule, this formula shall apply only to new assets appearing on the balance sheets of member banks after the date of enactment of this Act.”

# France can cure inflation

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*Laurent Murawiec's survey of the economy's dirigist strengths, and the remedies for its weaknesses.*

French output levels broke into a sharp downturn during the second quarter of 1980, with a 13 percent annualized rate of decline of manufacturing output, and the consensus forecast for 1981 sees a year of little or no economic growth. The short-run behavior of the French economy has largely to do with the effects of the 1979 doubling in oil prices, and consequent tighter interest rates at home and constricted markets abroad.

But the near-term behavior of the output indices is less important as a measure of French economic success than the French government's willingness, and ability, to take on two basic structural problems that have chronically weakened French economic growth: the low rate of depreciation of capital stock, and the parasitical, inflationary growth of the real-estate sector. Both add up to unacceptable susceptibility to inflation, now running at an annual rate of almost 14 percent.

Foreign constraints, including the slowing of international trade and the Federal Reserve's "interest-rate war," might be blamed by French officials for the immediate recession problem. But the domestic crisis-management policy of Premier Raymond Barre has actually worsened the French economy's biggest structural problem: France's inability to turn its spectacular success in a handful of state-sponsored industries into a general renewal of production methods in stagnant sectors.

## **The first circle of industry**

The secret of the French economy lies in the extremely high concentration of available means, in both physical and financial terms, in a few select high-technology, capital-intensive sectors which are generally state-owned or steered. The two principal poles are the energy sector with its nuclear spearhead, and the defense/aerospace, transportation, telecommunications, and electronics that provide the complement.

Nothing better than the nuclear program shows the inner workings of the "French System." Initiated in 1974 by then-President Georges Pompidou, and amplified by his successor, the program calls for lifting the

share of nuclear-generated energy from a few percentage points in 1974 to 40 percent of total energy consumption by 1990. A total of about 65 gigawatts will have come on line by then—one nuclear power plant will start operating every second month between this year and 1988, including the world's first large-scale commercial fast breeder, the Super-Phénix.

This investment of more than \$60 billion (the Eighth National Five-Year Plan calls for an annual investment of \$19 billion in the energy sector at large, \$12 billion of which will be government outlay) has only been made possible by a mobilization of the nation's credit and productive powers. Those state corporations at the center of the nuclear program and the other "first circle" industries—the national utility, EDF; the atomic energy commission, CEA; the aerospace's SNIAS; the national railway corporation, SNCF; the coal board, CDF; and even the postal administration—have *doubled their productive investment* since 1973 in constant prices, while real GDP only grew by 21 percent.

Those public corporations, plus the dense industrial network of subcontractors and private-sector corporations associated with one or the other aspect of the industrial programs—companies such as Creusot-Loire, Jeumont-Schneider, and Saint-Gobain-Pont-à-Mousson—are reaping the benefits of the French conception of *dirigisme*. The national five-year plan is "indicative," that is, it does not imply a bureaucratic type of planning, but a concerted programming of major national economic development objectives, and the concentration of budgetary, fiscal, and credit policies in the service of such aims.

The top priority has been capital goods with high technological content. The defense/aerospace sector sells about \$6 billion a year abroad, 8 percent of the country's exports, and 10 percent of the world's arms trade. (France ranks third in international military materiel exports.) Aircraft represents two-thirds of this. If Concorde, a technical success, was a commercial flop, Airbus, the Dassault Corporation's Mirage, the Alpha-

Jet, and others are all the results of this deliberate focusing of national credit on high-powered investment. More recently, France has joined the international space club Eurosat, with launchers and satellites, and a promising commercial future.

### **Export promotion system**

The other pillar of the mechanism is export financing, which invariably provokes spasms of hysteria among British and American officials, insofar as it represents to them the very conception of "excess industrialization and export" which the Council on Foreign Relations and the City of London so badly want to suppress. Its central aim is to maximize the export of high-value capital goods, including military hardware.

The Banque de France has a window open for the Banque Française du Commerce Extérieur, the French foreign trade bank, and lends it at a rate of 4.5 percent, which BFCE makes available to the commercial banks for financing exports. This subsidized credit is then mixed with market-rate credits to obtain an interest in conformity with the OECD's export-credit, gentleman's agreement floor-rate of 7.75 percent. France is the only national party to this agreement to lend at the floor-rate. In 1979, about \$16.5 billion of purchaser credit was extended in this way (and as much went to French industrialists as supplier credit). Coface, the Compagnie Française pour l'Aide au Commerce Extérieur, organizes every credit package for the private or public sector corporations involved. It is not an accident that the growth rate of export credit (29.3 percent in 1976, 25.6 percent in 1977, 12 percent in 1978, and 19 percent in 1979) has been one of the fastest of all categories of credit, with purchasers' credit alone growing even faster. This has been the principal cause of a return to the black in trade figures prior to the second oil shock.

The second oil shock has increased the imported energy bill from FF 84 to FF 146 billion; the 1980 trade deficit will amount to FF 60 billion, and the current account deficit to FF 30 billion. It will take the traditionally large surplus on invisibles, large inflows of foreign, especially OPEC, capital, and fairly large borrowings by the public sector corporations to balance the account.

In the first half of 1980, in spite of successful forays into relatively new markets such as Brazil or English-speaking Africa, a worrisome trend has decreased the surplus on capital goods account, and sales to the LDC's show a similar trend. The sales deficit with OECD countries has doubled, reflecting traditionally high imports of capital goods from that sector, and a tendency for imports to grow faster than exports.

The French government has had to sharply increase the level of interest to respond to Paul Volcker's upward

manipulation of U.S. interest rates, in order to prevent an outflow of funds. Three-month money, which yielded 6.44 percent in December 1979, now fetches 13 percent, and long-term government bonds, which carried 9.94 percent, now carry 13.44 percent. The effects on the productive economy, and especially on those sectors highly dependent on nonsubsidized credit, are obvious.

Meanwhile, the rate of inflation has stubbornly refused to abate, for reasons examined later, and remains in the range of 12 to 14 percent per annum in the upper tier of the OECD countries, which strengthens the case for expensive credit. The currency, thanks to such measures, has remained at the top of the EMS parity grid with great stability.

In global terms, the 1980 budget is a deflationary exercise, with a small deficit of FF 31 billion—France has one of the OECD's lowest national debts in absolute and relative terms—which includes significant fiscal stimulus for investment, and, for the first time after years of neglect of this sector, a big boost for the research and development effort of the state.

### **A piecemeal approach**

This budget typifies the policy pursued by Mr. Barre ever since he became premier in the fall of 1976: while it allocates sizable resources to the development of the "first circle" sector, those situated outside that tier are simply left to the play of "market forces."

The crisis-ridden steel industry was ruthlessly restructured two years ago at great loss of labor, capacity, and productive power. About \$1 billion was expended on both restructuring and the sprinkling of investments over the regions hit by closings and layoffs. That money was not channeled into creating new, growth-oriented industrial facilities, but simply used to cool down local unrest, ridiculously. Auto components plants replaced steel, at least to some extent, but are also facing escalating troubles, now that the cheap-credit-dependent automobile sector sales are on a downward slope.

But there is worse than this piecemeal approach in Mr. Barre's book. (This may bear some partial resemblance to Mrs. Thatcher's shock therapy, but ill-educated individuals in the Anglo-American press who present both as cothinkers simply fail to understand that the export orientation and reindustrialization which otherwise characterize French policy are nowhere to be seen on the other side of the Channel). Barre's liberal dogma led last year to the lifting of price controls, which sparked off a new round of inflation, far less short-lived than the premier expected. As a result of the spate of price increases that exploded, and to which public prices contributed noticeably, the government amplified the policy of budgetary and fiscal austerity followed since 1976, and its companion, enforced wage austerity. The rationale behind the new "freedom of prices"

(prices were under state control since 1939) is that this freedom will force the "truth of prices" to the fore and effect a "sanitization of the industrial fabric," in Mr. Barre's own words.

The resulting anarchic "cutting the fat" in the nonpriority sectors has meant a very large increase in industrial bankruptcies and layoffs. If many corporations have been able to use the new leeway to increase prices to reconstitute their war chests, they have not necessarily used their added cash to invest. Little rational effort has been made to generate durable industrial employment, in spite of countless "plans" and "mini-plans" and spates of measures trumpeted by the premier's office.

This year, the private sector is expected to increase its investment by 4.5 percent, and the public-owned corporations by 10 percent. Still, industrial output is already down 3.5 percent over the year before, and the alarm signals are blinking in many branches, especially steel, chemicals, textiles, shipyards (in spite of the just announced \$3.5 billion Saudi order), while auto stagnates at a still-high level. Engineering expects only very mild growth. Only electronics and pharmaceuticals are unequivocally up among the nonpriority sectors.

A regional review reveals several extremely sensitive hotspots, especially in the crisis-wracked regions of old industry, the north, Lorraine, and a more general nibbling away of small chunks of the industrial fabric throughout the country, which add up to increasingly significant results. As mentioned above, official unemployment figures are above 1.5 million, and moving fast to the 2 million mark.

Against that background, and that of the upcoming presidential election, a major debate has erupted around the soon-to-be-released Eighth Five-Year Plan. Premier Barre's version of it calls for an average annual real growth of no more than 2.5 percent, which he claims would permit a balancing of the domestic and external accounts and preserve the parity of the franc—his stated priorities. Barre also acknowledges that this would add between one-half and a full million new unemployed to the current figures. Hardly an appealing election program.

Planning Commissioner Michel Albert has associated with Giscard's likely presidential challenger, Socialist Michel Rocard, the Council on Foreign Relations' French pet, to push a counterproposal aimed at gaining 300,000 to 1 million jobs over the same five-year period—at the price of zero growth in the workers' purchasing power, a 35-hour work week, a strong budget deficit, and large increase in foreign indebtedness, with labor-intensive "soft energies" and "soft technologies" content.

This counterproposal is designed more for the electorate than the economy. Still, Barre's stubborn "fiscal

conservatism" threatens Giscard's second mandate, by creating a larger and increasingly desperate pool of unemployed, underemployed, and soon-to-be-laid-off labor, prone to be organized against the president.

### **The domestic constraints**

Contrary to liberal dogma and Keynesian environmentalist delusions, there is a way to solve the paradox without unleashing either inflation or unemployment. That solution, however, requires extremely bold political and economic steps to finally remove the built-in, quasi-feudal interests that parasitize the French economy and continuously burden its growth.

First, the historical fact of a lack of "in-breadth" industrialization. Only 38 percent of the population is employed in industry, as compared to 45 percent in neighboring Germany. The domestic market, as a consequence, is fairly small, especially with a total population of only 53 million. While the agricultural population, contrary to a widespread belief, amounts to only 9 percent of the total, the service sector now accounts for nearly 53 percent of the active population, and the latter's entirely parasitical (as opposed to socially necessary) component, retail trade, and office employment in banking, insurance, and other bureaucracies, represents an increasingly unbearable toll.

It is fortunate that the agricultural sector has been able, in spite of intense speculation on the value of land, to progress at unprecedented rates since the early 1960s, and evolve into a highly capitalized, relatively concentrated, and high-yield sector. This has generated a very healthy export surplus, and partially offset the extreme weakness of the downstream food industry.

While those parts of industry defined here as the "first circle" rank among the world's leaders in their domain, other branches, such as textiles and, worst of all, construction, are large-scale employers, and extremely backward and labor intensive.

Employment in industry, including construction, peaked in 1974, and lost 8 percent last year, down to 7 million, while service employment grew 1.5 million, or 15 percent, now totaling more than 11 million.

### **Low depreciation**

An economy can offset the cost of taking goods out of the process of productive circulation only by increasing productivity. If the services and government sectors of employment grow faster than the rate of productivity, inflation will ensue.

It is elementary financial management that additional expenditures on pure economic overhead will cause inflation in the price of tangible goods, because such expenditures put additional money supply in circulation faster than the economy produces tangible wealth. What is less obvious is the way capital investment

contributes to this process. The new fixed investment in capital goods each year also removes a portion of tangible goods from circulation. If the cost of fixed investment is not offset by increasing productivity, investment will appear as inflationary.

Undepreciated new investment and overhead (services and government) expenditures are the precise equivalent of waste heat in thermodynamic process, i.e., the amount of energy lost to the process. Tangible goods that are recirculated back into the production process, such as raw and intermediate goods and consumption of goods-producing workers, are “recaptured” as thermodynamic work. So is the *depreciation* of the fixed capital stock, the portion of capital stock “absorbed” into the production process in each cycle.

France’s major problem is a low rate of depreciation, or a high rate of entropy associated with capital investment. The state-backed investment policy in nuclear energy, aerospace, transportation has produced spectacular gains in productivity in those sectors. But the spinoff productivity of these investments with respect to the rest of the economy has been low. Measurement of the actual rate of turnover of capital stock in France is difficult. But we can take, for purposes of rough estimate, France’s capital goods import dependency as a rough measure of the depreciation problem. The high import dependency shows that economic growth led by state investments did not “resonate” through the rest of the economy, and that the discrepancy in growth rates had to be made up through imports.

Figure 1 compares the rate of industrial production change with change in imports from the United States, a major source of French capital goods imports.

The data for 1978 and 1979 are striking; they show a huge increase in the real volume of capital goods imports needed to maintain the investment program backed by the state. This discrepancy in rates of increase of output and of capital-goods imports measures the *narrowness of base* of the French economy’s productivity

advances, i.e. the low rate of depreciation in the LaRouche-Riemann model’s terms.

This is one of the two decisive factors in France’s inflation problem. We see from Figure 2 (at right) that between 1970 and 1978, employment in the private services sector rose by 21 percent, employment in the government sector was virtually unchanged, and industrial employment was virtually unchanged. At the same time, the index of French manufacturing productivity rose by 32 percent.

This tells us that the rate of productivity growth was sufficient to contain the expansion of overhead costs. But we have already seen that this productivity growth was not translated into a sufficient rate of renewal of the capital stock. In addition, the French economy began to suffer from a form of *fictitious* overhead cost in the form of uncontrolled real-estate speculation, which made up the biggest portion of monetary inflation during the past decade.

### High real-estate speculation

The high cost of housing, adding up to more than a third of national credit, is the second home-grown ingredient of inflation.

“Monetary” inflation primarily (if not exclusively) originates in real-estate speculation. The history of the problem starts with the enormous housing shortage that emerged in the postwar period.

To face this explosive problem, a franchise was given to the banking sector, in the form of lavish and cheap credit, so that it could finance, *at any price*, a real-estate boom and somehow settle the problem. (An important political compromise was also involved in allowing monetarist sectors of the financial structure to acquire this looting license in return for their neutrality on other policies.) A construction boom did start in the 1958-60 period. Still, as late as 1977, almost 60 percent of housing was over 35 years of age, with 21 percent over a century old. This, then, explains why households were compelled to devote upward of 30 percent of their income to housing costs.

In 1973, one square meter of a newly built apartment in Paris (one Frenchman in five lives in the Paris region) was on average worth 3,500 francs. By 1978, this had become 7,400 francs, and today 11,000 francs. This trebling of the cost, which gallops far above and beyond the average rate of inflation, represents all the more a cancerous development. In one “real-estate franc,” only slightly more than 30 percent represents effective physical and other necessary costs (design, construction, necessary overhead, and financial costs), while the state pockets 15 percent of the final value in the form of value-added tax (VAT). The rest, a mind-boggling 55 percent of the sales price, goes to pure speculation—the capitalization of fictitious values as represented by

Figure 1  
**French industrial and import trends, 1974-79**

	Percentage change industrial output	Percentage change imports from U.S.
1974 .....	+2.9%	+2.4 %
1975 .....	-7.9	-6.5
1976 .....	-9.8	+8.0
1977 .....	+1.9	-2.3
1978 .....	+0.9	+11.2
1979 .....	+4.5	+14.1



Figure 2  
**The French labor force, 1970-78**

Sector (in millions)	1970	1978	Percentage change*	Absolute change**
Total active				
resident population . . . . .	21.37	22.67	+6.1%	1.30
Employed . . . . .	20.86	21.48	+2.9	.62
Unemployed . . . . .	.51	1.20	+135.3	.68
Manufacturing . . . . .	5.84	5.79	-0.9	.32
Civil engineering, construction . . . . .	1.99	1.84	-7.9	.16
Transportation, communications . . . . .	1.20	1.32	+9.7	.12
Private sector . . . . .	5.60	6.78	+21.1	1.18
Public sector . . . . .	3.43	3.76	+9.5	.33

\*Based on non-rounded figures

\*\*Rounded separately

ground rent.

At the national level, in addition, out of FF 511 billion of total medium and long-term credit distributed, e.g. in 1977, to the economy as a whole (corporate sector, households, budget, etc.), no less than FF 178 billion—35 percent—went to the combined construction/real estate sector. Gridding the “real cost of construction” factor against total credit expansion, what emerges is that on the chosen example of 1977, 19 percent of all credit extended to the economy, both medium- and long-term, went into capitalizing entirely speculative ground rent values! Compared with the more than 10 percent rates of inflation painstakingly attained through Mr. Barre’s policy, it becomes obvious that only massive transfers of value from the productive sector into this speculative bubble can feed it by preserving the “value” of this financial paper, and conversely, that all the inflation generated by the bubble must be mopped up by slashing the expenditure of other sectors—hence, budget and wage austerity.

“Structural” inflation, on the other hand, has continuously been worsened by the tax levied against real estate. As the tax works its way throughout the economic pyramid, consumption, investment, and the internal and external value of the currency suffer, with the result that the *dirigiste* policy described above has to concentrate relatively scarce means (the “free energy” that remains after monetarist speculation has exacted its toll) on relatively limited sectors of the economy, those defined here as the “first circle” industries.

This goes a long way toward explaining why only 38 percent of the active population as of 1980 is employed in industry, as opposed to 45 percent in Germany, even though the per capita productivity of a French worker

is 20 percent higher than that of his German counterpart.

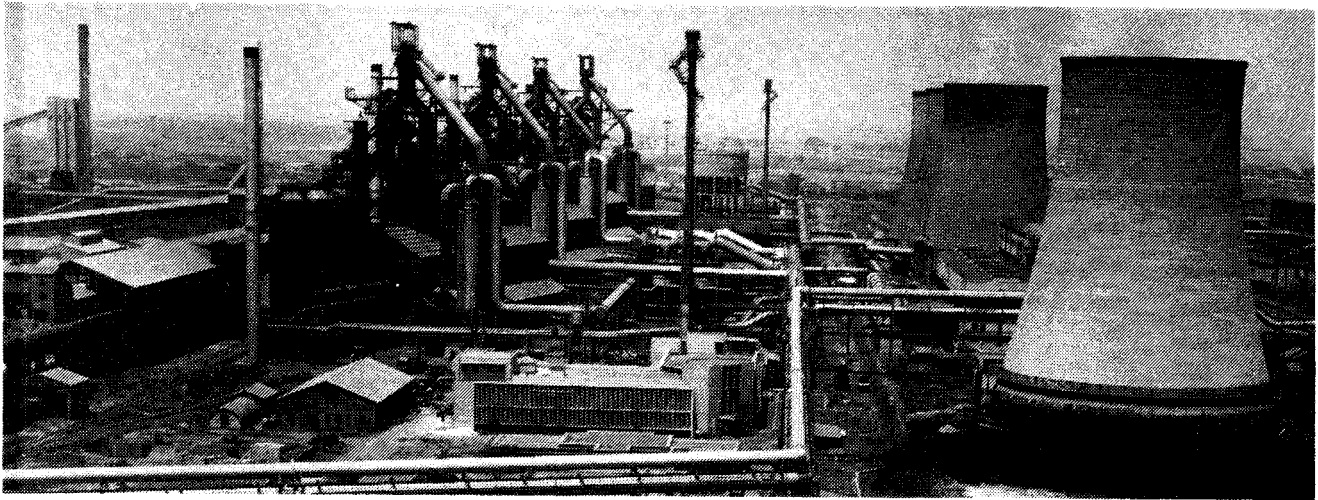
### Service sector expansion

The relatively smaller share of industry in total employment has worsened in the last years. Manufacturing employment has dropped from 27.3 percent of the labor force total in 1970 to 24.3 percent in 1978. Industry—manufacturing plus construction, civil engineering, transportation, and telecommunications—has seen its share drop from 42.2 percent to 39.4 percent in the same period.

On the other hand, the service sector alone absorbed more than the total increase in the labor force, and created close to 1.5 million jobs in that period, an increase of more than 14 percent. And, while it represented 42.2 percent of the active population in 1970, it now amounts to more than 46 percent. The rest went to the dole.

Of the 1.5 million jobs created in the service sector, a full 1 million were created in retail trade, general commerce, distribution, and clerical employment in banking and insurance, generating burgeoning overhead costs that would increasingly offset whatever profit margins were being generated in the productive areas.

Freezing the real-estate bubble in its present state would free national credit for the tasks of financing the needed reindustrialization. This makes it a national priority—with far-reaching political implications: the speculative portion of the financial sector, which is primarily based in real estate, is the premier power base of monetarist forces in France, while the relative backwardness of much of the economy provides these forces with their crucial margin of social control.



# India seeks assistance for large-scale industrial projects

by Paul Zykofsky, New Delhi correspondent

An economic analyst in New Delhi recently noted that "the year began with French President Giscard's visit, and will end with the visit of Soviet President Brezhnev." This summary of India's foreign and economic policy characterizes Indian efforts to obtain assistance from the European and socialist bloc countries in building large-scale industrial projects over the next few years. The important economic agreements signed during Giscard's visit, and the proposed agenda for discussion when Brezhnev arrives Dec. 8, also bear this out. In addition, a large delegation from the German industrial association Bundesverband der Deutschen Industrie (BDI) is currently in India to discuss Indian development projects.

India's massive push to sign agreements stems from the commitment by the Indira Gandhi government both to upgrade and modernize India's sagging infrastructure, and to assert her role as an industrial leader in Asia. India is looking to sign, or has already signed, agreements for large-scale steel, coal, energy, oil, and fertilizer development projects. The projected scale of these projects will surpass anything India has done in the past 20 years, since the first major industrial investments undertaken during the Second Five-Year Plan.

The government has outlined plans to modernize and expand all four public-sector steel plants; build two new shore-based steel plants (Visakhapatnam and Paradeep); double oil production from the Bombay High oil fields; increase coal production, and build five more "super"-thermal power stations in addition to the four now under construction.

The need to modernize plant and equipment in the new projects is most clearly reflected in the decreased productivity of three sectors during the past year. 1980 first-half figures indicate that the overall industrial production index has fallen slightly more than 1 percent in the last year, in power generation, steel, fertilizer, and crude oil.

Despite labor problems and bottlenecks in the coal and railway sectors, the government believes that only new investments of the type currently under discussion can break the economic impasse India is currently suffering.

The Gandhi government has been encouraging link-ups especially with the European and socialist bloc countries. France has agreed to build a large aluminum plant on the east coast of Orissa, in the same area as a similar Soviet-built plant under construction.

The BDI delegation in India from Nov. 2-12 was reportedly interested in oil, steel, coal, energy, and transportation projects. Dr. Kurt Hansen, head of the West German delegation, enumerated the reasons why West Germany seeks India as a trading partner in an interview with India's *Financial Express*: "India's important role as a major leader in Asia, among the nonaligned countries, the United Nations . . . [and] the tremendous economic potential of India in view of its gross national product, population, market size, raw

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*Blast furnaces and cooling towers at the Durgapur steel plant in West Bengal.*

Photo courtesy of the Information Service of India.

materials and reservoir of [skilled] manpower.”

Currently, West Germany is also involved in modernizing and expanding the steel plant at Rourkela. Mannesman is bidding for a tender for a new steel plant at Paradeep, Orissa, along with Britain and Rumania.

### Soviet involvement

Indian Planning Minister N. D. Tiwari, on a recent visit to Moscow, reportedly discussed with Gosplan head Babikov the idea of dovetailing India's Sixth Five-Year Plan with the Soviet Union's Eleventh, both currently under preparation. While an Indo-Soviet economic mission will meet in New Delhi in mid-November to discuss the options, it is not known if the Soviets will agree to expand their level of assistance to India. However, India is reportedly seeking \$5.2 to \$6.5 billion in Soviet assistance for coal, energy, steel, aluminum, and oil projects, and an increase in petroleum imports from the Soviet Union from 3.5 million tons per year to 7 million tons. Currently, Soviet credits to India total \$14.95 billion. It is expected that agreements for substantial Soviet aid to India will be signed during Brezhnev's upcoming visit.

### Financing

India must also seek foreign financing for its development projects, given that the cost of India's oil imports this year alone add up to 70 percent of her total export earnings. Thus, the Sixth Five-Year Plan is proposing public sector allocations for industrial development of \$117 billion, when a projected \$182 billion allocation would be necessary to achieve an overall growth rate of 5 percent.

So far, India has been assured financing for the Paradeep steel project and the French aluminum project at Orissa. Rather than relying on aid from the World Bank, the Aid India Consortium, and government-to-government credits, India may well go into the private financial market, as exemplified by a \$680 million credit from the Eurodollar market recently granted to India with French aid.

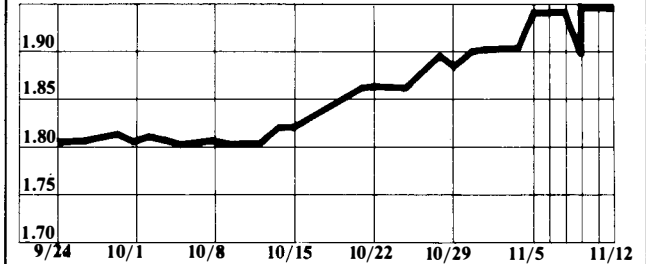
The large Eurocredit is to finance the French aluminum project and involved the Banque Nationale de Paris, the Société Générale, and the Bank of America. This type of credit is a relatively new departure in project financing for India, particularly in its size. India received excellent terms for the credit, reportedly at 0.5 percent over LIBOR, terms granted to good credit risks.

If India is to achieve the desired levels of industrial growth, considerably more capital aid from Europe and elsewhere will have to be made available. By January the new Sixth Five-Year Plan will be adopted, and it will be important to watch the response to India's newest industrialization proposals.

## Currency Rates

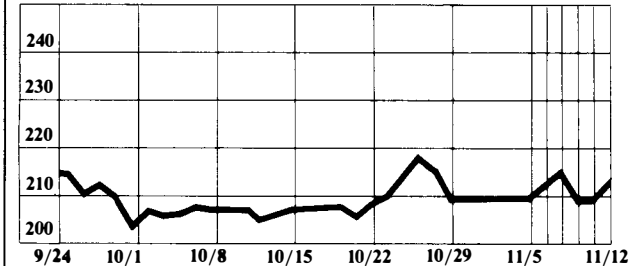
### The dollar in deutschemarks

New York late afternoon fixing



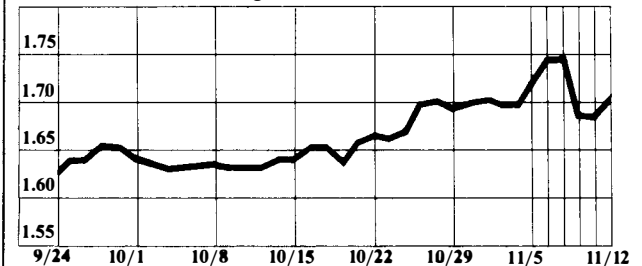
### The dollar in yen

New York late afternoon fixing



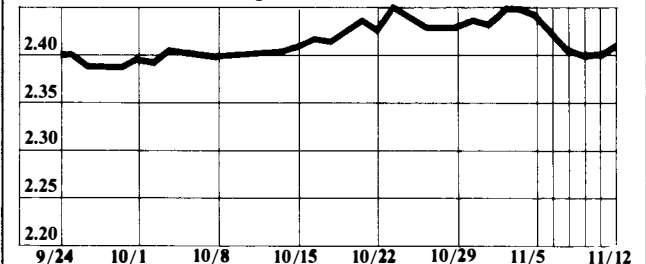
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



## European Currency Unit moves ahead

*European-Arab negotiations signal renewed interest in the European Monetary Fund.*

Led by France and West Germany, the governments of the European Monetary System are now negotiating up to \$20 billion in long-term government loan agreements with Saudi Arabia and its Arab allies, Arab sources in London told *EIR* this week. The fact that these loans will be denominated in European Currency Units (ECU), the accounting numeraire of the EMS member currencies, means that the ECU's global role will be greatly expanded.

As announced by the European Community finance ministers in October, the EC as a corporate body plans in 1981 to issue \$10 billion in long-term bonds on the Eurodollar market to finance the oil payments deficits of EC members. These bonds would be denominated in ECUs for the first time, thus creating a major market internationally in ECU-denominated paper, as the Federal Reserve told *EIR* at the time.

The Saudi Arabian Monetary Agency (SAMA), the government's arm, has already agreed with the French and German governments to lead a consortium of Arab states in purchasing the majority of these new 1981 ECU bonds, said an Arab source. Furthermore, the Giscard and Schmidt governments "are looking for another \$10 billion, perhaps under the table, from the Saudis and the Arabs, this year," he said, also in ECUs.

Europe and the Arabs are com-

mitted, as this column has emphasized, to maintaining their economic growth and that of their trading partners in spite of the murderous rise in world interest rates and instability provoked by the U.S. Federal Reserve. "The Arabs have therefore centered all policy on Europe, and their goal is to stabilize the European balance of payments."

France, Germany, and Saudi Arabia are already sending messages to the incoming Reagan administration to "either lower U.S. interest rates and stabilize the dollar through economic growth, or else face the fact that Europe and the Arabs will make their own trade and monetary arrangements," Arab sources in the Midwest told *EIR* this week. "If the U.S. does not change its economic policy, Saudi Arabia is going for diversification. Already, U.S. exports to the Arabs are flat, at \$11 billion in 1979 and \$12 billion in 1980. France alone has raised its exports to them from \$9 billion to \$11 billion. I estimate European exports to the Arabs overall at over \$40 billion this year. Five years ago U.S. and European exports to them were equal."

The proposed European Monetary Fund (EMF), the new world credit facility which the EMS has on the boards for 1982, is now being heatedly discussed and may have its timetable advanced by the need for a new world monetary system to finance a Euro-Arab trade boom, all sources agreed.

To drive home their serious demand for U.S. dollar stabilization, "the Saudis are telling the Treasury that otherwise they will orient to the ECU and index the dollar to it," one Arab stated, "but this requires the Europeans to move up the schedule for the EMF." In order for really large amounts of ECU bonds to be issued by the European Monetary System directly, as opposed to the current situation where the European Community floats bonds through private banks on the open market, the EMS must have its own bank, the planned European Monetary Fund.

With such an EMF, Saudi Arabia could take parts of its vast dollar holdings, bring them to the EMF window, and be issued ECU-denominated bonds; sources said this was one formula under negotiation. "There will be no issuing of ECUs as some alternative currency, but rather the Saudis, for example, would hold the bond and then cash it in for so many German marks, French francs, and so on," one explained.

"The Saudis could even decide to peg the dollar to the ECU basket in this way," another Arab monetary expert stated. "By simply pricing their oil in terms not of dollars only, but in terms of the basket of the ECU currencies plus the dollar. This would force the U.S. to stabilize the dollar."

High-level negotiations for this kind of expanded role for the ECU and the rapid formation of the EMF are already taking place between the French and German governments on the one hand, and Saudi Arabia on the other, acting with the full support of Kuwait and the Arab Gulf states.

# Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
<b>NEW DEALS</b>				
\$300 mn.	U.S.A. from Japan	Nissan Motors will build 120,000 truck per year plant near Nashville. Nissan says will use U.S. steel and components equal to 40% of vehicles' value.		Nissan's biggest U.S. investment
\$289 mn.	Mexico from U.S.	Export-Import Bank is financing \$178 mn. worth of American steelmaking equipment for HYLSA, S.A., the biggest private Mexican steel producer. Ex-Im is also financing \$111 mn. for 14 gas turbines for Mexican Federal Electricity Commission (CFE) to be provided by GE, Westinghouse, Brown Boveri, and United Technologies.	8.25% for HYLSA; 8.75% for CFE	CFE deal made rapidly to relieve electrical shortage.
\$142 mn.	Egypt from France	Soft-term financing committed for French exports to Egyptian development projects, possibly including the Cairo subway for which French consortia are in sharp competition. France has also pledged \$480 mn. for Damietta port under similar conditions.	Mostly 7.5% on French francs for 10 yrs.; part at 3%.	France has committed \$250 mn. concessional loans to Egypt this year.
\$750 mn. \$940 mn.	U.S.S.R. from Japan	Financing for third stage of South Yakutia forestry project in Siberia to provide Japan 15 mn. cu. ft. per year of timber will be sought in Tokyo next week by Soviet Dep. Trade Minister Ivanov.	Yen credit terms to be negotiated.	Both projects committed before Afghan boycott.
<b>UPDATE</b>				
\$680 mn.	India from France	Financing package being arranged for Orissa aluminum complex described in <i>EIR</i> , Sept. 16. Banque Nationale de Paris and Société Generale, close to the Pechiney group which designed project, and State Bank of India and Bank of America's Hong Kong branch are managing \$680 mn. loan for the \$2.1 bn. project at quite favorable terms.	0.5 to 0.625% over LIBOR for 10 yrs.	Syndication expected to go easily.
<b>CANCELLED DEALS</b>				
\$452 mn.	Chile from Canada	Noranda Mines announced failure of talks with Chilean state agencies and international private banks committed to the Andacolla copper project. Noranda has suspended engineering operations on the Andacolla mine, of which it owns 51%, while Chile owns 49%.		Deal announced in 1979.

# Business Briefs

## *International Credit*

### **German banker terms oil surplus 'forced savings'**

Dr. Kurt Riechbächer, chief economist for Germany's Dresdner Bank, urged international businessmen in Philadelphia this week to consider monetary cooperation with oil-producing countries.

Speaking before a conference sponsored by the Group of 30, Riechbächer noted that Western officials could begin to consider the oil producers' surplus income as "forced savings." "Capital investment," Riechbächer asserted, "is independent of oil price rises." What is needed are means for channeling these "forced savings" into "energy-saving and -producing equipment" worldwide. International financiers must begin to draw "one crucial distinction," he stated, between "little bits of paper," or loans which only refinance old debt, "and the reality of . . . building the capital stock" in "plant and equipment."

## *Labor*

### **Israeli inflation and unemployment mount**

Official statistics released over the Nov. 8-9 weekend by the Israeli Central Bureau of Statistics reveal that Israel's annual inflation rate has hit 160 percent, one of the highest in the world. Unemployment has reached 5 percent, the highest since the 1960s and especially high for a country whose lifeblood depends on finding jobs for immigrants.

The real value of net wages has dropped by 14 percent during the first half of 1980, while private consumption during the same period has fallen off by 8 percent, the largest drop in Israel's history. Israel's national trade union confederation, the Histadrut, which is closely affiliated with the opposition Israeli Labour Party, is holding large-scale protest rallies in Jerusalem Nov. 16, especially aimed against the government-sponsored price rises of recent months. Strikes by municipal workers and doc-

tors are occurring in Tel Aviv in protest against repeated failure to meet monthly salary payments to workers.

The *Jerusalem Post*, an English-language newspaper politically close to the Histadrut and Labour Party, has attacked Israel's finance ministry for adopting "adulterated Milton Friedman-type policies" that are creating "socially intolerable" conditions in Israel.

## *Gold*

### **European central banks stabilize price**

Western European central banks intervened to stabilize the gold price on Nov. 7, according to market sources, after the price plummeted nearly \$30 to \$588 an ounce, its lowest level in six months. The central bankers are expressing their determination to protect the value of their large gold reserves, partially remonetized by the European Monetary System.

Gold has been vulnerable in recent weeks because of the sharp rise in U.S. interest rates, which made dollar instruments appear temporarily more attractive. Short-term rates tapered off during the week of Nov. 10, however.

## *World Trade*

### **Japan auto shipments to U.S. will slack**

Japan's auto sales to the U.S. are expected by Japanese industry sources to moderate despite the decision this week of the U.S. International Trade Commission to reject the Ford-United Autoworkers request for import limitations. Already in October, Japanese car exports to the U.S. fell from September's peak levels, by 16 percent for Nissan and just slightly for Toyota.

The decline was the result of increasing U.S. production of small cars combined with a virtual pledge by Japan's trade ministry to limit car exports to the U.S. in October-December to less than

year-before levels. It is expected that this pledge, or levels close to it, will be maintained despite the ITC decision.

Japanese leaders hope to establish good relations with the incoming Reagan administration from the beginning, and avoid a continuation of the wrangles they experienced with Nixon and Carter. Additionally, since Japan's worldwide car exports are now falling anyway—down 4 percent for Toyota from September and 17 percent for Nissan—Japan hopes Reagan will meet its continued restraint on cars with a lifting of the sanctions of industrial plant sales to the Soviet Union.

The trade talks beginning in Tokyo Nov. 14 between U.S. Assistant Secretary of State Richard Cooper and Japanese Deputy Foreign Minister Kiyooki Kikuchi are now expected to be dominated by Japanese questions about what to expect from Reagan.

## *Economic Policy*

### **Thatcher is under intramural pressure**

British Prime Minister Margaret Thatcher and her monetarist economic commitments have drawn criticism even within her cabinet for the first time since the current controversy began over new budget cuts. In a Nov. 9 speech at Cambridge University, the Lord Privy Seal, Sir Ian Gilmour charged that continuation of Thatcher's policies will produce "a Clockwork Orange society," and forecast that "the current wisdom of economists" will soon be revised.

Two former Conservative Prime Ministers, Harold Macmillan and Edward Heath, had lashed out earlier this month at Thatcher's "catastrophic" program; Heath specifically blamed Milton Friedman, whom he accused of "wishing to abolish America's industrial base in the same way that is happening in the U.K."

Meanwhile, the Thatcher government has made a bid to serve as the arbiter of ties between the Reagan administration and Western Europe on policy matters. Foreign Secretary Lord Car-

rington told the *International Herald Tribune* in an interview published Nov. 14 that "the old relationship" of privileged ties between the U.S. and U.K. should not only be maintained but used to "coordinate European policy."

### **British Industry**

## **U.K. business protests 'cynical ignorance'**

British industrialists attending the annual conference of the Confederation of British Industry (CBI) the week of Nov. 10 expressed opposition to Prime Minister Thatcher's high-interest-rate regimen and proposed public spending cuts. Ronald Utinger, chairman of British Aluminium and head of the CBI's Economic Policy Committee, argued that Thatcher's decisions for the public sector would rebound against private industry.

"A government which sets out to reduce the public sector is in fact reducing the private sector," he said. Government predictions that only already weak industries would suffer showed "a cynical ignorance of how manufacturing industry works and of what is actually happening now." Sir Ray Pennock, president of the CBI, warned that permitting unemployment to rise steeply, as the government has done, meant that "we will be storing up immense problems for the future."

Recent statistics show that the collapse of British industrial potential is deepening. The industrial production index declined 1.8 percent in September, following a 2.9 percent decline in August. Money supply has continued to grow—up two percent in the latest banking month—although the ostensible aim of high rates was to curtail money supply and inflation.

In a Nov. 8 editorial, "Learning by Disaster," the *Financial Times* warns that "There is a danger that some time in the next few months the industrial economy may reach another turning point, like the point which occurred after the steel strike this spring. Many industrialists believe that exports, which have so far been holding up well against the unprecedented 22 percent decline in competitiveness that has occurred this year, may suffer a sharp and almost irreversible fall."

### **U.K. Debate**

## **Labour Party spokesman praises Thatcherism**

The period of the 1930s economic collapse in Britain is now being re-evaluated and recognized as "accelerating the development of powerful modern industries," argued Paul Johnson in the Nov. 12 *New York Times*.

Johnson is a former editor of the British Labourite *New Statesman* magazine, and now works for the pro-Friedman American Enterprise Institute.

Appropriately comparing the effects of the current policies of Prime Minister Thatcher with the devastation of the British economy in the deep depression period of the 1930s, Johnson attempts to argue that "the upheaval in the economy created by mass unemployment and the consequent decline in union militancy and restrictive practices seems to have accelerated the development of . . . powerful modern industries."

Johnson's op-ed comes on the heels of severe criticisms and warnings against "Thatcherism" being voiced in the United States over the past week.

### **Domestic Credit**

## **Have U.S. rates begun to peak?**

There is considerable pressure on Fed chairman Volcker from West Germany in particular, not to push rates much higher, since West Germany suffers capital flight when U.S. rates rise.

Yet, Robert Synch, economist for Bear, Stearns investment bank stated Nov. 13, "I think we're only seeing a pause in the rate increases and that soon they will be up to 17 percent. Volcker right now has no constraints on him. The Carter administration is in no position to object. November may be a slow month for money supply growth, as it traditionally is slow, and we still have no sign that anyone is pleased that money supply is under control. This would mean higher interest rates."

## **Briefly**

● **SIX PRESIDENTS** of Japan's giant trading companies have made journeys to Moscow since the beginning of October. According to the business daily *Nihon Kezai Shimbun*, they are gambling that Reagan will lift the sanctions on Soviet trade which, they complained in a report to the Japanese government, have cost them \$4 to \$5 billion in deals this year to European competitors.

● **VIKTOR IVANOV**, a Soviet deputy trade minister, is due to arrive in Tokyo in late November to reopen negotiations on two Siberian development projects. At stake are \$40 billion in loans for coal exploration in southern Yakutsk and \$1 billion for developing Siberian timber. The Soviets are believed to seek yen-denominated credits.

● **RENE LARRE**, general manager of the Bank for International Settlements will be succeeded by Gunther Schleiminger, a German, when the French Larre retires. This is the first time a German has held the number-one post since the BIS was founded to handle German debt under the Versailles agreement.

● **ROBERT TRIFFIN**, Belgian economist from Louvain University, made some monetary policy recommendations aimed at the Reagan administration at a Nov. 14-15 conference held in Philadelphia. Triffin suggested that the U.S. Treasury could buy bonds denominated in ECUs, the unit of account used in the European Monetary System, to diversify U.S. currency reserves. Many conference participants noted that central banks have ceased using dollars exclusively to intervene in foreign exchange markets. The dollar still accounts for 70 percent of world reserves, but central banks are moving towards a "multi-currency" world reserve system. Several participants proposed increased use of SDRs to meet intervention and liquidity needs.

## Power struggle in China: the myth of 'the new stability'

by Daniel Sneider

The terrorist bomb that went off in the main railway station of China's capital city Peking two weeks ago is only an echo of the political turmoil now rumbling inside China's leadership. Western observers of China have for the most part ignored the clear sign of trouble inside China, preferring to echo the myth now promoted by the current strongmen in China that after prolonged chaos, the country has now entered an era of "stability and unity," to use a current Chinese phrase.

The mythmakers in Peking and their admirers in the West have a good reason to promote the image of a stable China entering on a "pragmatic" modernization. The reason, simply put, is the active alliance between the dominant factions of the Chinese leadership and the Anglo-American alliance of the United States and Britain. The "China card" policy—and its converse, the "America card" policy of Peking—depend upon the ability of the Peking leadership to make this myth a reality.

The key man for the China card circles is the emergent strongman of China, Communist Party Vice-Chairman Deng Xiaoping (Teng Hsiao-ping). Deng is the architect of the "pragmatic" economic liberalization policies and the pro-Western orientation which is now being hailed in the Western media. More importantly, he is the direct political heir of the outlook, policies, and factional base of the late Chinese Premier Chou En-lai, the second-ranking Chinese Communist after the late Chairman Mao Tse-tung.

Chou's reputation as a moderate, urbane and sophisticated Chinese statesman who was the author of the alliance with the U.S., is well circulated in Western circles. Less well known is his role in Chinese politics as the "grey eminence" who stood behind the often mad emperor Mao, ruthlessly manipulating political battles and managing always to emerge on top. Deng is the heir of both Chou's "America card" policy of grand manipulation of the United States for the ends of Chinese foreign policy, and of his ruthless political factioneering.





In the foreground, September 1976: Chairman Hua Guofeng, Wang Hongwen, Ye Jianying, and Jiang Qing (Madame Mao). Directly behind Hua is Zhang Chunqiao. Wang, Zhang and Madame Mao, as Gang of Four members, were arrested shortly after this photograph was taken.

Under Chou's protection, Deng emerged from the political wilderness in the early 1970s after being purged during the wild days of the "Great Proletarian Cultural Revolution," only to be purged again in the months after Chou's death in January 1976 by the radical Maoists. He fought his way back into power the next year and has spent the last four years consolidating his power base in the Chinese hierarchy, purging his opponents one by one and gathering his strength for a final bid for total power.

The Dengist bid for power rests on the myth of stability, and implicitly, on the axis with the Anglo-American powers. At this moment in China, crucial events are unfolding that will determine the extent of Deng's success.

The *Executive Intelligence Review* presents in this Special Report the true story behind those events, the facts demonstrating that the myth will fail and that the reality of China is not a future of stability and unity but of broad-scale instability and increasing tension within the leading circles of the Chinese leadership. With a new administration in Washington, one that will perhaps be less enamored of the aura of imperial China, it is all the more urgent that the reality of China be understood.

This reports deals with the immediate events in China, the nature of the Deng group and its bid for power, and examines closely the cracks in China's basic foundation that will determine the future course of events. It is the first of many such reports to come, the product of *EIR's* intelligence reading of China, generally unavailable in the West.

## In this section

This report on China has been prepared by our Asia Editor, Daniel Sneider, with the assistance of our China desk specialist, Gregory Buhyoff, and in consultation with professional "China-watchers" with long experience in the field.

- I. **Power struggle in China: the myth of 'the new stability'**
- II. **China's new leadership**
- III. **The return of the Chou-Deng group**
- IV. **The CCP: a facade of discipline**
- V. **The PLA: a restive element**
- VI. **Security apparatus: discredited and dysfunctional**

We have bowed, out of necessity but not preference, to the system for phonetization of Chinese currently in use in the People's Republic of China, the Pinyin system. We have done this with a few exceptions of persons and places that are well known to the average reader in the previously used Wade-Giles system, such as Peking rather than Beijing, and Mao Tse-tung rather than Mao Zedong. We have also provided, for reference, the Wade-Giles spelling in parentheses for most of the persons referred to in the text.

The chronology of Deng's last comeback begins in 1977, but it is over the course of this past year that the Dengists have felt strong enough to "go for broke." Deng and his allies are in the midst of a three-act Chinese opera whose finale is intended to seal their power position.

### **Deng's scenario: an opera in three acts**

The first act of this opera is already completed—it took place in the first part of September at the meeting of the National People's Congress (NPC), the Chinese equivalent of a parliament (or Supreme Soviet, to use the Soviet parallel). At the NPC meeting the leading personalities of the government apparatus were massively shuffled, starting at the top with the resignation of Deng opponent Hua Guofeng from the post of premier and his replacement with a man close to Deng. At the same congress, the new policies of the Dengists were promulgated as state policy.

The second act of the opera is to be the trial of Madame Mao (Jiang Qing) and her three radical Maoist associates—the Gang of Four—along with six others linked to the late army leader and one-time chosen successor to Mao, Lin Biao. The trial of these 10, on charges ranging from plotting coups to attempted assassination of Mao, is a major political event. It is intended to set the stage for the purge of "the followers of the Gang of Four and Lin Biao" and to officially stamp the period in Chinese history from the start of the Great Proletarian Cultural Revolution in 1966 up to the arrest of the Gang of Four in 1976 as a grand deviation from the true path of the Chinese Revolution.

The third act of the opera, the finale, is to be the Twelfth Congress of the Chinese Communist Party (preceded by a Central Committee plenum) which will approve an official document stating the party line on Mao Tse-tung, his "mistakes" and his "contributions" defined, they hope, for all time. Also on the agenda will no doubt be a full shake-up of the present membership of the Central Committee, the leading body of the party, and of its leadership bodies, completing the Dengist takeover. This could include the ouster of Hua Guofeng from his last position as party chairman.

Each act has its own particular purpose and its own perils. We shall now take a closer look at them.

### **The NPC: 'market socialism'**

The September National People's Congress was a stage for the promotion of the Dengist "pragmatic" economic and governmental policies. The centerpiece was a new doctrine of "market socialism," which promises to decentralize economic decision-making and the planning process and attacks overall bureaucratic centralization of government. This includes everything from private-plot agriculture to a profit criterion for individual factory operation to joint ventures with for-

eign capital financing the enterprises.

Alongside this Chinese "New Deal" is a promise of government responsiveness to the needs of the population, an end to overbearing, privilege-taking bureaucrats. For peasants there is the promise of more personal income; for workers, material work incentives; for intellectuals, a social standing above their previous lowly status in the Maoist caste system; and for the population in general, a higher standard of living with more consumer goods available.

The man elevated to the premiership, Zhao Ziyang, is credited with having successfully tried out this system in Deng's home province of Sichuan, where he was party boss. The Dengists have essentially staked their own political future on their ability to "deliver the goods" to the Chinese masses, whose desire for material gain rather than Maoist sloganeering has now been elevated to the level of state policy.

The slogan of this Chinese "New Deal" is "The Four Modernizations"—of industry, agriculture, science and technology, and military defense. While the content of this slogan is apparently different from the exhortations of "spirit" involved in the infamous economic disaster known as the Great Leap Forward (now condemned as an error) and subsequent versions of the same, it is uncertain whether, for the great majority of China's one billion people, this campaign appears any different from the rest. The difference, perhaps, is the consequence of failure this time around. This may be the last time the Chinese people will seriously tolerate another millenarian image of the distant golden future offered if they will only follow the Communist Chinese leadership. The reported levels of skepticism and cynicism already prevailing certainly call into question how much the Four Modernizations are really believed to be attainable by the population.

Beneath the rhetoric of "market socialism," there was a more serious reality presented at the NPC: the state of crisis prevailing in the Chinese economy. The crisis is characterized by slowing rates of agricultural and industrial growth, reported large budget deficits, and a stagnant and even declining level of energy production, including petroleum output. This entails serious shortages of capital, particularly of foreign-exchange liquidity with which to purchase needed foreign technology.

The economic and financial reports delivered at the NPC presented this situation fairly openly. It was announced that the Ten-Year Plan previously announced in 1978 was being scrapped and a new plan drawn up. The key shift involves the scrapping of a grand industrialization program included in the previous plan, consisting in part of 120 major industrial projects, many of which were to include foreign technology and participation. Many foreign companies with visions of the "great China market" found this out



Chou En-lai (left) with Deng Xiaoping.

much earlier, when project negotiations were suddenly halted and plans shelved indefinitely.

The new Dengist economic policy attacks these heavy industrial plans as wasteful and unnecessary, and in some cases, as the products of mismanagement and poor planning, or of alleged bureaucratic cliques. The Deng policy calls instead for emphasis on agriculture and light industry, with the latter to emphasize investment in labor-intensive, export-oriented goods like textiles, which can bring a quick return in foreign exchange earnings. Several provinces in southern China, bordering Hong Kong and Macao, have been opened up as free trade zones where Overseas Chinese and others are offered incentives, including extremely cheap labor, to move their sweatshops into China as “joint ventures.” They supply the machinery, the markets, and in some cases the management; Peking supplies the labor.

All this is discussed in articles on economic “theory” in Peking publications as a switch from emphasis on “accumulation,” i.e., large-scale capital investment, to “consumption” for the population. While the Deng policy has been hailed in the West as a Yugoslav—or shall we say Polish—transformation of China, or even the rebirth of capitalism, it is more accurate to see the policy as a desperate, “pragmatic” response to economic collapse and even chaos under political conditions where the Dengists must try to feed the masses, particularly the huge majority of peasants, and provide some evidence that a better era has arrived in China.

In classical terms, Deng’s policy is a new Bukharinite policy (Bukharin was the Soviet leader purged by

*I knew him since France where we were together and I regarded him as my elder brother. We joined the revolution almost at the same time . . . he could exercise his influence as moderator and act as a pillow cushion which softens the blows. Many losses could be avoided thanks to Chou En-lai, many people could be spared thanks to his role.*

*Deng Xiaoping, August 1980  
interview in the Washington Post*

Stalin in the 1930s) in which industrial investment is downplayed in favor of pro-rural, pro-rich-peasant economics. Ironically, this is entirely consistent with Mao’s policy of maintaining China’s backward peasantry as the social and political base of the regime.

The political implications of the NPC policy moves were displayed during the meeting by the sacking of the petroleum minister—for mismanagement—and by attacks on other senior leaders associated with the previous industrially oriented policy. Also key was the announced cut in the defense budget—a cut whose actual precise effect on the military is difficult to determine, but which certainly increased disgruntlement among senior military leaders who understand that without massive investment in the capital-goods sector of industry, there can be no serious modernization of China’s antiquated military hardware. The army has been told to wait for the fruits of the Deng policy’s success—the failure of that policy will then also have its fruits for Deng. Both the People’s Liberation Army (PLA) and important segments of the state industry sectors have good reason to be opposed to Deng’s “New Deal.”

### **The trial of the recalcitrant Madame Mao**

Sometime in mid-November, according to current reports from Peking, the next act will begin—the trial of the Gang of Four and the Lin Piao group (see list of defendants elsewhere in this report). The trial has been delayed several times since it was first announced late

this summer. The principal reason cited by observers for the delay is the refusal of Madame Mao to recant and confess her crimes before the tribunal.

This refusal has more serious implications than creating a messy situation during what the Dengists obviously hope will be a grand show trial witnessed by the Chinese masses. The trial itself is aimed at placing blame for the evil madness of the past, particularly the Cultural Revolution period, at the doorstep of the Gang of Four and Lin Piao, thus absolving Mao of any fundamental blame for it. Mao will be portrayed as having made mistakes, true, and of having been manipulated and even controlled in his later years (when he was, they will say, ill and senile) by these “criminals.” But the Dengists, and Deng himself, in a August 1980 interview with a Western journalist, have made it clear that they will not carry out their campaign to the extent of Khrushchev’s anti-Stalin campaign.

Deng cannot do this, nor can any other of the Chinese leadership, for the obvious reason that they themselves derive their legitimacy from Mao and from Maoism—there is no “Lenin” to reach back to as a “true authority.” At the same time they must try to convince a cynical Chinese population—one that knows full well Mao’s responsibility for the murderous chaos China has gone through for more than 20 years—that the blame can be laid elsewhere. The Dengists have now rehabilitated every leading Chinese figure—many of them posthumously—who was purged by Mao since the mid-1950s. How then can the credibility of the deity be maintained?

This trial is, after all, five years in the making. It was delayed for at least two years by the refusal of elements close to Chairman Hua, including the security boss and party leader responsible for their arrest, to actively pursue prosecution. This refusal reflects the fact that when these people go on trial, along with others being tried in absentia, there will be tens of thousands of others in the Communist Party who will be on trial with them, both figuratively and literally. The trial is the entry point for a Dengist purge of the supporters of the radical Maoists and others who are points of resistance to Deng.

Under these circumstances Deng and his associates cannot welcome the defense which Madame Mao is reportedly going to make: a spirited claim that her actions and those of her associates were performed on the orders of Mao, and even of Chairman Hua, and that any crime she is charged with was in fact carrying out Mao’s political line. The Dengists have gone to great pains to say that only “crimes” will be tried, under the new Chinese legal system, and not political mistakes, precisely for the reason that they wish to finesse the question of Mao’s role.

The trial will be witnessed by a selected group of 800 Chinese, plus the court tribunal, and it has been report-

ed in pro-Peking Hong Kong papers that some of it will even be televised. Foreign correspondents will not be allowed in the courtroom, but given the circumstances it is hard to see how this much-watched event will be significantly concealed from scrutiny. Hence it represents an acute test of strength for Deng.

One aspect of this trial, though, is perhaps its most intriguing—that is the mixing together of the radical Maoists of the Gang of Four with the close military associates of the late Marshall Lin Piao. On the surface, the linkage is that both groups were leading elements in the conduct of the Cultural Revolution, and both have been classed by the current Peking leadership as “ultra-leftists” responsible for the insanity of the past.

However, it is well understood, certainly within China, that the radical Maoists and the Lin Piao group had little in common, and, although allied broadly at one point, were in fact political enemies. We will discuss the role and importance of Lin Piao below; meanwhile, it is clear that by placing these two groups together, the intent is to imply that the Soviet Union is also on trial, and that the Gang of Four was linked to the Soviets. Lin Piao was accused of intriguing with the Soviets to launch a coup against Mao, and is supposed to have died in a plane crash in Mongolia while fleeing to the Soviet Union after the failure of an assassination attempt against Mao in 1971.

The attempt to link the Gang of Four with Lin Piao appears to be an attempt to tar the more serious opposition represented by the Lin Piao tradition with the brush of the hated Gang of Four. Madame Mao and the Gang of Four, far from being Soviet agents, were radical xenophobes and vehemently anti-Soviet as well as generally anti-foreign. Their ultra-egalitarianism was opposed to industrialization and even to modernization of the military.

Lin, on the other hand, was a military professional, and although he attempted to ride the horse of the Cultural Revolution and the Mao personality cult to power, the evidence is that he in fact was pro-industrial and opposed to the rabid egalitarianism of the radicals. His pro-Sovietism was, from available evidence, an opposition to Chou’s deal with Kissinger; and, based on the view that China had to seek outside economic assistance after the ravages of the Cultural Revolution, it was also a pragmatic decision to see rapprochement of some sort with the Soviet Union. This doubt about the embrace with Washington and openness to a limited rapprochement with the Soviets, at least for economic benefits, is understood to still be held in important circles in China, perhaps inside the PLA.

### **The finale: Deng’s Communist Party Congress**

The intended show trial is supposed to lead into the upcoming Twelfth Party Congress of the CCP. A preceding Central Committee meeting is to approve a

document which sets out the final historical statement on the contributions and faults of Mao. The most interesting question in all this will be how far Deng intends to go in carrying out a large-scale purge of the existing Central Committee membership and Politburo leadership. Some of that leadership has already been purged over the past two years in particular (see Chronology), but it is still far from a Dengist-controlled party.

If we were to make a simplified spectral analysis, we can see that at one end lies the radical Maoists of the Gang of Four variety. At the other end are the followers of Chou, the pragmatic Maoists of the Deng group who intend in precise fashion to de-Maoize China and block the future comeback of the Gang of Four types and others. But even at this time there is a vast middle, leading figures and institutions that share no values with the acknowledged madness of the Cultural Revolution period, but harbor profound doubts about China's viability if it is governed by a Deng ideology which proclaims only that: "Practice is the sole criterion of truth" (Deng's slogan).

In that middle is a range of figures from Chairman Hua, who was certainly closer to the Gang of Four, to followers of Lin Piao (an uncertain category), and some identifiable "old men" of the Chinese hierarchy who are known to be opposed to extensive criticism of Mao and to any attempt by Deng to upset the present precarious political balance by pushing through a bid for total power. In that group one can place the man who formally ranks number two in the CCP hierarchy (after Hua and before Deng), Marshall Ye Jianying, and perhaps also the number-four ranking Politburo member Li Xiannian, both of them old men (Ye is 84). Ye is said to be the protector of Hua who secured his choice as a compromise candidate to succeed Mao as chairman of the CCP. As we will discuss in detail elsewhere, Ye's role also has implications deriving from his standing as a long-time military leader.

It is far from clear whether Deng has the power to force his way past such opposition. Even the NPC did not represent a total victory for him, as we discuss later. It is also an institutional question.

Deng's power base is that of Chou—the state apparatus itself and certain organs of the CCP—but essentially it does not rest even on the party. There are points of resistance in the party which are evident from the admission of still-entrenched followers of the "Gang of Four and Lin Piao cliques" in many layers of the party apparatus, individuals who have enjoyed the status of power holders for the past 15 years.

There are also party figures who have built bases in the segments of the state industrial apparatus over a period of decades and who have an institutional stake in an emphasis on a heavy-industry-oriented policy.

Perhaps the most important factor is the armed

forces, who hope to modernize their military hardware and their command structure. The industrialization requirements for this are obvious; and the army's more realistic view of the dangers of the Dengist alignment with the U.S. (especially after the beating they took at the hands of the Vietnamese in early 1979) tend to make the People's Liberation Army a political wild card in the long run.

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*We shall certainly evaluate Chairman Mao's merits and mistakes which characterized his life. We shall certainly affirm his merits and say that they are of primary importance, acknowledge his errors and assess that they are secondary, and while making them public we will adopt a realistic attitude. But, also, we shall certainly continue to uphold Mao Tse-tung Thought, which was the correct part of his life.... We shall not do to Mao Tse-tung what Krushchev did to Stalin at the twentieth Soviet Communist Party Congress.*

*Deng Xiaoping, interview  
with Italian journalist  
Oriana Fallaci, August 1980*

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The potential for military rule—or, in its degenerate form, for breakup of China into a new era of warlordism—is always present. This is combined with the intense, often underestimated regionalism still prevailing in China, a regionalism reinforced by the often mutually unintelligible dialects of Chinese that divide north from south and east from west. Following a breakdown of the authority and legitimacy of the Communist Chinese leadership, something which the men in the middle must greatly fear, all these factors could assert themselves with devastating results.

### **The failure of Deng's Confucian pragmatism**

Ultimately, Deng has been able to seize power by virtue of his promise to the Chinese population that he will end the horrors of the past period. Placing Mao on the shelf, and removing the personality cult, has the dual purpose of removing Deng's enemies and of facing the reality of the fading faith of the masses. Deng has left himself with a pragmatism that articulates the desire of the population for an end to the insane Maoist world of shifting "lines," "struggles," and "directives."

The transition from the Emperor Mao's reign of terror to a promised era of order, legality, and stability is hardly unprecedented in the classical history of impe-

rial China, a history of which Maoist China is very much a part. It is in fact a conscious mirror of the transition from the first dynasty of imperial China, that of the Ch'in emperor Shih Huang-ti, to the establishment of the Confucian order of the great Han dynasty that followed.

In the third century B.C., the Ch'in emperor, on whom Mao consciously modeled himself, ruthlessly unified China and organized masses of Chinese peasants in huge *corvée* labor projects, including the construction of a large part of the Great Wall of China. He ended his rule in a spiral of dementia that included the purge and murder of intellectuals and the burning of most of the books in China.

Deng, like the great mandarin and Confucian Chou En-lai, his mentor, has taken the stance of the Han dynasty which followed that madness, promising an era of order, of the fatherly rule of the Confucian mandarin. The Han rule turned out to be less than benevolent, however, as it, too, attempted to move the great masses of Chinese peasantry in service of expansion of the Han state, and empire.

Deng and his associates, in fact, must still cling to Maoism—and Deng is very much a Maoist—inasmuch as Maoism is only a new moment in the long Chinese tradition of a Han empire based on a loyal peasant mass. Deng's economic perquisites to the peasantry are aimed at maintaining that loyalty, while his anti-industrial policy undermines the process of modernization they claim to want.

There is a crisis of ideology very much evident in China today—the questioning even in official Chinese publications as to the very purpose of the Chinese Revolution—which arises from a circumstance where the events of the last 20 years are now repudiated. Without the willingness or the ability to create a new leadership and a new elite that actually seeks modernization through science and technology in a rational world order, that crisis must ultimately catch up with the Dengists.

It is unlikely, however, that things will even get that far. The crucial factor is the economic strategy presently pursued by Deng: at best a short-term boost in living standards, a boost soon undermined by the failure to improve the basic productivity of the Chinese economy through mechanized agriculture, industrialization, and education. At that point Deng's incapacity to actually eliminate the other centers of power in China, to resolve the cracks in the foundation, will assert itself. That point may come sooner than many expect.

Stability has rarely prevailed in Chinese history except when looked at over the long sweep of history. There is little reason to believe that the present circumstances offer favorable prospects for that. Those who wander in the fantasy land of the China card will be the last to understand that fact.

## China's new leadership

Last Feb. 29, China's Eleventh Party Central Committee closed its fifth and final plenary session, a six-day affair that produced some of the most significant leadership and policy changes in years. It signaled a major assault on radical Maoist elements in the party and government who have showed, or are likely to show, opposition to the policies of the current ruling faction headed by strongman Deng Xiaoping (Teng Hsiao-ping). Removed from their Politburo posts at this plenum were: Vice-Chairmen Wang Dongxing and Ji Dengkui, former Peking Mayor Wu De, and ex-commander of the Peking Military Region Chen Xilian. All four are recognized as leading Maoists opposed to the liberal "Four Modernizations" plan, which they view as a blasphemous departure from the line of the late Chairman Mao Tse-tung.

The demise of the "Whateverists" (*fan shi pai*), those who believe that whatever Mao said was correct, coincided with the promotion of Deng associates to high party posts, many of whom had been victims of purges themselves. The Central Committee Secretariat, a body dismantled by Mao during the Cultural Revolution of 1966-68, was reestablished and stacked with Deng people.

The National People's Congress held from Aug. 29 to Sept. 10 saw much of the same, as leftist-leaning Premier Hua Guofeng, his own power base weakened by purges, stepped down as head of the government, to be replaced by Deng protégé Zhao Ziyang.

The following is an introduction to some of the new faces in the cast of characters that is likely to play major roles in China's future.



**Zhao Ziyang: Politburo Standing Committee member, premier of State Council.** Born to a wealthy landlord family in Huaxian, Henan; Zhao, younger at 61 than most of his peers, is already one of the most powerful men in China. He spent the early part of his career in

Guangdong Province where he led land and agricultural reforms, eventually rising to the post of first secretary of the Guangdong Provincial Committee in 1965. Though attacked during the Cultural Revolution, Zhao survived relatively unscathed and in 1971 was made secretary of the Inner Mongolia Regional Committee. The following year he was reassigned to his previous post in Guangdong and in 1975, reportedly with the help of Deng Xiaoping, he replaced Liu Xingyuan, a follower of the disgraced Lin Biao, as secretary of Sichuan Province. It is there that he became famous for turning around the economic disaster that had befallen Sichuan, using policies now advocated nationally by the Deng clique. Zhao's rapid rise to the top has come largely on the coattails of his mentor Deng.



**Huang Hua: vice-premier of State Council, minister of foreign affairs.** Huang, born in 1913 in Cixian County, Hebei, is without a doubt the most seasoned diplomat in China today. He was active in student politics while at Yenching University in Peking during the early 1930s, a period that coincided with pro-Mao publicist Edgar Snow's tenure as visiting professor there. He became very close to Snow and once took refuge in Snow's apartment after his release from a two-week imprisonment for participating in student demonstrations. Huang left for the Yanan "Soviet Zone" (liberated zone) in the summer of 1936 to act as interpreter for Snow, who had gone that spring. The trip was reportedly financed by Mrs. Snow after she received word from her husband to send Huang. It was in Yanan that Huang interpreted for the now famous dialogues between Mao Tse-tung and Edgar Snow. During World War II and the civil war, Huang worked as a correspondent for the New China News Agency in Chungking under his mentor Chou En-lai and disseminated anti-Kuomintang information among American military and diplomatic circles. During the Korean War he was in charge of indoctrination of POWs and was a Chinese representative to the armistice negotiations at Panmunjon in 1953. Huang served as an adviser and spokesman for the Chou En-lai led Chinese delegations to both the Geneva and Bandung conferences. From 1960 on, he was variously ambassador to Ghana, Canada, and the United Arab Republic, and China's permanent representative to the U.N. He has been China's foreign minister since 1976.

**Hu Yaobang: Standing Committee Politburo member; secretary-general, Central Committee.** This 65-year-old Deng protégé has spent most of his career as a propagandist, dealing primarily with the indoctrination of youth. Hu was brought to Peking from Sichuan by Deng in the 1950s. In 1965 he was elected to the Standing Committee of the Third National People's Congress, but shortly after came under attack by the Red Guards as a member of Liu Shaoqi's "revisionary" clique. Following the purge of the "Gang of Four," Hu was made head of the Central Committee Propaganda Department, president of the Academy of Sciences, and now is number six in the party hierarchy. Considered to be Deng's right hand man, Hu holds some very important posts and is an official to watch over the coming period.



**Peng Chong: Politburo member, Party Secretariat member, mayor of Shanghai.** The 65-year-old Peng was born in Fujian Province but was raised in Singapore, returning to China in the early 1930s to join the Communist revolution. During the early part of his career, he served as a member of the Jiansu Provincial Secretariat and as mayor of Nanjing. During the Cultural Revolution, Peng was severely attacked by a wall-poster campaign carried out by his subordinates who criticized his "bourgeois life style." Guangdong Military Commander Xu Shiyou, the man who protected Deng Xiaoping during the "Gang of Four"-led anti-Deng campaign following the death of Chou En-lai, helped reinstate the disgraced Peng to the post of deputy political commissar of the Nanjing army units. He was elected to the party Politburo at the First Plenum of the Eleventh Party Central Committee and made a member of the recently reestablished party secretariat, a body Deng has stacked with his own supporters and will use to wield considerable power.



**Wan Li: Party Central Secretariat member, vice-premier of State Council.** Born in the same country of Sichuan Province as Deng Xiaoping, Wan studied in France as a young man. After working at the prefectural and provincial level, he followed Deng to Peking in 1953 and was appointed minister of urban construction in 1955. In 1958 he served at several municipal posts in the capital, supervising a number of major construction projects, including the Great Hall of the People. During the Cultural Revolution he came under attack from the Jiang Qing "Gang of Four" clique as a "counterrevolutionary" and was demoted. In 1975, with Deng as his agent of influence, Wan was rehabilitated and appointed minister of railways, only to be attacked again by the "Gang of Four" during the chaotic period that followed Chou En-lai's death. After the arrest of Jiang Qing and her associates, he replaced a pro-Gang of Four head in Anhui Province and is credited with reversing the economic collapse afflicting the province. Wan, regarded as a talented planner and administrator, is at the center of Deng Xiaoping's "Sichuan clique."



**Fang Yi: Politburo member; vice-premier, State Council; Party Secretariat member.** A native of Fujian Province, Fang held a number of low-level economic and financial posts in the provinces of Hubei, Anhui, and Shandong before being sent back to Fujian to lead the land reform there in 1951. Later he served as an economic affairs representative to Hanoi and minister of economic relations with foreign countries. Fang went on to such posts as vice-minister of finance and vice-minister of state planning, and eventually served as vice-premier of the State Council and president of the important Academy of Sciences. In 1967, during the height of the Cultural Revolution, Fang was attacked and temporarily suspended from all his posts. It is likely that he was saved from total disgrace by Chou En-lai, with whom he is

reported to have had a close connection. Following the arrest of the Gang of Four, he again assumed high office in both the party and government.



**Gu Mu: vice-premier of State Council, Party Secretariat member.** Born in 1914, Gu Mu hails from Shandong Province in the north. Prior to the Cultural Revolution, he was involved in economic planning, serving as a member of the State Construction Commission, the State Planning Commission, and the State Economic Commission. After holding a number of high-level ministerial posts, he became a vice-premier of the State Council. Like most of the new faces in Chinese politics, he was attacked and purged during the Cultural Revolution and rehabilitated after the downfall of the Gang of Four.



**Yu Qiuli: vice-premier of State Council, Party Secretariat member, Politburo member.** Yu, 66, is a native of Jian County, Jiangxi Province. He joined the Communist Party in 1931 and, after participating in the Long March, became a political commissar for a division of the famous Eighth Route Army. A long military career saw him attain the rank of lieutenant general while serving at a variety of military administrative posts, including director of the Political Department for both the Northwest and Lanchow Military Regions. In 1958 he was appointed a minister of the petroleum industry and elected deputy for Sichuan Province to the Second and Third National People's Congresses.

After being made vice-chairman of the State Planning Commission, he was attacked by Red Guards during the Cultural Revolution, then saved from political death by Chou En-lai. Of late, Yu appears to be part of a loosely-knit but identifiable pro-industry, pro-energy-expansion faction that does not seem to have fixed ties to either the Deng clique or the Gang of Four. Yu's recent removal from the State Planning Commission, along with recent insinuations in the press, indicate that he is to a large



degree blamed for the economic failures of the last three years. However, the State Energy Commission, to which Yu was recently appointed, is also a very important post, as competent energy management is crucial to the modernization of the country.

Yu Qiuli's most recent speeches have been in line with the Deng faction's policy of energy resource conservation, but attacks on the management of the petroleum industry have already felled Minister of the Petroleum Industry Song Zhenming and besmirched Vice-Premier for Petroleum Kang Shien with a "demerit of the first degree."

The ouster of Yu, Kang, and Vice-Premier Chen Muhua was demanded at September's National People's Congress by Wang Bingnan, who said in his speech that the three "enjoy prestige neither in the party nor the government." Yu's political position could get more unstable as the real power groupings precipitate out of the uncertainty of the next few months.



**Zhang Aiping: vice-premier of State Council; Eleventh Party Central Committee member.** Zhang was born in Sichuan Province and has been in the military throughout his career. He served under the recently rehabilitated General Peng Dehuai during the Long March. After the founding of the People's Republic of China, Zhang rose within the army hierarchy and accompanied Chou En-lai as a member of military delegations visiting both India and Burma. He is now deputy chief of staff of the People's Liberation Army and director of the National Defense Scientific Commission.



**Yang Dezhi: Party Secretariat member, Army chief of staff.** The military careerist Yang was born in 1910 in Hunan Province. He is a veteran of campaigns against

the Japanese, the Nationalists, the Americans in Korea, and, most recently, the Vietnamese during the Sino-Vietnamese war of February 1979. Yang co-led the military operation against the Vietnamese with Deng's trusted friend and onetime protector General Xu Shiyou; both have since been called to Peking to assume important posts, Xu as a member of the Military Affairs Commission, and Yang as Army chief of staff. With faithful generals in charge of Peking military affairs, Deng views the capital as safe.



**Peng Zhen: Politburo member; Standing Committee member, National People's Congress.** A native of Shanxi Province, Peng was born in 1902 to a peasant family. In 1951 he became mayor of Peking, and gradually emerged as one of the most powerful men in China, achieving the ranks of Central Committee and Politburo member. Peng gained notoriety as the first Politburo member to fall victim to the Cultural Revolution. He was accused of a number of crimes and was tried three times in public before being purged in 1966.



**Yao Yilin: vice-premier of State Council, Party Secretariat member.** Born in Anhui Province, the 65-year-old Yao has been an economist throughout his career, specializing in financial and trade matters. He is usually the one to receive foreign trade delegations in his capacity as secretary general of the Financial and Economic Commission. Yao has held such important posts as minister of commerce and deputy director of the Office of Finance and Trade. He came under repeated attacks during the Cultural Revolution, but was reinstated after the ousting of the Gang of Four. Most recently he was called on to replace Yu Qiuli as head of the State Planning Commission.



**Hu Qiaomu: Party Secretariat member.** Hu was born in 1912 in Jiangsu Province, the son of a wealthy landlord. He has been a writer and a propagandist throughout his career and has held such posts as director of the New China News Agency and director of the *People's Daily*, China's most important newspaper. Earlier in his career he was close to Mao, serving as the Chairman's secretary and editing many of the party's more important documents. During the Cultural Revolution he was stripped of all his posts and was little heard from until after the fall of the Gang of Four, when he resurfaced and was appointed president of the Chinese Academy of Social Sciences. He has replaced Maoist Wang Dongxing as the man in charge of editing the writings of the late Chairman Mao.



**Wang Bingnan, president of the China Friendship Association, Central Committee member.** A long-time Chou En-lai associate, the 74-year-old son of a rich Shaanxi landlord is now head of the China Friendship Association, a foreign ministry-linked branch of Chinese intelligence. In 1931 he went to Germany to study at the University of Berlin where he joined the Comintern and married Anna von Kleist. Wang and his wife returned to China in 1936 and immediately went to Xian, Shaanxi, where he succeeded in persuading the nominally pro-Kuomintang (KMT) General Yang Hucheng to join the United Front against the Japanese, countermanding Chiang Kai-shek's orders not to deal with the Communists. All the while keeping his own party membership secret, Wang then made direct contact with the Communists, serving as a liaison between them and Yang. During this period he reportedly assisted the American

journalist and intelligence operative Edgar Snow while the latter was in Shaanxi. In 1937 he was sent to Chungking, then the site of diplomatic headquarters for most Western nations.

Wang's membership in the Communist Party was not betrayed until 1942, which enabled him to hold several lower-level KMT posts, augmenting his anti-KMT activities. After 1942 he became Chou En-lai's personal secretary, and remained as such throughout the war and immediate postwar period, except for a brief time in 1945, when he and his wife went to India to conduct Communist activities there. Like Huang Hua, he was in frequent contact with Westerners, in particular Americans, during the period of the Marshall mission.

Wang's postwar, pre-Cultural Revolution career saw him accompany Chou En-lai to the 1954 Geneva Conference and is highlighted by his nine-year tenure as ambassador to Poland, a period that coincided with the 1956 Hungarian uprisings. He was China's representative to the Chou-engineered Warsaw talks with the United States, which started in 1955, and was behind the scenes during the 1961 Geneva Conference on Laos. During the Cultural Revolution he was attacked and purged for "collusion with other countries." Rehabilitated after the Gang of Four's ouster, he is anti-Soviet, and is on record most recently as being very supportive of the "Solidarity" labor movement in Poland. Wang is a man to watch in matters of Chinese foreign policy, a contact point with Anglo-American circles.



**Chen Yun: vice-chairman of Central Committee, Politburo Standing Committee member.** Chen, 74, was elected to his current posts at the Third Plenum of the Eleventh Party Central Committee in December 1978. He is an experienced economic official who is a long supporter of material incentives for workers, a view shared by the other architects of the new "Four Modernizations" economic program. Unlike many of the other recently elevated officials, Chen comes from a genuine working-class background. He has long been at odds with Maoist ideologues because of his economic views, which explains why his career has had more than its share of political ups and downs. Chen's recent promotion strengthens Deng Xiaoping's hold on party politics and policy.

# The return of the Chou-Deng group

Jan. 9, 1976

**Death of Premier Chou En-lai.**

April 5, 1976

**Tien An Men incident**, in which tens of thousands of Chinese demonstrate in memory of Chou, in support of Deng, and against the Gang of Four. Demonstrators are suppressed, hundreds reported killed.

Sept. 9, 1976

**Death of Mao Tse-tung.**

Oct. 10, 1976

**Gang of Four arrested** climaxing a turbulent period that followed the death of Chou En-lai and Mao Tse-tung, of factional jockeying for power. Deng Xiaoping, under intense media attack in the north, fled to Guangdong and remained there under the protection of General Xu Shiyou until after Gang of Four's arrest.

July 16-21, 1977

**Third Plenum of the Tenth Party Central Committee.** Resolution passed formally restoring Deng Xiaoping to all his posts and officially expelling Jiang Qing, Zhang Chunqiao, Yao Wenyan, and Wang Hongwen from all their posts.

Aug. 12-18, 1977

**Eleventh National Congress of the Chinese Communist Party.** Anti-Gang of Four theme prevailed throughout congress. Cultural Revolution still praised as a success. Hua Guofeng legitimized as Mao's rightful successor. Central Committee selected.

Aug. 19, 1977

**First Plenum of the Eleventh Party Central Committee.** Main business concerned election of high-level officials. Central Committee posts:

Chairman: Hua Guofeng

Vice-Chairman: Ye Jianying, Li Xiannian, Deng Xiaoping, Wang Dongxing\*

Politburo Standing Committee:

Hua Guofeng, Li Xiannian, Ye Jianying, Deng Xiaoping, Wang Dongxing\*

Politburo members:

Wei Guoqing, Ulanfu, Fang Yi, Deng Xiaoping, Ye Jianying, Liu Bocheng, Xu Shiyou, Ji Dengkui\*, Su Chenhua, Li Xiannian, Le Desheng, We De\*, Yu Qiuli, Wang Dongxing\*, Zhang Tingfa, Geng Biao, Ni Zhifu, Peng Chong, Chen Yonggui\*, Chen Xilian\*, Xu Xiangqian, Nie Rongzhen

Feb. 11-23, 1978

**Second Plenum of the Eleventh Party Central Committee.** No officials chosen or dismissed. Business dealt primarily with preparations for the convocation of the Fifth National People's Congress (China's legislative body) including compilation of reports and drafted documents to be submitted to the NPC for examination and approval. A list of candidates for State Council and NPC Standing Committee was approved by the plenum.

Feb. 26-March 5, 1978

**First Session of the Fifth National People's Congress.** Component members of State Council chosen, ministerial posts filled.

State Council posts:

Premier: Hua Guofeng

Vice-Premier: Deng Xiaoping, Li Xiangqian, Ji Dengkui\*, Yu Qiuli, Chen Xilian\*, Geng Biao, Chen Yonggui\*, Fang Yi, Wang Zhen, Gu Mu, Kang Shien, Chen Muhua

Dec. 18-22, 1978

**Third Plenum of Eleventh Party Central Committee.** Deng associate Chen Yun elected additional vice-chairman of the Central Committee and member of Politburo Standing Committee. Hu Yaobang, Wang Zhen, and Deng Yingzhao (widow of Chou En-lai) elected additional members of the Politburo. Past criticism of Mao opponents Peng Dehuai and Tao Chu judged erroneous. Bo Yibo and Yang Shangkun also officially rehabilitated.

June 18-July 1, 1979

**Second Session of the Fifth National People's Congress.** Peng Zhen elected vice-chairman of NPC Standing Committee. Formerly disgraced officials Chen Yun, Bo Yibo, and Yao Yilin appointed vice-premiers of the State Council. Vice-Premier Fang appointed president of the Chinese Academy of Sciences.

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\*currently purged

September 25-28, 1979

**Fourth Plenum of the Eleventh Party Central Committee.** Criticism of the Gang of Four remains prevailing theme. Zhao Ziyang and Peng Zhen elevated to Central Committee Politburo.

Feb. 23-28, 1980

**Fifth Plenum of the Eleventh Party Central Committee.** Main business entailed elevation and dismissal of certain officials and discussion of the upcoming Twelfth Party Congress. Party Secretariat reestablished and filled with Deng supporters.

General Secretary: Hu Yaobang

Those appointed to Secretariat included: Hu Yaobang, Wan Li, Hu Qiaomu, Yao Yilin, Peng Chong, Yang Dezhi, Fang Yi, Gu Mu, Song Renqiong, Yu Qiuli, Wang Renzhong.

Zhao Ziyang and Hu Yaobang appointed to Standing Committee of the Politburo.

“Whateverist” faction of Chen Xilian, Wu De, Wang Dongzong, and Ji Dengkui removed from their posts. Liu Shaoqi posthumously rehabilitated.

Plenum decided to propose to the National People’s Congress that the right to “speak out freely, air their

views fully, hold great debates, and write big character posters,” as stipulated in Article 45 of the Constitution, be deleted.

Aug. 30-Sept. 10, 1980

**Third Session of the Fifth National People’s Congress.** Resignations, appointments, and reshuffling highlighted this session of Congress.

Resigned:

Premier Hua Guofeng, replaced by Zhao Ziyang  
Vice-Premiers Deng Xiaoping, Li Xiannian, Chen Yun, Wang Zhen, Wang Renzhong, Xu Xiangqian, Chen Yonggui.

Elected:

Premier: Zhao Ziyang  
Vice-Premiers: Yang Jingren, Zhang Aiping, Huang Hua

Vice-Chairmen of the NPC Standing Committee: Peng Chong, Zi Zhongxun, Su Yu, Yang Shangkun, Bainqen Erdini Qoigy Gyaincain

Deng and his associates resigned from their posts as vice-premiers but retained their high-level party posts. This was done to make room for younger Deng supporters.

## The leader reassessed

*The Deng group’s campaign to reassess Mao and place the blame for Mao’s misdeeds on the Gang of Four and the Lin Piao group has been carried out with increasing intensity in all the organs of the Chinese media. One important example is a two-part article entitled “The Leader and the People,” published on September 18-19, 1980, in the party organ People’s Daily. The author, Li Honglin, has been previously identified as the author of significant “theoretical” articles transmitting the line of the Deng group; the name may be a pseudonym for a person or persons associated with the Academy of Social Sciences. Excerpts follow.*

During those “unprecedented” 10 years [referring to Cultural Revolution—D.S.], feudal morality was openly advocated. . . . Practice has proven that the principle “The people should be loyal to the leader” has seriously impeded the development of our society and should therefore be jettisoned and replaced by the principle “The leader should be loyal to the people.” . . .

But in those 10 years, practicing the personality cult was the sign of utmost revolutionary spirit. To clean up this garbage today, a considerable amount of work has to be done. We must particularly guard against some people’s attempts to highlight the “pol-

itics” of personality cult under new historical conditions. When others want to reduce publicity on individuals, they accuse them of “belittling the leader” because people “with deep proletarian sentiments” like them cannot stand it. . . . They are just bent on finding fault because they disagree with the principles laid down during the Third Plenary Session of the Central Committee.

Seeking truth from facts and recognizing that the leader grows up in practice and that he has made indelible historical contributions and also has unavoidable shortcomings and mistakes—this is the only way to really defend the leader’s image that will not dampen the masses’ faith in him. . . .

Since the leader’s own power is given to him by the people, of course he has no power to designate his “successor” because the position does not belong to him. [This is a clear reference to Mao’s designation of Chairman Hua Guofeng as his successor—D.S.] . . .

If the party’s principle of collective leadership is always upheld, then the departure or staying of individual leaders will not affect the stability of the group of leaders. In other words, it will not affect unity and stability. If we can uphold this principle in the political life of the party and the country, such heavy feudal legacies as “one leader,” the “lifetime tenure system,” and “the individual designating his successor” can all be put in the museum of history.

# The CCP: a facade of discipline

The Communist Party of China (CCP) is theoretically the center of power, the source of legitimacy, and the ruling party of the Chinese state. However, the reality of that proposition has been extremely varied throughout the history of the People's Republic, particularly under the recurring circumstances of Mao's own opposition to the party leadership and his mobilization of forces outside the party to enforce his will.

The Great Proletarian Cultural Revolution is the most famous example of such Maoist activity, with its use of the Red Guard youth gangs and later the People's Liberation Army (PLA) to purge leading party cadre. The security and intelligence apparatus, under the overall direction of Kang Sheng, was used by Mao to direct much of the activity of the Cultural Revolution and was directed against his opponents within the CCP. After Mao had to deploy the PLA to "curb the excesses" of the Cultural Revolution, the army had virtually taken over the party apparatus in many localities.

Over the most recent period, the Deng group has tried to reorganize the party and restore it to some kind of normality. However, the status of the party organization and the membership remains very much in question. At the center in Peking, Deng is in control; but beyond that, out into the provinces and down into the middle and lower levels of party units in the communes, factories, PLA units, and so on, the degree of Dengist control is in question.

One reason is that a majority of the estimated 37 million party members were admitted to the party during the 1966-76 period from the beginning of the Cultural Revolution to the arrest of the Gang of Four, the period now condemned by Deng and his associates. This majority exists in the Central Committee, the leadership body of the party. While the Dengists have brought back many of the cadre who were purged by the Maoists, there is no question that a significant layer of the CCP membership once were adherents of the radicals represented by the Gang of Four. Of course, most of them have recanted and adjusted to the new leadership, but their degree of loyalty must remain in question.

## Deng's reorganization

Deng has taken certain steps to restore his control over the party apparatus at the top. The most important

came at the Fifth Central Committee Plenum this February, where the Secretariat of the Central Committee was re-established along with the post of party secretary-general and granted overall responsibility for handling the day-to-day work of the party organization. As secretary-general, a post Deng once held before his purge in the Cultural Revolution, Deng installed his closest collaborator and protégé, Hu Yaobang. Hu is a candidate to replace Hua Guofeng as party chairman.

In general, the members of the Secretariat are Deng followers, but not *in toto* nor all to the same degree. One interesting Secretariat member, and the only PLA man among them, is General Yang Dezhi (Yang Teh-chih), who was formerly commander of the troops of the Kunming region and a leader of the 1979 war against Vietnam. Yang is not known to be close to Deng, and in the past was a strong supporter of Madame Mao.

An important element in Deng's party control apparatus is the Central Committee Disciplinary Investigation Commission (CCDIC) established at the Third Central Committee Plenum on December 18-22, 1978. This unit is clearly part of the overall security and intelligence apparatus, with a specific function as the action arm of the effort to rehabilitate and restore to positions of power and influence those CCP cadres persecuted during the Cultural Revolution. This also includes purges of current power holders; and the reach of the CCDIC apparently penetrates well down into all layers of the party apparatus throughout the country.

The CCDIC was initially provided with a 100-man staff. It is headed by a Standing Committee member of the CCP Politburo, Chen Yun, first secretary of the CCDIC. Second secretary is Deng Yingchao; third secretary is Hu Yaobang; and permanent secretary is Huang Kecheng. Huang is in operational charge of the activities of the organization—he was elevated to the Central Committee at the Third Plenum and was chief of staff of the armed forces in 1959, when he was purged along with Marshal Peng Dehuai (Peng Teh-huai) in the campaign at that time against "capitalist roaders" and "rightist opportunists." (Peng has since been posthumously rehabilitated.)

Activities of this body have been mentioned in Chinese news reports in connection with disciplining

leading cadre who refuse to carry out rehabilitation measures. In Shanxi Province, for example, there has reportedly been resistance to rehabilitations of what are called "victims of false and wrong accusations." Apparently cadre belonging to Deng's faction have "not been thoroughly rehabilitated," and the complaint has been aired that the perpetrators of the "frame-up" remain in official posts "throwing their weight around." In this instance, at least, the CCDIC is still unable to fully enforce its will from Peking.

### Separation of party and government

The unsettled state of the CCP itself may be one of the major factors behind a current topic in the Chinese press and in the speeches of the Peking leadership. This is the campaign for the "separation of party and government" functions and personnel. At the September National People's Congress meeting this was a major theme, with the emphasis provided by the resignation of many senior party leaders from their state positions, including Premier Hua, so that they hold only party positions.

The rationale presented for this in Peking is to

### 'The factionalists'

*The following is excerpted from an Oct. 29, 1980 commentary in the People's Daily, "Veteran Cadres' New Tasks":*

Some old comrades worry that the factionalists, or even the attackers, smashers, and grabbers, might be promoted while the middle-aged and young cadres are being selected. This worry is justified to a certain extent because the *leading groups* of some areas and some departments have still not been properly consolidated today, and some factionalists might promote their followers in the name of promoting middle-aged and young cadres. That is why the central authorities have repeatedly reminded us that the organizational and ideological remnants of the Lin Piao and Jiang Qing cliques should not be underestimated [emphasis added]. . . .

Some people are deeply poisoned by the influence of the Lin Piao and Jiang Qing cliques. Their factionalist sentiments are serious and they still refuse to repent. Although they have some ability, they should never be promoted to leading posts. If they still occupy some leading posts, they should be brought down resolutely.

achieve more efficient functioning of government by taking party functions out of the government and having the party concentrate on matters of party organization, mobilization, and education of the population. This is all supposedly part of the enforcement of legal order and an end to the constant political campaigns which disrupted the functioning of the government.

However, another explanation is that the Dengists have their power base not in the party but in the state apparatus built up and protected by their late leader, Chou En-lai. What may be involved here is not some formal separation of powers, but an effective downgrading of the status and power of the CCP itself in the Chinese regime, a move which is sure to bring tremendous resistance from those who still derive their power and position from the primacy of the CCP. This trend regarding "state" and "party" is perhaps the most portentous aspect of the Deng bid for power.

Judging from the attacks on them in the Peking press, those who oppose the downgrading of the party role argue that the removal of the party role will open the gates for "bourgeois ideology," particularly under conditions of heightened Western influence. The worker-peasant party cadre, who had such an elevated status during the Maoist period, look askance at the current emphasis on restoring intellectuals, many of them non-party members, to a high social status in the state and party apparatus.

Within the Deng group itself, as well as leading party circles not closely associated with Deng, there are fears of "anti-Marxist" currents, a fear addressed frequently in the party organs. The clampdown carried out by Deng on the short-lived "Peking Spring," a flourishing of unauthorized journals that went so far as to attack Marxism and socialism, is evidence of fears that the de-Maoification campaign will undermine the very legitimacy of the Chinese regime as it now exists. Among the intellectuals are widespread fears of a backlash against the current liberalization.

An event that points up the fragility of Deng's grasp of the political structure is the decision to delete from the constitution the clause guaranteeing the "Four Big Freedoms"—to "speak out freely, air their views fully, hold great debates, and write big character posters." This was announced at the Fifth Party Plenum as an action intended to "help eliminate factors causing instability," and was read as a move directed against both the Gang of Four faction and the non-party intelligentsia. Curiously, some China watchers have cited this move as evidence of the "awesome consolidation of power" by Deng; it is more logical to view it as a manifestation of the weakness of the regime and the necessity to suppress public expression of the forces at work in the power plays now going on in the Chinese leadership.

# The PLA: a restive element

The current status and political role of the Chinese People's Liberation Army (PLA) has been the subject of very little attention over the recent period. However, despite the considerable efforts of the current Peking leadership to "depoliticize" the PLA, there is ample evidence that the PLA remains a major political factor and perhaps the only reliable unifying force in China.

Since the so-called Lin Piao affair—the alleged attempted coup by PLA chief Lin Piao and his subsequent purported death in a plane crash in Mongolia while fleeing to the Soviet Union—the PLA has suffered a significant downgrading as a political institution. Moreover, there is no clear person or group of persons within the PLA who exercise a commanding role in the institution, as did Lin, particularly during the period from the late 1960s until the affair in 1971.

Nonetheless, over the recent period there are significant signs that the PLA is a base of resistance to the domination of the Deng Xiaoping (Teng Hsiao-ping) group, and that in the future, control over the PLA or elements of it may be crucial in the power struggles to come. The recent meeting of the National People's Congress (NPC) spurred such speculation when cuts in the current defense budget were announced. There were signs that senior PLA commanders were unhappy over such moves, particularly because there is a demand for a significant upgrading of the PLA's professional status and modernization of its military hardware.

The fact that one of the grand old men of the PLA, Marshal Ye Jianying (Yeh Chien-ying), remained in his position of chairman of the congress, despite the resignation of almost all the other leading figures of that body, is the most suggestive event. Some speculation has been that Ye's resistance to resigning reflects PLA discontent with the economic and de-Maoification policies of the Deng group.

Evidence cited to back this speculation includes Ye's closing speech to the NPC which gave specific praise to Party Chairman Hua Guofeng's major speech to the congress, and also highlighted the need to strengthen national defense as a priority alongside that of the "Four Modernizations." Also, Hua, himself, in his speech, gave strong praise to the PLA, calling it "a strong pillar of the dictatorship of the proletariat" and expressing dissatisfaction over the fact that "in the

coming years it will be impossible to sharply increase our defense spending."

The context for examining the circumstances in the PLA at this time must include the upcoming trial of the Gang of Four and the Lin Piao group, a trial which will necessarily include sensitive issues regarding the PLA. This is due to the inclusion in the 10 defendants of five senior military officials, identified as collaborators of Lin Piao, who disappeared shortly after the 1971 events.

The trial indictment, so far as it is known at this time, includes charges of conspiring to carry out a coup and assassinate Mao, charges coming out of the Lin Piao affair itself. As we will discuss below, there was much reason to doubt the veracity of these charges at that time, and there still is. It will be very interesting to see how the Deng group presents the charges and evidence to back them up. Suffice it to say that the downfall of Lin can be traced directly to Chou En-lai, as a principal competitor for the succession to Mao.

## The PLA and Lin Piao

The mystique of Lin Piao can be expected to provide one of the more sensitive themes to be handled during the Gang of Four trial. Next to Mao's name, Lin Piao's is certainly the most revered among the PLA rank and file. He was most highly regarded both for his tactical and strategic abilities. He was always referred to affectionately as "Lin Zong" ("Chief Lin") by the fighters and commanders of the PLA. This was not just limited to the famous Fourth Field Army, which he personally commanded, and led all the way from the northeast region to the southernmost fringe of the PRC on Hainan Island, from 1946 to 1949.

It was Lin Piao's forces that turned the tide and spelled the end of the Kuomintang (KMT) on the mainland. It happened in the first of the "Three Great Campaigns" of the 1946-49 civil war. This was the campaign in the Liaohsi-Shenyang region which enabled the PLA to establish a foothold in Manchuria, the rich, most industrialized part of China. The control of this region enabled the PLA, until then hopelessly outnumbered, to destroy the KMT divisions, cross the Shanhaikuan barrier and stream into the heartland of China. After this nothing could check it.

The strategic doctrines developed in this campaign

and the tactics employed became operations manuals for use right down to the PLA's battalion and company levels. It was this institutional reverence for Commander Lin that the post-Lin Piao leadership has attempted to obliterate through mass campaigns. Yet the memory has persisted in the minds of the fighters and commanders of the PLA.

This "Lin Zong" legend, and the general attitude toward discipline and order inherent in the professional military, which allowed the PLA to weather the general turmoil of the Cultural Revolution relatively intact, makes it imperative for the Deng Xiaoping regime to handle the PLA carefully as it rehabilitates and consolidates the position of the civilian sector, i.e., the party and the government.

The battered sensibilities of the PLA must be taken into account not only because of the summary dismissal, formal disgracing, or general harassment over the years of such prominent military figures as Peng Dehuai, Lo Juiching, Ho Lung, Chu Teh, and Lin Piao. There also remains some resentment in the ranks because of the way the PLA as a whole was forced during the Cultural Revolution to act as gendarmes against the Red Guards and their violent factional strife.

The PLA knows on the basis of putting "theory into practice" that waving Mao Tse-tung's little red book, or expounding the current ideological variant, is not as efficacious a "norm of truth" (Deng's current favorite phrase) in developing a "fine [military] work style," such as live fire practice and frequent combat maneuvers. This is particularly true when it is put to the test as in the February-March 1979 incursion into Vietnam. Whatever the lack of equipment or defects in preparedness that resulted in the PLA's drubbing at the hands of local and regional Vietnamese troops, this action must have resulted in a general, if inarticulate, disaffection from the CCP leadership of the Cultural Revolution decade.

The above factors may account for the speculation about the role and status of senior military officials still in positions of authority. Among them, as noted above, is Ye Jianying, 84, one of the five still-living marshals from the famous 12 appointed in 1955. Such speculation must revolve around the question of the political position of the army, rather than any question of Ye's political stand on the Gang of Four versus Deng, or the more mundane matter of his age.

Ye, like Deng, was attacked, directly and indirectly, by the Gang of Four, though unlike Deng, he was not purged. There is the matter of the "Shangtung Question," for example, an exercise of Madame Mao and her dilettante literati, who, while ostensibly on vacation in August 1972, decided to take over, or at least "investigate," a military base and check out the political condition of the troops there. Ye objected, whereupon

the vituperative Madame Mao embarked upon an attack on Ye and the whole general staff. Between December 1972 and January 1973, the general staff was forced to "reveal their crimes" three times. Ye was accused of opposing the Party Central, the general staff was depicted as a "pitch-black organization," and the general staff of Lin Piao. (Ironically, Lin is now lumped with the Gang of Four as an antagonist to the true line of Mao Tse-tung Thought.)

In pursuing the matter of Ye's status, the question has been raised as to whether he "really" offered to resign as chairman at the recent National People's Congress. It has been noted that on Sept. 19, Hua Guofeng stated to a prominent foreign visitor that Ye had submitted his resignation, but it was not accepted. It was also noted, however, that Deng and his followers have remained silent on the matter. One observer cites this episode as an indication that personnel changes at the senior levels of the government may not have been as smooth and amicable as they are presented to the masses of China and the West.

Another aspect in the relationship between the military and state involves the exercise in multiple transfers at the regional level. Early this year most of the PRC's 11 military regions underwent leadership changes. Deng relinquished his position as PLA chief of staff in favor of Gen. Yang Dezhi (Yang Teh-chih). It has also been suggested that the transfer to Peking of a number of the most prestigious senior officers to the Military Affairs Commission, and their replacement in the provinces with little-known individuals, is in part an effort to diminish the tendency toward the development of the dreaded "independent kingdoms," or factionally dominated regions.

In sum, then, it may be said that Ye, as a certified anti-Gang of Four type, is still a focal point of some controversy in Peking. This may be explained in terms of his role as one of the few surviving mentors of the essentially apolitical role of the body of the PLA (leaving aside for a moment the question of the political proclivities of the host of PLA senior officers cited above). His situation may also be explained as representing a faction, including significant supporters of the pace and direction of Deng's current line.

Another military figure who may represent a category of skeptical moderates between the two contending factions (Deng and the remaining vestigial elements loyal to the Gang of Four at the middle and lower level of cadre) is Xu Shiyu (Hsu Shih-yu). Xu, as commander of the Canton Military Region, had a prominent role both in the recent Vietnam campaign and earlier, in a critical moment of Peking palace politics, when the Gang of Four was arrested in October 1976. (Xu, then stationed in Canton as commander, returned to Nanking, whose command he held for 20 years, one can



presume he did this to forestall any manifestation of support for the Gang of Four from their strong power base in Shanghai, which lies within the purview of the Nanking Troop.)

Xu is credited with protecting Deng in the aftermath of his latest fall from grace. Thus, when the commanders of the Military Regions were reshuffled in February 1980, it was expected by authoritative sources that Xu would be honored with a significantly higher position—logically this would mean in Peking. However, no such honor has yet been bestowed upon the faithful Xu.

Earlier this year, speculation concerning Xu's status ranged from his personally attempting to assassinate Deng, to his being kept at a distance from Deng by other senior military men who are not in full accord with the pact of change advocated by Deng and who feared Xu's strong personality. It is also noted that it was not Xu but the number-two man of the Vietnam War, Yang Dezhi, who was promoted to chief of staff. All that can be said of the "number-one mystery man," Xu, is that he did appear at the recent National People's Congress, and is evidently a member in good standing with the Military Affairs Commission.

### **Background of the Lin Piao affair: Chou's revenge**

The background of the Lin Piao affair forms an important part of the current events, the trial, the power struggles within the Chinese leadership, and the status of the PLA. The dramatic charges of Lin's leadership of an anti-Mao coup that surfaced in China following the September 1971 flight of Lin from China are clearly only a part, and perhaps a small part, of the truth. One element is strategic—Lin's opposition to Chou En-lai's entente with the United States that was manifested in the July 1970 visit of Henry Kissinger to China and also in the late 1969 armed border clashes with the Soviet Union. Evidence suggests these clashes were engineered by the Chinese, perhaps by Chou and Mao, with the aim of discrediting Lin's opposition to an axis with the U.S. and his rumored support for some kind of limited rapprochement with the Soviet Union.

However, there are also internal aspects relating to Lin's role as heir-apparent to Mao and the tremendous political power exercised by Lin and the People's Liberation Army resulting from the PLA's role in ending the chaos of the Cultural Revolution under conditions of almost complete destruction of the party as an organized institution. The origins of this can be traced to the Ninth Communist Party Congress in April 1969. This congress officially ended the disorder of the Cultural Revolution.

It was at the time of the Chou group's resurgence that Lin began to turn to his military comrades and to Chen Boda (Chen Po-ta) for support in the struggle for

## **The trial defendants**

**Jiang Qing:** widow of the late Chairman Mao and one of the main protagonists during the Cultural Revolution. She has been identified as the leader of the Gang of Four.

**Zhang Chunqiao:** leading protagonist and publisher of fellow Gang of Four member Yao Wenyuan's radical writings. Zhang grabbed control of China's propaganda apparatus during the Cultural Revolution. He formerly was a Politburo Standing Committee member and was once viewed as a likely successor to Premier Chou En-lai.

**Yao Wenyuan:** leading radical theorist and propagandist who worked closely with Zhang Chunqiao from their base in Shanghai during the Cultural Revolution. Yao was a member of the Politburo.

**Wang Hongwen:** the Shanghai "boy wonder" who was promoted from a factory security job in his home city to the Standing Committee of the Politburo and to party vice-chairman by Mao himself. These were the "Gang of Four."

**Chen Boda:** Chairman Mao's private secretary and chief propagandist for over 30 years, and one of the leaders of the Cultural Revolution group that carried out attacks against "revisionists."

Five former military leaders accused of collusion in Lin Piao's alleged assassination attempt on Chairman Mao in 1971:

**Huang Yongsheng:** former chief of staff of the People's Liberation Army.

**Wu Faxian:** former commander of the Air Force.

**Li Zuopeng:** former Chief Political Commissar of the Navy.

**Qiu Huizuo:** former director of the General Rear Services Department.

**Jiang Tengjiao:** former commander of the Air Force Central Headquarters.

succession, a succession in which Lin had already been formally designated the heir-apparent. (Chen is one of the 10 trial defendants.)

Some sources believe there were differences between Lin and Chou even before the Ninth Party Congress. Specifically, these involved, or were articulated, as differences over the manner and extent to which the purge of the party was to be carried out. What it comes down to is who was to be axed and by whom. The outcome of the struggle between the “radicals/Reds,” and “moderates/experts” would determine the post-Cultural Revolution power structure.

Mao and Chou first attempted to undercut Lin by initiating a low-key rectification campaign against Lin’s power base in the military apparatus.

Also at this time, the “Central Cultural Revolution Group” headed by Chen Boda was abolished, and he was relegated to an unimportant post.

Lin’s increasingly precarious position was manifested dramatically in March 1970, when Mao deleted the office of chairman of the state from the new draft constitution. This decision, which confirmed Premier Chou En-lai as de facto head of government, thus outranking Lin in both his government position of vice-premier and minister of national defense, indicated that Mao had abrogated his plan for a single successor, Lin.

At the Lushan Plenum of the CP Central Committee in August 1970, Lin and Chen openly challenged Mao’s authority on fundamental questions concerning the power structure and the correct line. The subsequent charges against Lin and his military supporters—that they had practiced “revisionism, splittism, and conspiracy”—refer to this challenge to Mao’s leadership at Lushan.

The aftermath of the August plenum was characterized by a subtle undercutting of Lin’s power base in the PLA. Once Lin’s power base had been dissipated, it would be relatively simple to render him harmless.

The principal charges in the indictment against Lin Piao were: that he plotted a coup d’état; that he attempted to assassinate Mao Tse-tung; and that when these efforts failed, he attempted to defect to the Soviet Union (with which he had had “illicit” relations not further specified).

Sources here say that following the Second Plenum, the struggle had reached a stalemate. Confronted by a powerful coalition of PLA leaders, the Chou element, using Mao as their ideological front man, were compelled to move cautiously and indirectly. Presumably they were constrained from taking direct action against Lin until serious proof of conspiracy was at hand. The party documents characterized the situation as one in which both sides “were riding the tiger and finding it difficult to dismount,” and that they were involved in a “superficial equilibrium which cannot last long.”

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## SECURITY APPARATUS

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# Discredited and dysfunctional

China’s security and intelligence apparatus is rarely a subject of public discussion in either China or the West—yet it is one of the most important power centers in China, one which has held power equal perhaps to that of the much-discussed Soviet KGB. In the recent period, however, the Chinese security apparatus has come to bear little resemblance to its Western counterparts, including the Soviet, in form, content or direction. In earlier years it was under the command of the shadowy powerful Kang Sheng, once trained in the Soviet Union but a known architect of the anti-Soviet policy of the Chinese Communist Party (CCP) from its inception.

Kang Sheng is now the subject of intense attack in the Chinese media as the architect of the personality cult of Mao and the perpetrator of various crimes, through the security apparatus, against those cadres who were purged various times over the past 20 years. Once head of the “Social Affairs Department” of the CCP (an intelligence bureau whose continued formal existence is uncertain), toward the end of his life Kang had reached the highest ranks of the Chinese Communist leadership. His status as a member of the Politburo of the CCP and fifth-ranking vice-chairman of the party, remained intact at the time of his death in 1975.

Kang Sheng has since had the unusual status of being purged from the CCP after his death, along with another top figure in the security/intelligence apparatus. There have been numerous indications that his “crimes” will be a part of the trial of the Gang of Four and that he will be posthumously tried with them, as their “godfather.” It is important to note that as late as the Eleventh Party Congress in 1977, Chairman Hua listed him among the most venerated of the departed CCP leaders.

### The departed chiefs

A quick review reveals that every known top leader of the security/intelligence apparatus (leaving aside foreign intelligence operations, particularly those under Chou En-lai’s command) has suffered a grim fate. The minister of public security (formally the state apparatus

responsible for internal security) at the beginning of the 1970s, Xie Fuzhi (Hsieh Fu-chih), an ally of Lin Piao, disappeared, and, according to some sources, was assassinated by a member of his own staff. He was recently posthumously purged along with Kang. Li Zhen (Li Chen), who became minister of public security in 1972, disappeared without a trace in 1973. Some sources say that he too did not die a natural death.

The subsequent minister to fill that post was none other than Hua Guofeng, currently chairman of the CCP, and it seems clear that the attacks on Kang also strike indirectly at Hua. One of Hua's allies was Wang Dongxing (Wang Tung-hsing), another senior figure in the security apparatus who was purged at the Fifth Party Plenum in February from his position in the Politburo and as vice-chairman of the CCP. Wang had been head of the special security and intelligence unit assigned to protect Mao and the top Chinese leadership—the 8341 Unit, as it was called, a unit likened by some observers to a Praetorian Guard. (This unit has been disbanded and a similar force reconstituted as the 570001 Unit.)

The purge of Wang had been systematically pursued by Deng, including getting Wang removed from the command of the general office of the Central Committee (since taken over by Yao Yilin) and from responsibility for carrying out the investigation of the crimes of the Gang of Four. Clearly Wang's role in carrying out the arrest of the Gang of Four on Oct. 10, 1976 has not absolved him from being a close colleague of Kang, and thus held partially responsible for the implementation of the Cultural Revolution and the purges and deprivations that resulted.

### Functioning impaired

The current minister of public security is Zhao Cangbi (Chao Tsang-pi). His security background goes back to his services as director of public security in Deng's native Sichuan province, indicating his close ties to Deng. Zhao recently held a work conference of some 145 security officials to criticize the "work style" of these cadre of the public safety bureaus. While repeatedly praising the "fine work style" of these cadre, Zhao noted that the "pernicious influence" of Lin Piao and the Gang of Four still existed. He indicated it would take some six months to overcome this influence.

From this and similar references in the Chinese media it is apparent that the functioning of the security apparatus has been significantly impaired and its ability to faithfully carry out the orders of the Peking leadership is somewhat in doubt. This is supported by the reported re-entry of the People's Liberation Army into the role of providing security functions as it did in the Cultural Revolution. At a meeting in Peking early this year a vice-minister of public security, Xi Guoguang

(Hsi Kuo-kuang) found it necessary to thank the PLA for having given assistance in the maintenance of public order.

### The Chinese resistance

The problems besetting the battered security organs are not confined to those in the political arena alone. In addition to the antisocial, criminal activity which require the assistance of the PLA to handle, there is also the matter of "underground activities." This fascinating and minimally discussed problem was recently highlighted in an obscure journal, *News Frontline*, No. 4, 1980. This journal carried a speech to journalists by Hu Qiaomu (Hu Chiao-mu), a member of the Central Committee Secretariat and head of the Academy of Social Sciences, on the matter of "secret organizations."

Hu cited two types of antiregime, underground organizations—"remnants of the Gang of Four" and others described as "small factions which are not the remnants of the Gang of Four," evidently a reference to elements from groups formed during the Cultural Revolution. There was a third group alluded to as opposing "proletarian dictatorship, but who want to continue the revolution." This may refer to underground groups who want "radical changes but not party dictatorship," i.e., individuals who want rapid changes to continue until they achieve the status in society to which they believe they are entitled.

Strikingly, Hu described these "secret organizations" as "in mutual liaison all over the country," indicating they are located in many regions of China, and that they are in communication with one another. Though their ideological affiliations and programs may not be identical, they evidently have many objectives in common. The article notes that the Gang of Four "in some regions . . . still have considerable power, menacing our stability and unity."

Deng is quoted as stressing that the strength of these secret organizations should not be underestimated. Noted are their capacity for organization, secretiveness, communication, flexible strategy, and ability to adjust to changing circumstances. It would appear these particular elements have learned from Mao all too well, and have been "corrupted by their tradecraft."

As the continuing tension in Shanxi Province would indicate, and as Deng and Hu have complained, some of these secret organizations are receiving support from cadres who still hold their posts. In this connection one old China hand notes that because of the long tradition of secret societies in China, resistance does not take the form of such "naive" activities as those in East European countries where dissidents organize human rights groups and monitor the Helsinki agreements in public. "Resistance is much more subtle, invisible, all-penetrating."

# Who's doing what to whom in Poland

by Lyndon H. LaRouche, Jr., Contributing Editor

In former times, most sensible adults walked through life forewarned that a certain kind of experience might await them around the next corner.

Two men, two women, or perhaps a man and a woman, begin a crescendo of a squabble in a public place. A crowd of onlookers is aggregated. The fight ends. The protagonists disappear. The onlookers wonder what the fight was really all about—until they reach to their purses and wallets.

For weeks, the world has watched a crescendo of destabilization in Poland. We have gathered, chiefly as onlookers, anticipating that Grand Guignol of a day on which Soviet armored forces re-enact, perhaps on a larger and much bloodier scale, the final scene of Prague Spring 1968. Now, I say: "Ladies and gentlemen onlookers, it is time to look to your purses and wallets!" This situation is not quite what it seems to be.

The "solidarist" conspiracy, which gave its name to Lech Walesa's new trade-union organization, is quite real. Within Poland itself, this conspiracy is indeed directed by Jesuits, and is indeed coordinated with the West chiefly through Vienna. It, Polish "solidarism," is admittedly both bitterly anti-Soviet and is determined to bring Polish approximations of Soviet socialism to an end. Those facts, which accord with prevailing opinion of the matter in the Western press, are quite real—within certain limits.

Yet—ladies and gentlemen, your purses and wallets, please!—did it ever occur to any of you that the Polish

"solidarists" might turn out to have been merely a gambited pawn, or, at most, a gambited bishop? The "solidarists" are pieces of great significance in the current Polish chess game, but they are not playing the game; they are being played.

Who is playing the Polish chess game? The hard evidence is that the Polish game is being fought out between two factions at the highest level in Moscow itself.

One of the two Moscow factions playing the Polish chess game is conveniently identified as a pro-Paris, pro-Bonn faction. This Moscow faction suffered a serious setback throughout the Comecon bloc with the fall of the Polish government of former party leader Edward Gierek. This Moscow faction may have had strong criticism of Gierek's handling of Poland's domestic affairs, but it was tied to Gierek's "special relationship" with both France's Giscard and Germany's Schmidt.

The opposing Moscow faction is anti-Bonn, anti-Paris, and pro-London. This faction's policy is typified by declarations of Soviet Politburo member Boris Ponomarev at the recent East Berlin meeting of representatives of communist parties. This Moscow faction is on relatively the friendliest of terms with General Secretary Gus Hall of the Communist Party U.S.A.

The latter Moscow faction is playing with a British secret-intelligence asset inside the leadership of the Polish communist party, Stefan Olszowski.

Olszowski is a close associate of British intelligence

operative Jan Szczepanski. Former Polish "KGB" chief Stanislaw Kania provided the key role in effecting the ouster of Edward Gierek, and is performing the function of a bridge-government during a transitional period leading toward, presumably, a takeover of Poland by Olszowski and his friends.

From the point of the fall of Gierek, leading Polish Catholic circles feared that Moscow was orchestrating Lech Walesa's strike movement to some end-goal which included the victimization of the Polish Church. This fear was a prominent consideration included in the calls for moderation issued by Cardinal Wyszynski. Although the "solidarist" movement itself is predominantly a creation of the Jesuit order in Poland, and although the rank and file of the movement is under effective ideological control of priests coordinated by the Jesuits, Poland's Jesuits are not such amateurs as to believe that their movement cannot be effectively manipulated by Moscow.

It becomes "curiouser and curiouser." Although Moscow factions are immediately on top of the Polish chess game, are the Moscow players themselves being played by other forces?

Naturally, the Carter administration has had its fingers in the Polish situation. Yet, one must not be taken in by Zbigniew Brzezinski's delusions of grandeur.

Brzezinski is merely a hired gun, and on a significantly lower level in the pecking order than hired gun Henry Kissinger. Brzezinski is a bungling schoolboy by comparison with old hand Jay Lovestone, and Lovestone himself is a mere underling in the establishment of which he is a part. Granted, Brzezinski and Lovestone have been playing in the Polish situation, but who is playing Brzezinski and Lovestone?

Essentially, London is using the pro-British faction in Moscow in an effort to isolate France and the Federal Republic of Germany. That is the primary strategic significance of the fall of Edward Gierek. The game being played in Poland features British secret-intelligence operatives and assets such as Szczepanski, Olszowski, and Mieczyslaw Moczar. Yet Moscow is fully conscious of these connections to British intelligence.

Is London playing Moscow, or is Moscow playing London? That is where the key question mark on the Polish situation is to be placed.

The highest Jesuit levels are well aware of such question marks. Those Jesuits have alliances to and sympathies for London's side of the game. Yet the Jesuits are worried. They are quite familiar with the ethics of British secret intelligence. They are therefore suspicious that London may be gambitting the fate of the Polish Church in the current game between London and Moscow.

### **Soviet armor could roll**

This does not mean that we exclude entirely the

deployment of Soviet armored forces against the Polish "solidarist" insurgency. We merely insist that if those tanks moved, it would not be for precisely the reasons given in most of the Western press.

First, the kind of game which London and Moscow are playing out in Poland is a risky one. For example, the "solidarists" do represent to a certain degree an independent factor in the situation, a potential wild card. For that or other reasons, the present "controlled destabilization" of Poland might go over into becoming an "uncontrolled destabilization," as the Jesuits, among others, fear. With so many players playing independent games in the situation, and the situation so close to the edge of "uncontrolled disintegration," the risk of miscalculation is relatively enormous.

Second, it is by no means certain that the present Moscow majority will continue to be the majority.

The policy declaration delivered by Boris Ponomarev at the recent East Berlin meeting was a brutal repudiation of the protocol of the May 1978 meetings between Soviet President Leonid Brezhnev and West German Chancellor Helmut Schmidt. This change in Soviet policy was one of London's leading policy objectives for British secret-intelligence's leading role in the destabilization of the Gierek government. London's objective has been to bring down the Deutschmark and collapse the European Monetary System. Ponomarev's policy declaration will tend to promote such chain-reaction side effects.

For related reasons, the policy set forth by Ponomarev could be repudiated rather abruptly by Moscow.

Under the global conditions defined by the Carter administration, the relative weight of France's Giscard and Germany's Schmidt governments was the principal obstacle to the growing danger of actual nuclear warfare between NATO and Warsaw Pact forces. If Schmidt and Giscard were to be destabilized, as a collapse of the EMS would virtually ensure, the last important obstacle to nuclear war would be removed from the situation.

Fortunately, the landslide victory of President-elect Ronald Reagan has dramatically lessened the overall danger of a nuclear confrontation.

The fact that Mr. Reagan's victory was of landslide proportions is of great importance strategically. The large base of support gives the new President-elect a maneuvering room within his own circles which would not exist had his election been a "squeaker." The fact that there is room for policy conflicts within the "Reagan camp" means that the Reagan forces will enjoy a flexibility, a capacity for sophisticated, rational policy initiatives and policy responses altogether absent from the Carter administration.

As this fact penetrates even the heads of Moscow

circles, a certain amount of rethinking will occur in such quarters. That could mean a tilt away from pro-London factions in Moscow, back toward pro-Gaullist factions, and a resumption of the May 1978 perspectives. Under such conditions, British assets such as Szczepanski, Olszowski, and Moczar will tend to suffer the political fate they administered to their victim, Edward Gierek. If the "solidarists" attempted to prevent this shift by forcible means, things could become very rough.

If, on the other hand, the coordinators of the "solidarists" elected to adapt calmly to the abrupt shift in political winds from Moscow, repression and bloodshed would be avoided.

The foolish admirers of Gertrude Stein brush such analysis aside. Such simple-minded bunglers babble, "A Soviet tank is a Soviet tank is a Soviet tank." Such miserably ignorant people remind us properly of the morality of the *Commedia's* "Inferno." In Hell it is permitted only to ask "What?" but never "Why?" Similarly, nations which limit their policy making to "What," not asking "Why?" often find themselves plunged into the sort of Hell designed to receive persons and nations of such simple-minded persons.

To act efficiently in response to any actual or threatened occurrence one must first determine the nature of the process which is producing such effects. To stop the effect, or to correct it once it has occurred, one must apply one's action not to the effect itself, but to the process which has caused the effect. A Soviet tank under condition "A" is not a Soviet tank under condition "B." The person who has not mastered such distinctions should keep his mouth shut until he learns better.

### **The 'solidarism' factor**

The enraged bear, if loosed from his cage, becomes extremely *significant* to the persons proximate to that cage. It is the person who might open the cage under those circumstances which is the *important* matter in such a setting.

The "solidarist" movement is extremely *significant* but its *importance* is much exaggerated.

"Solidarism" is not an autonomous movement, nor is it in fact a creation of the Catholic Church. It is a tool created by a powerful faction in world affairs, a faction usefully identified as the "Hospitaliers," and identified since the late 13th century as the "Genoese" black nobility. As is a common enough sort of occurrence in the popular naming of things, what is called the "Genoese black nobility" is in fact the "Venetian black nobility"; the Genoese were—and are—but the junior partners of the Venetian oligarchs.

"Solidarism" was developed during the last half of the 19th century as a technique for neutralizing both

industrial employers and trade unionists as political forces endemically dedicated to technological progress under industrial-capitalist development.

The authors of this technique were the Venice-centered oligarchical faction of Europe. The method used was the brainwashing of recruited circles of both employers and trade unionists according to the procedures of rhetoric set forth in Aristotle's *Nicomachean Ethics*.

Although the Catholic Church was heavily targeted for penetration by the authors of "solidarism," "solidarism" is by no means an outgrowth of any variety of Apostolic Christianity. The typical center for "solidarist" ideology in Europe today is the University of Louvain, an avowed international center of the anti-Christian pagan doctrine called *Gnosticism*. The first Gnostic of significance in the history of the Christian Church was Simon "the Magician" Magus, the common foe of Saint Peter and Rabbi Philo Judaeus in Rome. Gnosticism was one of the principal pagan, pseudo-Christian cults outlawed by the Council of Nicea, and is in fact a form of pseudo-Christianity based upon the Ptolemaic version of the Cult of Isis.

Although Gnosticism was maintained in Italy prior to the 13th century, chiefly by Isis-worshiping families descending from leading families of the ancient Roman imperial senate, the main bastion of Gnosticism was in Byzantium. The Byzantine Church is divided to the present day between a traditionally Apostolic current, and a Gnostic, pseudo-Christian current, which identifies itself with the teaching of the ancient Apollo-cultist Aristotle (Apollo = Lucifer). It was by way of Venice that a broad wave of Gnosticism was introduced into the West during the second half of the 13th century.

Among leading circles of "solidarists" today, "solidarism" means essentially the solidarity in common action of the combined Gnostic factions penetrating both Eastern and Western Churches.

During the 1920s and 1930s, the best-known expression of "solidarism" was the variety of fascism known as "corporativism" (as equal to the idea of the "corporate state"). This version of solidarism was identified with Benito Mussolini's fascism in Italy, with that of Dollfuss in Austria, and Gregor Strasser's solidarist version of Nazism in Germany. It was also the basis for the fascist regimes of Hungary, Rumania, and Poland prior to the Nazi takeover of those countries.

Today, "solidarism" is predominantly a movement on the European continent, deeply implanted in both western and eastern parts of the continent. It is nominally centered in the Gnostic factions' penetration of the Catholic and Eastern Orthodox Churches, but is equally represented in Gnostic (existentialist) perversions of Protestantism.

The "solidarist" network's largest assets are outside

professedly Christian bodies. These non-Christian efforts exude a "pagan" (Lucifer-worshipping) element: theosophist networks and atheistic elements in the footsteps of such figures of the 1920s as Gregor Strasser, the "left fascist," and Karl Korsch, the leading anarchist philosopher of the 1920s Communist Party of Germany.

In brief, "solidarism" is a doctrine and method used to develop a force of dupes into a social battering ram against the institutions of industrial society.

Since the close of the 1920s, "solidarism" has been widely known as variously the "Third Way," or "Third Camp." It is, so to speak, the "inner Morgenthau Plan" for all of continental Europe, an effort to destroy industrial society from within both Western and Eastern Europe.

Its particular focus of hatred is against industrial capitalism. It is opposed to profit, and opposes capital-intensive forms of technologically-advanced capital investment in both industry and agriculture. It views the Soviet industrial form of socialism as another expression of the same principle as industrial capitalism, and is resolved to eliminate both.

The fact that "solidarism" is a mobilization of mere dupes is symptomized in two most obvious ways.

First, the possibility of sustaining a population of any given size within a nation depends upon what is best termed the complicated-sounding name of "potential relative population density." This potential for sustaining a given population of human beings depends upon not only a certain level of technological development, but also a certain range of advancement of technology. Without continuing technological advancement, it is not possible to overcome the effects of relative depletion of "natural resources." This technical progress requires not only a growth in the amount of energy used per person in society, but also a rise in the energy flux density of energy sources used for production.

Consequently, any national movement which proposes to turn back the clock on industrial progress is proposing to wipe out a corresponding proportion of its own population: genocide. No people ever secreted a spontaneous perception that it ought to subject itself to genocide. "Solidarism" is not a sane expression of the independently perceived self-interests of any large population. "Solidarism" is a form of mass brainwashing of dupes into complicity with their own mass suicide.

Who benefits? What sort of political forces would develop and deploy such an instrument of mass brainwashing as "solidarism"? One has but to read the bucolic, cultist ravings of Hesiod, or the draft proposal for creating a Western Division of the Persian Empire from the fourth century B.C. to find suitable precedents.

The latter was the policy of the Cult of Apollo at Delphi, Aristotle's patron. This policy is known to classical historians down through the millennia since as the *oligarchical doctrine*. That was the name given to this doctrine by the proponents of the "Persian Model" from the fourth century B.C.

Who represents such an oligarchical doctrine today? Insiders call the leading oligarchists of today "Venetians," "Genoese," "Hospitaliers." It is not properly astonishing, therefore, to discover that the highly-placed forces behind the creation and continuing deployment of "solidarism" is the same "Venetian" network which insulted Queen Elizabeth II during her visit to the Pallavicini palace in Genoa recently—a Venetian princess who insulted the queen as some boorish parvenu whose presence presumably "let down the quality of the neighborhood."

This is the same crowd which is behind the Club of Rome and its genocidal limits-to-growth proposals.

The faction of British intelligence which controls the Polish "Experience and the Future" group is known in its international guise as "The Futurologists." The London Tavistock Institute (Sussex), to whose international "Russian Studies" branch Brzezinski was attached, is a key part of that oligarchical element of British intelligence. That element of British intelligence is an outgrowth of what was known during the 17th century as the "Genoese" financial interest which took over the City of London with James I's 1603 accession to the then-newly-created throne of the United Kingdom. This "Genoese" faction in Britain became known as the British East India Company, the force against which the American Revolution was fought.

Consequently, it would be a grave error to view the British involvement in the Polish destabilization as an outgrowth of the British people generally or Britain's adducible interests as an industrial-capitalist nation. The crowd involved is the "one worlders," the oligarchs who reject national loyalties and the very idea of an industrial-capitalist form of vital national interests.

The "solidarists" of Europe are generally merely gambited pawns, and sometimes gambited bishops, in a game being played by the oligarchical faction. That latter faction, which formerly owned the N. Bukharin to whom Jay Lovestone was formerly attached, controls a significant "neo-Bukharinist," pro-London faction in the leadership in Moscow today—as well as in other East bloc nations.

Those are the general dimensions of the game being played by evil old men. Poland is but a chessboard—a victim—of that game.

Nonetheless, although a mere pawn, "solidarism" is not to be underestimated. In chess, a pawn sometimes captures a queen.

# Will Reagan support an alternative to Camp David?

by Robert Dreyfuss

Western Europe and the League of Arab States are preparing joint political initiatives to replace the dead Camp David accords with the framework for a comprehensive Middle East peace settlement. But whether the incoming Reagan administration will support the effort, or remain with the Camp David policy, is uncertain.

Within the Arab world, the states of Iraq, Saudi Arabia, and Jordan have agreed upon a strategy of basing Middle East peace efforts on a solid foundation of economic development.

At a meeting of the Arab League heads of state in Amman, Jordan, on Nov. 25, it is expected that the entire Arab world, with the exception of Egypt and Libya, will approve an enormous capital development and industrialization effort for the year 2000 and beyond. Based on existing development plans, over the course of the next five years the 20 Arab states will spend as much as \$2 trillion on development. The Saudi Arabian five-year plan alone totals more than \$300 billion.

"We are a triangle, comprised of Saudi Arabia, Iraq, and Jordan," a senior Arab diplomat said in an interview with *EIR* last month. "We want to develop the Arab potential to its fullest extent—with nuclear energy, aerospace technology, and so forth," he said.

"We disagree with Syria's approach. The Syrians want to confront Israel with an Arab army. But we believe that this is not in the Arab's interest," he added. "In fact, if only the Israelis would realize it, what we are doing is also in Israel's best interests. They could take part in this economic renaissance with us. But Menachem Begin is too stupid to understand that."

The driving force behind the Arab strategy is Iraq, which is making a bid to take the leadership mantle in the Arab world. The Iraqi strategy, which has broad support among the other Arab countries, is very close to the Middle East peace and development proposals first put forth as early as 1975 by Lyndon H. LaRouche, an *EIR* contributing editor and former Democratic presidential candidate. LaRouche has proposed that the key to a Middle East peace is the eventual integration of Israel into Middle East economic development. A joint Arab-Israeli approach to regional development would win strong support from French, West German, and

other influential progrowth Western circles.

Now, Western Europe is prepared to take immediate steps to fill the policy vacuum left by the collapse of the Camp David accords.

## Europe's challenge to Camp David

At the beginning of December, the nine heads of state of the European Community countries will meet to discuss shaping a European Middle East policy independent of Camp David. In substance, the Europeans intend to call for the "involvement of the PLO" in current talks, and for the full withdrawal of Israel from the territories occupied in 1967. The European initiative, taken together with the Amman conference one week earlier, it will set both Western Europe and the Arab world on a course toward a comprehensive peace that, many people believe, will influence the way in which the Reagan administration acts on Middle East policy.

With the collapse of the Carter administration, virtually no one thinks the Egypt-Israel separate peace can be salvaged as a basis for further efforts in the Middle East. Even President Anwar Sadat of Egypt has abandoned all hope of pursuing the Camp David treaty. Thus, should he continue the Camp David policy of his predecessor, Reagan will not only offend the Arabs and lose countless billions of dollars in development contracts with the Arab world. He will also find himself in the position of having to exert pressure on a reluctant Sadat to continue down a dead end. That, most Arabs believe, will all but ensure Sadat's downfall.

## Choices facing Israel

Under the present circumstances, only two real choices are left to Israel.

The stated goals of Arab economic development, combined with European willingness to provide the necessary technology and capital, will mean that sometime during the 1980s, Israel will be confronted with a highly developed Arab world that, in terms of economic and military power, will have the ability for the first time to defeat Israel in a war. Israeli intelligence specialists are aware of that reality.

One response is for Israel to realize this state of



affairs and to accommodate itself to that reality by accepting Arab offers to make peace based on the creation of an independent Palestinian state. The other Israeli option—the suicide option—is for Israel to decide now to prevent the development of the Arab world by wars and by the fomenting of Khomeini-style Islamic fundamentalist revolutions in the Arab world.

The Reagan administration must face this problem squarely. To support the intransigent policies of the Begin regime will mean that President-elect Reagan, as Carter before him, is throwing American support behind an Israeli policy fundamentally in conflict with basic American interests. On the other hand, to support the European-Arab strategy, Reagan will not only ensure American interests, but will guarantee Israel's best interests as well.

Which way Reagan will ultimately go is still unclear. Inside the Reagan camp, a fierce fight is raging over the extent to which Reagan should accommodate the Begin government and its policies. For example, Reagan adviser Richard Allen is reportedly prevailing upon the President-elect to agree to a tripartite meeting with Carter and Begin in an obvious effort to keep Reagan on the Camp David track. However, another Reagan adviser and possible choice for a cabinet post, George Shultz, is vigorously opposing such a meeting, insisting that there is no need to "trap" Reagan into picking up the Carter mantle on Middle East policy. Significantly, Reagan refused to meet with Begin during the latter's trip last week to the United States.

In a recent article in the *Jerusalem Post*, Washington correspondent Wolf Blitzer worriedly noted that in Reagan's large conservative base, the "Israeli lobby" forces, have little if any representation let alone clout. Blitzer predicted the emergence of a pro-Saudi bias as a result of the conservative composition of the Reagan constituency, and reported that Israeli officials are scrambling to somehow get in on the inside of the Reagan policy-making apparatus. The Israeli foreign ministry has dispatched David Kimche, a high-ranking Mossad intelligence agent with longstanding ties to British intelligence, to the United States to handle Israel's contacts with the Reagan transition team.

Because the Reagan team currently contains several political figures long associated with promoting Israeli demands at the expense of U.S. interests—figures such as Joseph Churba, Eugene Rostow, Henry Kissinger, and Henry Jackson—numerous Reagan supporters have expressed concern that Reagan will be unable to maneuver a course free of the constraints of the Israeli lobby. However, the expected exclusion of these figures from the inner circle of Middle East policy making over the next several weeks could be the first step by the new Reagan administration to deny from the Begin government the "special treatment" that, given Israel's actions, it no longer deserves.

## France, Tunisia launch development initiative

by Dana Sloan

A little-publicized Oct. 26 agreement between France and Tunisia to set up an industrial investment bank with French, Arab, and Tunisian capital may be the single most important event in the several-year history of French President Giscard's proposal for a "dialogue." While this is not the first time that Arab petrodollars and Western technology will be brought together into industrial projects in the Third World, it represents a first institutionalization of the process.

The dialogue, organized cooperation for industrial development between European, Arab, and African nations, has been the center for the past two years for a good deal of French diplomacy in those regions. However, as a result of frequent postponement of the decision to implement Phase Two of the European Monetary System—the phase which will inaugurate a credit-generating system that can rival the functions of the International Monetary Fund and World Bank—the dialogue had threatened to become an empty phrase in the eyes of many of its expected and actual participants.

The Franco-Tunisian agreement was initialed during the course of French Premier Raymond Barre's October 24-26 trip to Tunisia, where he met extensively with his Tunisian counterpart, Premier Mohamet Mzali. It now provides the model for possible similar triangular accords in the future involving France and other North African, Middle Eastern, or continental African states. The bank is designed to finance Tunisia's Sixth Five-Year Plan, which goes into effect next year, and is intended to propel the country into Western living standards by the year 2000, a perspective which increasing numbers of African and Middle Eastern countries share, whether or not they have oil resources. This type of development program, as all partners in the dialogue are quick to emphasize, represents the sine qua non of economic health, and therefore political stability and military security, in the developing-sector countries.

### The dialogue bank

Premier Mzali first proposed the creation of a bank to then-Foreign Trade Minister Jean-François Deniau and Foreign Minister Jean François-Poncet when they visited Tunisia on two separate occasions this summer. Preliminary soundings among Arab states indicated that Iraq would commit itself to financial backing for

the plan, a commitment which the continuation of the Iran-Iraq war could undermine. While a final decision by Iraq has not yet been made, Iraq is stepping up its development plans despite the war, and has asked Tunisia, now chairing the Arab League, to convene a conference later this year to draw up the blueprints for its ambitious year 2000 development program that would also extend into Saudi Arabia and Jordan.

The initial \$250 million capitalization of the bank will be 40 percent Tunisian interests, 30 percent Arab, and 30 percent French interests. The participating French banks will probably include the Banque Nationale de Paris, the Banque de Paris et des Pays-Bas (Paribas) and the Crédit Agricole, all of whom will be sending representatives to Tunisia later this month. Phase one of the project is expected to get off the ground during the early months of 1981—coinciding with the beginning of Tunisia's next five-year plan—and a second phase involving financing projects outside of Tunisia itself is currently under discussion.

The plan, which is still being worked out under the direction of Premier Mohamet Mzali, is intended to thrust the small nation of Tunisia into industrial development, creating 60,000 new jobs a year (for a total population of some 5 million), and doubling investment to the \$20-billion level. The large-scale industrial projects, will principally be in machinery plants, petrochem-

icals, and the electronics-computer sector, to be given priority by the new bank. France and Tunisia will also cooperate in agriculture to make Tunisia a regional food exporter (see communiqué).

### Modern Islam versus fundamentalism

The program's architect is Premier Mzali, who intends to forge a national consensus in his profoundly Islamic country around his objectives. Questioned by African correspondent Jean-Marie Kalfleche in the Oct. 24 issue of *Le Figaro* about the apparent contradiction between Western and Islamic values, Mzali was emphatic: "I do not believe that I must choose between the Orient and the West. I am a Tunisian patriot." Mzali added, in a reference to the dark-ages cultists in Iran and Libya, that "the more we defend Islam in its modern aspects, the more we are perceived by the people as the defenders of the authentic values of Islam."

Mzali has more than one reason to forge a broad national consensus around his program. For Tunisia is one of the nations on Qaddafi's black list.

Wedged between Libya to its east, and Algeria to its immediate west, with Morocco lying just beyond, Mzali's Tunisia is a comparative oasis of stability in the entire North African region. Mzali's program points the direction for its neighbors.

## The investment targets

*The following are excerpts from the joint communiqué issued by French Premier Raymond Barre and Tunisian Premier Mohamet Mzali October 26:*

... The Tunisian government expresses its happiness at France's contribution to the progress made in Tunisia during the last two development plans. The two premiers underlin[ed] the big effort which Tunisia should undertake during the third development plan, which demands the extension of cooperation and the increase of its diversity in a manner that will contribute to the growth of Tunisia's national income. . . .

In this framework the French side wishes to make a vital contribution to the financing of the investments of the third plan, and the French side reaffirms the will of the French government to strengthen the Tunisian

development efforts by increasing financial support for the expected investments, and especially by increasing the French state's assistance. The French government declares its agreement to create an investment bank whose capital is to be subscribed by Tunisia, French financial institutions, and a number of Arab parties. It will ask French quarters to establish this bank as soon as possible. . . .

The two premiers agreed, regarding agriculture and marine fishing, and Tunisia's attainment of food security, on the necessity to undertake joint actions to raise the level of food production in order to meet the needs of the domestic and foreign markets. They recorded their satisfaction with the Tunisian government's program to achieve a regional balance of social and economic development in Tunisia and particularly to begin the study and realization of development plans in northwest, central west, and southern Tunisia. . . .

They also believe that the new form of bilateral cooperation must develop in a manner which will permit Tunisia to strengthen its industrial capabilities, particularly in modern technology, which will require assistance from France.

# 'Shock therapy' for Brazil?

*Mark Sonnenblick reports on David Rockefeller's latest instructions to his southern debtors.*

In order to execute stiff austerity "conditionalities" recommended by the International Monetary Fund, David Rockefeller has ordered Brazil to reinstate the dictatorship the Figueiredo government is presently dismantling.

Rockefeller gave his ultimatum that Brazil shift to "shock therapy"—as the discredited methods peddled by Nobel Laureate Milton Friedman are appropriately called—on the eve of this week's Chase Manhattan Bank board of directors meeting in Brazil.

Chase held similar festivities a few days earlier in Argentina, where Rockefeller, whom Argentina knows primarily for his sponsorship of the Trilateral Commission, held what he proclaimed to be a "historic" meeting with Argentine Finance Minister José Martínez de Hoz. De Hoz's Friedmanite policies, which have decapitalized industry and blown out the Argentine banking system, are under increasing attack by business and military leaders in Argentina. Rockefeller also paid friendly visits to Chile, Paraguay and Panama.

In an interview with *Veja* magazine, Brazil's *Newsweek*, the Chase chairman declared: "Brazil must make serious adjustments in its economy. . . . On this point, I believe the IMF has a role to play. . . . The adjustment process is always painful." Chase, which has an exposure of \$2 billion in Brazil, threatened that until Brazil goes to the Fund, it and other American and British banks would continue blocking the loans Brazil needs to service its \$57 billion debt—the largest in the developing world. (The blockade has not been airtight and Brazil has continued to be able to raise funds in the Eurodollar markets, though at higher interest than before.)

Rockefeller noted that "after a period without democracy, the Brazilian government has taken measures to permit greater participation by the people." But, to the interviewer's question of whether additional austerity programs would be compatible with the political opening, Rockefeller replied, "to do both things at the same time would probably be more difficult than to do one at a time." By demanding that economic belt tightening come first, Rockefeller was brazenly advocating the return to power of the repressive apparatus which made Brazil's 1968-75 "period without democracy" a nightmare. Rockefeller piously added in justification: "It is

understandable that they acted in the past the way they did."

Rockefeller tried to bolster his Friedmanite arguments by broadly hinting that they are shared by the incoming Reagan administration. Business International, the New York consulting firm, likewise tried to give the Brazilians the impression that American business solidly backed recessionary policies for Brazil in a document it presented to the government at a meeting of 100 multinational executives in Brasilia. The multinationals would be the first ones hurt by Brazilian austerity and devaluations which make it harder to pay their dollar loans, but some of them believe that Brazilian firms will be hit harder, permitting monopolization of the local market.

It remains to be seen to what degree Brazil will knuckle under to Rockefeller's austerity demands—with or without the U.S. presidential seal of approval. For months, Brazilian Planning Minister Antônio Delfim Netto, the country's chief economic policy-maker, has been carrying on a running battle with his enemies in the City of London, Wall Street, and the Carter administration, who are trying to send him to the IMF. In every international financial capital, Delfim has refused to submit to the exigencies of the bankrupt IMF.

The argument of Delfim and Brazilian President João Figueiredo is straightforward: IMF "structural adjustments" will damage the Brazilian economy. They contend that debts are best paid through growth, not shrinkage. As Delfim put it in an Oct. 20 speech at the National Foreign Trade Convention in New York, "a much too drastic policy . . . to curb economic growth will make the task heavier for future generations, which will inherit an even poorer country with its productive capacity hampered by the lack of adequate investments."

President Figueiredo is particularly sensitive to the social and political dislocations that would be caused by the application of virulent economic austerity. Figueiredo's entire political strategy is premised on gradually broadening the "political opening" initiated a few years ago. Specifically, he and his *éminence grise*, General Golbery do Couto e Silva, believe that seriously depressive measures would bring the defeat of the government party in the 1982 general elections, in which local, state,

## Butcher and Rockefeller talk about Brazil

*Williard Butcher, Rockefeller's replacement as President of Chase Manhattan, made the following comments to the daily, Jornal do Brasil, Nov. 2:*

The association of the IMF with the private banks to take care of Brazil's needs will increase Brazil's ability to raise loans on the world markets. If we think it is in the interest of Chase, in the interest of Brazil, then I should say it would be an added positive factor in considerations of Brazilian loan requests.

*David Rockefeller conveyed the same message—and more—in a more diplomatic fashion in an interview with the Brazilian newsweekly, Veja, Nov. 5:*

I don't think a country like Brazil that is so dependent on imported oil can take energy prices rising so rapidly without making serious adjustments of its economy. . . . On this point I think the IMF has a role to play. . . . The IMF can make objective recommendations without getting involved in politics. . . .

I ask myself if Brazil can deal with its economic problems without taking some of these austerity measures. The adjustment process is, unfortunately, always painful, but I don't see any long-term way of avoiding it. . . . Given the fact that Brazil's foreign debt rose so substantially, I think it's unrealistic to hope private banks would give loans as they used to.

I think that people here in the United States are in general satisfied to see that the Brazilian government—after a period of without democracy—is taking steps to permit the people greater participation. It is understandable that [the dictators—ed.] acted in the past the way they did, but one always hopes that such forms of government are temporary. . . .

*Veja asked, "Would new austerity programs be compatible with the political opening?" Rockefeller responded diplomatically, but clearly:*

I certainly applaud both objectives—the effort to adjust the economy and the political opening—but it would probably be more difficult to do both at once than to do them one at a time.

and federal officials constituting the electoral college for the 1985 presidential succession are to be elected. This rejection of the regime might in turn result in an army "hardliner" coup against the democratization process, and set into motion a vicious cycle of "left versus right" violence and counterviolence.

### The European connection

Brazil is by no means isolated on the international scene in its battle with the IMF. After meeting with Delfim during a Paris visit, in which Brazil picked up substantial bank loans, French President Valéry Giscard d'Estaing told his ambassador to Brazil: "Brazil is a very important country for France, which considers it a partner even more from a political than an economic perspective." On the same late October voyage, to Japan Delfim landed almost \$1.8 billion in combined credits and investments. Paris and Tokyo are actively recycling petrodollars to finance exports of their countries' industrial equipment for Brazilian development projects. This is a direct challenge to the IMF's attempt to close off credit spigots until Brazil agrees to submit itself to IMF supervision.

Yet, neither such positive deals nor European words of encouragement suffice to meet Brazil's need for \$13 to \$17 billion in gross capital inflows in 1981. Delfim is, consequently, being forced to play a pragmatic balancing act at home. On Nov. 4, he announced a package of austerity measures which go in the direction the IMF—which even Brazil's anti-IMF supporters in France, Germany, and Japan had been demanding. He told reporters that starting in January, Brazil would gradually increase the pace of minidevaluations to compensate fully for its rapid inflation. Present stiff controls on prices and interest rates will also be eased, while the money supply tourniquet will be turned even tighter in the face of a predictable inflationary outbreak.

Delfim stated hopefully that these orthodox recessionary policies would increase exports and domestic investment in new productive capacity. However, as has been found with the approach of Paul Volcker and Maggie Thatcher, "freeing" a troubled economy to "market forces" tends only toward hyperinflation combined with recession.

Although monetarist in approach, Delfim's new measures fall far short of the savage wage gouging and dismantling of Brazil's industrial structure being demanded by the IMF in return for at most \$3 billion in "tranches" at high cost and short term. Perhaps most significant of all, as an example for the other developing sector nations which are watching the Brazilian precedent closely, is the fact that Delfim once again refused to let his country be a guinea pig for the IMF.

It is this independent attitude that Rockefeller and his allies find so offensive in Brazil's current posture.

# An old fallacy

by Dr. Steven Bardwell

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*Entropy: A New World View*  
by Jeremy Rifkin and Ted Howard  
Afterword by Nicholas Georgescu-Roegen  
Viking Press: New York, 1980  
305 pages, \$10.95

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The thesis of Jeremy Rifkin's new book, which he glorifies with the name of the "entropy world view," is that everything is getting worse. He is certainly right about the various rehashings of this thesis, of which Rifkin's is certainly the most banal, simple-minded and pretentious.

Rifkin's idea is that the second law of thermodynamics—which, accurately phrased, states that no transformation of energy can occur with 100 percent efficiency—has applications to economics and sociology. The idea got its most significant treatment from the economist who wrote an afterword to Rifkin's book, Nicholas Georgescu-Roegen.

Any reader seriously interested in pursuing the cognitive (as opposed to propagandistic) content of Rifkin's book should leave his sophomoric regurgitation of Georgescu-Roegen, and read Georgescu-Roegen's 1971 book, *The Entropy Law and the Economic Process*.

In that book, Georgescu-Roegen begins with an incisive critique of classical and current economics, pinpointing its fundamental fallacy in the assumption of some equilibrium or steady-state existence for industrial capitalism. As Georgescu-Roegen accurately points out, this is a false assumption.

In the next step of his argument, he shows, again correctly, that if a system like human society exists within a *given set* of natural or physical laws, two consequences follow. First, increasing complexity, growth, and economic development cannot be long-term tendencies, but only short-term perturbations in an overall progression toward stasis—in concrete terms, he says that finite resources, finite land areas, and fixed natural laws forbid infinite growth. Second, the natural long-term tendency of temporal change, for economic systems as well as physical ones, is governed by the only physical law which talks about a direction of evolution—the second law of thermodynamics. Since this law requires that within a

fixed system, everything must run down and eventually approach equilibrium, so must human society.

At this point in his book, Georgescu-Roegen unflinchingly draws the rigorous conclusion that follows from his premises: there are too many people; many must die; man can only survive in small agricultural settlements or troops, much like baboons today. The alternative, according to Georgescu-Roegen, is simple:

Will mankind listen to any program that implies a constriction of its addiction to exosomatic comfort? Perhaps the destiny of man is to have a short, but fiery, exciting and extravagant life rather than a long, uneventful, and vegetative existence. Let other species—the amoebas, for example—which have no spiritual ambitions, inherit the earth still bathed in plenty of sunshine.

The vegetative existence has found its popular champion in Jeremy Rifkin. Rifkin's attempts at philosophy are pathetic (he does not mention the single most influential proponent of the concept of progress and development, G. W. Leibniz); his historiography is a blatant lie (he lumps Plato and Aristotle together as believing in a static creation whose initial perfection has decayed under man's influence); and his attempts at science are laughable (he resurrects the oldest misinterpretations of the first and second laws of thermodynamics). But Rifkin's admirers betray the real significance of his work.

The Aquarian Conspiracy writ large turned out to applaud the publishing of his book—Willis Harmon of the Stanford Research Institute, Gar Alperovitz of the fascist National Center for Economic Alternatives, Hazel Henderson, author of *Creating Alternative Futures*, Sen. Mark Hatfield, and George McGovern, among others.

Most telling, however, is the fact that Rifkin's program for depopulation, ruralization, and ruthless austerity is exactly that of the funders and founders of the Aquarian Conspiracy, the World Bank and the International Monetary Fund. As one World Bank economist, Peter Knight, said of the book: "Rifkin and Howard call us to reflect on a law from which *there can be no escape* and to use our remaining nonrenewable energy resources frugally to ease the inevitable transition to the solar age."

There is a certain irony in the fact that any person who denies the possibility of human creativity and scientific endeavor to change the laws that limit mankind, who says that *his* mental processes are governed by physical laws like the second law of thermodynamics, is, in fact, correct. Rifkin's book is certainly a dramatic proof of the finiteness of *his* intellect. Fortunately, the majority of humanity, and its intellectual forefathers unmentioned by Rifkin, are forging the technological, scientific, and moral solutions to the problems Rifkin transforms into necessities.

### Time running out for Assad

*Syria's president has provoked the formation of an opposition National Front.*

Syrian President Hafez Assad is digging himself deeper and deeper into a hole and, increasingly in the international intelligence community, there are fewer and fewer people who think that he can get out.

The most recent example of the utter isolation of the Assad regime in Syria is his cable on Nov. 12 to the headquarters of the League of Arab States asking officially for a postponement of the long-scheduled Nov. 25 meeting of Arab heads of state in the Jordanian capital of Amman. Assad, whose foreign minister participated in a planning meeting for the summit only last week, announced that the summit ought to be put off because of "differences" among the Arabs.

Syria's action shocked many Arab leaders, because of the crucial, even indispensable role that is planned for the Arab summit Nov. 25. At that meeting, a plan for the economic development of the entire Arab world to the year 2000, initially proposed by Iraq and ratified by Saudi Arabia, Jordan, and other Arab states, will be formally approved.

"What Syria is doing is outright sabotage of the Arab effort," said an informed European analyst.

According to highly informed Arab sources, the Assad regime in Syria is nearing the end of the line. Since at least 1978, Assad has adopted policies that have alienated virtually every important section of the Syrian power structure. That opposition goes far deeper than the

public evidence of Muslim Brotherhood terrorism and violence, according to sources.

In fact, a consensus is developing among dozens of Syrian exile dissidents, Syrian political and military leaders, and others in merchant and business layers that Assad must either be forced to make a radical policy shift—or be toppled.

In the near future, an anti-Assad "National Front" reportedly will be created, with the backing of Syria's Arab neighbors, that intends to crystallize the anti-Assad sentiments.

Iraq, which already cooperates with many Syrian exiles who are members of the Arab Baath Socialist Party, is supporting the formation of a nationalist Syrian opposition. At the same time, Saudi Arabia's royal family is quietly supporting anti-Assad religious currents in Syria, including some elements in the Muslim Brotherhood, to further put pressure on Assad.

Faced with isolation on the Arab front and growing domestic action, President Assad has thus launched two dramatic moves in recent weeks: first, a sudden merger of Syria with the Libyan dictatorship of Col. Muammar Qaddafi, whose public insanity has made him an object of scorn among Arab circles; and second, the signing of a treaty of friendship with the Soviet Union.

Both actions were viewed as moves of desperation by Assad.

Within weeks of the Syrian-

Libyan merger, Saudi Arabia took the unprecedented action of breaking off diplomatic relations with Libya, following a call to "revolution" in Mecca, Saudi Arabia, by the Libyan madman. The Saudi break with Libya hit Syria like a thunderclap, since Syria depends financially and to some extent politically on support from Saudi Arabia. The Saudis are said to be putting enormous pressure on Assad to drop the Libyan unity plan and to stop posturing as an Arab "radical."

But Assad is reportedly not making moves for a reconciliation with the Arabs, as the move to postpone the Arab summit reveals. Instead, Assad, whose rule is based on the sectarian influence of the minority Alawite Shiite sect, of which he is a member, is, through his brother Rifaat Assad, encouraging moves that seem to be aimed at the creation of a separate "Alawite state" in northern Syria.

For several years, as part of his maneuvers within Arab and Syrian internal politics, Assad has more and more relied on the manipulation of tribal and religious sectarian issues to prop up his rule. According to some sources, he has gone as far as to provide covert support to the terrorist Muslim Brotherhood in order to strengthen the Alawite sentiment for separatism. But now it is all on the verge of an explosion.

According to Arab sources, only one door remains open to the Syrian leader: should he announce a national reconciliation policy, free political prisoners, welcome home Syrian exiles, and engage in a serious national policy debate to form a government of national unity, he might survive. Otherwise, it is only a matter of time.

## The Wharton model: consumer fraud

*Lawrence Klein reveals the subjective side of Wharton's famed Mexico model.*

**I**t hardly jibed with the image of precision economic forecasting that econometrics has gained over the years. The founder of this most quantitative branch of economic science, Lawrence Klein, was speaking to the Mexican magazine *Proceso* last week, just days after receiving this year's Nobel Prize for Economics.

"In an economy that develops rapidly, every day there are more cases of conspicuous consumption. People become divided, jealousy is unleashed. Every citizen, even the poorest, thinks he should progress rapidly, like the country, since the country is rich," Klein told the interviewer.

"Then the citizen becomes disillusioned. People take to the streets. They scream their demands. . . . Corruption at the different social levels ends up generating revolutionary movements. If the pauperized groups don't ascend rapidly in Mexico, it runs the risk of an outcome like Iran."

In the mouth of a neophyte sociology student, flush with the discovery of the "Law of Rising Expectations," such a facile and incompetent equation of "rapid growth" with "Iranization" might be excused.

But from the redoubtable Nobel-winner Lawrence Klein, it was a different story. His obsession with Iran—the *Proceso* interviewer notes that the theme "seemed like a bird which circled within Klein's mind"—has already intensified

suspicious here that his Wharton Econometric Forecasting Associates quarterly model for Mexico, called Diemex, is something other than the objective instrument it pretends to be. Is the infelicitous name for the Mexican model really so inadvertent, people are wondering.

Diemex counts among its clients many leading Mexican governmental and private sector institutions, as well as U.S. multinationals in Mexico. Much of its method was adopted in the projections for Mexico's central planning document, known as the Plan Global de Desarrollo.

What further concerns serious economists and planners here is that Klein's comments coincide with a growing rumor campaign inside Mexico to the effect that the country will be hit with a major economic and political crisis in early 1981.

For example, one of the four members of the Mont Pelerin Society, the international association of economists who advocate Friedman-style anti-growth policies, told us that by March of 1981 a combination of economic and political crises will virtually collapse Mexico as a nation. "It will be worse than the 1968 student riots," he forecast, and will shake the López Portillo administration profoundly.

Klein has markedly similar views on the Mexican presidency and how crises can affect it. He told *Proceso* that "Mexico depends on just one man. It can have stability

for six years, and six years, not. Cyclical instability could stop growth at some historic moment. Collapse would then ensue."

Though Klein attempts to differentiate himself from Mont Pelerin's leading U.S. ideologue, Milton Friedman, some see merely a division of labor in the same anti-industrial growth cause.

For instance, Wharton customarily eschews the kind of frenzied attacks on the Mexican state sector which characterize such Mont Pelerin spokesmen as Luis Pazos, writer in the magazine *Impacto*. But Wharton's well-noted fixation on the devaluation question—it has long insisted a new devaluation of the peso is imperative, and went so far as to construct one of its latest models on the assumption that a devaluation can be forced before the end of 1980—is indistinguishable from Mont Pelerin's arguments on this score.

There is fortunately evidence that prolonged exposure to Klein's brand of sociometrics results in eventual awareness on the part of the intended victim that he has in fact been taken in by a fraud.

I learned this week, for example, that many of the trustees of Wharton's parent institution, the University of Pennsylvania, were outraged when Klein won the Nobel prize for economics.

"The man can't even run his own school," one trustee confided. "He has indebted it time and again, like a profligate Third World nation, and time and again we have had to bail him out." The trustee explained that Klein was losing the school enrollment, and that they were planning to ease him out of his post—until the Nobel Committee came along and fouled it up.

# International Intelligence

## ***Khomeini supporter fearful of Reagan***

Georgetown University Prof. Thomas Ricks, a longstanding supporter of the Khomeini revolution in Iran, revealed this week that he is worried that "a strong element" within the Reagan camp will organize an "Arab counterrevolution" to Khomeini's Islamic theocracy. "This has been building for about 18 months now. You can see it in London and Washington, and you can see it at Georgetown, where an awful lot of Reagan's Mideast advisers are centered," complained Ricks.

"They want to build up Pan-Arabia in order to destroy the Pan-Islamic movement which Khomeini's regime has sparked."

Ricks bemoaned his increasing isolation at Georgetown. "They know that I support the Iran revolution, and they are against me."

Ricks' anxiety about a pro-Arab tilt by the Reagan team, perhaps has Ricks worried that he may find himself unemployed and forced to change his political tune, given the strong pro-Arab turn at Georgetown in the recent months.

## ***Lebanese-Americans: no to Kissinger***

A prominent Lebanese-American politician who supported Ronald Reagan's bid for the presidency informed *EIR* this week that the Lebanese-American leadership is strongly pressuring Reagan to deny Henry Kissinger any substantial role in formulating U.S. policy toward Lebanon.

"We have met with Reagan and are pleased with his stated support for the sovereignty and territorial integrity of Lebanon, but we are nonetheless concerned that Reagan will allow Kissinger a role in formulating Lebanon policy," the official stated. "If Reagan listens to Kissinger, we will lose Lebanon. Kissinger represents a clear present threat to

the Lebanese situation and we are worried that the forces are not powerful enough in Reagan's advisory camp to prevent Kissinger from playing a key role."

The official attacked Kissinger for having devised a policy of "seeking to permanently settle the Palestinians either in Lebanon as a whole or more narrowly in southern Lebanon. Either way is completely unacceptable to us, and we will never forget the role Kissinger played in the mid-1970s in setting this policy in motion.

"The entire Middle East settlement depends on how this question is resolved," he concluded. "Either a comprehensive solution involves a home for the Palestinians on the soil of Palestine, or we force Lebanon to abdicate its sovereignty, and give up on any chances of a Middle East solution at all."

## ***West Germany rejects NATO demands***

West German Defense Minister Hans Apel has stated that West Germany will definitely not increase its military budget this year as NATO has requested. In an interview with *Bildzeitung* magazine, Apel defended the German government decisions to spend only an additional 1.8 percent in the 1981 defense budget instead of NATO's 3 percent recommendation. He also stated that the Federal Republic will not provide additional soldiers to the alliance.

Apel went on to say that the German navy will not deploy in the Gulf, since any deployment outside of Germany violates the German constitution. Nor will Germany participate in any United Nations peacekeeping operations.

Apel concluded that President-elect Ronald Reagan knows all this, and there is no reason to accuse Bonn of decreasing its efforts in the Atlantic Alliance, since over the past ten years it has been mainly Bonn that has sustained a constant effort in the alliance. Today, concluded Apel, the Bundeswehr is the most modern army in the world, and if the United States

wants to criticize Bonn, Bonn can point out the importance of reinstating the U.S. draft if America intends to do more in the Atlantic Alliance.

In preparation for a NATO defense ministers' conference, the State Department's David Newsom and Robert Komer of the Pentagon are about to visit West Germany to demand that the government meet the 3 percent spending increase and specify medium-range "Euromissile" sites.

## ***Seaga authorizes 'hot money' inflows***

Newly installed Jamaican Prime Minister Edward Seaga has lost no time declaring that the de facto legalizing of drug profits is the immediate priority of his government.

"Regardless of whether we want it or not, the [drug] industry as such is here to stay. It is just not possible for it to be wiped out, and if it is here to stay then we have to make up our mind from that point as to how best to deal with it," he told the *Washington Post* Nov. 10. "Medical reports seem to suggest there's no conclusive evidence that ganja is harmful."

Seaga initiated moves immediately upon his election Oct. 30 to allow Jamaican banks to accept cash from private individuals to cover imports, "no questions asked." Previously this drug-money laundering technique was permitted only if the deposits were made abroad.

Seaga faces an estimated \$150 million shortfall in foreign exchange requirements between now and the end of the year.

This is the first demonstrable case of a nation's legalizing drug earnings in order to pay its foreign debt.

The International Monetary Fund has informally expressed satisfaction with Mr. Seaga's economic program and is expected to provide a major financing package soon.

Several cabinet members are legalization advocates, including Agriculture Minister Percival Broderick.



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## ***New mystery about Iran hostages***

French intelligence sources claim that 10 of the American hostages seized last November in Iran are dead, and the deaths are being deliberately covered up by the Carter administration and Iran.

Underscoring the mystery surrounding the whereabouts and condition of the hostages is the fact that the various unofficial lists naming the 52 hostages are not the same. For example, a list published by the *New York Times* includes a Max Copeland and a James Hughes, neither of whom appear on lists compiled by the *New York Daily News*, the Associated Press, or United Press International. Similarly, a John O'Keefe appears on the *Daily News* list, but not on the other three.

When asked about the discrepancies, a *New York Times* spokesman admitted that they were "bizarre." "We have much confidence in our list. We researched it exhaustively, and cross-checked it with the State Department." The State Department has refrained from releasing an official list of the hostages.

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## ***Queen Elizabeth crosses the desert***

Queen Elizabeth of England toured Algeria, Tunisia, and Morocco Oct. 21-22 in an undisguised bid to put a crimp on French influence in the area. The London *Sunday Times* wrote Nov. 2 that the Queen's reasons for making the trip "essentially boil down to two notions: that it might be useful to show the flag in this traditionally French-influenced part of the world (especially when the French are hard at work trying to make friends and do business in the formerly British bits of Africa); and that, particularly in Algeria, there might be some trade opportunities to exploit."

In Morocco, King Hassan caused a veritable scandal when he kept Her Majesty waiting for over half an hour outside

his air-conditioned desert trailer, and the next day made her change cars seven times during a drive "for security reasons." In Algeria, however, the Queen was the first Western head of state ever invited to speak before the National Assembly. Not only did her speech refer to the 1765 friendship treaty between her forebears and the Algerian monarchy, which she said she considers "still in force," but the speech was well received. Algeria's kowtowing to the Queen apparently reflects the power of the anti-French and pro-Libyan factions surrounding President Chadli Benjedid, who are angling for a cold coup in policy matters.

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## ***Schmidt-Giscard meeting plans joint strategy***

French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt met in Paris on Nov. 10 to lay out a joint European policy in the wake of the election. Schmidt, and later perhaps Giscard, is scheduled to arrive in the United States this month.

The French daily *Le Figaro* ran the banner headline Nov. 11: "Giscard-Schmidt at the Elysée: a Strong Europe on the Side of a Strong America," and quoted Giscard: "Between a strong America and a Europe assured of its power and its role, cooperation and a natural dialogue can be established that will help in maintaining peace and defending peace and liberty in the world. . . . France can only rejoice to see a strong America assume its responsibilities in the world. . . . This makes it even more necessary to end the anomaly of Europe's self-effacement since the end of World War II."

Schmidt declared: "Everything the [French] President underlined corresponds to my interpretation. We too are in favor of a strong American government. We [Schmidt and Giscard] have also talked about the crisis in Southeast Asia and the Persian Gulf, and we underline our position, one of neutrality."

# Briefly

● **MARTIAL LAW** officials have closed down *Cumhuriyet*, Turkey's oldest daily newspaper, in response to criticisms by the paper of the free-market system that Turkey's new military rulers are attempting to impose.

● **ISLAM** and the West, a London-based organization, earlier this month sponsored a closed-door seminar in Stockholm on "appropriate technologies," as the basis for future economic development of the Muslim world. Islam and the West is closely allied with the Club of Rome in advocating a "small is beautiful" economic ideology for the Arab world.

● **VOICE OF THE Vanguard**, a clandestine Saudi opposition group based in the United States, will have members present at the Nov. 21-23 annual meeting of the Association of Arab-American University Graduates in Boston, Massachusetts. A keynoter at the meeting will be lawyer Ramsey Clark, a backer of radical anti-regime groups throughout the Middle East who was instrumental in bringing Iran's Ayatollah Khomeini into power.

● **THE IMF** is "eager and willing" to dispatch a special team of consultants to advise the Polish government on how to restructure the economy in order to finance outstanding external debt, according to a Nov. 13 *Boston Globe* report by William Beecher. Poland is not a member of the International Monetary Fund.

● **ALAIN PEYREFITTE**, the French justice minister, filed suit in criminal court last week against the prestigious daily newspaper *Le Monde*, charging that the paper had jeopardized activities of the judiciary. The suit singles out an article in which *Le Monde* allegedly charged political motives for the government's deportation of foreign suspected of terrorism.

## Reagan's cabinet choices: they're up for grabs

by Kathleen Murphy

Although the shape of the Reagan government is being accurately described by Washington insiders as "still very much an open question" with respect to policies and personnel, there are indications that one faction at least is striving to ensure the new administration makes a clean break with both Democratic and Republican policies of the past.

The fight now raging between contending groups for control over Reagan's economic program (see article, p. 6) is being reflected in other areas, particularly over membership in the cabinet.

Reagan has repeatedly insisted that he plans to greatly expand the powers of the cabinet, making department heads responsible for overall policy and not simply for their own bailiwicks.

In a Nov. 12 speech to the National Association of Counties in Washington, transition director Ed Meese, a long-time political confidante and aide to the President-elect, made the same point, emphasizing that increasing the responsibilities of the cabinet would mean a proportionate downgrading of the White House staff. (Reagan's stated commitment to take away all policy-formulating functions from the national security adviser and reinstate the secretary of state as the foreign policy spokesman for the U.S. government is one example of how this would work.)

Reagan's emphasis on the role of the cabinet explains why its composition has emerged as a major battle-

ground between the various political factions fighting for predominance in the incoming administration.

The Eastern Establishment, both through private channels and through its press outlets has been attempting to steer Reagan into peopling his cabinet with such holdovers from the Nixon-Ford days as former Secretary of State Henry Kissinger and ex-Treasury Secretary George Shultz. Despite this, it appears that Reagan is leaning toward a cabinet that represents a more independent cast.

His spokesman, Ed Meese, has been repeatedly cautioning against taking published reports that Reagan will choose his cabinet from among the old Rockefeller Republican wing of the party too seriously. The day after the election, he told reporters that the cabinet will include "a lot of dark horses." Meese himself will hold a cabinet seat as presidential counselor.

Meese was even more explicit in a Nov. 9 appearance on NBC-TV's Meet the Press. Asked by reporters if it were true that Reagan's cabinet would be simply a Nixon reshuffle, Meese bluntly replied: "Our administration will not be a Nixon-Ford restoration," and went on to point out that Reagan intends to bring on board people with no government experience whatsoever.

The key requirement for membership, he said, was "philosophical compatibility" with the new administration's goals. Meese made the point even sharper when asked whether he considered the Nixon-Ford economic

program (engineered by many of the same people the East Coast press is pushing for high-level posts) to have been successful: While I prefer to let history make its own judgement, he replied, the main point is that the Reagan administration will have its own economic program, and the overwhelming popular mandate to implement it.

Reagan himself made much the same point in an interview published in the Nov. 17 issue of *Time* magazine. The President-elect said his cabinet would include a lot of surprises, and not solely the presence of some Democrats.

Discussing his yardstick for cabinet appointments, Reagan said: "My basic rule is that I want people who don't want a job in the government. I want people who are already so successful that they would regard government as a step down, not a step up. Out there in the private sector, there's an awful lot of brains and talents in people who haven't learned all the things you 'can't' do."

An important sign that these statements are meant very seriously was the formation Nov. 10 of a transition-group committee which has been charged with making recommendations for cabinet and sub-cabinet appointments. Its composition is a significant indication that Reagan intends to seek cabinet members from outside the Eastern Establishment's charmed circle.

Headed by William French Smith, a Los Angeles lawyer who has been Reagan's personal attorney for years, the committee is heavily weighted to the so-called California mafia, a closely knit group of California entrepreneurs who funded Reagan's successful gubernatorial bid in 1966 and have backed him politically and personally since then.

Representing this group on the committee are Justin Dart, head of the multibillion-dollar Dart Industries, a Los Angeles-based plastics and chemicals conglomerate which does business in more than 30 foreign countries; Earl Jorgensen, the 82-year-old founder and chief executive officer of Jorgensen Steel, a highly profitable California steel manufacturing company specializing in oil drilling and rigging equipment; Alfred Bloomingdale, founder of Diners' Club; oil magnate Jack Wrather; rancher William Wilson; movie entrepreneur Theodore Cummings; and Holmes Tuttle, a wealthy Los Angeles auto dealer. Many of these men had been among the earliest backers of Sen. Barry Goldwater's 1964 presidential bid.

Senator Paul Laxalt, a close personal friend of Reagan and chairman of his 1976 and 1980 campaigns, is also a member, as are Ed Meese and Michael Deaver, who held a top post in Reagan's Sacramento administration.

Representing a more Eastern Establishment bias on the committee are William Casey, chairman of the transition team; former Treasury Secretary William Simon,

and ex-Office of Management and Budget head Caspar Weinberger.

The composition of this group is significant for several reasons. First, the fact that it's dominated by the Californians suggests that Reagan has rejected arguments that he must give most top government slots to Establishment members in order to govern effectively, and that he intends instead to rely on his own political base to an important extent.

Secondly, the California group, with a few possible exceptions, generally holds to a pro-technology, anti-zero-growth perspective which would enable it to function as a strong counterweight to the pro-austerity faction around Reagan who want him to implement the same kind of belt-tightening policies endorsed by Reagan economic adviser Milton Friedman through which Prime Minister Margaret Thatcher has wrecked much of the British economy.

It is likely that several members of this committee will receive cabinet appointments themselves. One interesting possibility is Justin Dart, who reportedly advocated the "supply side" economic faction, represented by Rep. Jack Kemp, who oppose the "Thatcherites."

Dart is said to be interested in either Commerce or Treasury. He has so far been unavailable for comment. William French Smith is also reported to be under consideration for attorney general, while Bill Simon is a candidate for one of the principal economic or energy posts.

Meese's inclusion in the group is also significant, since it puts him in a prime position to shape the new cabinet. Reagan is said to trust Meese's judgement in particular. When Reagan was asked early in the campaign whom he would turn to in office if he had a particularly difficult problem to face, he quickly replied, "Ed Meese."

Meese, who used to be the deputy district attorney of Alamada County (Southern California) and is on leave as head of a University of San Diego Law School subdivision, combines both a progrowth outlook of Reagan's California business backers with deep contempt for such liberal social policies as drug decriminalization. A retired Army lieutenant colonel with a son at West Point, Meese also has a relatively indepth familiarity with defense issues.

When he takes over as White House counselor, Meese will have oversight over not only the domestic policy staff but the national security staff.

Some of the other Reagan transition team appointments also look promising. Elizabeth Dole, former head of the Federal Trade Commission and wife of Sen. Robert Dole (R-Kans.), has been given responsibility over human resources, while Richard Fairbanks, an energy expert who favors fusion power development, is heading up the energy and resources section.

# Moderates look to leadership posts

by Lonnie Wolfe

A brawl is shaping up between moderate conservatives and liberals for control of the Democratic party apparatus and program.

Senator David Boren of Oklahoma reflected this fight when he announced Nov. 12 at a Washington press conference that he saw "a new bipartisan consensus emerging" in national politics, despite the opposition of liberal Democrats. He described a meeting of the Democratic Senate caucus earlier in the day.

"There are those who think we should give the Republicans everything they want," and then when the country falls on its face, this will lock the GOP out of politics for twenty-five years; there are others, Boren continued, notably "one of the Massachusetts senators," who said we must fight to ensure that programs are not dismantled. "But I am confident that people will not ignore the interests of the country." Boren indicated that the new consensus would be based on programs for new technology and capital formation.

Boren's statement identifies the central issue in the fight: will the Democratic Party fall back on the shopworn liberal prescriptions typified by the policies of Edward Kennedy and his backers, or pull together a new position in tune with the electorate that voted out Jimmy Carter and George McGovern?

### 'No need for liberal Dems'

One Democratic Party leader from upstate New York warned this week that the McGovernite wing of the party, which includes the ultraliberal section of Sen. Edward Kennedy's backers, "has destroyed our electoral base with their single-issuism." Noting the exodus of traditional constituencies like the blue-collar vote from the Democratic columns in this election, he stated: "We don't need any more of these platforms which talk for page after page about the ERA and abortion. . . . We don't need 'liberal Democrats' anymore."

Lyndon H. LaRouche, Jr., the former Democratic presidential candidate and chairman of the advisory committee of the National Democratic Policy Committee, has called on conservative Democrats to take hold of their party and work with their counterparts in the GOP to define a new economic policy for the nation. The NDPC has sparked debate within the party leader-

ship and its congressional delegation with the circulation of draft legislation in several areas, including tax policy and reform of the Federal Reserve System.

### The DNC fight

One of the first focal points for the fight within the party will be the selection of the party chairman. That subject is sure to come up at the emergency executive committee meeting of the Democratic National Committee on Dec. 9 in Washington, D.C. In a piece entitled "The Knives Are out for John White," syndicated columnists Germond and Witcover report that there is strong sentiment to remove Carter appointee John White, who was expected to do the "right thing" and step down, as did Democratic Chairwoman Jean Westwood immediately after the 1972 McGovern debacle.

Instead, White has announced that he intends to stay on through March at least and may stand for reelection. He boasts that he has the votes to win—a fact hotly contested within party ranks. There is some sentiment for a "nuts and bolts" man to rebuild the party, say Germond and Witcover, and many people would object to someone like outgoing Vice-President Walter Mondale, whose name has been mentioned, mostly by supporters of a Mondale presidential bid for 1984.

### No Carter input

Few people feel that the Carter crowd should be given any voice in choosing a new chairman. As if oblivious to last week's election, the Carter honchos are nonetheless pushing various "options," including John White. Carter-Mondale campaign committee chairman Bob Strauss reportedly made more than 300 calls to DNC members recommending that Finance Committee Chairman Charles Manatt of California take the post; a few days later, Strauss reversed field and said that White should stay on for a "transition period."

Meanwhile, the names of a whole crop of Democratic losers from last week's election debacle are being floated including Sen. Birch Bayh and Rep. John Brademas, both of Indiana, and Gov. Bill Clinton of Arkansas.

The Kennedy crowd has yet to indicate their preference, but say they want White out. The McGovernites are expected to field a candidate for party chairman, though they have backed off from the ludicrous proposal that McGovern take the job himself.

At this point, the LaRouche faction and the moderate conservatives, who have a majority on the DNC, have yet to put forward a candidate. Discussion is, however, taking place on developing a policy consensus around the NDPC proposals. Such a consensus would finish off Strauss and White, whose only chance to hang onto the party power structure depends on misrepresenting themselves as a "consensus" leadership.

# GOP chairmen to reverse track

by Barbara Dreyfuss

With an overwhelming mandate from the American electorate, the largely conservative Republicans who will now head the major committees have already announced their intention to start work on new policies.

**Senate Banking Committee—Senator Jake Garn (R-Utah):** The Senate Banking Committee perhaps best illustrates the changing outlook of the Senate. Whereas the outgoing committee chairman, liberal William Proxmire (D-Wis.), working closely with House Banking Committee chairman Henry Reuss, has tightened Federal Reserve Board control over the banking system and backed legislative changes favoring the big New York banks, new chairman Garn will take the committee in the opposite direction.

One issue the committee will review shortly is whether the McFadden Act, which prohibits state-chartered banks from operating across state lines, should be changed. McFadden has protected local banks from competition by major, especially New York-based, banks. The Carter administration strongly favors changing the law. Garn, however, is concerned about the fate of small, regional banks. We want to prevent "a few large banking institutions in this country from dominating the industry," he declared.

Garn also opposes the activity of the Depository Institutions Deregulation Committee. The DIDC, headed by Federal Reserve Board chairman Paul Volcker, has publicly called for the controlled disintegration of the nation's economy. The DIDC forces banks to join the Fed and phase out protective regulations for savings banks. "I did not expect DIDC to do what it is doing. . . . They are not following our intent of gradual change," warned Garn, adding that he will press for legislation that regulates DIDC activity.

While Proxmire backed the International Monetary Fund, Garn wants better "oversight over the international financial institutions," said his aide. Garn will instead emphasize expanding the Export-Import Bank to facilitate U.S. exports to the Third World.

**Senate Appropriations Committee—Senator Mark Hatfield (R-Ore.):** Reversing the decline of the all-volunteer army, increasing pay and benefits to attract more

qualified people, will be the highest priority of the new chairman, declared his aide. Hatfield was vigorously opposed to the Alaska Lands bill, sarcastically termed the Alaska lock-up bill by one of his aides because of the millions of acres it would take out of development.

**Senate Finance Committee—Senator Robert Dole (R-Kansas):** Senator Dole is not ideologically far apart from the current committee chairman, Russell Long (D-La.). Dole is already working for passage of the \$39 billion tax cut, worked out by Senator Long and the Finance Committee earlier this year. Dole wants the legislation passed into law during the lame-duck session of Congress beginning Nov. 12, so that Americans can see lower tax bites in their paychecks as early as January.

Another issue Dole will move on quickly is the wind-fall profits tax on the oil industry. Of prime concern to him is reducing the tax on the two million small royalty owners, many of whom are dependent on royalties for their retirement financing. He also hopes to increase oil production by lowering the tax on newly discovered oil and newly drilled oil wells.

As chairman of the Finance Committee, Dole will have to deal with the problems of the Social Security Administration. Aides report he is reviewing the possibility of a major temporary loan to the social security system from general revenues to alleviate the immediate cash-flow problem of the system. For the long term, the committee will review the benefit package, putting it more in line with revenues.

Although President-elect Reagan has not given high priority to the catastrophic state of health care, Dole has, and intends to make it a major issue. He has introduced legislation on this previously and has worked with Senator Long on one proposal for such insurance.

**Senate Armed Services Committee—Senator John Tower (R-Texas):** As with Senator Dole, Tower is not very different in views from the outgoing committee chairman, John Stennis (D-Miss.). In a press conference Nov. 11, Tower detailed the policies he intends to focus his committee on. "For the first time in approximately 25 years the GOP has the chance to shape a course for a legislative agenda, particularly in national defense. The election results reflect a strong public sentiment behind the efforts to restore our military strength, and it's my expectation to begin vindication of that trust immediately."

Tower declared that he wants to focus on developing the MX system, the manned bomber, probably a B-1 derivative, the Trident II, and a long-range theater nuclear force modernization program. Tower expressed concern about the ability of the U.S. to retain a trained military force, as well as its capacities for a combat-sustaining base, especially ammunition and spare parts adequacy. These issues will be addressed in the 1981

fiscal year supplemental budget, he announced, calling for a quick passage of the 1981 defense appropriations bill. In the supplemental budget he proposes pay raises for the middle grades, and money for fuel costs to help alleviate these problems, said the Senator.

The FY 1982 budget will be devoted to "new systems modernization," he told reporters, and will be carried out in a "bipartisan spirit." He predicted work on an enhanced radiation warhead, and increased shipbuilding because "another carrier force is desirable."

Tower has attacked the Carter Doctrine projecting American military strength into the Middle East in times of crisis, calling it a bluff the U.S. could not back up. In his first press conference after the election, Tower called for adequate military forces to meet such crises. He said the U.S. needs 10 additional ships in the Indian Ocean, air, sealift, and amphibious assault capabilities.

**Senate Agriculture Committee—Senator Jesse Helms (R-N.C.):** Helms's first activity as head of the committee will be to review ways to reduce the rate of growth of new food stamp users, and to reform the programs generally, according to one of his chief aides. Beyond this, Helms intends to keep the "delicate mix of programs in the bill, which works, but not to mismanage it as the Carter administration did," declared the aide. "Carter had a cheap food policy; he manipulated the program to lower prices, and that killed farmers."

The aide was referring to the Food and Agriculture Act of 1977, which comes up for reauthorization in January, and covers price supports as well as most other farm matters.

**Senate Labor and Human Resources Committee—Senator Orrin Hatch (R-Utah):** Organized labor considers Hatch, a cochairman of the National Right to Work Committee, one of their main enemies. He was a vigorous opponent of labor law reform last session, legislation vigorously lobbied for by the AFL-CIO. He has strongly supported a subminimum wage for youth, despite warnings from organized labor that this will depress wage levels generally.

But following the Republican sweep in the Senate, Hatch announced that he plans to pursue what he termed a more "moderate approach." "There is no reason for the labor movement to be alarmed. I come from the labor movement. I believe there should be labor unions. If the unions give me a chance, I think we can do good things together for the country. I made it clear to them that my door will always be open," declared Hatch. "There is no reason for a confrontationist approach." In this spirit, Hatch said he would not move to repeal the Davis-Bacon Act, which requires minimum wages on federally fi-

nanced projects, but instead change the way the law is enforced.

**Senate Judiciary Committee—Senator Strom Thurmond (R-S.C.):** Senator Thurmond will be a very different chairman from the current committee head, liberal Ted Kennedy, who has backed decriminalization of marijuana, an end to the death penalty, and forced school busing. Thurmond announced that he will press for legislation next year to reestablish the death penalty for murder, treason, and kidnapping. "I think the death penalty helps deter crime," he told reporters Nov. 6. Thurmond also said he opposes forced school busing because it is "impractical" and favors abortion only in extreme cases. He indicated he might support a constitutional amendment limiting abortion.

**Senate Energy Committee—Senator James McClure (R-Idaho):** McClure is one of the Senate's most ardent spokesmen for nuclear energy development and nuclear exports. He led the fight against the Nuclear Nonproliferation Act of 1978, which prohibits nuclear energy exports to Third World nations that don't agree to stringent surveillance procedures. This year McClure fought for, and won, Senate approval for the sale of nuclear fuel to India.

McClure has strongly supported the fast breeder reactor; he recently warned that Carter planned to scrap the breeder if re-elected. He has fought hard against the windfall profits tax on oil producers, and will likely try to amend it. McClure has stated that he favors synthetic fuels production, but has reservations about establishing a major synthetic fuels corporation, fearing it will become another federal bureaucracy.

**Senate Foreign Relations Committee—Senator Charles Percy (R-Ill.):** Percy, a board member of the Chicago Council on Foreign Relations, is, unlike the other Senate Republican chairmen, also a leading member of the Eastern Establishment. A vigorous opponent of nuclear energy sales to the Third World, he wrote the Nuclear Nonproliferation Act, commonly called the Percy-Glenn bill. A supporter of decriminalization of marijuana, Percy sponsored an amendment that prohibits the U.S. from conducting paraquat spraying abroad. As a result of the amendment, Colombia could not use U.S. aid to buy paraquat to eradicate its enormous marijuana crop.

**Senate Budget Committee—Senator Pete Domenici (R-N.M.):** Domenici has been a strong proponent of a balanced federal budget, although he thinks a constitutional amendment may not be necessary to achieve this. Domenici believes "a strong budget committee will realize these objectives," declared an aide to the senator. He also supports a vigorous tax cut.

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## Facts Behind Terror

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# The Hare Krishna: a synthetic cult

by Jeffrey Steinberg

Under a perversion of constitutional guarantees of the First Amendment, members of the Hare Krishna cult can be found soliciting funds as a “religious” organization—and frequently assaulting unsuspecting travelers at major airports around the country.

A series of arrests of leading members of the Hare Krishna has produced evidence that the Hare Krishna is not a religious, nor even an Indian, organization. There is considerable evidence indicating that Hare Krishna is a classic cult, developed by British intelligence as a component in international drug trafficking and terror.

The real nature of the Hare Krishna, formally known as the International Society for Krishna Consciousness, has been increasingly exposed in recent years through arrests of their members on charges ranging from credit-card fraud and drug trafficking to illegal weapons possession and murder. Besides reporting numerous incidents of assaults on citizens, law-enforcement officers speculate that soliciting by the Krishna at airports may be simply a cover for prostitution and credit-card theft.

The Krishna cult originated in the East Bengal section of India, where British opium production operations have been based for over 100 years. Beginning as a front to exempt a wealthy Brahmin family from taxes, the cult was geared up in the 1950s and early 1960s to be used in destabilization operations against the Indian government. A leading member of the cult, A. C. Bhaktivedanta, was also dispatched to the United States to participate in the MK-Ultra mind-control project run by British intelligence.

Arriving in the United States in 1966, Bhaktivedanta was sent into New York’s Lower East Side, one of the major drug-counterculture laboratories—along with Haight-Ashbury—used by MK-Ultra operatives. Recruiting from drugged hippie layers, the Krishna cult set up operations in every part of the country. In 1977, Bhaktivedanta died, leaving the cult’s international crime empire in the hands of 11 disciples, who run Krishna’s operations to this day.

Since 1978, a revealing picture of the Krishna’s vast criminal operations has emerged from discoveries by

law-enforcement agencies in the United States:

- In early 1978, Krishna leader Alexander Kulik, a director of the Krishna holding company Prasadam Distributors, Inc., was arrested and charged with the murder of another Prasadam employee, Steven J. Bovin. Kulik had hired three “Mafia hitmen” to kill Bovin, allegedly for embezzling from the company.

When police arrested Kulik, they found one pound of pure heroin in his car. He was driving a \$100,000 Stutz-Blackhawk antique car, and lived in a \$450,000 beach house. Within hours of his arrest, Kulik had raised the \$500,000 bond required for his release.

The Prasadam Company (named for the Krishna word for food) was identified as the holding company for a number of other Krishna businesses, including Bionic Bit Cookie Co. and Delthic Auto Dealers. Police at the time speculated that Prasadam was used to set up front companies for laundering illegal drug profits.

- In January 1980, Krishna leader Joseph Shelton Davis and two other Krishnas were convicted on charges of operating a multimillion-dollar drug traffic. The three cult members were caught by U.S. Customs agents smuggling hashish oil from Pakistan.

- Shortly afterwards, Hans Kari, a.k.a. Srila Hansadutta Swami, one of the 11 disciples who run the cult, was arrested for illegal weapons possession after police found a submachine gun, two handguns, and two high-powered rifles in his car in Berkeley, Calif. Kari, a West German citizen, had the charges dropped when a low-level Krishna member “confessed” to being the owner of the weapons.

- In the spring of 1980, California police raided a Krishna-owned ranch in Lake County, in search of Michael Pugliese, a.k.a. Gover Dan, wanted for credit-card theft. At the ranch, known as Mt. Kailasha Farm, police found a rocket launcher, assault rifles, and thousands of rounds of ammunition.

Pugliese is a former aide to Hans Kari and is still wanted in California for credit-card theft, forgery, and assault. Additionally, police in Tokyo have issued three warrants for Pugliese’s arrest for jewel theft.

- Soon after the Mt. Kailasha raid, police raided a gun shop in El Cerrito, Calif., searching for more stolen credit cards. The shop, named Sgt. Pepper’s Guns, is owned by Ronald Ray Walters, another West German citizen. In the raid, police found over nine tons of gunpowder, tens of thousands of shell casings, and slugs for manufacturing ammunition.

- Krishna member Walter Bernstangle, who had access to the Mt. Kailasha arms cache, is currently wanted for grand theft in Mendocino County, Calif.

- Peter Kaufmann, another member with a long record of illegal arms-possession charges, is also known to have access to the arms cache.

These important pieces of evidence show only the top layers of a much greater—and dirtier—operation.

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# National News

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## Baker pledges not to 'bait' labor

The "biggest surprise" from the Reagan White House and the new Republican majority will be the degree to which they will work to "protect the legitimate rights of labor" declared Senate Minority leader Howard Baker (R-Tenn.).

Baker promised that neither the Senate nor the White House would adopt "labor-baiting or antilabor policies" and that the new Chairman of the Senate Labor Committee, Orrin Hatch (R-Utah) will be a fair friend of labor. Hatch has been an active supporter of right-to-work laws and other antilabor legislation.

Baker said he himself supports the proposal by Senator Jake Garn (R-Utah) to repeal the Davis-Bacon Act, which establishes minimum wages for federal projects, but that it was unlikely the new Senate would do more than modify it.

Senator Hatch was seen by *EIR* meeting with AFL-CIO president Lane Kirkland on Nov. 13.

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## Reagan appoints his science advisory panel

President-elect Ronald Reagan has appointed a 15-member panel to advise him on national science policy that draws heavily from high-technology industry.

The group includes Simon Ramo of TRW and Arthur Bueche of General Electric as cochairmen; Edward David of Exxon Research; Frederick Seitz of the National Academy of Sciences and Rockefeller University; H. Guyford Stever of the National Science Foundation; Edward Teller; William Baker of Bell Labs; Gen. Bernard Schriever of Air Force Systems Command; Harold Agnew of General Atomic; and William Nierenberg, the director of the Scripps Institute of Oceanography.

According to the *New York Times*, the members of the panel are unanimous in their view that science is vital for the

preservation of American military power and industrial competitiveness.

The advisers also unanimously rejected Milton Friedman's proposal for ending federal support to basic research by universities, and said they considered it very unlikely that the Reagan administration would implement any such policy. "It is naive to contemplate reconstructing U.S. society to make possible the removal of government involvement in science and technology," panel co-chairman Ramo said. Dr. Nierenberg of Scripps was also emphatic in urging strong government intervention to reverse what he called "the growing scientific illiteracy" of Americans.

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## Conservatives try to tip O'Neill

Rep. Bill Archer, a Texas Republican, is meeting with some Democratic counterparts to explore the idea of forming a coalition to topple House Speaker Tip O'Neill from his post. The meetings are also exploring possible collaboration between conservative and moderate Democrats and the GOP on policy questions.

Archer has stated that O'Neill, linked to both Carter and the liberals, does not represent the policies of the Republicans and moderate Democrats who form the House majority. Echoing this sentiment, Rep. C. V. Montgomery of Mississippi, a Democrat, told the *New York Times* Nov. 7: "We've been trying to tell the leadership to take a good hard look at the mood of the nation."

O'Neill's ouster is not very likely, but policy collaboration, especially on specific issues affecting economic growth, is far from unprecedented. If only 26 Democrats bloc with the GOP, that grouping will gain a majority.

Moderate Democrats' prominence in the new House is a key; Gillis Long of Louisiana, a moderate, is on the inside track to become chairman of the House Democratic caucus, edging out arch-liberal Charles Rose of North Carolina. This is the fourth most powerful leadership post in the House.

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## Conservative group targets interest rates

The National Conservative Political Action Committee (NCPAC), which helped unseat several liberal senators on Nov. 4, plans to broaden its list of political targets to include members of Congress who support "bad economic policies that lead to inflation, high interest rates, and unemployment," according to Terry Dolan, the group's director.

Dolan made the announcement at a Washington, D.C. press conference Nov. 11, where he also revealed that NCPAC will attempt to defeat 20 incumbent senators up for re-election in 1982, including Democrats Edward Kennedy, Henry Jackson, Daniel Moynihan, Howard Metzenbaum, and Republicans Robert T. Stafford, John H. Chafee and Lowell P. Weicker.

The NCPAC will also become involved in both Democratic and Republican primary races, Dolan said.

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## Warnke forms new arms control committee

Former arms control negotiator Paul Warnke has formed a new group, the Committee for National Security (CNS), announced at a press conference in Washington Nov. 12. Initiating members include such liberals as Harrison Salisbury of the *New York Times*, Harvard economist John Kenneth Galbraith, Richard Barnet of the Institute for Policy Studies, and former State Department spokesman Hodding Carter.

According to the CNS's founding document, the real threat to U.S. national security is that the instability caused by an uncontrolled arms race could trigger a nuclear war.

A CNS spokesman, asked if the current movement toward a U.S.-Peking alliance might pose a threat to peace, said, "I don't think so. We need a militarily strong China on the Soviet's southern



frontier. . . . Of course, [Cambodian dictator] Pol Pot was tragic, and I suppose sooner or later you *do* have to make a choice, or *do* you?"

The CNS spokesman also said the key to U.S. national security lies not so much in improving its military capabilities, but in good North-South relations. "I think that the Brandt Commission and the Global 2000 report point out the problems we will have to deal with," he said. The Global 2000 report, issued last spring and supported by the State Department, advocates reduction of the world population.

## Legislation mooted to abolish the FEC

Senator Gordon Humphrey (R-N.H.) announced this week his intention to introduce legislation to abolish the Federal Election Commission (FEC). Humphrey stated his belief that the FEC was clearly unconstitutional, and that in any case no one has ever run for office who has not of necessity violated many of the FEC's complicated provisions. This makes enforcement of FEC guidelines totally selective in their enforcement, Humphrey said, and thus more of a vehicle for political harassment than one of law.

According to Humphrey's aide Morton Blackwell, the senator believes that the support definitely exists for abolishing the FEC during the incoming Congress, but that the senator is contemplating introducing his legislation immediately, during the current lame-duck session "in order to let the idea percolate around a bit." Blackwell described the legislation as not only a blow on behalf of constitutional democracy, but also fully in accord with the new administration's commitment to doing away with useless bureaucracy. If the FEC is abolished under Humphrey's legislation, there will no longer be any individual limit on individual contributions to political candidates, and all federal subsidies to political campaigns will end.

The NCPAC (see above) is also lobbying to dismantle the FEC.

## Democratic chairman claims he'll stay

The fight for control of the Democratic Party sharpened last week as party chairman John White made clear that he intended to remain in office despite the disaster he had helped to lead the party into. Dismissing those calling for his removal as "out-of-work staffers who wouldn't know a DNC [Democratic National Committee] member if he walked in the door," White insisted he had the votes to hold the chairmanship come what may.

An aide to Senator Kennedy was quick to disagree: "I think there is a general sentiment that White must go, given the outcome of the election." House Speaker Tip O'Neill was emphatic in demanding White's resignation, saying, "I don't intend to be Speaker of the House and allow my party to go down the drain."

White's hopes received a blow when outgoing President Jimmy Carter, formerly his staunchest supporter, adopted an apathetic attitude to White's continued tenure: "I don't think it matters what the identity of the chairman might be."

## Air Force general plugs Connally for State

General George Keegan, retired head of Air Force Intelligence, is lobbying President-elect Reagan to appoint John Connally to a high government post.

Keegan said that his first choice for State would be the former Navy secretary. "Connally is tough; he knows how the Russians work. He was alive during World War II and the Chamberlain farce." If he can't get State, said Keegan, "Connally would make a helluva defense secretary." Keegan also confided that he would like to see Richard Allen named national security adviser, "because he's the best friend Israel has in the U.S."

## Briefly

● **THE SENATE** voted Nov. 13 to restore \$1.7 million to the domestic budget of the Federal Drug Enforcement Administration. The amendment introduced by John Heinz (R-Pa.) will reinstate full DEA operations in Philadelphia; Reno, Nevada; and El Paso, Texas.

● **HOWARD BAKER** said this week that his goal as Senate Majority Leader will be to restore the Senate as "the premier forum for policy debate in the nation. The Senate has become an aggregation of elected bureaucrats who are engaged in administration and operational details rather than policy." Baker said he wants to cut the number of roll-call votes by about half, noting that "legislating by physical endurance might give you a clear slate, but it will not give you good legislation."

● **HENRY KISSINGER**, persistent rumors in Washington have it, will be appointed by Reagan to replace Sol Linowitz as special U.S. envoy to the Middle East.

● **PUERTO RICO'S** election for the gubernatorial post is still too close to call, and a full recount could take up to two months. The close vote nixes a plebiscite on the island's future for the foreseeable future.

● **REP. JIM JONES**, an Oklahoma Democrat, has committed himself to work with the GOP for a capital gains tax and accelerated depreciation program. According to an aide, "Jones wants to continue the American dream for everyone, and he feels the way to do that is to expand the economic base." The accelerated depreciation proposal, made jointly with Barber Conable (R-N.Y.), will be incorporated as part of the next tax bill, he said. As of December, Jones will chair the Democratic Research Organization, a congressional policy group he intends to turn into a rallying point for moderate and conservative Democrats.

## Politics versus reality

*What world oil supplies really are, and whether they will now be developed.*

**W**ith the nightmare of the Carter years of "war on energy" thankfully behind us, I think it appropriate to look at some basic assumptions which need to be destroyed if we are to pursue necessary energy growth. Since the controversial publication of the April 1977 Central Intelligence Agency report on petroleum supply projections, we have been bombarded with study after government study trying to convince us that oil and gas supplies have peaked worldwide and domestical-

Two new studies have just added credibility to this thesis. One is a study by Richard Nehring of the Rand Corporation in Santa Monica, Calif. The other is a study prepared for the Senate Foreign Relations Committee by the Congressional Office of Technology Assessment (OTA) titled "World Petroleum Availability: 1980-2000."

The Rand thesis is simple: "The outlook for conventional world oil resources is not promising," Nehring states, adding that "the current high rates of conventional oil production can be sustained at most for another three decades." The OTA report is even more explicit in regard to projected domestic U.S. production: "Based on the reasoning discussed in this section," they piously declare, "OTA estimates that liquid petroleum production will decline from the 1979 average production rate of 10.2 million barrels per day to a level of 7.2 to 8.5

mbd in 1985. In the year 2000, U.S. production could be as low as 4 mbd." They further calculate that primary and secondary recovery from existing U.S. proven reserves "may decrease from approximately 8.1 mbd in 1979 to 4.7 mbd in 1985." This is a pretty alarming prospect which Rep. Morris Udall (D-Ariz.), chairman of OTA's congressional board, and no champion of energy growth, uses to justify a call for "serious and sustained efforts to increase efficiency and cut waste in our use of oil," codeword in liberal jargon for drastic cuts in living standards and industrial growth through energy austerity.

What's wrong with these Cassandra-like doom forecasts? Nothing, if we take the assumptions that lie behind them and make them into law such as people like Udall have done. Namely, if we impose measures such as the Crude Oil Windfall Profits Tax of 1980 which mandate removal, at the wellhead, of \$227.3 billions over the next decade from capital available for further exploration. This will ensure that the substantial increase in exploratory drilling needed to map and exploit potential reserves in this country just will not happen. To make doubly sure, we can add, as Udall and his cronies on the "environmentalist" side of the aisle have done, ridiculous legislative and regulatory restrictions on environmental impact of drilling mud chemicals and the like to add further billions

to the cost of extraction.

I had a recent discussion with a distinguished domestic oil and gas producer, Mr. Jim Russell, of Russell Petroleum out of Abilene, Texas. Russell currently heads the Crude Oil Committee of the Independent Petroleum Association of America, the nation's largest organization of independent producers. When I put the question to him about the potential left to be discovered in this country, he drew my attention to a since-buried report issued by a special study committee of the National Petroleum Council, a blue-ribbon government advisory body. Russell, who served on the committee in the early 1970s, participated in the study, which concluded that "we have probably 300 billion barrels of oil in place in this country that has not been touched to date."

Russell added that without sufficient incentives, such as repeal or substantial amendment of the most destructive impact of the so-called windfall tax, "these reserves will perhaps never be found." He calculates that his own company's net pre-income tax income in 1980 will be down by about 68 percent as a result of the combined impact of the tax and a galloping real inflation of drilling costs of 30 to 40 percent.

President-elect Reagan has appointed a respected geologist, Michel Halbouty of Houston, to head his energy policy task force. We have the opportunity now to take on the challenge of energy development that Russell and thousands like him are eager to pursue. But before we do, we should clean house of the incompetents that have proliferated as government energy analysts in the last decade, whether from OTA, CIA, or Rand.