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Oil trade restructuring threatens American allies
Japan's political and financial offensive
How London is playing the White House

Reagan's nuclear-energy policy: can the U.S. make it work?

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EIR

From the Editor

"When Japan began to grapple with the task of modernizing our nation about one hundred years ago, it was a poor country, small in area and poor in natural resources, but inhabited with 30 million people. We had no advanced technology and very little capital. Our leaders were, however, filled with the ardent resolve to obtain progress and nation-building, and they worked with dedication and determination to lay the foundation for education of our people. High-quality human resources fostered in this way together with an appropriate leadership made it possible for us to introduce advanced technologies from foreign countries to establish an institutional framework for development. . . ."

That statement came from Premier Zenko Suzuki at the North-South summit at Cancún, where Japan, Mexico, Brazil, the Philippines, and others, profoundly counterposed American System economics—for that is what Suzuki describes above—to the regimen of the International Monetary Fund and the depopulation "globalists." As we go to press, the advanced-sector news media had quite thoroughly refused to report the actual developments at the summit. Our International coverage tells Part I of the story; full documentation will appear next week.

Our Special Report takes stock of the potential for restoring the American System by providing the U.S. and the rest of the world with nuclear power, while examining the financial-market manipulations which presently not only drive up the cost of nuclear construction, but choke off the external funding upon which the utilities depend. Freeing the nuclear giant, we conclude, requires de-throning the Federal Reserve Board, and funding the kind of "Apollo" crash program for nuclear fusion development cited in the Special Report. I think anyone who has escaped the thrall of Nobel Prize economics will concur.

Robyn Quijano

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Departments

Note: *Energy Insider* author William Engdahl, who filed last week's report from Stockholm, is still in Europe.

Economics

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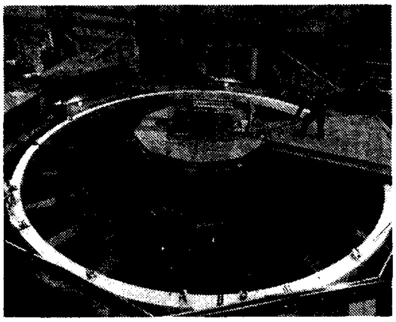
Special Report



Construction of the Tokamak Fusion Test Reactor at the Princeton University Plasma Physics Laboratories. The TFTR will be the first magnetic fusion system in the U.S. capable of producing significant energy. In this June 1981 photo, a poloidal field coil is being prepared.

Department of Energy

International

National

Is the Nobel Prize a threat to U.S. security?

by David Goldman, Economics Editor

The past 20 years' crop of Nobel Economics Prize Winners were selected from one highly specific track, and, as a group, represent a deployment of the International Institute for Applied Systems Analysis in Vienna (IIASA). The extent to which the seal of competence in economics rests on a method associated with an organization which British foreign policy circles consider to be their inside track with the Soviet leadership bears greatly on the present crisis in America's military-strategic position.

Inside and outside the Pentagon, a barrage of economic analysis has hit the administration's defense program, with the general conclusion that the proposed level of increase in defense spending will be too inflationary, and too deficit-ridden, to succeed. With David Stockman's Oct. 20 admission in congressional testimony that the federal budget deficit in a "worst-case scenario" will reach $80 billion in the current fiscal year, the econometric conclusions now being reviewed at the Joint Economic Committee's hearings on defense spending have gained additional force. Faced with a unanimous verdict by the various Nobel Prize-winning schools of economic analysis, in the midst of the worst peace-time budget problems in American history, how can the defense program avoid going through the wringer?

The collaborators on this topic include a team at the Fiscal Policy Division of the Federal Reserve, using the Federal Reserve/Massachusetts Institute of Technology model associated with laureate Paul Samuelson and laureate Lawrence Klein, who helped build it before leaving for the Wharton School; the Data Resources, Inc. (DRI) spinoff from the Fed/MIT project; and the Defense Department's own Systems Analysis Group, headed by former United Nations economist David Blond, with consulting input from Data Resources.

After some weeks of leaking to reporters in hushed tones that the fiscal 1982 deficit would approach $80 billion, the Fed staff is now warning of a $100 billion deficit—just at the point that the OMB's David Stockman has caught up with the earlier estimate. On past experience, the $100 billion number will be mooted by administration economists within a month.

The New York Federal Reserve's first sally against the defense budget came with a James Capra analysis in the June *Quarterly Review*, arguing that the inflation rate on defense items would be substantially higher than the administration's 6 percent estimate through 1986, and drawing the conclusion that the budgetary implications would be far more severe than the administration had conceded. New work is in preparation analyzing the options available, considering the $100 billion budget deficit (which does not count an additional $20 billion in off-budget borrowing, which nonetheless equally forms part of the overall federal borrowing requirements.) The unpublished but internally circulated results thus far argue that the administration can: 1) ignore the rising budget deficit and accept the prospect of still-higher long-term interest rates and further economic decline; 2) attempt to cut the civilian budget, which it rules out as a political unlikelihood; 3) attempt to raise taxes, which the Fed evaluates negatively again on political grounds; or 4) cut the defense budget.

The defense budget options then divide into two sets of possibilities, i.e., cutting procurement or cutting operations and maintenance. Inflation will take care of the procurement side, the Fed argues, per the direction of the earlier Capra published work, because the rate of inflation will be so much higher than estimates, that purchases will be cut in real terms even if the nominal allocation remains unchanged! That leaves only operations and maintenance to be reduced, e.g., less flying time for aircraft, less steaming time for ships, fewer rounds of ammunition in practice, and so forth. "Of course, there is a great deal of concern about operations and maintenance, given all the talk about readiness," commented a Fed staff member. "But it's hard to put a dollar value on readiness, and that makes it the most likely candidate for cuts."

Meanwhile, in Oct. 19 testimony before the Joint Economic Committee, Data Resources economist George Brown presented the results of a computer simulation of the effect of defense spending on the economy, with largely negative overtones. Between now and 1986 the Reagan increases in the defense budget would result in $372 billion of budget deficits attributable to defense alone, and high (if slowly falling) interest rates would continue through the decade. In May, DRI President Otto Eckstein had presented considerably different results to a seminar conducted by the Pentagon's own systems group, for whom DRI built an econometric model and provided most of the relevant data. Eckstein's simulation argued that the defense-spending level then projected by the administration would have no serious inflationary consequences, because capacity utilization was sufficiently depressed to make additional real resources available for defense.

Dr. Brown explains the divergence between his results and those of the earlier Eckstein simulation by noting the change in Reagan administration economic policies, in particular, the Federal Reserve's emphasis on keeping the money-supply target within a narrow band of growth rates. This puts DRI and the Fed, as well as the commercial banks, who began their sally against the defense budget with a *Morgan Guaranty Report* article by James Fralick in May, on the identical track. Since the same narrow circle of IIASA-trained economists, swapping the same well-massaged data and programming techniques, control these bodies as well as David Blond's Pentagon outfit, a "consensus" has clearly emerged.

Nor is this merely a domestic issue. Since the annual meeting last winter of West Germany's Wehrkunde organization, which bears prestige comparable to the U.S. Retired Officers Association, German criticism of American policy narrowed itself down to one phrase: "High interest rates will, if they persist, turn the United States into a military dwarf." As the *Financial Times* of London noted in an Oct. 19 commentary on the next day's Nuclear Planning Group meeting in Scotland, American manufacturers who would be expected to enthuse over the Weinberger program are sitting on their hands; they do not see orders coming through until the mid-1980s, and fear that even these will fall victim to the OMB's budget axe. Western Europeans have feared that the United States will substitute the gimmickry of theater nuclear war for in-depth strategic preparation. To that extent, the blowup at the Oct. 20 Nuclear Planning Group event over the supposed willingness of the United States to permit a tactical nuclear war to occur in Europe runs back to the economic issues as well.

Issues of method

Both the Federal Reserve and DRI versions take as starting points: 1) continuation of the present Federal Reserve monetary policy; and 2) continued low growth of productivity, e.g. 1.25 percent annually in the DRI study, through the first half of the 1980s. In that sense the studies are fundamentally disingenuous, imposing a chosen "objective reality" upon economic processes, and then cranking out an already determined conclusion. If the chosen subject of analysis were, instead, the *nation's underlying capability for rearmament*, the results would have been substantially different.

First, as *EIR* has insisted for the past two years, and most analysts now admit (see Domestic Credit), the content of the Volcker program is *not* to reduce inflation, but to burden the productive sector with mushrooming interest costs, and redistribute investment away from increases in the nation's capital stock. Since such increases in capital stock, to the extent they enhance the economy's power over nature, are the one lasting anti-inflationary force in the economy, the result of the Federal Reserve's program is to increase the long-run inflationary bias of the economy.

That the United States government shall pay $110 billion in debt service during fiscal 1982 leaves little room for expansion of the defense budget, and neither the Federal Reserve nor DRI needs econometric models to forecast trouble.

The real issue is entirely different: Defense spending is an *overhead cost*, which removes wealth from the stream of productive investment. Whatever takes the form of tanks or missiles will, unlike machine tools or automobiles, not expand the capital stock or the labor force. Only to the extent that the capital stock and labor force compensate for the additional overhead cost through additional productivity can the economy afford additional defense spending. The present Reagan program costs 1.8 percent productivity increase per annum, by our calculations (to be presented in full in a coming issue), not much compared to the 4.5 percent p.a. productivity rise the United States achieved at the height of the NASA program. An economic methodology capable of conveniently editing out such criteria is, indeed, a threat to our national security.

James Tobin at Yale in 1949.

Yale's little cabal of systems-analysis frauds

by Richard Freeman

> We will try to illustrate the basic point with the help of computer simulations of a fictitious economy of our own construction. . . . We fully realize, of course, that this procedure cannot tell us anything about the real world. You can't get something for nothing. . . .
>
> —*James Tobin, "Econometric Models: Their Problems and Usefulness—Pitfalls in Financial Model Building," 1968*

The Nobel Prize in Economics awarded to James Tobin Oct. 13 by the Swedish Academy of Science is a hoax. The Nobel Prize was not given for any scientific achievement in economics, nor has it been since the prize was instituted in 1969.

The Nobel Prize in Economics was created for the benefit of members of an obscure institution set up by Venetian and British oligarchies in the 1930s to push systems analysis, the mathematical hoax used to "prove" the impossiblity of economic growth. That institution, now located at Yale University and known as the Cowles Foundation, exercises its influence to have the Nobel Prize awarded to its members, its directors, and its creators.

James Tobin, the Nobel Laureate designate for 1981, was the head of the Cowles Foundation in the years 1955-61 and sits on the executive committee of the Foundation today. Lawrence Klein, of the Wharton School in Pennsylvania, the winner of the Nobel Prize in 1980, was at the Cowles Foundation, from 1944 until 1949, when it was located at the University of Chicago. Ragnar Frisch of Norway, and Jan Tinbergen of The Netherlands, the co-winners, in 1969, of the first Prize awarded for Economics, were founders of the European network that set up the Cowles Foundation. The pair came to the U.S. and in 1931 set up the Econometrics Society, sister organization of the Cowles Foundation. Tjalling Koopmans, the co-recipient of the Nobel Prize in 1975, was the director of the Cowles Foundation from 1944 through 1955, when he moved it from the University of Chicago to Yale University. Kenneth Arrow, one of the co-authors of the "Triple Revolution" document written in 1963 to launch the "post-industrial revolution," and who was at the Cowles Foundation from 1947 through 1950, was the co-recipient of the Prize in 1972. And Herbert Simon, who is not even an economist but a psychologist specializing in so-called industrial organization, a member of the Cowles Foundation from 1947 through 1951, got his Nobel in 1978.

Lest anyone think that the Cowles Foundation is a mass-membership body to have produced so many Nobel Prize winners, it has no more than 16 active members, all faculty at Yale University.

Perhaps one of the best starting places for examining the Nobel hoax is Yale University. Economist Robert Triffin, who was at Yale from 1951 through 1980, has been employed for most of his life by the Belgian Royal Household. Next, there is Henry Wallich, the son of a prominent German Jewish banking family, who spent the years 1933-35 in Argentina, Uruguay and Chile, haunts of Nazi investment in those years. Wallich, who is tied to the Swiss oligarchy and the Swiss gnomes, (and left the Yale faculty in 1974 to join the Board of Governors of the Federal Reserve System) was brought over from Harvard in 1950-51, along with Triffin and James Tobin.

Perhaps most important is Irving Fisher, who is sometimes called the "great American economist of the 20th century," despite the fact that he predicted permanent financial stability just before the 1929 crash. Fisher, the leading figure in the Yale Economics Department from the 1900s through the early 1930s, is sometimes considered the father of "modern quantity theory economics" and also the father of equilibrium theory, or systems analysis without its computerized garb.

History of systems analysis

The quotation from James Tobin which forms the epigraph to this article is probably the most concise statement of the theory of systems analysis or linear programming. Derived from a project to artificially "unify the sciences," systems analysis applies quantitative approaches to obscure the fundamental process of economics.

If the understanding of real economics is obscured, then economic growth can be aborted.

To this effect, the various founders of systems analysis attempted to take modeling techniques from a fixed, closed system of mathematical equations and impose them onto economics. The immediate predecessors of this project in the 20th century are New Dark Ages advocates Bertrand Russell and Alfred North Whitehead, who published *Principia Mathematica* in 1903 to demonstrate that all knowledge could be reduced to formal logical axioms and logical procedures.

No formal logical system, even if outfitted with so-called *dynamic equations* that attempt to express change, can ever capture or explain the real movements of the physical world of the economy. The creation, transmission and assimilation of new technologies, represented in new discoveries in science, and applied to production processes to generate new growth in social surplus (absolute profit of the economy) is the real subject of economics. The only suitable mathematics to describe this process is the physical mathematics based on the work of Bernhard Riemann, which has otherwise been incorporated in the LaRouche-Riemann economic model presented in this magazine.

Systems analysis rejects the primacy of economic growth and technological change. It works as long as the "system" stays the same. In fact, "systems analysis" was founded upon "resource allocation," that is, using price increases to restrict the allocation and use of so-called "limited resources."

In the introduction to a book commissioned by the Cowles Commission on systems analysis, Tjalling Koopmans explained the economic model of one of the founders of systems analysis, the inventor of game-theory John von Neumann. "Von Neumann (1937, 1945) generalized this model of production in several directions," stated Koopmans. He introduced alternative methods of producing given commodities singly or jointly, each method again involving *fixed technological coefficients* (ratios between inputs and outputs). Thus, he derived not only which goods are free but also which productive activities (methods) go unused. Also, a commodity could appear simultaneously as input of one activity and as output of another. This circularity idea was extended even to goods demanded by consumers, through the somewhat forced concept of an activity producing labor by the absorption of consumption goods in fixed proportions. *The model thus became a closed one, with no inflow of primary factors from outside or outflow of final products out of the system considered.* Any non-consumed 'surplus' was assumed to be used for capital formation to obtain a continuous proportional expansion of all productive activities *under unchanging technology.* Von Neumann's model is therefore dynamic in the limited sense [emphasis added]."

All attempts to introduce "dynamism" into the fixed-systems constraints elaborated by von Neumann, which project has fervidly occupied the systems-analysis group for the last 50 years, has ended, for lawful reasons, in utter failure.

This approach was picked up and further elaborated by the Cambridge School of Economics in England, under Nicholas Kaldor in the 1930s. At the same time, according to Koopmans in a telephone interview with *EIR*, "parallel work was going on at Oxford University, where a systems-operations research group was set up by Ragnar Frisch. Frisch set up an Econometric Society in England, working with people such as Jan Tinbergen and Jacob Marschak, an influential figure who was born in Russia, and taught in Hitler's Germany and at Oxford, before going to the United States. Working with people such as the German statistician Borkiewicz, and von Neumann, these people brought together all the currents of ideas in this field." These included the influence directly of Russell, Ludwig Wittgenstein, and physicist Ernst Mach, Koopmans said.

It was this core group at Oxford and Cambridge that turned their systems analysis into the Operations Research Group and set up the U.S. Strategic Bombing

Survey in the 1940s. These ideas were applied in the terror bombings of Germany and Japan. Systems analysis had "taught" which chokepoints in an economy could be destroyed through bombing, an approach it still uses, with other means.

"We were a very tiny percent of the economics profession in the 1930s," stated Koopmans. "But now with these seven Nobel Prizes, you can see what amount of influence we have today. Once systems analysis was demonstrated in economics, it could also be used in other fields."

Herbert Scarf, the chairman of the Cowles Foundation today, and a member of the Yale University faculty, told *EIR* Oct. 20, "What is remarkable is the influence that systems analysis at the Cowles Foundation and at the RAND Corporation had on American economics and all areas of thought. Someone should look into it." Scarf, who was educated at Princeton, where John von Neumann had been located after the war, went to RAND Corporation in 1954 and spent several years there before moving on to the Cowles Foundation. "Do you know who was in the *economics department* at RAND? It is really impressive, because they've influenced defense analysis and other fields. There was Albert Wohlstetter, the military expert; as well as Herman Kahn, now of the Hudson Institute; Henry Rowen [now director of Policy Planning of the U.S. Central Intelligence Agency—ed.]; Daniel Ellsberg; William Gorham, the current head of the Urban Institute; Alain Entoven, who was one of the whiz kids for McNamara at the Defense Department in the 1960s. You know who was also at RAND—Paul Samuelson, as a consultant; he is one of the people who has developed systems analysis."

In 1931-32, Ragnar Frisch of the Econometric Society of England and the Oxford Economics Department came to the United States to meet with Irving Fisher and Alfred Cowles, a stock-market investor and adviser who was the scion of a Midwest newspaper fortune (collaterally related to the Cowles family of Minneapolis). Out of these meetings came the decision for Fisher to clone the Econometric Society in the United States and for Cowles to create the Cowles Commission for Economic Research in Colorado Springs, Colorado, where he was based. The Cowles Commission moved to the University of Chicago in 1939, and then moved to Yale in 1955, changing its name to the Cowles Foundation.

Mass brainwashing

The forced march of systems analysis from a "small minority of the economics profession in the 1930s" to its dominant commanding influence today, has an application outside the immediate focus of zero-growth economic policy.

Beginning with the British economic hoaxsters William Stanley Jevons and Alfred Marshall, much of economics has been formulated in the 20th century in terms of supply-demand relationships, where the intersection of the two curves sets the economic price of goods in allegedly competitive situations. Systems analysis, by simultaneously claiming to predict accurate pricing relationships, and then packaging this through the appeal of computers, has created a "wired society."

The economics markets are now controlled top-down by people using systems analysis, who rig the markets to the benefit of those who can command control over raw materials, speculative outlets, and so forth. They weed out many of the independent forces of finance and production who actually make economic growth happen.

At the same time, by making systems analysis the dominant standard for business administration—called strategic planning systems in industrial lingo—and for the behavior of all the participants in the markets, the top financial forces in Europe can induce recessions and panics. Watch how people will sell stocks and bonds in panicked stampedes when they are told that, "the monetary quantities are up," or the "oil quantities are down."

The key is the purpose to which systems analysis has been put. Kenneth Arrow, Nobel Prize winner for economics in 1972, introduced in 1963 the thesis of the "Triple Revolution," which called for an end to industrial development. Jan Tinbergen, winner of the Nobel Economics Prize in 1969, wrote the RIO report in 1976-77, which stated that limited resources and overpopulation would cause disease, famine and war in the Third World. Lawrence Klein, the Nobel Economics Prize winner for 1980, has drawn up econometric models based on systems analysis and sold them to Mexico and other developing-sector countries in an attempt to wreck their economies. All of these are products of the Cowles Foundation.

Tjalling Koopmans told *EIR* Oct. 20, "The people at the Club of Rome, like Aurelio Peccei, have a lot of good will and drive. But there were troubles with their economic model. Now a professional economist could gloat and say, their model is bad, so their ideas are no good. But instead, it was possible for systems analysis to put these ideas on a rigorous footing, and it was doing that that led to the creation of the International Institute for Applied Systems Analysis [IIASA] in late 1972. Now the Club of Rome ideas on scarce resources and population can be discussed more rigorously." He might have added that IIASA is the site for "rigorous discussion" of systems analysis with leading Soviet strata, for example, Dzhermen Gvishiani, son-in-law of the late Alexei Kosygin. They would like to wreck the Soviet economy, too.

Import shifts point oil weapon at the economies of Western Europe and Japan

by Judith Wyer

The London-centered strategists who orchestrated the 1973 and 1978-79 oil hoaxes are ready for a third run of energy warfare against the industrialized countries. Intelligence community sources from Washington to London are widely predicting a new such "oil shock" and runup in world oil prices, citing as possible triggers the U.S. trade embargo of Libya recently called for by Richard Nixon or a Muslim Brotherhood rampage in Saudi Arabia.

The chief difference this time around would be that the energy warfare would devastate the economies of continental Europe and Japan, which are as vulnerable as ever to an import cutoff and spiral of world oil prices, while leaving the United States and Britain relatively unscathed, in a position to step in as the international arbiters of world oil supplies.

The changing pattern of dependence in world oil markets is perhaps most dramatic in the case of Libya. Presently, the United States is importing at most 200,000 barrels per day (bpd) of Libyan oil, compared with 650,000 bpd in 1979.

Continental Europe, on the other hand, would be severely affected by price hikes from by an Anglo-American-inspired embargo of Qaddafi, and the resulting market panic. This would be a "best-case option" for Europe, compared with the disaster resulting from an Iran-style destabilization of Saudi Arabia.

Changing dependence

The U.S. reduced dependence on Libyan oil reflects a broader pattern and strategy. Over the past four years the United States has reduced its dependence on imported oil, particularly oil from the Persian Gulf, to the extent that, were Gulf oil flows shut down today, the United States would relatively easily withstand the cutoff.

The United States has cut back its overall oil consumption, from 18.8 million bpd in 1978 to a projected 16.5 million bpd in 1981; and within that, it has cut back its total imports from 6.35 million bpd to a current 4.60 million bpd, with particular attention to weaning itself from Arab OPEC imports.

Earlier this year, Britain became completely oil self-sufficient, and is an exporter to the European continent. The rest of the world is not so well positioned, however. Despite stringent austerity measures, both continental Europe and Japan are still highly dependent on Arab oil (in the case of West Germany, more dependent than in 1978-79), making them very vulnerable to a crisis in the Persian Gulf or other oil-producing area. And even a slight increase in oil prices would hurt, since these countries pay their oil bills in high-priced dollars. Despite the decline in OPEC oil prices this year, they paid 50 percent more for their oil over last year because of the cost of converting their devalued currencies.

Preparations for a new oil hoax

Since Ronald Reagan came into office, his administration has pushed to an unprecedented level the growth of the U.S. Strategic Reserve, which was designed to protect the United States in the event of a new Arab oil cutoff. Under Carter, the reserve reached a high of 90,000 barrels. But in the past six months alone, the reserve has grown to over 200,000 barrels, positioning the United States to withstand a new crisis.

In fact, according to the Washington-based consultant firm Melvin Conant and Associates, the "trend is moving" toward the United States', as such, replacing the International Energy Agency in a future crisis as the international arbiter of oil supplies. Conant, who is affiliated with the prestigious London-based *Petroleum Economist,* is one among many conduits into the United States of policies originating with British intelligence. According to Conant and others, the Anglo-American duo will now be "responsible" for determining who gets oil in the next energy crisis. The International Energy Agency, created after the 1974 oil hoax, is now defunct, they say, since it was premised on the multinational oil companies' controlling world markets in order to distribute oil in a crisis. However, since state-to-state oil trade has dramatically reduced the multis' share of the market, it will be up to the self-sufficient industrial countries to decide how much oil they can forego in the event of a new crisis.

In recent weeks, spokesmen for British intelligence have strongly hinted that new "oil shocks" are around the corner.

At one of the most influential yearly conferences on world energy, the Oxford-OPEC seminar in September, Robert Mabro, an Anglo-Egyptian who is a British intelligence controller of OPEC, warned that the 1980s would be the "decade of traps" for energy supplies and urged more backbreaking energy austerity to prepare for the impact of these crises.

It is this same British intelligence network that created and controls the fanatical Muslim Brotherhood in the Middle East, which assassinated Egyptian President Anwar Sadat and now threatens to destabilize Saudi Arabia. So worried is Riyadh that two days after Sadat's death, it announced that it would build the largest oil storage facilities in the world in western Saudi Arabia at Yanbu on the Red Sea, far away from the Persian Gulf.

New York oil analysts are warning meanwhile that the Saudis may be wasting their money. Brewing conflicts on the Horn of Africa between Sudan and Libya on one side of the Red Sea and, potentially, on the Arabian peninsula around Yemen on the other side, might at some point block the only alternative oil shipment route to Europe outside of the Persian Gulf. The recent bombing of Kuwaiti oil installations by the regime of the Muslim Brother Ayatollah Khomeini is a grim reminder to the Saudis and their Arab neighbors of the prospects for conflagration in the Gulf.

Enter Al Haig

In late summer, *EIR* learned that certain individuals within the National Security Council were consulting with Daniel Pipes, the son of Richard Pipes, the Soviet specialist on the National Security Council, to plan contingencies in case the price of oil dropped below $34 a barrel. Over the last 18 months, OPEC oil prices have dropped about $7 because of the precipitous collapse in demand, which has seen OPEC exports plummet nearly 12 million bpd since 1979. In an interview with a journalist, Pipes, Jr. indicated that neither he nor his allies within the administration would stand for further erosion of oil prices.

Now it has become clear that Secretary of State Alexander Haig and former President Richard Nixon

World oil import shifts

Country	Year	Total imports	From Saudi Arabia: Percent of imports	From Saudi Arabia: Percent of consumption	From Mideast (east of Suez): Percent of imports	From Mideast (east of Suez): Percent of consumption
United States	1978	6.35 mbd	18%	6.5%	25%	8%
	1979	6.51	25	7.0	35	12
	1980	5.22	25	6.2	28	8
	1981	4.60	19	6.2	24	7
France	1978	2.3 mbd	34.6%	38.5%	78.9%	90%
	1979	2.52	35.9	37.0	75.4	89
	1980	2.18	35.4	39.1	70.6	80
	1981	1.98	52.0	N.A.	N.A.	N.A.
Germany	1978	1.91 mbd	14.3%	11.0%	43.1%	33%
	1979	2.14	15.8	13.0	38.8	29
	1980	1.95	23.3	19.5	40.5	39
	1981	1.67	28.5	19.0	64.0	N.A.
Japan	1978	4.66 mbd	9.8%	9.5%	33%	26%
	1979	4.84	9.6	9.6	36	26
	1980	4.37	8.5	10.8	27	25
	1981	4.15	7.5	10.1	37	N.A.

NOTE: U.S. 1st half 1981; France, West Germany, Japan 1st quarter 1981.

are engaged in an operation to prompt Muammar Qaddafi to impose an oil embargo on the United States, no later than the first week of November, and, in so doing, to trigger a panic on the international oil spot markets, thereby reversing the downward trend in oil prices.

Haig secretly coordinated Nixon's tour of the Arab world, a tour that began after Nixon's attendance at Sadat's funeral. Upon completion of the trip, Nixon made a widely publicized call for an embargo of all trade with Libya. The next day, President Reagan personally distanced himself from the call by stating that he would only advocate such an embargo if U.S. allies, who are far more dependent on Libyan oil than the United States, went along with the scheme—a remote possibility. That same day Washington sources leaked to the *Washington Post* that no one in the White House was aware in advance of Nixon's tour of the Arab world except Haig, and that there was considerable displeasure over the fact that before Nixon left Washington, he had not discussed the trip with any White House official.

While talk persists behind closed doors about an embargo against Libya, Nixon's call could serve to provoke the mercurial Qaddafi into preempting such a move by imposing his own embargo. This could be sufficient to induce chaos on the spot markets and a new climb in oil prices.

Some Washington sources are predicting that Qaddafi will impose an embargo sometime during the course of the Bright Star military exercises in the Middle East by the U.S. Rapid Deployment Force. These exercises will approximately coincide with the next OPEC meeting, at which Saudi Arabia is expected to agree to lower its oil production by as much as 1 million bpd, another factor that could eliminate the "glut" of oil that has acted to depress prices. Moreover, it is reported that world oil stocks have begun to fall, going into the autumn and winter months of peak oil demand. All the pieces are in place for another crisis.

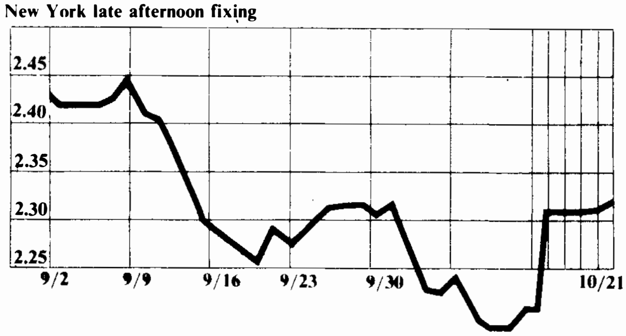
A European diplomat who bemoaned the 20 percent decline in Germany's oil consumption over the last 12 months and the current slump of West Germany's economy into "negative growth," noted that even a small oil increase would hurt as much as if not more than the 1978 price hike of 150 percent.

Another source with the Washington-based Heritage Foundation observed that another crisis will "simply be greeted by the United States as an excuse to cut even further its dependency on OPEC and move toward Western Hemispheric energy independence." As for Europe and Japan, he noted that "they will feel the pinch and will simply have to make very painful cuts in their economies, since they don't have the oil that the United States or Britain has."

Currency Rates

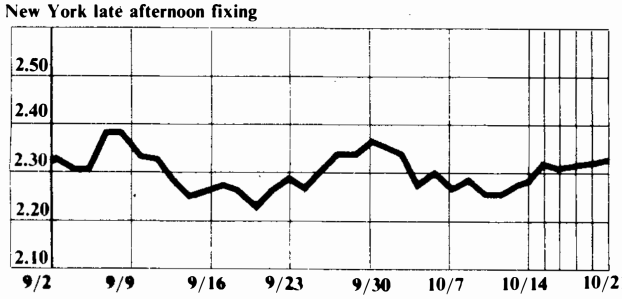
The dollar in deutschemarks

New York late afternoon fixing



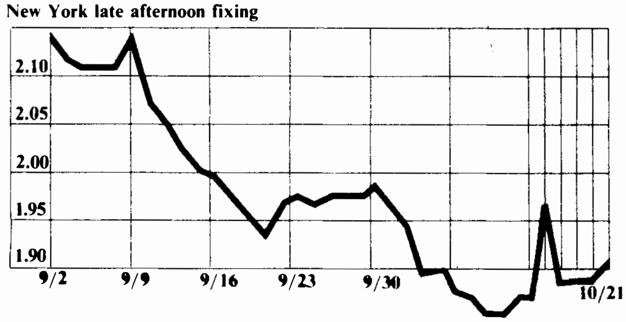
The dollar in yen

New York late afternoon fixing



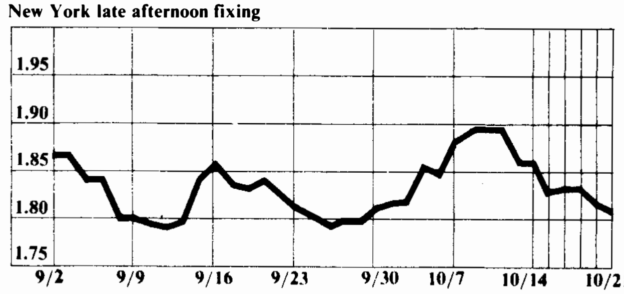
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



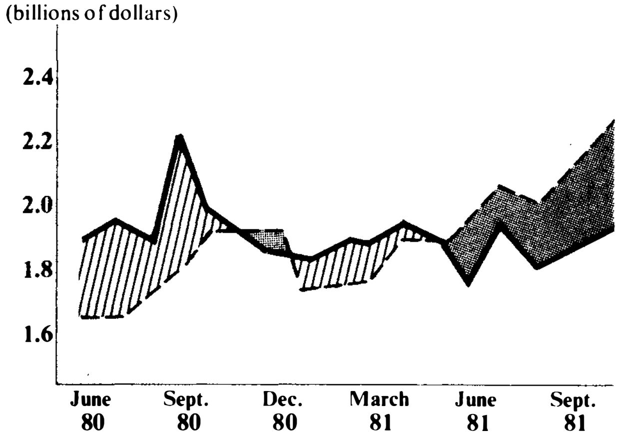
Brazilian survival tactic in Volcker's world economy: a draining export drive

by Mark Sonnenblick

Brazil faces "optimal perspectives" of obtaining the $20 billion in new bank lending it needs next year to roll over its foreign debt, Citicorp President Walter Wriston declared Oct. 13, following long sessions with Brazilian authorities. A new mood has replaced the hand-wringing, groans, and threats heard in Brazil just a year ago from David Rockefeller and his tribe. Any foreign banker one might choose to give ear to or any Brazilian economic official will celebrate "Brazil's dramatic success in turning its $2.8 billion trade deficit in 1980 into a slim surplus this year." Brazil exported more in September than in any month in history, Finance Minister Ernane Galvêas announced; and the $245 million trade surplus that month also broke all records (see Figure 1). He ecstatically projected a $1 billion surplus for the year.

It is undeniable that Brazil's economy turned a corner during the past year. But has that turn been toward future prosperity?

Figure 1
Brazilian balance of trade
(billions of dollars)



Source: CACEX, Brazilian government export agency

Imports —— **deficit**

Exports – – **surplus**

Brazil has responded with alacrity to high interest rates on its debts by surgically removing $3 billion from its import-to-export balance. Planning Minister Antônio Delfim Netto attributes this feat to "the painful sacrifices of the Brazilian people" and to his own expertise. He is at least half right. His policies have systematically reduced consumption of manufactured products and food, thereby reducing import demand and freeing domestic production for dumping onto the world market. One-shot boosts to the trade balance arose from both running down record inventories during the course of the year and from a near-record harvest that was brought as much by the grace of God as by the grace of Delfim.

These are transitory, defensive measures which would become economically, as well as politically, unbearable if continued too long. But the attention focused on "how long can Delfim hold" against anti-austerity political pressures has caused much more critical transformations in the shape of Brazilian development to go almost unnoticed. Brazil is in the midst of recycling its entire economy into a new "survival" mode. Starting 1981, it has shrunken and discouraged high-technology investments which require a lot of foreign capital, but are extremely productive. They were the mainstay of what was called "the Brazilian Miracle." As unemployment from auto and related industries mounts, the perpetrators of this policy seek a mandate to throw Brazil fully into the badly capitalized labor-intensive forms of production. If they succeed, the economy, which now generates a quarter of the entire developing world's manufactures, may never have the strength to recover.

This report examines the first phase of Brazil's adaptation to the Volcker shock.

Despite an abundance of "free-enterprise" rhetoric, Brazil has a sophisticated collection of centralized controls which permit Delfim and his crew to fine-tune Brazil's adaption in a way that could not be done under "free-market" conditions. He has been able to rev up an export machine, while draining blood from other sectors—a recipe for suicide if sustained for the "two or three years of sacrifices" Delfim speaks of, or for the three to five years estimated by the American Chamber of Commerce in Brazil. Yet, so far Delfim has manipulated the levers of political economy with consummate finesse in order not to disturb the delicate political balance in the country and not to blow out the economy.

The 180-degree turn from unbridled growth to recession was effected at the end of last year under incredible blackmail pressure from the Bank of England, David Rockefeller, and their allies among U.S. banks. The banks simply cut off lending to Brazil. Delfim was presented with the choice of letting the IMF bludgeon Brazil with its conditionalities, or of making Brazil a net exporter through his own methods. With no alternative world monetary system in view, Delfim eloquently mocked the IMF, and chose the "sovereign" road to recession. The world's "limits to growth" forces had clearly felt compelled to exterminate the very self-confidence born of Brazil's meteoric rise to the world's eighth largest economy. The World Bank had concluded its late-1977 confidential report on Brazil with the lament, "The Brazilian Miracle . . . established great confidence in the long-term growth potential of the country, which has made it difficult to adjust to the necessity of moderating the growth rate as a means of combatting the balance-of-payments and inflation problems Brazil faces today."

While the advanced industrial countries plunged into recessions, the Brazilian military government insisted on continued 8 to 10 percent annual industrial growth. The opponents of Brazil's growth orientation were confounded by the 7.1 percent increase in manufacturing production during 1980.

Then, during the last months of the year, Delfim instituted monetary constraints which look much like those Paul Volcker imposed in the United States. Delfim adroitly cloaked his Dec. 7 announcement of policies which would carry Brazil into a recession. He consecrated Brazil to "free enterprise," eliminated price controls on most goods and on interest rates, cut back wage indexing, and announced curbs on government spending. Specifically, he imposed strict limits on money supply and bank creation of new credit; these have sliced credit available to the economy by over 20 percent in real terms over the course of the year. The credit-shortage/high-interest policy has fully achieved its intended purposes: 1) forcing companies to borrow dollars abroad to help finance Brazil's balance of payments at a time when the Brazilian government had difficulty borrowing; 2) forcing companies to sell off or use up inventories of inputs and finished products, resulting in

Opposing views on a policy of sacrifice

Central Bank President Gerardo Langoni, a friend of Milton Friedman and the host of Paul Volcker's Labor Day sojourn in Brazil, explained Brazil's policy switch to the press after having done so to the Naval War Academy, Oct. 5.

Langoni said, "The superimposition of the financial shock on top of the second oil shock of 1978 made Brazil unable to sustain the strategy of growth accompanied by increasing foreign indebtedness which it followed during the 1974-78 period when foreign interest rates were lower than U.S. inflation levels. Today, interest rates are 5 to 6 percent positive, above U.S. inflation." This, said Langoni, forced Brazil to slow down industry, promote exports, and shift investments into agriculture and alternative energy sources.

Cláudio Haddad, the Central Bank's Public Debt Director, further outlined the strategy Brazilian monetary authorities were pusuing to reduce Brazil's current account deficit during a period of sky-high foreign interest charges (see Figure 3). In an Oct. 11 interview with Rio's daily *Jornal do Commercio,* Haddad stated, "I think that next year we will have to obtain a brutal trade-account surplus in order to gradually close out the current account deficit. . . . The key to this in terms of political economy is a sectoral re-allocation. We must generate a trade surplus next year; if we bring in a $5 billion surplus on trade, it will be little. We need to capture less foreign savings and more internal savings. Thus, the present monetary and fiscal policies must be maintained. We must produce goods to be sold abroad, more 'tradebles,' and fewer domestic goods."

Brazil's Parliament and the majority of the country's industrialists, however, take the opposite view. A formal parliamentary commission of inquiry studied the causes of the high internal inflation rates (see figure 2). Its conclusions were related by Deputy Herbert Levy, an old-time conservative politician, banker, and publisher of Brazil's national business daily *Gazeta Mercantil.* Levy's report states: "We are exchanging a full-scope economic policy which could fully mobilize the human and physical resources available in Brazil which are capable of pulling it out of today's difficulties for an action oriented by mere accounting considerations in order to obtain dollars at any cost, thereby solving immediate balance-of-payments problems, but sacrificing a large part of the population."

bargain prices and reflected in lower inflation statistics and a reduction of imports.

Controlled recession

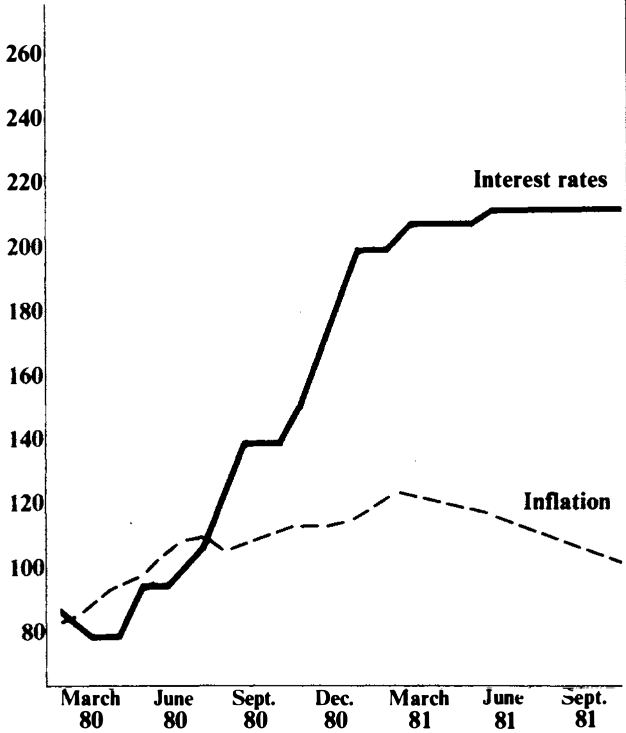
While making savage use of the Volcker monetarist instruments, the Brazilian authorities do not allow the recessionary effects to be distributed according to President Reagan's "magic of the free market." Instead, they are following the instructions of a report entitled, "New Directions for the Brazilian Economy," prepared in 1977 by the National Institute of Economic and Social Research (INPES) at the behest of the World Bank.

The report postulates: "The aggregate growth rate must decrease. . . . It would be ingenuous to imagine that Brazil can resume high growth in the 1980s." It then dictates how Brazil must systematically triage all capital-intensive industries requiring foreign technology, foreign investment, and foreign inputs. The World Bank advocates that Brazil make itself a South American China, in which family workshops with below minimum wage and labor-intensive export agriculture become the dominant features of the economy.

Figure 2

Interest rates and inflation

(in percent)



Interest rates are the actual cost of commercial loans in cruzeiros, including compensatory balances as reported by *Análise*. Inflation rates are the increase in General Price Index over preceding 12 months as reported by Getulio Vargas Foundation.

Source: *Análise* business weekly; Getulio Vargas Foundation, Brazilian government agency.

The World Bank's Maoist prescription for Brazil is phrased in the same Fabian "income redistribution" rhetoric currently employed by Delfim. The São Paulo automobile industry—which served as the keystone of Brazil's recent industrialization—is targeted for extinction as a "misallocation of scarce resources."

Delfim has targeted his economic and monetary controls against the consumer durables sector. He has succeeded in reducing gasoline consumption by 15 percent and domestic auto sales by 30 percent. Ripple effects are spreading through the rest of the economy. Steel production for the year, for example, will be down 11.7 percent from last year's 15.3 million tons.

Total manufacturing during the first seven months was depressed only 5.9 percent from 1980 levels, because many sectors are still working off order backlogs from Brazil's fast-growth period, or are now making the indispensable items they used to purchase from abroad.

Meanwhile, exports of manufactures earned $7.259 billion through August, up 30.8 percent from the same period last year. Manufactures now make up 48 percent of Brazil's exports, compared with infinitesimal quantities a decade ago and 32 percent in 1977. Diversion into export competition is *not* profitable, however, an industrialist at the Brazil Export '81 trade fair which toured six U.S. cities over the past month confided, "We lose money on every export; the prices we get are vile; but the goverment forces us to do it." In today's dirigist Brazilian bureaucracy, demonstrating an excellent export performance is a surer entrée to what remains of subsidized credit and other benefits than "knowing the right people" or paying *pistoleros* (fixers).

It is the Brazilian taxpayer who bears much of the "painful sacrifice." The 15 percent tax rebates or bounties that are paid to exporters are semi-officially estimated to cost the Treasury $1 billion this year. Brazil is probably spending another $1 billion subsidizing credits and other gifts to exporters, including the Befiex system, through which multinationals get rebates that are *double* the taxes they pay on their exports. All this, of course, diverts government revenues from public investments and has caused an inflationary increase in government internal indebtedness by 56 percent in real terms (after discounting inflation) since the beginning of the year, according to the central bank.

Export and die

How can Brazil keep up 20 percent annual export growth in a recession-struck world market? A New York bank officer answered, "They now have only 1.5 percent of world exports, and they are well-placed to increase that—to the disadvantage of smaller less-developed countries." Finance Minister Galvêas answered the same question when asked on Oct. 2, "We have the comparative advantage in the cost of our labor force, which will give us the basis for competing in the international market for the rest of this decade."

Labor policy is key to Brazil's strategy. The minimum wage oscillates between $110 and $78 per month, as each increase is eroded by inflation. Industrial labor earns more, but is subject to recycling at lower wage rates. That is occurring in a dramatic way this year. Industrial employment dropped by 14 percent between last November and this September in São Paulo, with the elimination of 280,000 jobs. Some of that labor elite displaces lower-skilled workers from remaining construction jobs, receiving a minimum wage or less. The Getúlio Vargas Foundation reports an increase of 14.4 percent in the number of São Paulo workers employed full-time at less than minimum wage since the mass layoffs began last December.

The intended correlate of income reduction has been a drop in personal consumption, which has contributed to improving the trade balance in items such as food. Meat consumption is down by 25 percent and milk by 30 percent, according to the supermarkets' association. Brazil has stopped importing and begun exporting these high-protein foods. In Brazil, a third of the population was already chronically undernourished.

This is the Brazil which U.S. Treasury Secretary Donald Regan advocated should be "graduated" from eligibility for moderate-interest international loans, to going "to the market" and bearing the burden of Volcker's interest-rate levels to roll over its debts. This is the Brazil which President Reagan said at the IMF meeting must "believe in the magic of the market-place" and put "its own financial and economic house in order" through greater restraint on consumption and investment to satisfy the money markets.

Responses from Brazilian government, military, and private sector leaders were immediate, and often unprintable. Their anger stemmed not only from the explicit Reagan recommendations that Brazil be denied the $844 million in the moderate-interest loans it uses to pay debt service to the World Bank, but also from the monetarist principle that the more successful developing countries be cut loose from all the special opportunities they desperately need to keep their heads above water in a Volcker-shocked world.

Brazilian Exporters Association President Laerte Setubal, long one of the most vociferous advocates in Brazil of "free market" ideology, gave a remarkable speech Oct. 1 in answer to Reagan. "Reagan threw a bucket of cold water on the countries of the Third World," he remonstrated. "This is the historical moment in which we should, without any hegemonic pretensions, take leadership of the developing nations to deliver a dignified and vehement reaction to unilateral positions which could pull down the world economy."

Figure 3
Brazil's balance of payments
(billions of current dollars)

	1978	1979	1980	1981	1982
Trade balance	−$1.0	−$2.7	−$2.8	+$0.6	+$1.5
Exports	12.7	15.2	20.1	23.7	27.1
Manufactures	5.1	6.7	9.0	11.6	15.0
Imports	−13.6	−19.9	−22.9	−23.1	−25.5
Oil	−4.2	−6.4	−9.8	−10.5	−11.0
Service account	−4.9	−7.8	−9.5	−12.4	−11.8
Interest on debt (net)	−2.7	−5.3	−5.9	−8.2	−7.6*
Current account	−5.9	−10.5	−12.1	−12.0	−10.3
Capital movement	9.8	7.7	9.3	9.4	9.3
Loans and investment inflow	14.9	14.1	16.3	17.5	18.8
Amortizations	−5.2	−6.4	−7.0	−7.9	−9.2
Total debt service	−7.1	−11.7	−12.9	−16.1	−16.8
Debt service as a percent of exports	**62.1%**	**77.0%**	**64.2%**	**67.9%**	**62.0%**

Figures for 1978-80 are from the Central Bank. Figures for 1981 and 1982 are projections made by a major American bank in October 1981. *EIR* finds them reasonable except for their assumption that interest rates will be 2 to 3 percent lower next year, reflected in projection of reduced interest payments, marked by asterisk.

Dangerous trends in the LDCs' trade

by Peter Rush

Between 1978 and 1980, the dollar value of world exports rose 54 percent to over $1.8 trillion; in volume terms, the reported increase included an 11.5 percent rise for the industrial nations, 17 percent for non-oil developing countries, and negative 10 percent for the oil producers. For 1981, however, the projections of various international organizations show a drop in volume for all these sectors in absolute terms.

Since 1978, the rate of increase of world exports has dropped into the negative. But even more disturbing is the nature of what increase there has been, particularly in the non-oil developing sector's export increase, the largest of all the sectors. Since the "oil shock" of mid-1979, these nations have sharply increased their exports (of manufactures aimed largely at industrial nations or OPEC markets) and imports (of raw materials and capital goods to produce such exports), in order to stay afloat financially. Despite the apparent shift in world trade to their advantage, their deficit position has steadily worsened. The prospect of a recessionary contraction of their markets in the advanced sector, therefore, poses a threat to world trade not seen since the 1933-1945 period.

The picture is far worse than the International Monetary Fund or anyone else has yet publicly noted. The trade figures demonstrate that little if any net wealth measured in tangible merchandise is being transferred to the less developed countries (LDCs). When placed against the enormous run-up in LDC debt of all kinds in the past few years, this fact establishes that the trade-debt situation of the LDCs amounts to a bubble waiting for the marginal factor that will prick it, causing an unprecedented shrinkage in world trade.

Unless the new debt incurred by developing countries is matched by investment in productive plant, equipment, and agricultural capital, the surplus output of which *more than* covers the interest and amortization paid out during the lifetime of the loan, the debt will sooner or later drain the countries' economic prospects. If the return on investment does not cover interest and amortization, then repayment must either be financed by a new loan (corresponding to zero new productive capacity and exacerbating the problem) or be repaid through an increase in exports, an increase *deducted* from the resources available for domestic growth. Both these responses are the rule for the LDCs today. The recommendations from the U.S. administration and the International Monetary Fund are explicitly to reduce imports and expand exports.

Yet the figures confirm that import reduction, apart from all the other negative consequences of that policy, is *the fastest route to destroy exports,* which are effectively hostage to imports. A major portion of the recent rise in LDC imports has gone strictly into manufacturing exports. Restrict the imports, and LDC exports will crash, leaving trade deficits the same or larger. The Fund's nostrum on increasing exports is the route now being employed by many countries from Brazil to Turkey. Every salable item not securely nailed down is being exported, a process that can go on for about as long as living off the sale of one's furniture, then one's appliances, and finally the house itself.

In fact, during the entire 1970s, the LDCs have increasingly emphasized exports, as per IMF and World Bank coaxing, with the growth in LDC exports substantially greater than the growth in non-oil imports over the period. In 1977, the non-oil LDCs reduced their trade deficit to $23.3 billion, almost the level before the 1974 oil shock, with $168.4 billion in exports. The 1979-80 oil shock, plus world inflation since 1978, widened the deficit to $65 billion in 1980, or slightly more than 20 percent of total exports.

This deficit, large as it is, represents little or no real transfer of wealth to the LDCs. Changes in the terms of trade make quantitative comparisons difficult. But obviously, the LDC oil import bill alone approximates this deficit. In 1978 and 1979, however, when the real price of oil was declining, the unit value of imports rose sharply versus the unit value of exports (10.3 percent versus 4.1 percent in 1978; and for low-income countries alone, 9.7 percent versus 0.5 percent).

A better and more revealing reading is provided by the volume index prepared by the IMF, which for all non-oil LDCs shows a compound increase of 60 percent for exports between 1974 and 1980, and only 34 percent for imports. In volume terms, exports have come close to closing the LDC trade deficit. Using the volume index to adjust current value terms, we find that the LDC trade deficit is $23.5 billion (in 1974 dollars), not $65 billion. The widening of the LDC deficit is due largely to the worsening of those nations' terms of trade (prices of imports rising faster than prices of exports), not to any transfer of real wealth.

The looming debt crisis

Measures could be taken even now to begin a long-term corrective process, beginning with a global debt reorganization and streamlining of organized flows of capital for development (capital goods, primarily) in vast quantities to, in effect, capitalize the existing debt. But presently, the policies emanating from the International Monetary Fund and United States in particular may instead ensure a near-term crisis.

For several years, the total debt service of the non-oil LDCs has exceeded their merchandise trade deficit. In 1979, interest plus amortization totaled $60.5 billion against a trade deficit of $48.4 billion (excluding the sizable less-than-one-year debt category for which reliable figures are not available).

Stratospheric U.S. interest rates have aggravated the already grave problem. Figures are not yet in for 1981, but the Brazilian government has calculated that every 1 percent rise in U.S. interest rates costs Brazil $500 million annually. This translates into between $2.5 billion and $4 billion for the LDCs as a whole, for each 1 percent rise in U.S. interest rates. Largely because of this, interest due more than doubled between 1978 and 1980, from $14.1 billion to $30.5 billion, while the rate of increase of total debt was a lower 36 percent (excluding short-term debt). And 1981 can be expected to be worse still.

Debt and trade

The precariousness of the debt payment situation has been extensively reported, most recently in the just released annual report of the Inter-American Development Bank. The report treats Latin America, where the growth in debt has been most rapid. What is often overlooked, however, is how the debt crisis is related to LDC trade, which is in turn determined by world economic questions.

If the LDCs encounter any more difficulty in exporting to the industrialized countries, they will be in deep trouble with regard to debt repayment. In 1981, the non-oil imports of industrialized countries are projected to fall $14 billion in current dollar terms (IMF estimate), against a 0.8 percent volume rise (because of a further worsening of prices for LDC exports).

Equally significant, the invisibles received by the LDCs, chiefly remittances from workers abroad (more than $25 billion in 1979) and tourism (more than $15 billion), will plummet under depression conditions. If the major portion of these two items were to evaporate, the LDCs' current account deficit would balloon by up to 80 percent.

In this light, the forecasts for deepening recession in Europe and the U.S. spell trouble. Very little would be required to destabilize LDC debt payments, and the forecast conditions could be more than enough. A debt collapse will lead to an import collapse, which will in turn clobber the industrial economies and wipe out LDC export capability further, widening the payments problem.

Shifting patterns of world trade

An analysis of world trade patterns since 1970 also reveals some significant shifts in world trade patterns.

World exports, 1970-80

(billions of current dollars)

	1970	1973	1978	1980	1970	1973	1978	1980
World[1]	$285.3	$528.2	$1,203.8	$1,863.6	**Percent of world exports**			
OPEC	17.3	39.0	141.9	294.2	6.06	7.38	11.79	15.79
AOPEC[2]	12.4	27.4	110.6	226.9	4.35	5.19	9.19	12.11
World excl. AOPEC	**272.9**	**500.8**	**1,093.2**	**1,636.7**	**Percent of world exports excl. AOPEC**			
Europe[3]	140.9	265.0	575.7	831.5	51.63	52.92	52.66	50.80
United States	43.2	71.3	143.6	220.7	15.83	14.24	13.14	13.48
Japan	19.3	37.0	98.4	130.4	7.07	7.39	9.00	7.97
Other Developed[4]	26.1	44.7	79.4	120.7	9.57	8.93	7.27	7.37
Other Asia	16.6	37.5	97.5	161.6	6.08	7.49	8.92	9.87
Latin America	16.0	27.4	59.2	102.7	5.86	5.47	5.42	6.27
Other Africa[5]	8.5	14.8	29.5	53.7	3.11	2.96	2.70	3.28
Other Middle East	2.3	3.1	9.9	15.4	0.84	0.62	0.91	0.94

1. Excludes U.S.S.R., Poland, East Germany, Czechoslovakia, Bulgaria, Hungary, Cuba
2. Arab OPEC: OPEC excluding Nigeria, Venezuela and Indonesia
3. Including Romania and Yugoslavia.

Source: International Monetary Fund

4. Canada, Australia, New Zealand, South Africa
5. Sub-Saharan Africa only. Non-OPEC Saharan Africa is in Other Middle East

One of the important developments was the impressive growth in Asia's exports, an increase that was not, surprisingly, led by Japan. Paced by Taiwan and Korea, and with contributions from China and oil-exporting Indonesia, exports from Asian countries other than Japan now account for nearly 10 percent of world exports, up from 6 percent in 1970.

Japan's share of world exports grew from 7 to 9 percent of non-OPEC world trade through 1979, before falling below 8 percent in 1980. However, the rapid growth in Japanese exports was nothing more than a catching up to U.S. and European levels. Japanese exports are presently only on par, in per capita terms, with U.S. levels, and far below West Germany's (with 10.2 percent of total trade and less than half Japan's population), as well as below the per capita levels of Britain and France.

At the other end of the spectrum is sub-Saharan Africa. The region appeared to hold on to its meager 3.1 percent share of exports but Nigeria's booming oil exports were offsetting declines elsewhere. Excluding Nigeria (and South Africa), sub-Saharan Africa fell from a low 2.7 percent to a disastrous 1.7 percent. This result corresponds to IMF figures showing that the poorest LDCs, predominantly in Africa, have registered the least gains in trade since 1973.

Latin America increased its share of exports marginally. The other losers were the non-European industrialized countries. The contrast between Asia and Latin America is highlighted by observing that since 1970, when both regions exported almost the same value of goods, Asian trade has grown 33 percent faster, while Latin American debt has vastly outstripped Asian debt.

Country studies

In Latin America, Brazil has the largest debt and Argentina the most depressed economy of any major debtor, so their trade positions are of great concern.

Brazil: Brazil has solved its balance of trade problem the IMF way, but the results, held up by the IMF as exemplary, have devastated the economy. Through the first nine months of 1981, Brazil's exports rose to $17 billion from $14.4 billion in the same period last year. Imports fell to $16.8 billion from $17.3 billion, yielding the first surplus in four years, albeit a small one. Oil imports rose 10.3 percent in value terms, though they dropped 9 percent in volume; the import cuts came out of capital goods (down 5.1 percent) and chemicals (down 17.5 percent). It is not surprising that the country's industrial production is also down 5 percent, with capital goods, chemicals, and transport equipment off 7, 8.4, and 16.8 percent, respectively. In sum, investment in domestic industries is being gutted, while everything possible is being exported, undermining any long-term growth prospects.

Argentina: Economic disaster reigns in this country. IMF estimates project exports to rise to $9.76 billion this year from $8.0 billion, against a fall in imports to $8.85 billion from $10.5 billion. Capital goods are projected to fall 17 percent to $1.9 billion. Industrial production in the second quarter was 13.4 percent below the same quarter in 1980, itself a fall from the previous year. Again, the domestic economy is being auctioned off to pay the country's debts.

Portugal, Yugoslavia, and Turkey are cases of economies dependent on foreign remittances and trade with Europe.

Portugal: Through April of 1981, Portugal's imports fell marginally (from $3.11 billion to $3.06 billion), while exports nosedived from $1.59 billion to $1.35 billion, largely because of falling exports to a recession-wracked Europe. The stagnation of imports reflected a real fall in value terms in capital goods and other manufactures, as oil imports and food are up, the latter because of last year's drought.

Turkey: Turkey boosted exports (Jan.-Aug.) from $1.67 billion in 1980 to $2.6 billion, but at the cost of an additional $1.75 billion of imports, boosting the import total to $5.8 billion. Only an increase in foreign remittances from Turkish workers in Europe from $1.29 billion to $1.6 billion prevents this situation from being a total disaster.

Yugoslavia: With exports up 16 percent over last year, and imports up only 12 percent, and with foreign remittances up strongly, Yugoslavia is still facing a $1.8 billion trade deficit and is being hurt by sluggish exports to Europe.

Korea, Indonesia, and Nigeria illustrate the difficulties of manufacturing and oil exporting LDCs.

Korea: In the Jan.-Aug. period, Korea boosted its exports and imports by nearly equal amounts. Exports rose from $10.9 billion to $13.8 billion, matched by import growth from $14.7 billion to $17.3 billion. Korea's main problem is recovery from recession in 1980, caused by a bad harvest that caused GDP to fall 6 percent. Industrial output, which fell 2 percent last year, is projected to rise 6 percent in 1981.

Indonesia: Battered by a sharp fall off in non-oil exports (off by $1.4 to $3.0 billion in the first three quarters), total exports are down for the first time in over a decade to $10.8 billion, narrowing the overall trade surplus from $3.27 billion to a meager $884 million. Nonetheless, imports are up 25 percent, permitting a continuation of capital goods and other import increases.

Nigeria: No trade figures for any part of 1981 are available. Estimates of losses in oil income suggest that imports must have slowed down, though a $1.6 billion rundown of reserves through June (and probably more since then) has partially covered the oil shortfall.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
	Luxembourg from Japan/ West Germany	An entirely unmanned factory will be reproducing itself in Luxembourg by next June. Fujitsu Fanuc and Siemens have agreed on joint venture for completely automated plant, equipped with industrial robots and automatic workpiece-carrying equipment. Factory will build 50 computerized numerical control tape-making devices. Will operate 24 hrs./day with total of 5 workers and 3 managers doing the work of 100 men.	Fujitsu has a robot-operated robot-manufacturing plant in Japan, but this may be Europe's first.
$2.3 bn.	Australia from U.S.A.	Royal Australian Air Force has decided on 75 McDonnell Douglas F/A-18 Hornets for its $5 billion military modernization program. Hornets beat General Dynamics F-16 as replacement for old Mirages, despite higher and uncertain costs.	RAAF claims 23 F-16s would be lost in non-combat accidents, compared with 13 Hornets during life of fleet.
$215 mn.	Indonesia from France	Technip has won contract to build Indonesia's first newsprint plant, a 300 tpd addition to existing Probolinggo paper mill. Will use sugar cane bagasse. French govt. backing $155 mn. loan at 7.75% over 10 yrs.	Indonesia now investing $1 bn. to replace paper imports.
$300 mn.	Brazil from U.S.A.	Ex-Im Bank is helping 2 Brazilian airlines buy 3 Boeing 747s and 3 Boeing 767-200s. Ex-Im is providing $49 mn. of its own funds at 9.25% and guaranteeing $106 mn. of private bank credits.	*Wall Street Journal* complains about the much smaller purchases of Brazilian-built light aircraft in U.S.A. while Brazil protects own small plane market.
$92 mn.	U.S.A. from U.K.	Ford gave another 6-yr. contract to Cam Gears, its exclusive supplier of manual rack and pinion steering gear for U.S. and Canadian Ford since 1970. Workers at Cam Gears in Wales accepted intensive automation as condition of keeping contract. Cam Gears is owned by TRW.	Ford threatened to buy from Japan or produce steering gear itself, if Welsh workers balked.
$40 mn.	U.S.A. from Japan	Ajinomoto is building a North Carolina plant for amino acid for medical use. Equipment for plant financed through state of North Carolina floating tax-free Industrial Revenue Bonds purchased by First Union Bank of N.C. *Japan Economic Journal* reports 40 Japanese companies per year are setting up U.S. plants through these bonds, which mean lower interest on their plant costs.	Most such bonds bought by Japanese banks operating in U.S.
UPDATE			
$1 bn.	U.S.S.R. from Japan	Soviets are requesting Toyo Engineering to help it build a methanol plant in Western Siberia 5 times bigger than world's largest. Feedstock would be abundant local natural gas.	If built, plant would export methanol for oil substitution in Western Europe.
$100 mn.	Brazil from France	Alsthom-Atlantique has signed agreement for 350 megawatt electrical plant for coal mine mouth in southern Brazil. Alsthom is now completing 2 smaller units on same Candiota site. Part of $2 bn. state-state deal signed with Giscard in January, and completely honored by Mitterrand and Brazilian govts.	Brazilians hope for another big French pact next spring.

Red alert

Unless halted, legislation now before Congress will legalize interstate banking and cartelize lending.

The Senate Banking Committee Chairman, Jake Garn (R-Utah), and House Banking Committee Chairman Fernand St. Germain (D-R.I.) are now moving legislation through Congress which will dismantle what remains of the American banking system by the end of 1981. Their stated aimed, as Garn told the Senate Oct. 7, is to complete the work begun by the Carter administration's March 1980 Omnibus Banking deregulation bill, which has already brought a third of the nation's savings and loans to the edge of bankruptcy.

Senator Garn openly characterized his legislation as the "logical followup" to the Carter bill, formally titled "The Depository Institutions Deregulation and Monetary Control Act," which Garn praised as "positive in its thrust to greater competition among institutions." The Republican Senator has apparently forgotten the fact that Jimmy Carter and his Fabian colleagues Henry Reuss, then House Banking Chairman, and Sen. William Proxmire, then Senate Banking chief, rammed that bill through with the explicit intention of deliberately shutting down thousands of American banks.

It was the Reuss-Proxmire Deregulation Act which first gave the power to Federal Reserve Chairman Paul Volcker to remove all interest-rate ceilings on the U.S. banking system. Volcker then jacked up U.S. interest rates to levels which have choked American bank lending for productive purposes for the past two years. It is this destruction of the demand for the *product*—credit—of the U.S. banking system, which has brought thousands of institutions to failure.

Garn and St. Germain are handing Volcker the banking system on a silver platter. His emergency takeover bill is almost sure to be rammed through the floor of the full House Oct. 22. The bill, "The Depository Insurance Flexibility Act of 1981," (H.R. 4603), was introduced Sept. 24 by St. Germain and ranking committee Republican, J. William Stanton of Ohio.

The bill provides the full requirement of Volcker's original "Regulators Emergency Bill," that in cases of bankruptcy, the Fed, the Federal Deposit Insurance Corporation, and the Federal S&L Insurance Corporation may have full "flexibility" to allow virtually any institution in the country to buy any failing bank or S&L. This means that Citibank, Chase Manhattan, and Bank of America will now be free to do as they have long desired and snap up thousands of banks and S&Ls. The stated desire of Volcker and the big banks in this endeavor is to consolidate in their cartelized hands the credit of the nation, and reduce credit to enforce "zero growth."

This Fabian cartelization is marketed under the "free market" cover of Treasury Secretary Donald Regan. Regan insists that the federal insurers conduct mergers rather than fulfill their mandate to save ailing banks, in order to "save money." "The need to minimize financial assistance required of the Federal insurance corporations small be the paramount consideration," H.R. 4603 states. This is the equivalent of taking out hospitalization on Grandma and then sending her up for euthanasia when the premiums get expensive.

Volcker's Bank Restructuring Act, under which the Fed proposed that S&Ls cease home lending and become commercial banks, is meanwhile being rammed through the Senate. Two bills, "The Financial Institutions Restructuring Act" (S. 1720) and "The Federal Deposity Consolidation Act," (S. 1721), were introduced Oct. 7 by Senator Garn. Instead of attacking Volcker, Garn states that the bills will actively force banks "to accommodate to [Volcker's] widely fluctuating interest rates."

Garn's first bill would fully deregulate S&Ls, to encourage them to cease home mortgage lending and move into real estate, mutual funds, and other speculative activities. Praising the bill in Oct. 19 Senate testimony, Treasury Secretary Donald Regan stated this bluntly. "I don't expect them to *immediately* turn away from housing," he said.

It also sweepingly preempts, by federal statute, all state usury ceilings—which will raise interest rates nationally. On top of this the Garn bill contains all the nationwide takeover provisions of St. Germain's bill in the House!

Garn's second bill would merge all the federal insurance funds, as a way to reduce their outlays.

Double-digit rates for the decade?

Shifts in U.S. banks' sources of funds mean higher costs necessarily passed along to borrowers.

Fundamental changes in the U.S. credit system have set into motion a process guaranteeing that interest rates will move down very slowly over the next year and a half, and indeed may never fall below 10 percent over the entire decade of the 1980s and on into the 1990s, unless strong measures are taken.

This situation has been cited by both John McGillicuddy, Chairman of Manufacturers Hanover Bank, and William Donoghue, editor of *Donoghue's Money Fund Report,* which monitors the behavior of the $163 billion money-market funds, in an interview with *EIR* on Oct. 15.

Donoghue cheerfully cited the following information: "It used to be that banks could get lots of money in non-interest-bearing checking accounts or through passbook savings accounts that paid the saver between 5 and 6 percent. Not any more. The cost of funds to the banks is going up, and the amount they will charge for interest is increasing.

"Look," continued Mr. Donoghue, "you currently have to pay 14 to 16 percent for CDs if you're a bank. Then with the advent of money-market funds, which are booming, banks and S&Ls had to start offering something that can compete. So there are six-month money market certificates offered by the banks that pay Treasury-bill rates of 12 to 14 percent. Thirty-month small-savers certificates pay a comparable rate. And as long as money market instruments can pay 15 to 17 percent, the banks have to compete and pay consumers almost as much for their funds."

Donoghue said that money-market funds have become an integral part of the banking system, at least for the big banks. In effect, money-markets funds pull cash out of savings accounts, and from there, in part, into the CDs of the 20 largest banks. "But if banks must continue to pay this much for their acquisition of funds," argued Donoghue, "then they must charge at least that amount and more, when they lend funds."

Citing figures to show the dramatic change, Donoghue said that "by June of this year, there were $354 billion in passbook savings accounts, but $461 billion in money-market certificates, $150 billion in money-market funds, $112 billion in small-savers certificates, etc. In January 1978, $90 billion of accounts at banks or money-market accounts paid better interest than the rate on passbook savings accounts. By the end of June, according to the figures I've calculated from the Fed, that category had risen to $802 billion, the bulk of funds in the banking system.

"Let's face facts. This is a double-digit decade; things have changed so dramatically that interest rates won't be below the double-digit level for the rest of the decade."

Manufacturers Hanover's John McGullicuddy stated in an Oct. 13 speech before the American Gas Association: "The deregulation of consumer savings through deregulation of Regulation Q is also carrying a high price tag. Some $56 billion has shifted into interest-bearing NOW accounts, mostly from interest-free demand deposits. This adds another $2 billion in interest.

"Consumer surveys indicate that approximately $60 billion of the $160 billion now in money market funds came originally from depository institutions. To make up the deposit loss, banks have bought back approximately the same amount. But this conversion of core deposits into money funds is costing the banking industry something like $5 billion annually in additional interest expense."

McGillicuddy added, "Another extremely popular instrument is the six-month money market certificate tied to Treasury bill rates." He predicted that for this and related reasons, "short-term interest rates will necessarily be stickier on the way down than might previously have been the case."

Money Fund Report's Donoghue says that "many depositors will withdraw their money from passbook savings and at the same time transfer them into an instrument paying two or three times the interest rate. Consumers should do this.

"This will probably also mean a lot of bankruptcies of banks who can't compete in this environment, but that's okay, because bankruptcies clean out the weak sisters. In two to three years, we may not have any more passbook savings, but without cheap sources funds, banks will never lend cheap again."

Business Briefs

World Trade

Japan mission to Germany an apparent failure

Japan's top-level industrial mission to West Germany ran head on into trade-warfare threats from both German government and industry delegations, according to Oct. 19 Japanese wire service reports. A possible contributing factor to the apparent failure of the mission, which the Japanese had hoped would focus on the potential for massive trade expansion with the developing sector, was the illness of Helmut Schmidt, which forced cancellation of a scheduled meeting between the Chancellor and the Japanese business leaders.

Japanese wire services reported that Hans-Gunther Sohl, spokesman for the German Industry Federation (Bund Deutscher Industrie), warned the Japanese that unless they limited their exports to Europe, Germany could not, in the interests of European Community solidarity, stand in opposition to protectionist attacks on Japanese trade. This view was echoed by the West German Economics Minister Count Otto von Lambsdorff.

EIR's Bonn Bureau Chief, George Gregory, reported Oct. 23 that some productive discussions took place behind the scenes, however.

Energy

State Department pushes World Bank plan

A top State Department official said at the start of the Cancún summit that he believed President Reagan would accept the World Bank Energy Facility, despite the President's repeated rejection of the idea.

He explained that the Energy Facility and possibly a food fund would be used to "leverage the Third World" into accepting IMF and World Bank conditionalities. These would include elimination of the food and fuel subsidies less-developed nations use to sustain their populations.

"Reagan might not endorse it, but now that the Saudis have agreed to fund it, after discussion with the British and us, Reagan will be much more flexible," he said.

"We can't use the United Nations for these negotiations because that is too dangerous. Every nation has a vote there. We want a body of 'presidential representatives' which meets every three months to work out the Energy Facility." The International Monetary Fund and World Bank would be the agencies best suited for this, he said.

Reagan was pressured toward acceptance of the Energy Facility by the surprise press conference given by British Foreign Secretary Lord Carrington at Cancún. Carrington endorsed both the Energy Facility and the Brandt Commission theory of "global negotiations."

International Credit

Bangladesh becomes IMF's latest victim

Less than six months after neighboring Sri Lanka suffered the exact same treatment, and while India is negotiating credit from the same facility, it has become known that the IMF has ordered a freeze on disbursement of credit from the Extended Fund Facility (EFF) to Bangladesh. The credit involves an agreement reached in 1980 authorizing $912 million over three years in several installments. Only two quarterly portions have thus far been issued, and an IMF team visiting Bangladesh earlier this year assessed that this country had failed to live up to the Fund's "performance criteria."

Among what were deemed the country's failures were a delay in raising petroleum prices, an inability to expand its export earnings through greater jute production, and "reckless" expenditures on its 1980-85 development plan. Bangladesh produces no oil and spends 60 percent of its export earnings on petroleum imports. Its per capita energy consumption is one of the lowest in the world.

To raise jute production, the country would have to cut food production, a recommendation the International Monetary Fund's sister agency, the World Bank, has pushed since Bangladesh became independent in 1971.

For Bangladesh, whose foreign exchange reserves have sharply fallen to meet only about four weeks of its import needs, the World Bank/IMF verdict means mass deaths.

Banking

U.S. S&L League excuses Volcker

Though Federal Reserve Chairman Paul Volcker's high interest rates are bankrupting the savings and loan industry, spokesmen for that industry's trade organization are managing to turn the other cheek.

According to the newsletter of the U.S. League of Savings Associations issued Oct. 15, "The chief economist of the nation's savings and loan associations today praised Congress, President Reagan, and the Federal Reserve for trying to control high interest rates."

In testimony before the House Banking Committee Oct. 15, Dr. James Christian, the S&Ls' chief economist, admitted that Volcker's high rates have been borne most heavily by the "interest-sensitive sectors of the economy," then added: "It cannot be a part of any plan that these sectors of the economy be crippled while putting new policies in place."

Christian explained that the economy was simply going through a change and that "recent declines in short-term interest rates indicate the financial markets are beginning to believe the new policies are pointed in the right direction." Disregarding Volcker's recurrent statements that interest rates will not fall, Christian stated that he hopes that "1982 may bring the economic recovery and the beginning of stable economic growth that the American people are anxiously awaiting."

Labor Policy

Ford Motors asks 50 percent pay cut

"Your income or your job" was the grim message conveyed to the workers of Ford's aluminum casting plant in Sheffield, Alabama on Oct. 21. Management gave the Sheffield local of the United Auto Workers the choice of seeing their plant, which employs 1,100, close on Nov. 15, or taking a 50 percent cut in total income.

"If it was me, I'd be pretty unhappy," said Ford spokesman Mike Davis, "wouldn't you?" But Davis indicated that the workers had a dismal prospect of finding alternate work if they refused to take the cut and lost their jobs, because unemployment in that part of Alabama was over 12 percent, the highest in the state.

Davis cited Japan's ability to deliver a car to the United States at $1,500 below the cost of producing it in the U.S. as the basis for the decision. The plant has been selling aluminum castings for pistons and other parts to other Ford divisions at an alleged loss for years, and Ford says it will no longer take the losses.

Davis stated that if the workers accept the cut, then they will be offered the choice of profit sharing, or of buying the plant outright. He declared that either arrangement would give the workers the incentive to increase productivity to regain some of the lost income.

Davis added that Ford was talking to employees in "a lot of places" about productivity and wage issues designed "to make us more competitive."

The issue left unaddressed by Ford's decision is how, with a wage structure considerably higher than foreign levels at present, U.S. automobile-makers kept themselves competitive through the 1960s.

Insurance

Is the Labor Department in cahoots with LTV?

The recent suit by the Department of Labor (DOL) charging the trustees of the Grumman Corporation pension plan with breach of fiduciary responsibility in their use of Grumman pension money to thwart a takeover by LTV Corporation, has drawn fire as unethical and unfounded.

The three Grumman trustees bought 1.16 million shares of Grumman stock at $38 a share, while LTV, a defense-based conglomerate, has offered $45 a share for 70 percent of Grumman stock.

"Since the trustees could sell that stock tomorrow to LTV, for $45 and probably could sell to the fortune hunters for at least more than $38, the DOL has no basis for charging breach of fiduciary responsibility," a pension analyst stated today. "The DOL's enforcement of the 'prudent-man rule,' the principle in law that protects the private worker pension systems, has been one of the most abused laws ever passed," he said.

"For instance, the DOL used it against the Teamsters in 1976 when the Teamster Central States fund was outperforming the average fund by almost double. The DOL never looked at the [bank] trust departments that were unloading billions in weak stocks onto the pension funds. They never investigated the trustees and fiduciary agents who dumped Penn Central stock on the pension funds."

The pension consultant stated that in this case, the Department of Labor has probably intervened to assist the LTV takeover. "I'm not sure why, but you have to remember that when you take over a company, you also take over its pension system, and Grumman has a well-funded system."

Briefly

- **KARL-OTTO POEHL** called for Britain's entry into the European Monetary System in an Oct. 21 speech before a Conference Board meeting in London. The Bundesbank chief did not comment on Britain's stated conditions for entry, which include German subsidies for United Kingdom industry. Grindlay's Bank independently reports that Britain will join the European Monetary System on Dec. 31.

- **MARGARET THATCHER'S** policies have now succeeded in ridding the British economy of "dead wood," according to an analyst from Williams & Glyn. The London analyst said that companies which are still in business are now deserving of bank credits to keep them afloat until such times as the economy revives. The basis for the judgment that only "good industries" now remain in Britain was not revealed.

- **C. FRED BERGSTEN,** former top Carter economic official, insisted once more in an interview in the German economic daily *Handelsblatt* that the U.S. dollar is headed for a shellacking.

- **A BIS OFFICIAL** commented Oct. 22 that "previously we worried about the high-flying effects of the dollar, but now we're growing increasingly concerned about the possibilities of a dollar fall."

- **JAPAN'S** Ministry of International Trade and Industry (MITI) has completed a report proposing that summits between advanced-sector and developing nations should be made a continuous process. MITI is reported to have offered this proposal as a compromise between confining North-South discussions to the International Monetary Fund, World Bank, and GATT, and centering such discussions at the U.N.

Reagan's nuclear policy: can the U.S. make it work?

by Vin Berg

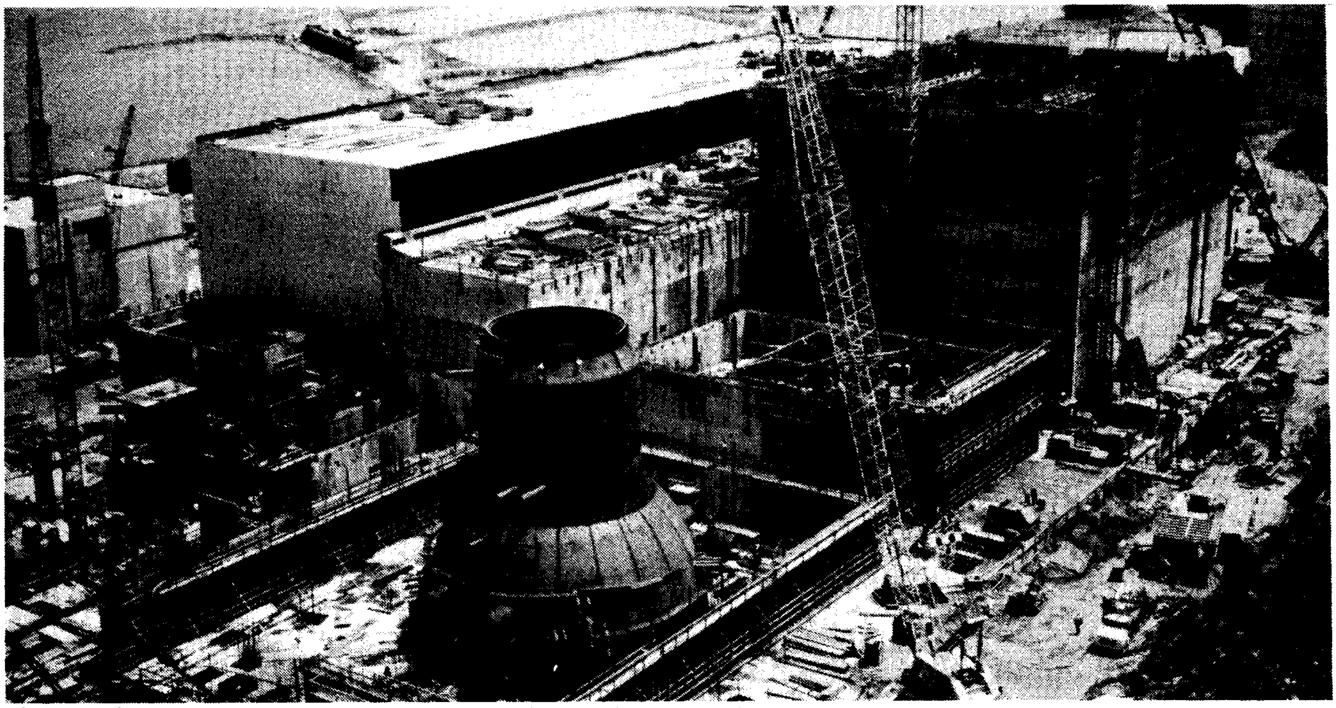
President Ronald Reagan recently appeared on national television to announce a change in the policy pursued by the U.S. government toward nuclear power over the past decade. Whereas the previous administration had placed "regulatory" obstacles in the way of nuclear plant construction and operations, his would act to remove those obstacles. Whereas the previous administration had used "non-proliferation" politics, earning America the reputation of an unreliable and even malevolent trade partner while destroying the export-basis of the American nuclear industry, his would act to promote exports of nuclear technology.

There were, however, two crucial omissions in the President's statement. The first is the urgent and necessary development of thermonuclear fusion power. The second is the matter of financing: there cannot, as we shall prove, be any revival of American nuclear power resources without ending the usury that has swept the land at the instigation of Paul Volcker's Federal Reserve Board.

Despite this, what the President stated as his position on nuclear power Oct. 9 constitutes the first pro-nuclear pronouncement by an American President in 10 years.

The President promised to:

- Expedite current licensing procedures for new plant construction, which have drawn out lead-times from 4 to 6 to a nightmarish 12 to 14 years;
- Speed operating licenses for 33 nuclear plants now nearing completion;
- Proceed with construction of permanent waste-disposal facilities for the 3 percent of spent-fuel that cannot be reprocessed;
- Remove obstacles to closing the nuclear fuel-cycle, lifting previous administrations' ban on commercial reprocessing of spent-fuel, which forced utilities to stockpile the 97 percent of "waste" that can be re-used;
- Create a policy environment encouraging private industry to develop reprocessing technology;
- Continue full government support for the Clinch River, Tennessee, fast-breeder reactor project.



Three Peach Bottom reactors under construction for the Maryland-Pennsylvania-New Jersey region 11 years ago.

Admittedly, the usual ideological crankishness is there—"privatization" of reprocessing is unfeasible, and repeatedly declared so by the companies now engaged and industry specialists generally. Because of the long lead-time, large capital expenditures, and high risk involved, the development of reprocessing of spent nuclear fuel, like any frontier technology, requires "Hamiltonian" government involvement.

Nevertheless, the speech came as a breath of fresh air to the majority of Americans who have never quite followed the logic of "environmentalism" in its opposition to the cheapest, safest, and most environmentally beneficial energy source yet developed.

There are other indications of administration intent. For one, to the discomfiture of zero-growthers in the U.S. Congress, it has been learned that the Department of Energy has been conducting a wide-ranging "propaganda campaign" on behalf of nuclear power since June, at last placing the authority of the government in opposition to anti-nuclear environmentalists, rather than at their disposal.

Export potential

For another, when Spain's King Juan Carlos visited Washington in mid-October, President Reagan is reported to have personally assured him that the United States intended to become once again a reliable supplier of nuclear fuel. When Vice-President Bush visited Brazil on Oct. 14 and 15, he gave that nation the same assurances. In the meantime, said Bush, the U.S. will not object if the Brazilians go to Europe for fuel, contrary to the Brazilian contract with Westinghouse, which is the builder of the Brazilian nuclear facility which will come on line in November.

Meanwhile, Mexico has opened bidding for the next 2,300 megawatt plant in their ambitious nuclear program, and General Electric and Westinghouse are good candidates for the August 1982 award. Their principal problem could be lack of U.S. government financial aid. But in that connection, despite Malthusian William Draper, Jr.'s overlordship, there are reports, which *EIR* has been unable to confirm, that the U.S. Export-Import Bank has promised $600 to $700 million in financing should either GE or Westinghouse win current contract bidding to construct a fifth nuclear power installation in Taiwan. In light of President Reagan's close relations with Mexican President López Portillo, the White House might be expected to require that Exim make the same offer for the Mexican case, when bidding opens in February 1982.

This is crucial to the prospects of the nuclear industry. Exports are indispensable to the industry's health, for without them, the economies of scale implicit in an industry based on large-scale, long-term capital investment might never be realized.

However, there are indications that Secretary of State Alexander Haig is eager to use the exports of nuclear energy technology not for the development of Third World nations, but as a reward, so to speak, for good behavior. On Oct. 19 there was a meeting of the Interagency Task Force on Non-Proliferation to discuss changing the nuclear non-proliferation law. Proposed changes included removing the Nuclear Regulatory Commission from control over licensing nuclear exports, giving this authority to the State Department, and repealing that part of the law which forbids nuclear exports to nations that are developing nuclear weapons. The State Department is the coordinator of the Interagency group.

Whatever the State Department intends shall have to be watched closely. Even so, Mr. Reagan promises to facilitate American nuclear exports.

The breeder issue

Equally crucial is presidential commitment to reprocessing and breeder-reactor development. Because naturally occurring U-235 fissionable isotopes are limited to a few decades' supply, even under minimum expansion-of-capacity conditions, nuclear energy expansion might be contained by the simple expedient of preventing application of fuel-recycling and fuel-generating technologies, including breeder reactors, fusion-fission hybrids of "fuel factory" design, and soon enough, particle-beam isotope-separation systems. That is the expedient adopted by the Carter administration, which annually attempted to cut off (and did significantly curtail) funding for the Clinch River breeder program, and halted operations at the Barnwell, South Carolina reprocessing facilities.

Reprocessing technology can recover and recycle 97 percent of nuclear fuel spent over four-year cycles in reactors. **Waste disposal technology,** including permanent repositories, is tested and proven effective for the remaining 3 percent of spent-fuel constituting "high-level" (highly radioactive) wastes. **Breeder technology,** generating energy as any light- or heavy-water reactor technology does, can simultaneously breed more fuel than is consumed in the course of nuclear-generating operations.

Figure 1

U.S. nuclear power plant status, 1974-81

	Dec. 1974		Sept. 1981	
	Number	MW(e)	Number	MW(e)
Reactors with operating licenses ...	55	36,552	77	58,180
Reactors with construction permits .	63	63,379	80	88,080
Reactors with limited work authorization ..	2	2,280	2	2,300
Reactors on order	99	111,909	15	17,482
Totals	219	219,130	174	166,042

Source: Atomic Industrial Forum INFO newsletter

By restoring government commitment to these technologies, President Reagan has promised nuclear energy a future. "This is essential to ensure our preparedness for longer-term nuclear power needs," the President stated. "The policies and actions that I am announcing ... will permit a revitalization of the U.S. industry's efforts to develop nuclear power."

An omission

There remains the matter of fusion energy. Budget-cutting threatens to have a disastrous impact on this research program, of which the President has made no mention.

Using isotopes found in ordinary water and elements as common as lithium for fuel, fusion will be producing virtually unlimited amounts of cheap, clean energy in the next century—and for perhaps millions of years thereafter. From one gallon of water (at isotope-extraction costs of about 10¢), the fusion process can produce the energy equivalent of 300 gallons of gasoline, and would render municipal garbage, ordinary rocks, indeed, whole sections of the Earth's surface vital raw materials through isotope-separation derivatives.

Fusion is an achievable reality by the year 2000. The Soviet Union, mindful of strategic military applications, intends to have beam technology and fusion-fission "fuel factory" hybrid-reactors in the 1990s. Speaking at the Tenth European Physics Society meeting in Moscow in late September, academician E. P. Velikhov announced that as the Soviets continue work on their T-15 magnetic fusion device ("tokamak"), the world's first with superconducting magnets, they will soon begin construction of a more advanced T-14, which will have high enough temperatures, above 44 million degrees, to produce self-sustaining fusion reactions, permitting large-scale fusion energy release. Velikhov, Vice-Chairman of the Soviet Academy of Sciences, declared that *the T-14 will be operable in the late 1980s.*

"These two Soviet devices, taken together, will demonstrate the engineering practicality of fusion before 1990, well ahead of the current U.S. timetable," said Dr. Stephen Dean of Fusion Power Associates.

Japan, too, is on a year-2000 timetable with greater projected spending on fusion at present than the United States.

Because the shift to a fusion power economy, entailing development of several wholly new feeder-industries, has a very large transitional energy requirement, *unmanageable without the entire range of fission technologies,* Carter administration policy on fission power generally precluded the possibility of ever realizing fusion power. That administration expressed this by revising the U.S. timetable for prototype reactor construction from the year-2000 goal to sometime in the middle of the 21st century.

President Reagan has now committed the nation to restoring the basis in fission-power resources for the fusion power age—but he has not committed his administration to fusion power in observance of congressional legislation mandating the year-2000 goal (1980's Magnetic Fusion Energy Engineering Act). Remarkably, under revised budgetary estimates, fusion research under Reagan will receive less funding than it received under Carter—again contrary to spending levels mandated by Congress.

Civilization at stake

No small amount of pressure is being placed on the White House to at least show Mr. Stockman the door when it comes to fusion power budgeting. Indicative was the Oct. 15 speech delivered by the eminent plasma physicist Dr. John H. Nuckolls, of Lawrence Livermore Laboratory, on the occasion of his acceptance of the Maxwell Prize from the American Physical Society. Nuckolls, who led the 1970s effort to initiate inertial confinement (e.g., "laser") fusion research, flatly declared that nothing less than the survival of the human race depends on launching a fusion power development-project that deserves the name "crash program," on the scale of NASA's Apollo moon-shot effort, or the 1940s A-bomb Manhattan Project.

Dr. Nuckolls highlighted the great promise of a variety of lines of research into fusion now under way, and proposed that as part of the pending reorganization of the Department of Energy, magnetic-confinement and inertial-confinement programs be combined. He predicted: "A prototype ICF [inertial-confinement fusion] reactor will be in operation by the turn of the century. . . . The successful development of second generation fusion reactors, economically competitive with Light Water Reactors and High-Temperature Gas-Cooled Reactors for electricity and synfuel production, will signal the dawn of the fusion age. . . . This challenge merits high national priority, and an Apollo-scale commitment of the nation's will and resources."

Nuckolls warned of "geophysical disaster," should some projections for fossil fuel-produced carbon dioxide accumulation in the atmosphere prove true.

Temperature increase, drought, and climatic dislocation are looming sources of holocaust unless it were possible to make mankind's entire energy supply non-fossil in as little as 40 years. But within that timeframe, fast-breeder reactors simply can't produce fission fuel at the required levels. The only alternative is fusion-fission hybrids (of which the earliest projected form is a "super-breeder" or "fuel factory") and hydrogen fuels occurring as byproduct of next-generation fusion reactors.

Nuckolls's demand for a fusion energy "Apollo program" is legitimate, whether some carbon-dioxide-saturation projections are accurate or not. Nuclear

America's foremost regulatory blocks

The principal regulatory obstacles President Reagan has pledged to overcome are these:

Two-stage Licensing: Utilities must apply for two separate licenses from the Nuclear Regulatory Commission, one for construction, and a second for operation of a nuclear plant. All issues of health and safety are reviewed at the construction-licensing stage. And yet, after construction, "intervenors," including any anti-nuclear group, may demand and be granted public appeals hearings to raise the same issues again, including whether demand for electricity justifies operation of the already constructed plant! As an NRC employee described it, the operating license stage is "two years of quibbling." Two proposals are now before the President, one that would empower the NRC to issue operating licenses while hearings are pending or in progress, another which would eliminate hearings on operating licenses altogether.

The Sholly Rule: When environmentalists demanded the right to act as "intervenors" after the NRC amended an operating license to permit release of radioactive gas at Three Mile Island, a federal judge ruled that they had the right to hearings *even if there were no scientific basis for questioning NRC judgment.* Under the Sholly Rule, "anybody at anytime can request a hearing on anything and get it," explains an NRC source. One well-known anybody, Gov. Jerry Brown, used this rule to file suit against the operating of California's Diablo Canyon nuclear plant.

Safety Rules: Nuclear plants are very safe, provided only that established industry standards are met. Yet the NRC has no standard, and "safety rules" have multiplied on the basis of individual NRC engineers' case-by-case judgment or lack thereof. A senior staff member recently warned the commission that "the potential for a negative safety impact caused by the number and scope of requirements has become very real to both the NRC and the nuclear industry. The full significance of the issue may have been underestimated by NRC staff." In short, some "safety" requirements are so disruptive of utilities' established in-plant operating procedures that they produce a potentially hazardous condition where none existed. By establishing formal criteria, inaccessible to frivolous "environmentalist" challenge, the vast number of unnecessary and detrimental safety rules could be eliminated.

expansion must occur worldwide at the rates required to achieve a rate of Third World agro-industrial development that can avert genocidal depopulation. The influential Fusion Energy Foundation has established a minimum-required program of one thousand 1-gigawatt installations in the United States, and U.S. production of a comparable number of 1-gigawatt reactors for export to Africa, Asia, and Latin America by the end of this century.

In the event of even approximate realization of that goal, fuel-expansion requirements prove that fast breeders simply aren't fast enough. Achievable fusion-fission hybrid "fuel factories" (by 1991, says Dr. Edward Teller, seconded by Dr. Hans Bethe) and energy-dense particle-beam isotope-separation technologies are essential to humanity's survival.

Fusion power must be emphasized right now.

It is in this light, perhaps, that one begins to grasp both the importance of President Reagan's official statement on nuclear energy, and also, the significance of one other crucial matter omitted by the President. This matter was touched upon by Energy Secretary James Edwards during a press briefing following the President's Oct. 9 statement. Can the utilities take advantage of the President's relaxation of red-tape and actually afford to go nuclear? "I think the biggest factor is the interest rates . . . and they have a special problem. Inflation is 10, 11, 12 percent. . . . Interest rates are 20 percent. How can the utilities plan ahead?" said the Secretary.

A status report

Usury has destroyed entire civilizations before. Despite the President's best intentions, Paul Volcker's interest rates have already done more damage to nuclear energy than all four years of Carter environmentalism.

Figure 2

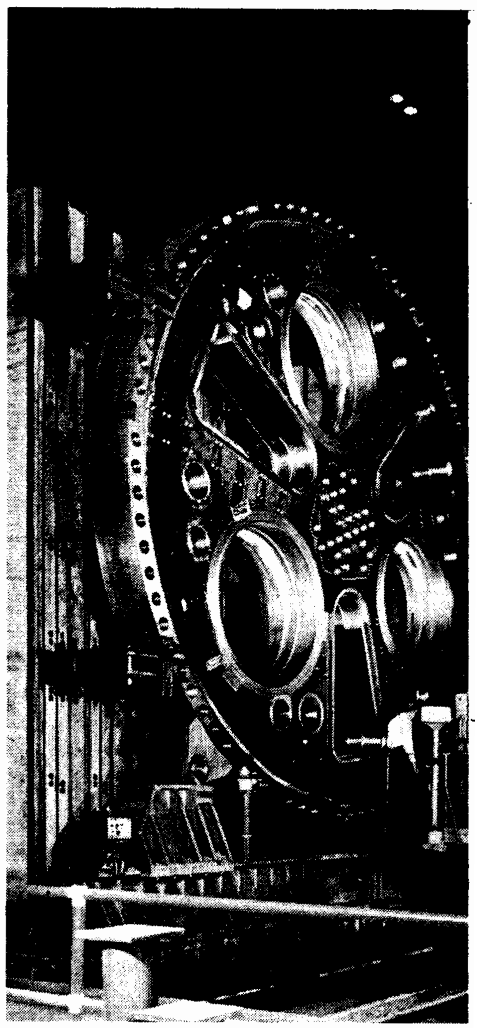
U.S.-built proportion of nuclear power plants in operation, under construction, or on order by principal manufacturers

(As of January 1979)

Manufacturer	Nationality	MW(e)	U.S.-produced MW(e)
Westinghouse	U.S.A.		87,059
General Electric	U.S.A.		70,193
U.S.S.R.	U.S.S.R.	45,758	
Kraftwerk Union	W. Germany	36,976	
Framatome*	France	36,324	
Combustion Eng.	U.S.A.		34,206
Babcock & Wilcox	U.S.A.		27,796
AECL	Canada	18,277	
NPC (and predecessors)	U.K.	11,581	
Toshiba†	Japan	8,709	
ASEA ATOM	Sweden	8,280	
MAPI*	Japan	7,869	
Westinghouse (Europe)	Belgium	6,518	
Ansaldo Mecc. Nucleare†	Italy	2,880	
Hitachi†	Japan	2,279	
Elettronucleare italiana*	Italy	2,000	
Other manufacturers		13,787	
U.S. total		219,254	
Total world		420,482**	
As of September 1981		408,098**	208,125*

* Licence Westinghouse.
† Licence General Electric
** Decreases due to cancellations since 1979

Source: *The Necessity for Nuclear Power* by Geoffrey Greenhalgh, London: Graham & Trotman Ltd., 1981



Even as the President spoke, Federal Reserve usury was devastating both America's nuclear industry and its potential as an exporter of nuclear power technologies to a needful world.

Indeed, if the Volcker regimen had been in effect after World War II, neither U.S. fission construction nor fusion research breakthroughs would have occurred.

The choices

"Environmentalist" demonstrations and lawsuits are incidental. Today, nuclear construction is being canceled for primarily financial reasons. Lower-tier utilities have been shut out of the long-term bond market and forced to cancel projects.

Those utilities still enjoying access to the long-term debt markets are paying 17 percent and more for nuclear-construction funds whose investment involves a 12-to-14-year lead-time.

As a result, a 1-gigawatt plant that cost $200 to $300 million throughout the 1970s now costs $2 billion, $3 billion, as high as $6 billion. Standard & Poor's and Moody's, the major-investors rating services, have been steadily downgrading nuclear-utility bonds, in effect telling investors and utilities to stay away from nuclear power so long as Paul Volcker has an office in Washington.

In a number of recent cases, underwriters have flatly refused to float bonds needed for construction of nuclear installations already under way.

Last March, Merrill Lynch, the giant investment institution whose pre-government President was Mr. Volcker's ally Treasury Secretary Donald Regan, sealed the fate of some 18 nuclear projects by issuing a report to investors recommending their cancellation.

Over the last five years, a total of 80 nuclear installations have been deferred or canceled in the United States. *Since Paul Volcker made usury the law in October 1979, not a single nuclear plant has been started, and no utility company has planned a new unit anytime anywhere.*

After President Reagan's statement, one Wall Street utility analyst commented that the President might have the power to expedite plant operations for those now nearing completion. But what value have expedited construction-permit procedures for new plants when, in 1981, not a single utility has requested a plant construction-permit? They cannot afford them.

Mr. Reagan's nuclear policy can be made to work, provided there is export-financing, and provided his tampering with regulatory and "environmental impact" obstacles is supplemented by some very thorough tampering with the "independence" of Mr. Paul Volcker's Federal Reserve. Otherwise, the "independent" destruction of American nuclear capabilities is certain.

DOE plans pro-nuclear educational campaign

Nearly a full month before President Reagan made his nuclear policy statement on October 9 the Department of Energy was instructed to prepare a public educational campaign which would build support for the President's program. On September 10 the DOE Assistant Secretary for Nuclear Energy, Dr. Shelby Brewer, established a Task Force on Light Water Reactor Institutional Problems.

The Task Force was directed to study the need for better public information about nuclear power, and on Sept. 24 submitted a plan to the Assistant Secretary. The plan, covering fiscal 1982, is projected to cost between 1 and 2 million dollars. It is designed to engage representatives of the nuclear industry, scientific community and civic groups in the effort, as well as the public affairs offices of the DOE itself.

The authors of the plan note the misinformation about nuclear energy and radiation which was a hallmark of the Carter administration. They also observe that even though the nuclear industry has an extensive public education program, "all agree that the public is misinformed about nuclear energy." The plan suggests that government officials use the media attention they command to play a very visible role in remedying the situation.

Anti-nuclear Congressional reaction to the proposed plan was immediate. Rep. Richard Ottinger (D-NY) issued a press release on Oct. 12 denouncing the DOE "propaganda" campaign. Ottinger is one of the main promoters of the Global 2000 population reduction program in the Congress and is also the chairman of the Subcommittee on Energy Conservation and Power of the House Committee on Energy and Commerce. He is threatening to bring DOE representatives before his subcommittee to "justify" this "subsidy" to the nuclear industry.

If the proposed DOE program is to be carried out, the administration will have to be willing to wage a battle against top level insiders, such as Office of Management and Budget Director David Stockman, who not only will want to hold back the necessary funding, but who are statedly anti-nuclear themselves.

If the program goes through, the kind of information pollution coming from the likes of Ottinger should be substantially contained, minimizing the fallout of the Carter policy.

How Volcker and the investment banks have strangled nuclear-power financing

by Lydia Dittler Schulman

Over the last several months, the U.S. nuclear industry has been under siege—not by outright environmentalists but by gentlemen from Wall Street who are pulling in the credit lines to nuclear utilities.

It is now the policy among the underwriters of utility bonds *not* to lend for the construction of new nuclear plants. Beyond this, major underwriters like Merrill Lynch and Salomon Brothers are intervening to cancel bond sales, thus cancelling plant construction, with the rationale of revised lower projections for electricity demand, and escalating construction costs.

This policy is reinforced through the downgrading of utilities' bond ratings (especially those with nuclear projects in progress); by a general sell-off of utility bonds, which pushed yields on Aa-rated utilities above 17.5 percent in late August; and in some cases, by an outright refusal of underwriters to arrange new bond sales needed to complete projects. The results of this financial warfare have been devastating for an industry historically about two-thirds dependent on external sources of funds for its enormous capital projects.

Merrill Lynch signaled the recent financial onslaught against nuclear power with a March report that singled out 18 plants as "good candidates" for cancellation. The report serenely concluded that the financial position of the parent utilities, investor-owned companies, would benefit greatly from the early termination of their nuclear projects.

Boston Edison's Pilgrim-2, one of the plants on the Merill Lynch "hit list," was canceled Sept. 24, for financial reasons; the utility cited the escalation of the plant's projected cost from the initial estimate of $400 million to close to $4 billion.

The completion of a second plant on the list, Niagara Mohawk Power's Nine Mile Point-2, is being challenged by the New York State Consumer Protection Board and State Attorney General Robert Abrams, who claim that the upstate New York plant is no longer cost-effective and that the power it was intended to supply can be imported more cheaply from Canada.

In July, Merrill Lynch helped along the demise of two other nuclear plants, units 4 and 5 of Washington Public Power Supply System (WPPSS), the nation's largest municipal utility and an issuer of tax-exempt bonds. Merrill Lynch issued a second report that questioned whether WPPSS would be able to continue to finance the units, projected to cost $6 billion apiece.

Moody's then dropped the rating on units 4 and 5 two full grades to "Baal," and in August, Salomon Brothers, the lead underwriter of the bonds, stepped in with an ultimatum to WPPSS: the utility group either had to agree to pay back the interest and principal on the bonds early, or cancel the two units. The first option—repayment long before the plants were to start generating electricity and revenues—was clearly impossible. And on Sept. 25, the directors of WPPSS ordered the two units "mothballed" until the spring of 1983, at which time their financial viability would be reviewed.

In mid-October, the Michigan State Appeals Court finally allowed issuance of bonds for Detroit Edison's Enrico Fermi-2 unit and Consumers Power's Midland Nuclear plant. Both utilities had been temporarily enjoined from issuing new securities needed to complete the units, as a result of the intervention of Michigan State Attorney Frank Kelley, and the Michigan Citizens Lobby, an anti-nuclear consumer activist group. The opponents of the plants argued that the units were not cost-effective and that there would not be sufficient future demand to warrant their completion. In this case, fortunately, the court disagreed.

Potentially dozens more plants could be the casualties of the Federal Reserve's high interest rate regime and related forms of financial warfare. The record high interest rates are responsible for the latest escalation in plant construction costs, presenting the appearance that nuclear power can no longer be cost-justified.

High interest rates, capital formation, and the utilities

The vulnerability of the electric utilities to the Federal Reserve's usury is primarily due to their highly capital-intensive nature. This capital intensity and the utilities' high rate of capital investment was previously the source of their strength as an industry. Through the early 1970s, when industries like steel and machine tools had already slipped into technological obsolescence because of cumulative disinvestment, the electric utilities were still investing heavily and were bringing on a new generation of highly efficient, low-cost nuclear installations. Even today electric utilities account for about 30 percent of U.S. capital investment.

The electric utilities played and will always play a special, strategic role in the economy because electricity costs affect every other sector. Conversely, the current threat to the electric utilities is not a matter of concern to that sector alone; it means rising electricity rates (for the first time in this century), power blackouts, and the exacerbation of the basic problem of the U.S. economy—technological obsolescence.

The current plight of the electric utilities, it must be stressed, encapsulates the predicament of all capital-intensive industry. High-priced credit draws funds out of long-term capital investment into quick-profit speculative areas; the condition of the utilities is merely an extreme case of this problem because of their high degree of dependence on external sources of capital, and the long lead-times now the rule for nuclear construction.

According to estimates from the Edison Electric Institute, $18 billion, or 65 percent of the capital requirements of the electric utilities in 1981, will be provided by external sources of funds: approximately $10 billion from long-term debt issues, $5.5 billion from sales of common stock, and $2.5 billion from preferred stock.

Consider also the fact that a utility building a nuclear plant is now required to finance and spend $2 to $6 billion (in current dollars) over a 14-year period, before realizing the first dollar of revenue from the project.

Financial entities have been sensitive to the problem insofar as it has affected the so-called fixed-charge coverage ratios—the bondholder's guarantee that there will be sufficient revenues to pay him back. The sharp rise in interest costs, on top of other cost increases, has gnawed down these interest coverage ratios. After-tax earnings of the investor-owned utilities declined to an estimated 2.11 times interest charges in 1981, from 2.43 in 1972.

This deterioration in turn has largely been responsible for the downgrading of utility securities (once considered "as good as gold"). In 1980, Standard & Poor's downgraded the bond ratings of 28 utilities, compared to 15 in 1979 and only 6 in 1973. The bond rating houses insist that they are not discriminating against nuclear power; heavily nuclear-oriented utilities are suffering more than others simply because they have large amounts of capital tied up in long-term projects generating no immediate revenue.

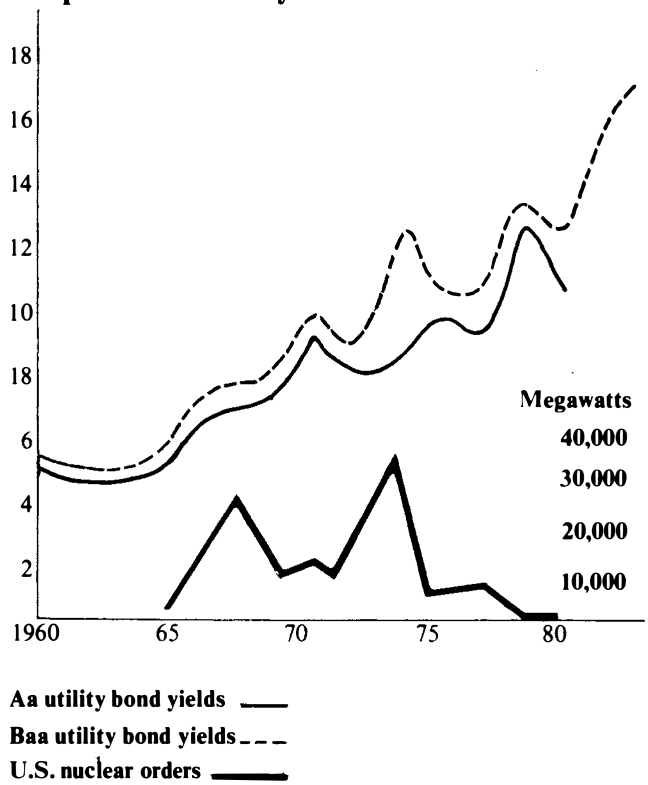
Other means of raising capital have been successively taken away from the utilities. Since the mid-1970s, the market price of utility common stocks has traded at a substantial discount to book value, currently at around 75 percent. During the 1974 credit crunch, many utilities were forced to sell large amounts of stock at substantial discounts from book value; and the new wave of credit austerity that began in October 1979 again forced utilities to plan record sales of equity in 1981. Such sales, however, lead to a dilution of the utility's overall book value, its earnings per share, and other indicators of its financial position, which are the basis for future borrowing.

Capital requirements

Wall Street's alarums about the steep financing requirements of the utilities might lead one to believe

Figure 3

Rate of U.S. nuclear power plant orders compared with utility bond rates



Source: Moody's; Atomic Industrial Forum that the electric utilities have ambitious capital projects in the works. Capital expenditure plans have in truth fallen significantly below the level of replacing depreciated plant and equipment at today's inflated costs. The $18 billion in external capital requirements currently projected for 1981 compares with a total of about $14.8 billion in new money raised by the electric utilities from external sources in 1980. But this increase was more than accounted for by new requirements for pollution-control facilities (running about $1 billion a year) and the replacement of depreciated plants and equipment at inflated costs. (The inflation rate for the nuclear industry's producer goods is significantly above the general rate of inflation.)

Apparently the electric utilities are fast adjusting their spending plans to bring them in line with the shrunken prospect for raising new funds. A June 1981 survey of 85 electric utilities by *Public Utilities Fortnightly* found that the utilities' capital expenditures were budgeted to rise 7.7 percent in 1981, 3.8 percent in 1982, and a mere 0.8 percent in 1983 (in current dollars). By contrast, the industry's capital spending grew at an average rate of 13.5 percent a year during 1976-79, before slowing to 7.4 percent in 1980.

The cost of nuclear energy

Cancellations of U.S. nuclear plants are now being recommended on two grounds: that nuclear energy is no longer cost-effective, and that the outlook for reduced growth in electricity demand has rendered the plants unnecessary. Both points are as bogus as the safety arguments against nuclear power have always been.

The cost of constructing a nuclear plant in the United States has risen astronomically, especially in the last one to two years. However, the $4 to $6 billion per unit costs cited by the new "economy-conscious" opponents of nuclear power have nothing to do with the true *economic* cost of nuclear. They are the result of the conjunction of two *political* developments.

Those utilities with nuclear plants under construction at the time of the Three Mile Island incident in March 1979 found their projects caught in the ensuing regulatory morass, and found themselves in the situation of having to finance drawn-out construction and modifications at higher and higher financing costs. It is in this context that various utilities have been recently pressured by Wall Street and local consumer activists to cancel their long-stalled plants because they are no longer "economical."

Nuclear plants have traditionally required 20 to 30 percent more financing than coal-fired plants to build—a higher capital cost more than offset by the sharply lower fuel costs and higher density of nuclear power. But there exist no economic reasons why nuclear plants should be 70 percent more expensive than coal-fired units, as solar advocate Charles Komanoff and other anti-nuclear spokesmen insist. In fact, nuclear power has proven over and over again its cost-effectiveness, particularly in an inflationary environment in which fuel prices are subject to sudden escalation. *To argue from the current, politically inflated cost of constructing a nuclear plant in the United States that nuclear power is not cost-effective is tantamount to sabotaging the development of the cheapest and most efficient energy option the nation has.*

The effect of high interest rates

The extent to which interest rates are responsible for inflating the cost of nuclear power can be seen in the case of nuclear units 4 and 5 of Washington Public Power Supply System (WPPSS): These two units are now projected to cost about $12.1 billion, making them the most expensive nuclear power units in the country. However, interest charges on the long-term bonds issued to finance them will account for a full $8 billion of the project costs, or more than two-thirds.

Rates on the bonds have risen steadily from about 6 percent when the project began, to 11 to 12 percent currently. The five-unit WPPSS project of which units 4 and 5 are a part is now projected to cost $23.9 billion. It was only $4 billion when the project was started in the early 1970s. Last summer, Moody's Investor Service dropped the rating of units 4 and 5 two grades to Baa1, which will force yields on these bonds even higher and make financing increasingly difficult.

The WPPSS case is indicative of a larger trend. Fixed-interest charges, or what the industry calls embedded capital costs, have been taking an ever larger bite of utilities' earnings over the past decade. In long-term debt financing, interest expense is tax-deductible, reducing the effective cost of interest to the utility. However, over recent years the sharp rise in interest rates has raised the average effective interest rate from 5.1 percent in 1970 to an estimated 9.1 percent a decade later. Given the large sums involved in a nuclear project, *this increase has meant the difference between building or not building a new nuclear plant.*

A number of economists have pointed out that the cost of nuclear is overstated by an order of two to three by the standard methods of depreciating capital and financing costs used by the electric utilities. Commonly used straight-line depreciation methods, which spread the capital (including financing) cost equally over the lifetime of a given plant, tend to "front-load" the capital costs and revenue requirements in the early years of the plant's operation. But it should be noted that a change in accounting procedures would be helpful only to the extent that it encourages the rapid replacement of outmoded generating capacity with more efficient coal-fired, conventional-nuclear, advanced-nuclear, and fusion-energy plants. Even though inflation may be appreciating the value of plant and equipment from a financial (replacement cost) standpoint, that plant and equipment is *depreciating* in physical terms no less rapidly.

The nuclear advantage

A sound estimate of the cost of generating electricity with coal-fired units, the only serious competitor to nuclear energy, is provided in a paper issued in December 1980 by Gordon R. Corey, financial consultant and retired vice-chairman of Commonwealth Edison Company of Chicago. The study, based on the company's experience in operating both types of power plants, showed unambiguously that nuclear-generated electricity is the cheaper form because of lower fuel costs and improvements in nuclear technology that have more than doubled the energy content derived from a metric ton of uranium over the last decade. The study also showed that, assuming continued double-digit inflation through the 1980s, the relative cheapness of nuclear over coal-generated electricity would increase because of the resistance of operating nuclear plants to inflation.

In 1979, actual "bus-bar" costs (the average cost of electricity delivered to the station bus before transformation, transmission, and distribution to customers) were 17.3 mills per kilowatt-hour (KwH) for the utility's nuclear units and 32.6 mills per KwH for its coal-fired units.

On average, coal-fired plants cost only two-thirds as much to construct as nuclear plants, but in the annual operating bill, the large fuel bill for the coal units outweighed amortized depreciation, interest, plus other carrying charges.

The nuclear units' uranium fuel costs, on the other hand, represented only a small portion of the cost of electricity production, giving nuclear its twofold edge despite higher construction costs. Moreover, the fivefold increase in yellow-cake prices and fourfold increase in enrichment costs over the previous decade and a half have been offset by technological advances which have made it possible to produce 36,000 megawatt-days of electricity per metric ton of uranium, compared with 12,000 to 15,000 (MWd/MT) 15 years ago.

But what about the relative costs of nuclear and coal plants in the future? Corey also made projections for plants coming on line in 1991-92. Assuming a 10 percent rate of cost escalation (for fuel, construction costs, etc.), he found that during the first 10 years of operation, nuclear-generated electricity would be 19 percent cheaper, and over the full service lifetime of the plants, it would be 36 percent cheaper. Because of their resistance to inflation, the cost advantage of the nuclear-generating units actually increased with higher inflation rates.

The second line of argument against nuclear power revolves around demand projections. The growth of electricity demand is now falling, the argument goes. Therefore, plans for adding new generating capacity should be cut back accordingly.

Such a course would in fact create the conditions for a permanent depression in the U.S. economy, robbing the economy of its motor for growth and technological change. Historically, the availability of cheap electricity, supplied increasingly by low-entropy nuclear power, laid the basis for economic growth in the United States—for rising standards of living and labor productivity, for declining costs of industrial processes, and for the introduction of increasingly energy-dense and capital-intensive forms of technology. This positive process is represented graphically in the correlation of the growth curves of electrical generating capacity and electricity consumption and the falling curve of per killowatt-hour electricity prices.

Interestingly, it was the availability of increasingly cheap electricity that created demand, not the other way around. It created demand in a non-linear way, and this in turn produced increasing revenues for the electric utility companies, enabling them to add new, more efficient generating capacity, and to bring down prices once again.

The historic trend came to an abrupt halt following the economic dislocations of 1973 caused by the quadrupling of world oil prices. The long-term growth rate of electricity demand dropped from a historic average of 7 percent per annum to 2.5 to 3.5 percent. The United States did not have sufficient inflation-resistant nuclear capacity on line to cushion the blow of the oil prices. The result was a reversal in the long-term secular decline in electricity prices and a slowdown in the growth of demand. In 1974 and 1975, total energy consumption dropped absolutely, and in 1980 it again dropped by an unprecedented 3.4 percent.

The Electric Power Research Institute (EPRI) expects total energy use in the United States to rise only 1.3 to 2.7 percent annually, assuming an annual economic growth rate (real GNP) of 2.5 to 3.5 percent. Edison Electric Institute data on electric power sales already show a striking downward trend in the growth rates of industrial, commercial, and residential purchases of electricity in the last two years.

By scaling plans for adding nuclear and overall electrical capacity back to current reduced growth projections (which are in fact a reflection of a *policy commitment* to sharply reduce economic and population growth rates), the country will soon be in the situation of not having the generating capacity on line to permit economic growth. Demand projections can fluctuate year to year; however, even under the best conditions, it will take 7 to 10 years to introduce new nuclear plants.

Mexico, Japan fight for nation-building at Cancun

by Peter Ennis in Cancún and Daniel Sneider in New York

When President Reagan arrived at the Cancún airport for the two-day summit of 22 heads of state of the developed "North" and developing "South," he was met by a pointedly warm embrace from the host, Mexican President José López Portillo. López Portillo reserved such expressions of greetings to Reagan alone.

On one level the Mexican President was expressing the acknowledged friendship that has developed between the two heads of state. On another level, López Portillo's embrace was meant to emphasize an effort to ensure that the summit meeting did not embroil itself in a confrontation sparked by the "free-enterprise" proposals Reagan had staked out as his policy in public statements before the IMF and in Philadelphia on Oct. 14. López Portillo's embrace, in short, was clearly aimed at freeing Reagan from the more insidious embrace of those like Secretary of State Alexander Haig who are pushing him down a dangerous path.

The Mexican effort to try to ensure a serious dialogue on economic development policy between the North and South has been backed up from two sides—from the side of the South by the statesmanship of Indian Prime Minister Indira Gandhi in particular, and from the side of the North by Japanese Premier Zenko Suzuki, who, in the absence of ailing West German Chancellor Helmut Schmidt, is the only advanced-sector leader speaking in terms of real economic development.

Thus the opposition at Cancún is between the Malthusian opponents of Third World industrialization—an opposition circulated through the two-sided coin of "free enterprise" and the "globality" of the World Bank's Brandt Commission—and the "determination for nation-building" through economic progress espoused in his opening conference speech by Suzuki, who observed that a century ago Japan itself was a backward, resourceless country, which gained technological prowess through political leadership and mass education. This reminder of how "American methods" can be applied internationally has been accompanied at Cancún by Mexico's emphasis on the fact that transfer of technology is in the interest of the "North," for without expanded markets provided by Third World development, no industrial-sector economic recovery will be possible.

The Brandt strategy

While Mexico, India and Japan seek serious dialogue, Brandt Commission circles are amply represented by Canadian Prime Minister Pierre Trudeau, French President Mitterrand, and British Foreign Secretary Lord Carrington. These alleged "friends of the Third World" have positioned themselves as a "third force," using Haig on the inside to get Reagan positioned out on the limb of his unpopular policies while they sit back and urge the isolation of the United States.

This was made unequivocally clear by Lord Carrington in a press conference on the eve of the summit where the British "surprisingly" revealed their position of support for "global negotiations" on international economic issues in the United Nations, and for the formation of an energy affiliate of the World Bank, supposedly to fund energy development in the Third World. Both of these are issues carved out and pushed by the Socialist International-Brandt Commission circles as the crucial issues and tests of progress at the Cancún meeting. They are also issues on which the Reagan administration has already declared its negative stance.

The reasons for the Carrington stance immediately emerged at his press conference. He told the assembled reporters—there are some 2,500 of them in Cancún—that he fully endorsed the report of the Brandt Commission. He called it a "useful, exhaustive analysis of the problems we face as *one world*." Meanwhile sources in the State Department under Haig report an effort to express Reagan's willingness to "compromise" and be "flexible" in the form of a concession on the issues defined by . . . the Brandt Commission.

All this represents the setup *EIR* has outlined over the past few months, a setup aimed at polarizing the conference between the two sides of the same policy—Reagan's (or Haig's) and the Trudeau-Mitterrand-Brandt Commission's. The intervention of the Mexicans, India, and Japan, particularly the effort to put President Reagan in circumstances of real discussion on the problems of the world economy and free him from the Haig line, has been targeted at breaking this game up.

One key signal of the targeted nature of this intervention is the report, from well-informed Mexican official circles and from Japanese press reports, that both Mexico and Japan intend to make the high interest-rate policy of the Volcker Federal Reserve and its effect on the world economy a central subject of discussion during the summit. The highly placed Mexican source told this publication in Cancún that "we will argue that this policy is hurting the U.S. as much as it is hurting us." The Jiji press service reports that Japanese Economic Planning chief Toshio Komoto, in his private meeting with U.S. Treasury Secretary Donald Regan, will "deal mainly with Washington's high-interest policy," an indication that Tokyo, which has been strenuously opposing that policy since before the Ottawa summit, will also bring it up in the larger forum.

Mexico and Japan

There appears to be a de facto division of labor between the Mexicans and the Japanese on ensuring the success of the conference talks.

Mexican columnist Riva Palacia, writing in *Excelsior*, reports that the Mexicans are "trying to convince the most radical countries" like Algeria that President Reagan will be more flexible in his positions toward the Third World. He reports that the Mexicans are trying to block the formation of any kind of anti-U.S. front in the summit. López Portillo sent Reagan a long letter before the summit and met with him on his arrival in Cancún for almost 45 minutes—the main subject is thought to be an effort to ensure the "flexibility" the Mexicans are looking for. López Portillo is heavily trading on his personal friendship with Reagan, and their diplomatic efforts on the other side of the spectrum, to get results.

The Japanese government, according to Japanese sources in Cancún, has been working from their side "day and night" in the weeks before the summit to convince the White House to take a more conciliatory position. The Japanese Premier stated before his departure from Tokyo that Japan was ready to act as a mediator between North and South, "a bridge," in the words of our sources, taking note of the fact that Japan is an industrialized nation, highly dependent on the development of the Third World and without the restraint of "political commitments."

Suzuki has set the theme, one also echoed by López Portillo and Mrs. Gandhi, of the crucial link between the economic development of the Third World and the avoidance of war. He told Mexican reporters in a recent interview in Tokyo that "the international peace situation is so critical. . . . There is a great necessity to extend cooperation and economic aid to the developing countries which need this help. We warn that there is great international imbalance, and that the difference in wealth and the stagnation in economic relations between North and South is constantly increasing. And if these conditions are not corrected it will not be possible to achieve true peace in the world, and in the same way and at the same time, achieve the greatest development of all countries. . . . We must exert ourselves to obtain a new economic order for the countries of the North and the South."

Japanese sources in Cancún also report that the response of the administration to this Japanese effort has been a massive chill in U.S.-Japan relations. The evidence given by these sources is that Suzuki's request for a bilateral meeting with Reagan during the summit—Reagan is meeting at least 12 other heads of state present—has been turned down flat. The sources say this has caused some consternation in the Japanese camp, but they intend to press ahead at the conference (including an effort on the side, off the Arafat visit to Tokyo a week ago, to seek support for the direction of the Saudi "Fahd Plan" for peace in the Middle East in the wake of the Sadat assassination).

Mrs. Gandhi meets Ronald Reagan

The ambiguity—or rather two-sidedness—of the administration's stance at Cancún showed up as well in the diplomacy of Indian Prime Minister Gandhi, who, along with López Portillo, has been acting fully in her capacity as an experienced elder statesman of the developing sector. Mrs. Gandhi met privately the day before the formal summit opening with President Reagan: they met for 15 minutes first without aides and then with Haig, Regan et al. present. According to Indian sources, Reagan opened the private meeting by telling the Indian leader, in obvious reference to the low tide of Indo-U.S. relations in the wake of Washington's massive arms sales to Pakistan, "Let us speak to each other and not about each other," a sentiment the Indian leader reportedly appreciated.

Mrs. Gandhi took the President on an educational tour of the history of the Indian effort for economic development, our Indian sources say. She discussed the balanced development of industry and agriculture, the success of India in achieving self-sufficient food production in their green revolution, and the balanced role of the public and private sectors in the Indian economy. Obviously trying to get beyond Reagan's simplistic "magic of the marketplace" bootstrappery, she stressed the importance of the public sector, using as an example the Indian oil industry: when it was under the control of the foreign multinationals they proclaimed that India had no oil, and under the public sector, it has developed oil production to the point that self-sufficiency in this sphere is a realistic goal within this decade.

In an interview with American reporters in New Delhi before her departure, Mrs. Gandhi had stressed her hopes for a productive discussion with Reagan, eschewing the opportunity to throw darts at him. "The main purpose of such a conference," she said, "is to try to get a deeper understanding of peoples' and countries' thinking and why they think that way. Much depends," she told the reporters, "on your President."

It is not known how successful Mrs. Gandhi was in getting through to the American President; but one sign to the contrary was given by a senior U.S. official, who, reporting on the meeting, praised India for its success in the green revolution in agriculture. However, the official qualified, the President saw this as a success of "free enterprise" which "closely parallels Reagan's own views."

Another contrary sign was the emphasis placed by senior U.S. officials, and in U.S. press reports, on the importance of Reagan's hour-and-a-half meeting with Chinese Premier Zhao Ziyang, who has been invited, officials say, to visit the United States early next year. The meeting covered a broad ground, including discussion of the Soviet Union, the Middle East, and the issue of U.S. relations with the Republic of China on Taiwan. Clearly, however, China, which has been praised with enthusiasm by the World Bank and the State Department for its policy of enforced population reduction through coercive methods, is a greater favorite than India, not least as an "economic model."

The Global 2000 moles at State

Fundamentally, the problem remains that whatever success may be achieved in expanding Mr. Reagan's sense of developing-sector questions is more than counteracted by the pro-IMF and World Bank policies of enforcing genocidal austerity in the Third World, which the State Department is putting out through the President's own mouth. The circles in the Haig State Department, led by backers of the Carter administration's Malthusian *Global 2000 Report* like Assistant Secretary of State Meyer Rashish (present in Cancún), are confident that Reagan will stick to the line at the summit.

One aide to Rashish put it bluntly a few days before Reagan's departure. "We've written the briefing papers for Cancún and we have no doubt that Reagan will offer the Third World free enterprise, take it or leave it," he said. "The U.S. policy will force a substantial retrenchment in Third World development plans, will *have* to be agreed to by everyone at Cancún—because they will have no choice; we are the only new game in town and they must play by our rules." The same source reported that the United States will strongly enunciate the view that the problems of the Third World are solely a result of "overpopulation."

The convergence between the free-enterprise rhetoric and the Brandt Commission's supposedly liberal one-world dogma is well understood in the State Department and allied circles. Lester Brown, the head of the Washington-based Worldwatch Institute and a leading spokesman for the Club of Rome, commented to an interviewer last month that while there is a difference in form between these two lines, the policy content is identical. "We have passed the peak of industrial expansion and have entered a period of permanent industrial decline," he stated. "Under these conditions, continued population growth is intolerable."

'Economic improvement is impossible'

In the case of both the magic-marketeers and the Brandt Commission, the effort is to push drastic forced cutbacks in consumption and actual industrial and high-technology agricultural investment, particularly in the areas of infrastructure which have not been and cannot be developed by the much-vaunted private sector. "A sustainable society must focus on policies to lower demand and to lower population growth," Brown said, adding that this is "the whole thesis behind the policies of the Brandt Commission."

Willy Brandt himself, who is not present in Cancún, effectively supported this understanding in a speech this week in Rome, affirming that nuclear energy is not an "appropriate technology" for the Third World and that the developing nations should concentrate on non-oil energy sources, like the "soft technologies" of solar and biomatter.

Brandt declared that real economic growth is no longer possible: *"Today, the aim is no longer to improve the economic situation in the developing sector,"* he stated with uncharacteristic clarity.

At the Cancún summit, the test will be whether enough nations and their leaders have the determination to reject such pernicious doctrines and map an alternative path of economic growth based on scientific and technological advance, mutually expanded between North and South.


Government of Mexico

José López Portillo

'No compromise of sovereignty'

The following excerpts are from the speech given by Mexican President José López Portillo to French President François Mitterrand in Mexico City on Oct. 19, 1981.

Today no country can face the problems of the world by itself . . . the first principle that must guide international economic relations is the shared responsibility of all countries for the fate of the weak and disadvantaged. We must therefore fight inflation, and order the financial and monetary system to guarantee greater economic activity to permit the development of the backward nations and greater use of the productive capacity of the industrialized nations. Similarly, we must guarantee that the poor nations can exploit their natural resources without compromising their sovereignty, and ensure that the financing of development is carried out through a greater volume of exports instead of indebtedness.

We are united by our confidence in the real power of the human being: his will to overcome obstacles, the imagination to offer solutions, the conviction that as individuals and as nations, the inhabitants of this planet possess an almost unexploited potential for cooperation. Only exhausted dogmas think that men and nations are, like them, exhausted. We, on the other hand, believe that peace and prosperity are too big a challenge to abandon to the passivity of old formulas, or to the nostalgia of worlds which have disappeared forever.

'The consequences of world depression'

The following report appeared in the Oct. 17 issue of the Mexico City daily El Nacional:

The Cancún summit may possibly be the last opportunity to reach agreements capable of reactivating the world economy and stimulating the industrialization of the underdeveloped countries, said representatives of the news weekly *Executive Intelligence Review* yesterday. They warned that if the North-South dialogue failed, there would be very little opportunity to avoid a long and severe depression collapse of the economy. Peter Ennis, Director of Special Services of *EIR,* and Ganesh Shukla, Director of the Indian weekly *New Wave,* made these statements yesterday . . . adding that the implications of this world economic depression are such that they can only be characterized as genocidal.

The two noted that the urgent creation of a world monetary system based on making long-term, low-interest credit available for the development of new technologies and infrastructural works, and the reorganization of developing sector debt, are topics that must be discussed at the Cancún summit. Ennis and Shukla . . . consider that the "international monetary system built by the International Monetary Fund and the World Bank is one of the main obstacles to the industrialization of developing-sector nations." This is due, they explained, to the fact that the IMF and the World Bank control funds to prevent the economic advancement of developing-sector nations and to maintain the colonialist system that prevailed prior to World War II. . . .

During the conference, the journalists denounced the recent destruction of Kampuchea, carried out between 1975 and 1978 under the direction of the Pol Pot government, warning that this was of pivotal importance. "What happened in Kampuchea—the systematic murder of two to three million people—was an experiment in genocide carried out by the same forces which actually control the policies of the World Bank and the International Monetary Fund." These forces will undoubtedly attempt to create other Kampucheas in the developing sector, including in Mexico and Central America, they warned.

Japan goes political: the new financial and technological offensive takes shape

by Richard Katz

"Little Sony salesmen" (Henry Kissinger's formulation) or, more charitably, "strong on economics, weak on politics" are two of the epithets commonly thrown at Japan. For too long, the complaint goes, Japan has been content to let the United States bear the burden of making the world safe for Japan's trade-based economic miracle.

Tokyo has indeed sat by and let the U.S. business elite and successive Washington administrations shape the world for better or worse. If U.S. policies happened to be forging world economic advancement, then Japan benefited. If a Jimmy Carter became President and decided to help Khomeini come to power, then Japan had no choice but to *adjust*, to lower its oil imports.

This is no longer the case. The second greatest economic power in the non-communist world is beginning to take on a political role commensurate with its economic strength—even if this sometimes means challenging U.S. policies.

Prime Minister Zenko Suzuki has now made a political intervention into the area of relations between the advanced and developing countries, which Tokyo sees as perhaps the most important long-run determinant of global political and economic stability (see article, page 34). Suzuki has agreed to requests by such nations as Nigeria, Saudi Arabia, and Bangladesh to mediate between advanced and developing countries at the Oct. 22-23 summit in Cancún, Mexico. He is expected to try to persuade President Reagan to abandon Treasury Secretary Donald Regan's proposed reduction of credit and aid to the underdeveloped nations (see *EIR*, Oct. 20).

Abandoning Japan's posture of letting Washington alone handle the Middle East, Suzuki has made a strong push for the Saudi Arabian proposal known as the Fahd Plan, saying a "broader standpoint" is needed alongside Camp David. The Saudi plan calls for mutual recognition by the Israelis and Palestinians. Suzuki pressed visiting Palestine Liberation Organization (PLO) Chairman Yasser Arafat to accept it during an Oct. 14 meeting. At the request of Arafat, of the government of Iraq and of other Arabs to mediate between them and Washington, Suzuki is expected to urge Reagan to accept the Saudi Plan. At the same time, Tokyo announced "serious consideration" of a $650 million economic aid package to Egypt in order to ensure that country remains stable following the Sadat assassination.

Banking and technology

Japan is situated to effect many of the changes it wants, because its strong economy is a vehicle for the lending and investment which many Japanese leaders believe to be the prerequisite for restoring global stability.

As of June 1981, Japan's banks held approximately $105 billion in Eurodollar deposits, an astounding 65 percent rise from the year before. This places them third, behind the banks of the U.S. and Britain. If the pace continues, a year from now Japan's banks will be number one, which would have immense effects on the pattern of world trade and investment, i.e., who gets the contracts for what kinds of projects and products.

The new financial clout is matched by an even more impressive stride into the ranks of technological leadership. In contrast with years of stagnation in American R&D, Japan's government has declared the 1980s "the decade of technology." With an accelerating rise in R&D investment, Japan, already the world leader in industrial robots, has surpassed U.S. firms in semiconductors and has begun to challenge IBM in mainframe computers. Even the U.S. Department of Defense is asking Japanese firms to supply electronics technology unavailable in the United States. Should Japan become the world's foremost technological power 5 to 10 years from now, its leadership will shape the direction of the world's economy. Other economies will have to adjust to the momentum caused by the kinds of products and modes of production Japan chooses to undertake.

As a result of these changes, Japan's every economic movement causes ripples, and sometimes waves, in other nations' economies and politics—often with reciprocal effects upon Japan. For example, did a belief, no matter whether mistaken, that Japanese exports increased French unemployment make a marginal contribution to the electoral defeat of President Giscard d'Estaing, who is a friend of Japan? Japan has no choice but to intervene deliberately in the political effects of its economic activities if it wants to avoid unwanted repercussions.

Preventing the return of the 1940s

As shown at the Shimoda U.S.-Japan Conference of Sept. 2-4 (see *EIR*, Oct. 13), Japanese leaders increasingly worry that the era of U.S. world leadership may be over. Moreover, they see America's economic, political, and military decline entailing serious errors of omission and commission. If the U.S. cannot be relied upon, then Tokyo itself must begin to act. Europe, particularly Germany, becomes more important, as do independent ties in the Middle East. At the same time, in the belief that no nation can replace the U.S. role, efforts are made to persuade America to change its course, e.g., Suzuki's mediation at Cancún.

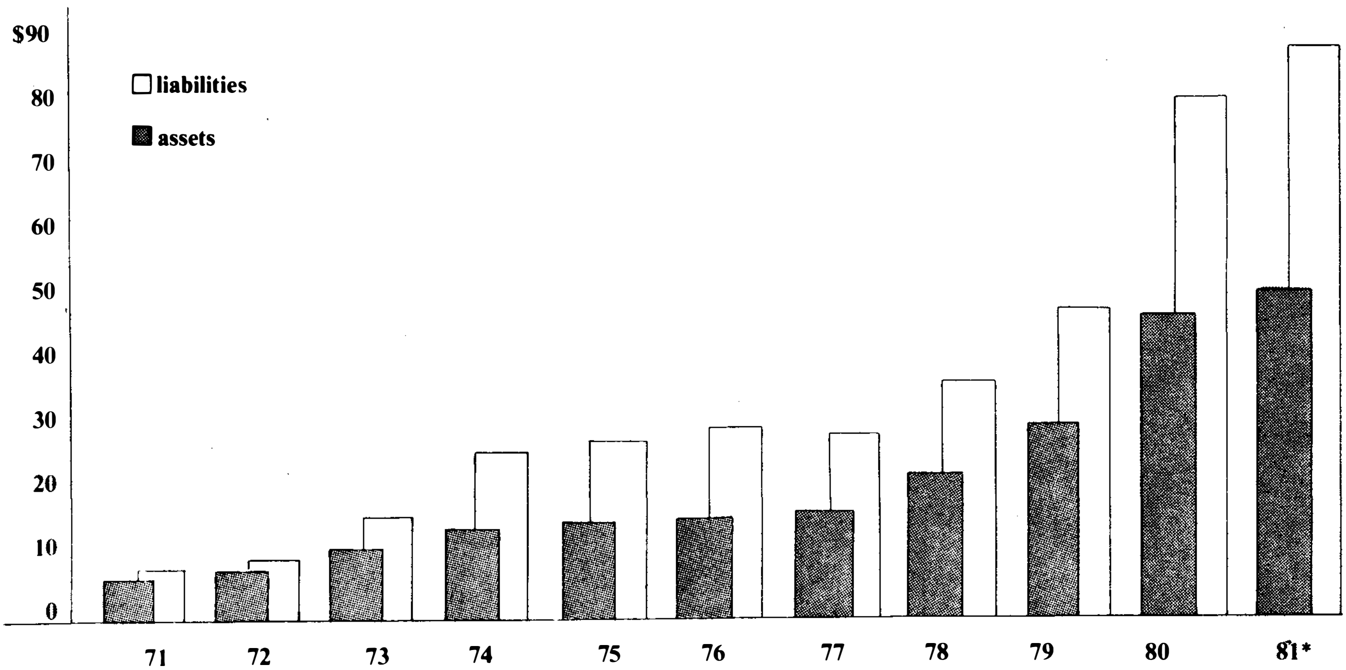
Former Prime Minister Takeo Fukuda, the power behind the throne in the Suzuki administration, has repeatedly stated that the economics of the 1930s led to the wars of the 1940s, and that the current international situation is the worst conjuncture since then. Suzuki motivated his planned intervention at Cancún in an Oct. 5 Diet speech by declaring, "It is essential to world peace and stability that the industrialized countries contribute to the improvement of the peoples' lives in the developing countries and to ending the causes of political instability, thereby contributing to their economic development."

Since the beginning of the 1970s, officials of the powerful Ministry of International Trade and Industry (MITI) have believed that both war-avoidance and the economic health of the advanced sector depend on industrialization of the underdeveloped nations. Without the momentum provided by the markets and new products of industrializing Third World countries, the advanced sector itself would surely begin to stagnate,

Figure 1

Japanese banks' overseas short-term liabilities and assets, 1970-81

(billions of current dollars)



* Cumulative as of June 1981; other figures are cumulative total as of December of that year.

This graph covers short-term assets and liabilities only. The inclusion of long-term assets and liabilities would take the total significantly higher, e.g., total assets and liabilities as of June 1981 were approximately $105 billion. The significant chronic short-fall in short-term assets vis-à-vis liabilities is accounted for by the fact that the banks have been using short-term liabilities to invest long term, and in the oil shock years had to borrow abroad to cover large current-account payments deficits.

Source: Japan Ministry of Finance.

MITI officials believe. What is required is a florescence of "new Japans," along the model of South Korea.

Due to an inrush of OPEC and other funds in recent years (see Figure 1) which has given Japanese banks the $105 billion in Eurodollar holdings cited above, Japan is now in a position to help finance such industrialization efforts. It can act, to some extent, even if America's Treasury Secretary demands a credit reduction.

Private bank lending overseas is a political factional issue in Japan that will be determined by private-government policy discussion. The banks, like other corporations, must abide by the government's "administrative guidance" in certain matters, one of which is government ceilings on the gross levels of lending abroad. Following a decision by the Suzuki administration this spring to lift previous low ceilings, Tokyo undertook a flood of private overseas loans.

Mexico alone received approximately $3.5 billion in syndicated loans during July-September, not counting additional export credits. Other recent loans include: $250 million to Brazil (half private, half government) for the Carajas iron ore project; $350 million to the Philippines for a phosphate fertilizer project, half of whose produce will be exported; $60 million to help finance a nuclear project in the Philippines; and $300 million for energy projects in Indonesia.

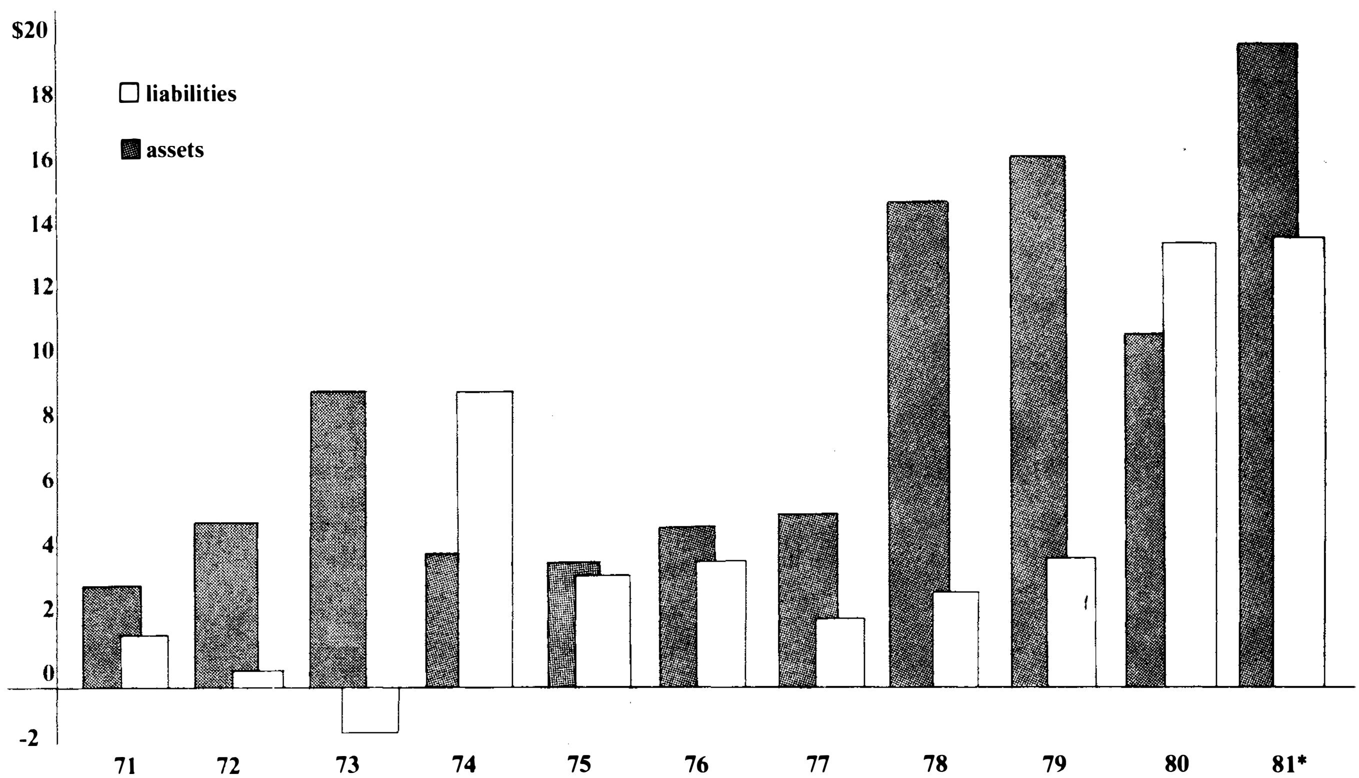
Overall, $10 billion was lent out in the April-September period, according to a Japanese banker who reports that the ceiling has been doubled to $20 billion during the October 1981-March 1982 six-month period.

Not all the overseas loans go to the developing nations, of course. About half the $105 billion in Eurodollar funds is lent or invested in the advanced sector. Most goes for resource projects, such as coal or uranium or minerals, or for manufacturing subsidiaries. On the other hand, some more dubious loans—such as

Figure 2

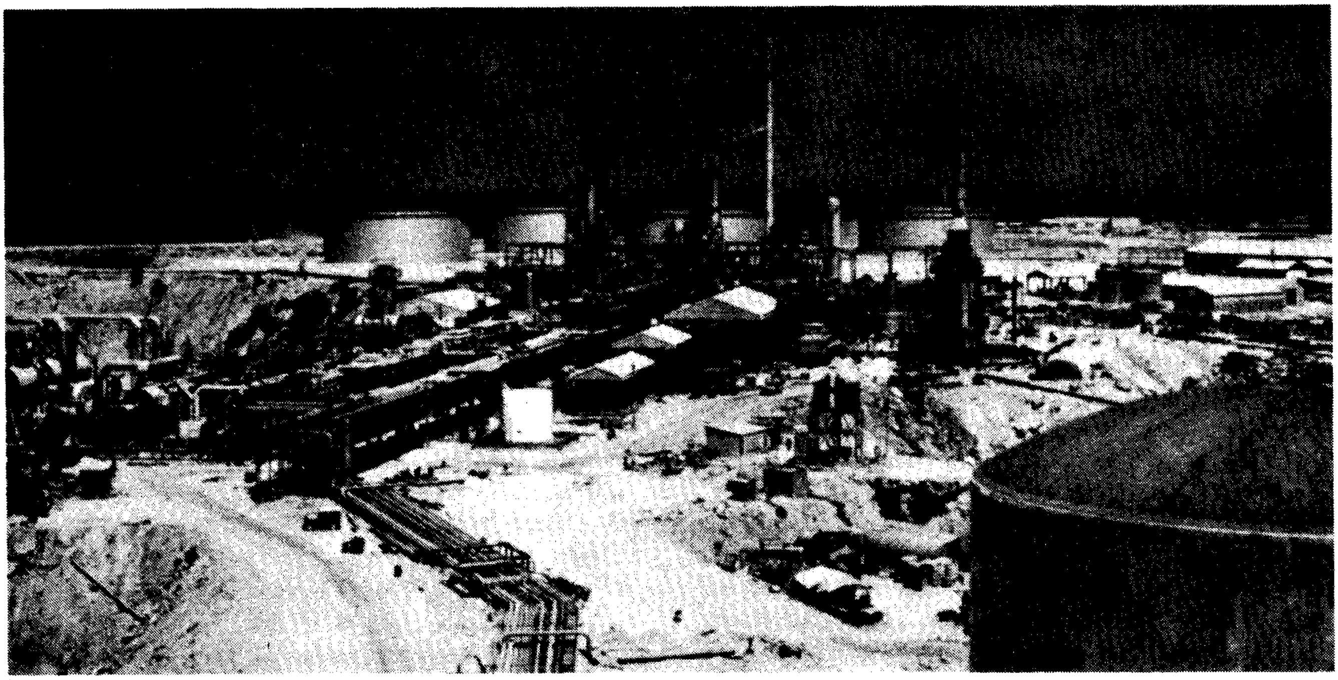
Japan's long-term capital balance of payments account, 1970-81

(billions of current dollars)



* 1981 figure is simple projection based on doubling the actual January-June 1981 figures. Actual results for 1981 are likely to be higher.

These figures for the long-term capital account of the balance of payments only partially reflect the absolute amount of Japan's international financial activities and do not include much of the Eurodollar and European activities. They do, however, indicate the trend of international flows.



Courtesy of JETRO

A Japanese-built LPG sulphur complex in pre-Khomeini Iran: Japanese leaders intend to take political leadership against devolution.

the $800 million to fund corporate takeovers by U.S. firms of each other—also creep in.

The trend of the loan activity—i.e., what kind of countries get what proportion for what kinds of projects—is determined by political debates in Japan's government and private sector.

In the 1970s, MITI's Industrial Structure Council—comprised by the chiefs of Japan's largest industrial combines—determined that Japan's task in the world economy was to transfer industrial technology to the developing countries and key advanced equipment to other developed countries. MITI proposed that plant and equipment exports should rise to at least 20 percent of exports, in place of previous emphasis on steel or radios.

One result of this program was that Japan, a negligible exporter of machine tools as of 1974, captured 13 percent of the world export market in 1980 through emphasis on numerically controlled (computerized) machine tools to the advanced sector.

Capital-goods sales to developing countries grew more slowly—until the 1977-78 administration of Prime Minister Takeo Fukuda.

In 1978, Japan's long-term capital outflow tripled to $14.8 billion and rose again to $16.3 billion in 1979 (see Figure 2). Much of the total went to developing countries. As a result, Japan's plant and equipment exports rose in 1979 to a record $11.4 billion, still only 11 percent of exports.

This momentum was stopped dead not long after Fukuda was replaced by Masayoshi Ohira, the man Henry Kissinger called "my favorite Japanese." When he took power in December 1979, Ohira could not immediately put a halt to Fukuda's successful program. Once the Khomeini oil shock had occurred, however, Ohira used Japan's need to abate the outflow of dollars as a pretext to virtually prohibit overseas syndicated loans, particularly to developing countries. Many in Japan felt his move was actually a response to a series of letters over the previous year from Treasury Secretary Michael Blumenthal which complained that Japan's private overseas loans threatened U.S. and International Monetary Fund "conditionalities" on loans to the developing sector. In 1980, Japan's capital outflow fell to $10.8 billion, syndicated loans to the developing countries fell to $2.0 billion, and plant and equipment exports fell to only $8.9 billion. (Ohira's adherence to Carter's anti-Soviet embargo plus the fall of Pahlavi Iran contributed to the drop in plant and equipment exports.)

Suzuki initially continued Ohira's program. Gradually, however, Suzuki has reversed course and restored government support for a strong overseas lending program. Plant and equipment exports should hit a record $13 to $15 billion in 1981.

Japan's technology offensive

A few years ago, MITI proposed that Japan raise its rate of R&D investment to 3 percent of Gross National Product; currently the rate is 1.8 percent, compared to 2.2 percent in the United States. MITI often provided overall guidance for the direction of research and provided some seed money. However, contrary to popular belief, the Japanese government financial contribution to R&D is significantly smaller than the U.S.—28 percent, as against 36 percent in the U.S. (50 percent in the U.S. if defense R&D, often used later in civilian industry is included).

Gone are the days when Japan's patents were limited to improvements or adaptations of others' technology. In 1970, Hitachi, a major engineering and construction combine, paid out 12 times as much in royalties on the use of other companies' patents, often imported, as it received. In 1980 the ratio had dropped to 2.

This policy has allowed Japan to leapfrog American firms in certain areas. Japan now has matched the U.S. in 64K-bit integrated circuits and is expected to be first in producing a commercially viable 256K-bit chip. Hitachi and another firm, Fujitsu, are beginning to challenge even IBM in mainframe computer areas. Forty percent of the industrial robots in the world are used in Japanese factories, and Japan's Industrial Robot Association, a 14-member company group, is now funding research in "intelligent robots" which have "sight" and "touch." By 1985, they predict 15 percent of robots in use will be "intelligent robots."

Effect on U.S.-Japan relations

The Carter administration had viewed Japan's growing strength, and particularly its use of that strength to create "new Japans" in the Third World as a political threat to both Washington's leverage over Japan, and to Carter's anti-industrial policy toward the Third World. Carter's bludgeoning approach to Japan on trade issues was motivated by this belief, as expressed more openly in the January 1979 "U.S.-Japan Trade Report" of the House of Representatives Trade Subcommittee, which echoed certain Treasury Department voices. After listing Japan's technological orientation, the report states, "We believe that the Japanese threat in these high-technology areas may soon become the most explosive issue between our two countries." The report then attacked Japan's transfer of industrial technology to the developing countries, "We foresee 'Japan trade crises' recurring with other developing countries—the so-called 'New Japans' of the Far East such as Taiwan, Korea, Hong Kong and Singapore—and later other developing nations of the world."

In order to prevent the trade tension in the steel and auto sectors that occurred under Carter from continuing in the high-technology and plant export area, Japan has made marked efforts to cooperate with firms in the United States and Europe on sharing technology and joint export projects to the developing countries.

Mitsubishi and Westinghouse (already partners in a number of fields) are considering joint manufacturing of very large-scale integrated circuits, which would include full disclosure of manufacturing techniques, and have already agreed to joint R&D in robots, integrated circuits, and atomic energy; Hitachi and General Electric have signed a deal in which GE will sell Hitachi-made robots while it acquires Hitachi technology to manufacture its own; Fujitsu and Britain's ICL have reached a pact for ICL to purchase Fujitsu-made computer and semiconductor techniques; Toray Textile and Elf-Aquitaine of France will enter joint work in production and marketing of synthetic textiles.

The same type of cooperative approach has been applied to exports to the developing countries. Mitsubishi will join a bid by Westinghouse (its nuclear licensee) for construction of two 1-gigawatt nuclear reactors, for Mexico; an international consortium of American, French, and Japanese firms won a $1 billion oil refinery order from Saudi Arabia at Al-Jubail; Hitachi Shipbuilding and Engineering signed a five-year pact with Germany's Kloeckner-Humboldt-Deutz AG to seek joint orders for cement plants from 25 countries in the Middle East, Southeast Asia, and other areas, the first such ongoing Japan-Germany venture.

A congressional source who recently visited Japan during the Shimoda Conference said that such efforts are "not just tokenism. The Japanese are making a real effort to prevent unmanageable trade frictions from developing in these new high-technology areas." He pointed out that Japan had just reached an agreement with the United States for mutually lower tariffs on semiconductors.

Unlike Carter, the Reagan administration has so far tried to handle even such bitter issues as the auto situation in a businesslike, if tough, manner. However, if the U.S. continues its decline while Japan advances, such trade frictions will rapidly become unmanageable.

More important than the bilateral trade frictions, in Japan's view, would be the global effects of any sustained U.S. economic decline and of continued conflict between Washington and Tokyo on the issue of Third World industrialization. One Japanese banker said Japan's Third World finance efforts would not work without a reversal of the Blumenthal-Regan policy. "Japan cannot do it alone." he said. "We haven't the funds. Besides, if many of the developing countries go bankrupt, we cannot avoid the disaster."

The primary purpose of Japan's cooperative efforts in high-technology and export projects areas is not the avoidance of trade friction, though that is a very important motivation. Rather, the same cooperation that is needed to avoid trade friction is the proper policy for the more profound purpose of ensuring global economic advancement and, therefore, political stability. How Mr. Reagan responds to Japanese initiatives in this regard will go a long way to shaping both the world and U.S.-Japan ties for years to come.

How President Reagan is being played by London

by Lyndon H. LaRouche, Jr.

Whoever designed President Ronald Reagan's address projecting "nuclear war in the European Theater" was manipulating the President into the hands of the "Malthusian" faction in Moscow.

First, let it be absolutely clear, that a nuclear exchange limited to the European theater is an impossibility. Any nuclear attack on Soviet territory brings an immediate total nuclear bombardment on the United States' homeland. Soviet policy is to move into occupation of Western Europe *after* destroying the very existence of the United States.

The so-called theory of theater-limited nuclear war is that: (A) the Soviets would accept "limited" nuclear warfare in Europe, in order to avoid the massive penalties of total deployment of U.S. strategic thermonuclear capabilities; and, (B) that the mutual destruction of Eastern and Western Europe would leave the Soviet Union virtually helpless in face of the virtually-intact capabilities of the U.S. homeland and British Commonwealth forces. That "theory" would have exactly such a strategic outcome, if Moscow would only play by James R. Schlesinger's proposed rules of the game.

For that very reason, Moscow would never follow that course of action. It would respond by knocking out the United States first, before occupying Western Europe. "But, that's insane!" the "limited-war" kooks, such as Schlesinger object. "The Soviets would never risk total war! No one would be so insane as that!" On the contrary, gentlemen kooks, a nation faced with imminent extinction will risk destruction of everybody, rather than passively accepting the kind of defeat that Soviet adoption of a European theater-limited nuclear option implies.

The problem which the gentlemen kooks refuse to face is that a doctrine of forward-based nuclear posture is in itself a trigger for thermonuclear intercontinental war. When some madman slips the policy of "European-limited war" into a speech of the President of the United States, such a madman is pushing the United States to the brink of nuclear armageddon.

Most probably, happily, the immediate effect of President Reagan's unfortunate remarks will not be nuclear war. When Reagan's remarks hit the front pages of the Western European news-media, every influential political party in Western Europe will panic, and will telephone London, asking to speak directly and immediately to Britain's Foreign Minister Lord Carrington. They will propose immediate action on Britain's proposal to split Western Europe strategically out of submission to the Transatlantic Alliance, to create a third force, a "third way" based on a separate alliance among the Western European nations. Carrington, receiving such telephone-calls, will reply with sympathetic noises concerning "our distressingly simple-minded American friends." The British proposal for a "third way" will be no longer merely a floated option.

Yet, it was the same London, America's ever-loving "special ally," which designed the strategic policies which Carrington will now pretend to find so distressingly crude and incompetent.

To understand this curious state of affairs, one must ignore the silly babbling among American policy-influentials and look closely at our ever-loving "special ally" in London. What infernal schemes is the crowd in London concocting?

Britain's policy

Britain's policy toward the United States and Moscow today is a replay of Britain's earlier policies toward. the relations between Berlin and Moscow, in both 1914 and in connection with Prime Minister Neville Chamberlain's pact with Adolf Hitler in 1938. London is determined that the United States and the Soviet Union should destroy one another without either adversary actually winning.

Britain's special difficulty at present is the unpleasant reality of thermonuclear strategic arsenals. Britain's problem is that of causing the United States and Soviet Union to destroy one another without destroying absolutely everyone else, including the British aristocracy's Commonwealth hiding-holes, in the process. (Intercontinental thermonuclear exchanges are dreadfully complicating affairs, don't you know.)

Therefore, London does not intend that there should actually be an all-out intercontinental war. Rather, Britain intends that a condition of controlled conflict between the two super-powers should be orchestrated in such a fashion as to catalyze a process of internal dissolution of both the United States and the "Soviet Empire." The sticky point for London at the moment, is that while it has sufficient control over U.S. banking, political parties and the federal government to proceed now to destroy the United States from within, Britain can not proceed to complete the wrecking of the United States until Britain is equally assured of its ability to simultaneously break up the "Soviet Empire."

Therefore, until the internal situation inside the "Soviet Empire" can be caused to deteriorate considerably more than it already has, Britain is obliged to keep the United States stumbling around the world, putting on a ferocious appearance—at least to the extent that internal collapse of U.S. defense capabilities provides some credibility to such a show of nastiness.

The end-result toward which London is working is the establishment of a Malthusian, World-Federalist sort of world-order. The world is to be broken up into petty autonomies, each significantly smaller than any of the corresponding nation-states. These petty, communal fiefdoms are to be coordinated by one or another sort of regional semi-government. Each of these regions of the world is to be ruled by supra-national institutions such as the International Monetary Fund, the World Bank, the Bank for International Settlements, and an assortment of United Nations arrangements.

The only considerable obstacle which remains in the pathway of such a Malthusian World-Federalist order is the power of the United States and Soviet Union, and Britain cannot proceed to fully destroy the United States from within until the Soviet Union reaches the point of ripeness for dissolution. Once those two superpowers are broken up, the consolidated power of the British Commonwealth is intended to become the real power-base controlling the supranational institutions of Malthusian World-Federalism.

There is nothing properly incredible in this report. The British have been proposing such a world-order openly ever since the hey-day of John Ruskin at Oxford University; not only the world's principal Malthusian think-tanks propose such things openly, as have the World-Federalists since World War II. The Trilateral Commission and Mrs. Averell Harriman are openly committed to such objectives.

Since we began chatting frequently with leading U.S. policy-making circles, back in 1974, each time we have ridiculed the present trends in U.S. defense-policy, the supporters of such defense-policies have retorted to us: "You are forgetting that we have influence with powerful friends in Moscow." These leading U.S. policy-makers are not completely insane. They may, and do overestimate the potential represented by their friends in Moscow, but they do have such friends, and those friends have been a powerful and growing minority within Moscow's leading circles. They are, not properly surprising, the pro-Malthusian circles in Moscow, the crowd rallied around a project known in Moscow precincts as "global systems analysts."

The Soviet Malthusians

This is the crowd in Moscow on which Britain is chiefly relying to destroy the "Soviet Empire" from within, in much the same fashion that the Malthusians of the liberal Eastern Establishment have been destroying the United States from within since approximately 1966-1969.

Britain's problem is chiefly that among many of Moscow's Malthusians there is a deeply-engrained Soviet nationalism. If this nationalist impulse prevails over the Malthusian impulses, then what Britain is concocting is not a Malthusian World-Federalist empire under Commonwealth hegemony, but an enraged Soviet Union prepared to fight thermonuclear war to win.

That is the pivotal point on which the risk of thermonuclear war by British strategic miscalculation hangs.

The exemplar of the Anglo-Americans' high-level penetration of Moscow's leading circles is the case of Dzhermen Gvishiani, the son-in-law of the late A. Kosygin and Soviet head of the Vienna-based International Institute for Applied Systems Analysis (IIASA). IIASA is a subsidiary of NATO, created under the direction of British intelligence's Dr. Alexander King, and the chief NATO (British) conduit directly into both the "global systems analysis" Malthusians of Moscow and high-level circles of IMEMO, the foreign intelligence arm of the Soviet Communist Party leadership.

IIASA and Gvishiani are integrated with another NATO creation—also by Dr. Alexander King—the Club of Rome.

This Gvishiani-linked NATO intelligence channel intersects various interesting things in Moscow. IMEMO is a revival of the former Communist International intelligence-apparatus, whose most celebrated adviser (since 1963) has been former British Secret Intelligence Service (SIS) officer Donald Maclean. Maclean's Malthusian faction in IMEMO operates world-wide in close cooperation with the Soviet KGB's leading official for

Islamic affairs, Gen. Harold "Kim" Philby, also formerly a top official of SIS and the son of the creator of the terrorist Muslim Brotherhood, the SIS Arab Bureau's St. John Philby. Maclean and Philby are to this day still "triple agents" of SIS.

These SIS-NATO-linked conduits into Moscow's policy-making intersect a "Bukharinite" collection of political relics concentrated in the intelligence service of the party, the KGB and the professional foreign service itself. The "Bukharinite" network, historically a product of the Venice-Switzerland-Vienna complex behind Alexander Helphand (Parvus), intersects the oldest and deepest British SIS-linked intelligence asset in Russia, the hierarchy of the Russian Orthodox Church.

It was chiefly through London and Vienna, in collaboration with these networks that the two-pronged (KOR and Jesuit-Orthodox-Anthroposoph) coordination of the Polish destabilization was run. (The silly, megalomaniacal fanatic, Zbigniew Brzezinski, deluded himself he was coordinating the operation. We talked directly to high-level circles which, none of U.S. pedigrees, actually ran the operation via Stockholm and Vienna. And we were able to prove that they did run it: not to imply that so obvious a figure as this writer could have run under double-cover into Poland.)

It is the Malthusians and the hierarchy of the Russian Orthodox Church on which British SIS is relying to effect the desired dissolution of the "Soviet Empire" from within.

Britain's policy is not to cause direct fighting between the strategic forces of Washington and Moscow. Britain's policy is to orchestrate U.S. strategic policies in such a way as to bring the Malthusians and their friends to the top in the process of determining the Soviet leadership-succession.

The purpose of Britain's "balance of power" game is not nuclear war between the super-powers themselves. The purpose of the British game is a Malthusian World-Federalist order before the end of this present century. It is not only an evil scheme, more evil than anything actually proposed by Adolf Hitler's *Mein Kampf*. It is an evil scheme pregnant with probable risk of thermonuclear strategic miscalculation.

If Britain wished Reagan to defeat Moscow

From discussions directly with leading British strategic specialists, we have determined that the British command has good knowledge of the kind of preparations the United States would require to achieve strategic parity with the Soviet forces. Since the British do not insist on the United States' adopting such a defense-policy, it is to be considered proven that Britain does not wish the United States to achieve strategic parity with Moscow.

Such a policy would have to include prominently:

1. Universal military training.
2. Enlargement and technical and literacy upgrading of officer and enlisted forces.
3. Developing in-depth expanded engineering and logistical capabilities for air, naval and ground-forces arms.
4. A policy of crushing the "environmentalist" influence in the nation.
5. A flood of low-interest credit to all civilian categories of agricultural, industrial, and infrastructural classes of goods-producing logistical production and transportation capabilities.
6. An acceleration by a factor of at least two of civilian space and fusion-energy programs.
7. A crash mobilization for development of deployable particle-beam anti-missile systems.

Without particle-beam anti-missile systems, and without in-depth military personnel and logistical capabilities, no potentially nuclear war can be won. Britain knows this. Therefore, Britain demonstrates that it does not intend that either Moscow or Washington should prevail in a showdown implying military confrontation.

The Venetian secret behind London's policy

Up through World War I, the world's most powerful center of rentier-finance, Venice, ran three operations which are paradigmatic for understanding the mentality behind Britain's "balance of power" manipulations of the present time. These are Venice's mobilization and direction of the Fourth Crusade against Constantinople, Venice's direction of the Ottoman subjugation of Greece in 1453, and Venice's orchestration of the attempted mutual destruction of the Ottoman and Russian empires over the period from the rise of Venice's asset, Potemkin, during the 18th century, through February 1917.

Britain, whose monarchy was created under Venetian-Genoese direction over the course of the bloody coup d'état of 1589-1603, participated in a capacity as an accomplice of Venice in the project for simultaneous destruction of the Ottoman and Russian empires, with British penetration of the Russian Orthodox hierarchy a continuing feature of that connection into Russia from the 18th century to the present day.

Britain learned its business at the feet of its master, Venice. This is the Venice which has been the true owner of the British and Dutch East India Company. And the controlling force behind the nest of interlocking directors, controlling both the Seven Sisters petroleum-marketing complex and the dominant elements of international insurance-finance today. It was this same Venice, through such spokesmen as Gianmaria Orte, which invented the genocide dogma promptly conducted through the British East India Company to become known as the mass-murder policy of Reverend Thomas Malthus. To understand Britain, one must understand Britain's master: Venice, or the same thing, Venice's personal piggy-bank, the pseudo-nation Switzerland.

At the December 1981 New York City conference of the National Caucus of Labor Committees, *EIR* Editor-in-Chief Criton Zoakos will report those features of the Venetian operations against the Ottoman and Russian empires which ought to be in the possession of every strategic policy-maker and intelligence-analyst today Therefore, it is sufficient here to state the basic conception.

In repayment for delivering the people of Greece to Ottoman rule in 1453, Venice's chief Greek agent, Gennadios, was made Patriarch of the entire Eastern Orthodox Church by the Sultan of Turkey, with direct authority over non-Islamic people of the Ottoman Empire. Venice was given more substantial rewards. Venice was given a large chunk of conquered Greece for its own looting-purposes, and the families of Constantinople which had aided Venice and Gennadios in betraying Constantinople achieved great power under the Ottomans. Venice and these treasonous Greek families ruled the administrative apparatus of the Ottoman Empire from the inside, and spread out from Greece to become a power faction of the aristocracy in Russia, Austro-Hungary and elsewhere.

During the 18th century, Venice, which controlled both the Austro-Hungarian and Ottoman empires (despite resistance from Maria Theresa and Joseph II), decided that a controlled disintegration of the Ottoman Empire was in order. Venetian agents in Russia were advanced to controlling influence over the policies of Catherine the Great, and Russia was launched on a campaign for access to the Mediterranean. Russia was never intended to succeed in this, as it was not intended to succeed in another project conduited into Petrograd from Venice—the Pan-Slavist assimilation of the Balkans. Russia was intended to conduct the fruitless labors of Sisyphus in these matters, to the ends of facilitating the dissolution of both the Russian and Ottoman empires—and, at a later point, the Venetians' Austro-Hungarian obscenity.

At the close of the Napoleonic Wars, when Venice's formal political independence had ceased, several new arrangements were put into place, with a leading rôle played by a Venetian, Capodistria, who Venice had appointed the Foreign Minister of the Russian Czar. As a Venetian-appointed Russian Foreign Minister, Capodistria dictated the present constitution of Switzerland, establishing that pseudo-nation as a Venetian piggy-bank. The same Capodistria dictated the terms of the 1815 Treaty of Vienna, which established Britain as the chief instrument of Venice's policy and power world-wide, and established the Holy Alliance under administrative direction of Prince Metternich and the Venetian secret police, the Jesuit order.

So, Britain played Venice's policy throughout the 19th century under the rubric of "balance of power."

At the beginning of this century, the term "balance of power" gave way to a new term produced by the political faction of neo-feudalist fanatic John Ruskin, "geopolitics."

As Lord Alfred Milner, the founder of the London Round Table and the New York Council on Foreign Relations, emphasized, "geopolitics" has the principal purpose of realizing the objectives set forth in the testament of that genocidal racist swine, Cecil Rhodes, founder of the Rhodes Scholarship. Britain was to conquer the world by subverting the United States and sending Germany and Russia into a war of mutual destruction.

The object of "geopolitics" then and now is the establishment of a variety of Malthusian World-Federalism under which world-order the ruling forces of the British Commonwealth will establish a world empire, through aid of mass-murder of most of the indigenous non-Anglo-Saxon populations living in the southern portion of the globe.

Through two world wars organized by Britain and Venice during this century to date, Germany has been destroyed as a nation-state power.

That most ungrateful V. I. Lenin! After the Venetians and British arranged the Germans to put 3 million Reichsmarks into Karl Radek's pocket, and conduit Lenin by the British-controlled northern Scandinavian route into Petrograd, Lenin, instead of helping to destroy the Russian state, established a new one as dedicated to sovereignty and technological progress as old Count Sergei Witte and Czar Alexander II had been. In short, Germany has been destroyed, but Russia remains as stubborn an obstacle as ever. So, the United States must play "Ottoman Empire" to "Russian Empire" in Britain's determination to effect the simultaneous elimination of both principal remaining obstacles to Malthusian World-Federalism.

Unless both the Americans and Soviets crush the Malthusian World-Federalists in each of their nations, either the British version of the old Venetian game will succeed, or typically British strategic miscalculation will lead the world into nuclear war; in the latter case, under present monetary, economic and defense policy, either the Soviets will win that war or we shall all be simply destroyed.

A nation which tolerates such Malthusians as our liberal, ever-British-loving Eastern Establishment is a nation which has lost the moral fitness to survive.

One wonders if President Ronald Reagan is able, at last, to understand that fact.

Papandreou is a second Mitterrand

by Nancy Coker

The sweeping electoral victory of Greek Socialist leader Andreas Papandreou is the fruit of a years-long operation by British intelligence to catapult its long-time agent into power.

Like his father, the late Prime Minister George Papandreou, Andreas Papandreou is a longstanding operative of British circles and their adjuncts in the Soviet Union and Eastern Europe, namely the Georgii Arbatov faction in Moscow and the leadership circles in Bulgaria and Romania. A closet Marxist, Papandreou is also known to maintain active ties to Muammar Qaddafi in Libya through the Libyan-backed Mediterranean People's Congress, a radical organization instrumental in engineering the Khomeini takeover in Iran.

As the leader of Greece's Panhellenic Socialist Movement (PASOK), Papandreou calls himself the "Mitterrand of Greece," and has pledged to pursue policies "virtually identical" to those of his close friend, French President François Mitterrand. According to intelligence sources, it was Mitterrand's electoral victory in France, as well as the merger of Greece's centrist parties with PASOK, that led to Papandreou's Oct. 18 electoral triumph.

Another factor was the curious inability of the incumbent New Democracy Party to rally a counterattack. With the exception of Defense Minister Evangelos Averof, who unequivocally explained to the Greek population the dangerous national and regional implications of a Papandreou victory, the New Democracy Party and Prime Minister George Rallis led a lackluster campaign that failed utterly to dispel the Papandreou mystique.

The collapse of the centrist parties resulted when George Mavros, former foreign minister and leader of the Democratic Center, announced several weeks ago that he had broken with the United Center Rally Party and had joined PASOK. Mavros was soon joined by Manolis Glezos, secretary of EDA, another centrist party, undercutting the New Democracy's chances for winning over the center and securing an election victory. In the end, PASOK won 48 percent of the vote, while the New Democracy secured a mere 36 percent.

The entire Socialist International wholeheartedly threw its weight behind Papandreou. In the last days of the campaign, Spanish Socialist leader Felipe Gonzáles, Swedish Socialist Olof Palme, and French Cultural Minister Pierre Lang visited Greece in a show of support. From West Germany, Willy Brandt announced that Europe's Socialists would welcome Papandreou as prime minister of Greece.

The effect on the West

Papandreou's victory, predicted one political analyst, will lead to a "cloudy political horizon that may bring instability, internal conflict and, more important, serious international frictions that will compound NATO's difficulties in that part of the world."

Papandreou's victory is indeed expected to wreak havoc in the region. Papandreou favors Greece's withdrawal from NATO and the European Economic Community, as well as the expulsion of all U.S. bases from Greece. Although Papandreou has recently begun to tone down his pre-election rhetoric and at this point is not expected to demand a total pullout from NATO, there is growing apprehension that Greece, as a NATO member, may now attempt to block Spain's entry into that organization later this year.

Thus, Papandreou, by further weakening the U.S. position in the region and playing into the Anglo-Soviet strategic gameplan for the area, is in fact exacerbating East-West tensions.

Greek-Turkish tensions

Papandreou is also focusing on neighboring Turkey as the main danger in the region, scrapping the efforts of the New Democracy government to ease tensions with the Turks through mutual diplomatic overtures. Last spring, in a gesture of friendship to Ankara, Greek Defense Minister Averof referred to Turkish chief of state Kenan Evren as "a wise man and a democrat," a statement that elicited outraged denunciations by Papandreou at the time. Evren in turn let it be known that Turkey favored a Papandreou defeat.

That Papandreou is pushing for a crisis with Turkey is underscored by his recent provocative demands for Turkish concessions on Cyprus, demands made prior to any negotiations, let alone feelers to Ankara.

The Soviets are eagerly showing their support for the new Papandreou regime in an effort to build up their chips in the region. The Soviet trade-union newspaper *Trud*, in a departure from recent Soviet policy, has suddenly opened attack on Turkey for its repression of leftist Turkish labor leaders. Such attacks on Turkey have been accompanied by effusive praise for Papandreou in the rest of the Soviet press. Moscow is expected to press its "nuclear free zone" proposal for the Balkan region under the new circumstances.

Middle East Report by Robert Dreyfuss

Not exactly fraternal

London's Muslim Brotherhood operatives threaten Crown Prince Fahd's peace plan efforts.

Why did Saudi Arabia's number-three leader, National Guard Commander Prince Abdullah, visit Syria last week?

Immediately after Abdullah's visit, Syrian intelligence orchestrated a vicious propaganda campaign against Abdullah's rival in the Saudi power elite, Crown Prince Fahd.

Among the facts that are known:

Prince Abdullah is the chief Saudi sponsor of the secret society known as the Muslim Brotherhood. For many years, Abdullah has been widely known as "Britain's boy" in the ruling Saudi family. Further, Abdullah has secretly maintained relations with the Soviet Union's KGB, through Syria and through Romania. In addition, Abdullah is the brother-in-law of Rifaat Assad, the gangster-assassin brother of Syrian President Hafez Assad.

Two months ago, Prince Fahd outlined an eight-point peace plan calling for Arab recognition of Israel in exchange for Israeli withdrawal from occupied Arab territories. Since then, Fahd's plan has won worldwide support.

Moreover, it is believed that Fahd's plan had been advanced only after careful consultation with top Arab officials, including the late Egyptian President Sadat and PLO Chairman Yasser Arafat.

Potentially, the Fahd plan might become the basis for a general settlement in the Middle East. On Oct. 14, in Japan, the PLO's Arafat called the Fahd plan "a good basis for a comprehensive peace." And several top officials in Egypt's Foreign Ministry have tentatively supported the plan.

But, acting on behalf of the London interests that assassinated Sadat, the Muslim Brotherhood has launched a campaign to destroy a plan they call the "Fahd-Arafat plan."

The queston: is Prince Fahd bing undermined by his own brother Abdullah?

Leading the campaign against the Fahd plan was Syrian official Muhammad Haidar. Haidar, a corrupt party leader, is close to Romanian intelligence circles. In an Oct. 16 statement, Haidar declared that the Fahd plan was a "mistake" and that it "conflicts with our strategy."

At the same time, leaders of the terrorist Syrian-controlled Saiqa Palestinian group and of the Popular Front for the Liberation of Palestine (PFLP), backed by Libya and Syria, denounced Arafat for supporting Fahd. Saiqa called the Arafat endorsement a "deviation" from PLO policy!

More ominously, from Austria it was reported that intelligence officials there had uncovered a plot to assassinate Arafat, under the direction of Syrian-backed terrorist Abu Nidal.

According to some observers, it is highly unlikely that Syria would take the responsibility to launch a direct attack against Fahd, especially on the eve of the Arab summmit in Morocco this month, unless Syria were supported in doing so by a prince of Abdullah's stature.

London's strategy is fairly simple. The British are aiming to undermine American influence in the Arab world, re-insert themselves fully into the Middle East, and try to strike a separate deal with the U.S.S.R. over the "arc of crisis."

Pessimists see the failure of the AWACS sale to pass Congress, and various bungled responses from the Reagan administration in the wake of Sadat's murder, as signs that American policy is heading for a total debacle in the area. London's expressed willingness to sell Nimrod radar jets to Saudi Arabia—to replace AWACS—and to dispatch Lord Carrington, the Foreign Secretary, over to Riyadh are only the beginning.

The British also got some unexpected support from the PLO's number-two man, Abu Iyad, a reputed terrorist and the figure who would probably move into power if Arafat were assassinated. In fact, Abu Iyad might be disposed to give Arafat a little push.

"Now is the time for Britain to make a return to the Middle East," grunted Abu Iyad, "since unlike the Americans, who are amateurs, the British have a good understanding of the area."

Optimists concede that the Reagan White House is indeed a bunch of rank amateurs. But, they note that since Reagan is meeting with Fahd in Mexico and then with Jordan's King Hussein in Washington, the opportunity is there. Chances are small, however, that the Reagan White House would know an opportunity if they fell over it.

 by Josefina Menéndez

The new PRI shuffle

The sudden naming of Ojeda Paullada to the PRI presidency should soothe some institutional sore spots.

With the unveiling of Planning Minister Miguel de la Madrid as the ruling PRI party's presidential candidate Sept. 25, it was assumed that the officials of the party itself would be shaken up to respond to the needs of the campaign.

Thus there was less than total surprise when a few days later rumors swept Mexico City that PRI president Javier García Paniagua was being moved over to the Interior Minister's position, and Interior Minister Enrique Olivares Santana, over to the PRI. Olivares is known as a conciliator in the party and has held many PRI posts.

However, the change never took place. And when García Paniagua and his leading PRI officials were re-affirmed in their posts at the Oct. 9-11 PRI national nominating convention for De la Madrid here in Mexico City, it looked as if he had weathered the storm.

Yet a hurricane struck three days later, whose suddenness stunned even veteran PRI-watchers. In classic Mexican fashion, delegations of PRI leaders from around the country suddenly began congregating at the offices of Labor Minister Pedro Ojeda Paullada around noon on Oct. 14, acclaiming him as the party's new leader.

By late in the afternoon García Paniagua's resignation had been announced, and late in the evening his new post confirmed: the Labor Ministry being vacated by Ojeda. It was a big step down for the man brought in six short years to the powerful PRI post and even consideration as a presidential candidate. And the circumstances of the shakeup just two days after García's confirmation in a full party congress, were humiliating.

The man chosen to head the PRI during the campaign period, Pedro Ojeda Paullada, was ironically De la Madrid's principal contender for the presidential nomination. He was the leading candidate of what is known here as the "político" current of the party, as distinct from the "technocrat" side which has moved up more through government bureaucratic positions. De la Madrid is associated with the "technocrat" wing.

The naming of Ojeda Paullada to the most important spot during the campaign (next to the candidate himself), with a good shot at entering De la Madrid's cabinet thereafter, clearly brings these two wings of the party together. Particularly significant are Ojeda's good relations with the well-organized and politically active labor movement, under the direction of Fidel Velásquez. The union chief has shown an unusual degree of public unhappiness with the De la Madrid candidacy; and the full integration of labor into the campaign is viewed as a priority by party strategists.

Ojeda's appointment thus does strengthen the PRI party apparat at a juncture when destabilization campaigns by both right and left are under way. It is therefore ironic that one of the factors which may have worked to Ojeda's disadvantage in the final weeks of the presidential race was the word reportedly put out by some circles close to the Reagan administration that Washington viewed Ojeda as potentially too much a "leftist." The concern apparently derived from Ojeda's service in the cabinet of former President Luis Echeverría, whose populist style earned him that reputation in the U.S.

Those circulating this line certainly were forgetting what Ojeda *did* as Attorney General under Echeverría: carry out the world's most successful drug eradication program to date, in close coordination with U.S. narcotics enforcement officials. Some observers here suggest that the "leftist" label was sent Washington's way deliberately by Mexican influentials involved in the drug-tourism-casino nexus, in order to damage the chances of their old nemesis.

The coverage of Ojeda's appointment in the handbook of left-Jesuit journalism, the daily *Uno Mas Uno,* should remove any remaining doubts on this score. *Uno Mas Uno,* committed to making Mexico ungovernable in a "pluralist" era, heaped contempt upon Ojeda as "a man of the system."

Under Ojeda in the PRI presidency, three close De la Madrid collaborators were moved in to complete the PRI shakeup. The man to watch here: Manuel Bartlett, the PRI's new secretary-general. As I mentioned last week, Bartlett's political past, unlike Ojeda's, places him in Malthusian currents of the party just as growth and population issues move to the fore again.

Bonn renews nuclear growth

After a long period of dormancy, Schmidt's government plans to wake the potential of its nuclear program.

The West German government's third long-term energy program, due to be released the first week of November, looks toward an increase in the total primary energy derived from nuclear, from the current 4 percent to about 18 percent by 1995.

At the same time, the government announced after a cabinet meeting Oct. 14 that it had approved measures to accelerate the licensing of nuclear reactor construction. And in Düsseldorf Oct. 15, the licensing authorities of North Rhine Westphalia announced that the fourth license in a series of five would be granted for continuing construction of the controversial Kalkar fast-breeder project.

These actions suggest a new resolve by both Chancellor Helmut Schmidt and his factional allies to break through on the thorny political problem of nuclear energy. This will require challenging those in Schmidt's cabinet itself who are sabotaging nuclear energy, as well as the environmentalists within Schmidt's Social Democratic Party (SPD), his coalition partner the Free Democratic Party (FDP), and the radical-ecologist "Greenies."

As in the United States, a mountain of red tape, combined with court actions, have created a near-moratorium on the expansion of energy in the Federal Republic of Germany. No new plant has gone on line in the past year. Multiple licensing requirements exist for every phase of the construction and then new licenses are needed for operation of the plants. No nuclear plant can operate unless its management can specify exactly what they will do with the nuclear wastes produced six years down the line. But since environmentalist obstruction has blocked the construction of the nation's first unified nuclear waste storage and reprocessing facility in the town of Gorleben in Lower Saxony, and since the long-term availability of reprocessing facilities in France has been thrown in question by France's Mitterrand government, the problem of waste disposal has become increasingly worrisome.

The opposition to Chancellor Schmidt's pro-nuclear program runs throughout the government and the largest political parties. Interior Minister Gerhard Baum, a Free Democrat and devotee of the "post-industrial society," does not openly oppose nuclear energy, but is responsible for the labyrinth of licensing requirements. Upset by the recent cabinet decision to limit an individual's ability to bring lawsuits against nuclear power plants and utility companies, Baum said he would not tolerate any violation of the right to protest.

Federal Research Minister Andreas von Bülow (SPD) is slashing funds for basic scientific research, and particularly opposes the pilot project for construction of a high temperature reactor (HTR) in Schmehausen. Reimut Jochimsen (SPD), Economics Minister in the heavily industrial state of North-Rhine Westphalia, recently denounced the fast-breeder as a technology which will "belong in a museum" by the year 2000.

The parliamentary opposition parties, the Christian Democratic Union (CDU) and Christian Social Union (CSU), although officially more pro-nuclear than the Social Democrats, in fact bear a large degree of responsibility for the sabotage of nuclear energy development. The CDU Governor of Lower Saxony, Ernst Albrecht, was responsible for nixing the Gorleben nuclear waste reprocessing and storage facility. Franz Josef Strauss, the CSU head who was the chancellor candidate of the opposition parties in the last election, claims to be pro-nuclear. Yet in the state of Bavaria which he governs, only 2.6 percent of energy is supplied by nuclear—below the national average of 3.6 percent—while the Strauss government finances radical anti-nuclear environmentalist groups like the Bund Naturschutz.

If Chancellor Schmidt moves vigorously against these high-level opponents of nuclear energy, he will have the support of the majority of German industry and trade unionists. One leading industrialist, Rudolph von Bennigsen, Chairman of the Veba oil company, called nuclear energy an "urgent necessity," in an interview with the business daily *Handelsblatt*. If nuclear energy is not developed, he said, the cost of electricity will increase drastically, hurting the competitiveness of German industry and preventing economic recovery.

Report from Paris by Katherine Kanter and Sophie Tanapura

Security for whom?

Interior Minister Gaston Defferre exploits a police action against the state's security forces.

The discovery of an arms-smuggling network has been splashed throughout the national press, accompanied by a rumor campaign about the "danger of extreme right-wing subversion of the state."

At the beginning of October, the police apprehended two or three smugglers in the act of transporting around 50 revolvers from Belgium into France. Their customers included gun collectors, extreme right-wing circles, and gangsters alike.

The police had followed the trail leading to Rouen, Bordeaux, and Nice, and arrested a former mercenary, Olivier Danet, in Rouen. He and two others, Thierry Tcheng-Tchung and Patrick Letessier, were long-time associates of Bob Denard, one of France's best-known mercenaries, made famous after a 1977 raid on Benin and the overthrow of the Indian Ocean Comoros government in 1978.

The Belgian police—although they have little chance of seizing the ring's leadership—have at least dismantled the immediate operating network.

These three former mercenaries had recently recycled themselves into Agence Century, a firm that specialized in providing security for election campaigns. Its services were hired, for example, for part of Giscard's presidential campaign.

The Sixth Section of the Central Office of the Judiciary, which is in charge of preventing attempts against the security of the state and subversive activities, is conducting the investigation.

And the Interior Ministry leaked—discreetly, but deliberately—that the arms-smugglers are "very probably equipping a fighting structure able to launch, some day, an armed resistance against the Socialist regime."

The Interior Ministry also alleges that Agence Century "could be or could become the core of a new parallel police."

The Service d'Action Civique (SAC), the paramilitary organization tied to the Gaullist party, had been chosen earlier this year as a special target by the new Interior Minister.

Such a campaign from the government naturally suggests that Interior Minister Gaston Defferre hopes to build up pretexts under which to contain and silence the Giscardian opposition.

But more indicative of his policy is the information released by the Defense Ministry, that Capt. Paul Barril, the number-two man in the very skilled anti-terrorist commando capability called the Groupe d'Intervention de la Gendarmerie Nationale (GIGN), was involved in the smuggling ring.

In fact, there is no indication that Barril had had any link with any arms smuggling, but only that he had supplied a friend, Philippe Leonard—who happens to be an avid gun collector—with some detonators used for excavations. Since Leonard, as a customer, is connected to the affair, it seems that the opportunity was seized upon by the government to impugn the GIGN, which had been an important element in the Giscard government's uncompromising anti-terrorist policy.

The GIGN, a well-trained military group, allowed the government to resist terrorist blackmail: it successfully performed 200 missions, among them 36 operations to free hostages. This group has worked especially closely with Saudi Arabian security personnel and succeeded in defeating the Muslim fundamentalists who took hostages at the Mecca Mosque in November 1979. GIGN's operational capability has been a key contribution to the political stability of the Saudi Arabian regime.

Will Gaston Defferre, who invokes the danger of "extreme right-wing subversion" as often as he can, attempt to discredit and dismantle this anti-terrorist section of the gendarmerie?

Who knows, since—after all—if we must talk about subversion of the French state, it was Defferre who released from jail all the leaders and members of the Action Directe, the French equivalent of the Italian Red Brigades or the West German Baader-Meinhof Gang.

He also eliminated the Cour de Sûreté de l'Etat, or State Security Court, which had devoted itself to trying the numerous terrorists and autonomist grouplets that had, in fact, been subverting the French state for some time. It was also Gaston Defferre who, adding insult to injury, called the entire French police force "racists and anti-Semites" shortly after he took office.

International Intelligence

'Islam Centennial 14' promotes Dark Ages

An American organization called "Islam Centennial 14" is formally associated with the European "Islam and the West" group and the Club of Rome. Its purpose is to rewrite history books to stress Muslim Brotherhood affairs, to reshape curriculum programs in science and technology to emphasize Aquarian mentalities, and to convince prominent Americans that Khomeini-style regimes are inevitable in the Middle East.

Among the leaders of the "Islam Centennial 14" are: George Ball, the advocate of population elimination; Father Theodore Hesburgh, President of Notre Dame University; Father Timothy Healy, S.J., of Georgetown University; Arthur Hertzberg and Carter Commerce Secretary Philip Klutznick of the Zionist-leftist World Jewish Congress; Robert McNamara; David Rockefeller; Stephen Bechtel, Jr.; and former chargé d'affaires at the U.S. embassy in Teheran Bruce Laingen, who was the chief U.S. hostage during the Iran crisis, and is a former U.S. Ambassador to Malta.

Hundreds of U.S. businessmen and political leaders are being drawn into the "Islam Centennial 14" operation.

Agee calls Nicaraguans to violence

Philip Agee, the Jesuit-trained former agent of the Central Intelligence Agency (CIA), held a press conference in Nicaragua on Oct. 8 in which he exhorted sympathizers of the Sandinista government to "meet violence with violence" and seize the U.S. embassy in that country or burn it. Agee's incendiary diatribe, according to an article in the *Miami Herald,* was followed a week later by a street demonstration in front of the U.S. embassy in Managua, in which an effigy of Uncle Sam was burned.

With Iran fresh in mind, the U.S. embassy personnel have taken the threats seriously. Contingency plans to evacuate embassy personnel were readied; classified materials were destroyed; increased protection was demanded of the Sandinista Junta; and American chargé d'affaires Roger Gamble reportedly warned the Nicaraguan government that "this will not be another Teheran."

But Agee has Jesuit friends in high places—in both the American and Nicaraguan governments—that are bent on proving Gamble wrong. They want to "Iranize" Nicaragua and embroil the United States in the conflagration threatening to spread across Central America.

Brotherhood meets at Rothko Chapel

One hundred and twenty people attended the first-day sessions of the conference on Islam held at the Rothko Chapel in Houston, Texas on Oct. 22, which had become a heated subject of controversy because of involvement in the affair by the network of Muslim Brotherhood operatives who assassinated Egyptian President Sadat.

According to key sources in Houston, Texas attending the Rothko Chapel Conference, the director of the De Menil Foundation, Thompson Shannon, flew to Washington, D.C. last week to meet with State Department officials in order to prevent several visas of the members of the Muslim Brotherhood attending the conference from being revoked.

Attendance at the conference was below the expectations of the organizers of the meeting who were disappointed that the Houston business and black community did not show up or express interest in supporting the Rothko Chapel event. According to one source, conference coordinator Mrs. Jean de Menil blamed the poor attendance on *EIR*, a "powerful force not only in Houston, but Washington, D.C."

The feature presentation was delivered by Saudi Prince Mohammed al-Faisal, who retailed the same line put forth last week by Club of Rome head Aurelio Peccei at the Paris Islam and the West Conference. These two one-worldists called for the Muslim world to be dissolved into one "Islamic nation-state." Mohammed boasted that his Islamic banking empire would help to facilitate such a scheme.

A surprise guest at the conference was Ahmed Ben Bella, former President of Algeria, now the point man for coordinating the growing Muslim Brotherhood upsurge sweeping North Africa. The only other Algerian representative at Rothko was a member of the Club of Rome. One guest was overheard commenting that it was strange to see a Saudi prince and an Arab revolutionary leader so close together. It was later said that they are old friends who worked together "during the Iran crisis to bring Khomeini to power."

A full report will appear in next week's *EIR*.

IMF forces Sudan to accept diktat

The IMF is setting up the Sudan for destabilization. Banking sources report that Sudanese economic officials, meeting with a visiting IMF delegation the week of Oct. 19 in Khartoum, have accepted an IMF ultimatum that will mean substantial increases in the price of food.

The size of Western Europe, the crucially located Sudan has been publicly targeted for destabilization by Qaddafi and his Islamic fundamentalist minions, and the IMF demands will make Sudan extremely vulnerable.

Acknowledging that this is what is at stake, one banker claimed, "I have no idea if this [the IMF ultimatum] will cause riots." Sudden price increases and food shortages have caused unrest in the past.

"The situation is ripe to be exploited by those who want to get rid of President Gaafar Numeiry," said one source.

The political consensus established by Numeiry began to unravel after the

IMF imposed conditionalities in 1978 that forced the Sudan government to cancel economic development projects. Sudan has borrowed extensively in an attempt to revive the development of the potentially rich country, and now, as a result, has the largest debt payments of any African country.

Sudan is now faced with accepting the IMF demands or losing all access to international credit, which would force the Sudan to conduct its international trade on a cash-only basis.

Kampuchean rebels kill off each other

Rival groups of Kampuchean rebels, using grenade launchers and automatic rifles, engaged in a large-scale battle along the Thai-Kampuchea border last week.

The U.S. State Department-backed Khmer Rouge, and the Son Sann-led Khmer Serai have battled for the last two years to get control of one of the most lucrative black-marketeering rings that exists in that border region. Repeatedly, the Thai troops, who are busily engaged in keeping the situation under control, had been attacked by these rebels.

Division Commander Prasun Songsiri recently denied Son Sann clearance to visit the area because of the fear of increased tension. Observers at the border estimate that at least $40,000 worth of business was transacted daily and as much as half a million dollars changes hands daily along the border.

Malaysian minister: drugs a 'threat'

In his address to the United Nations last month, Malaysian Foreign Minister Tan Sri Ghazali Shafie called for "a new conceptual approach" to the problem of international drug abuse which he termed a danger that "saps the energies of nations and threatens their very political, social, and security fabric."

The Malaysian Foreign Minister's warning on the threat to national security coincided with increased guerrilla activities by the Islamic fundamentalists in cooperation with the Chinese-financed Communist Party of Malaysia (CPM) along the Thai-Malaysia border.

Far Eastern Economic Review in its Oct. 9 issue reports Malaysian police sources say that the "main outlets [of drugs] are believed to be in Australia, though Thai narcotics agents do not rule out the possibility that the drugs are going to the European markets via Hong Kong." In 1978, Thai-Malaysian troops uncovered a massive heroin factory in the dense jungles along the border run by the ethnic Chinese-dominated Communist Party of Malaysia.

Mitterrand tightens grip on Foreign Ministry

The largest shakeup in the Foreign Ministry of France since the end of World War II has just been announced. The shakeup affects control of the Foreign Ministry itself as well as ambassadorial positions, involving 50 people altogether. Members of the diplomatic corps with seniority are being bypassed in favor of those with little or no connection with diplomacy. At the top level of the shakeup, Francis Gutman, now Director General of the French Red Cross, will be brought in as General Secretary of the Ministry, replacing Bruno de Leusse, a senior diplomat who had previously been Ambassador to Moscow. Gutman will become the man who really runs the Foreign Ministry.

Among the ambassadors to be replaced is François de Laboulaye (from the family that brought America the Statue of Liberty). The new Ambassador in Washington will be Bernard Vernier-Palliez, currently Chairman of the Renault auto company. And the next Ambassador to Italy will be Gilles Martinet, former head of the left-wing Parti Socialiste Unifié, and a key ideologue of the Mitterrand government.

Briefly

● **'SOMALI** President Siad Barre—watch for him to fall," said a source connected to Bill Buckley's *National Review.*" And don't expect the obvious, it won't come from Ethiopia. He'll probably get killed in the name of Islam." The radicalization of Somalia and the projected destabilization of Sudan could close down oil shipments from Saudi Arabia via the Red Sea.

● **NIGERIA** lowered the price for its crude oil by $1.50 retroactive to Oct. 1, following a $4 cut in its $40 official price. The move comes just before OPEC's Oct. 29 meeting to unify oil prices. The Nigerian cut brings its normally more expensive oil to only 50¢ above the $34 target price for less expensive oil. Nigeria's move may have been carried out to pressure price hawks Algeria and Libya to unify prices.

● **PRESIDENT REAGAN** issued a statement Oct. 21 in response to international press coverage of his Oct. 17 remarks on limited nuclear war, which said in part: "The suggestion that the United States could even consider fighting a nuclear war at Europe's expense is an outright deception. The essence of United States nuclear strategy is that no aggressor should believe that the use of nuclear weapons in Europe could reasonably be limited to Europe. Thus, we regard any military threat to Europe as a threat to the United States itself."

● **COLOMBIA'S MILITARY** raided offices of every trade union that had supported the Oct. 21 banned general strike, rounding up over 1,000 labor leaders and sympathizers. Almost all are leaders of the CSTC, the Communist Party-run union federation, which foolishly went out on strike after every other labor group withdrew its support for the action. The military, politically controlled by oligarch Alvaro Gómez Hurtado, is now threatening to permanently outlaw the CP and CSTC.

Who's setting the next booby-traps

by Richard Cohen, Washington Bureau Chief

Senate Minority Leader Robert Byrd's suspenseful decision to oppose the sale of AWACS aircraft to Saudi Arabia was consolidated during the Oct. 16-17 meeting of the newly created Democratic National Strategy Council (DNSC). On Oct. 21, Byrd rose to the rostrum on the Senate floor and announced his opposition, which compounds the threat to Senate approval of the measure—and illustrates a new degree of collusion between large parts of the Democratic leadership and the Socialist International.

The DNSC is one of the more recent and important front groups of Charles Manatt's Democratic National Committee. It was created by Manatt and House Speaker Tip O'Neill, with the agreement of the Senate Democratic leadership, notably Minority Whip Alan Cranston of California and Byrd himself. The Council has been endorsed by Socialist International-affiliated leaders within the AFL-CIO, including William Winpisinger of the International Association of Machinists, and Trilateral Commission member Lane Kirkland, the Federation's President. The Council's Baltimore meeting, which attracted many important national figures in the Democratic Party, firmly re-emphasized the now-familiar Manatt-O'Neill-Kirkland ban on any Democratic-sponsored bipartisan approach to toppling the interest-rate policy of the Federal Reserve Board and rescuing the nation's productive sectors.

But participants in the Baltimore conclave tell me that the Manatt-O'Neill group went well beyond the standard "let Reagan sink with the economy" tactic in a series of private sessions.

On the morning of Oct. 18, a full-page advertisement appeared in the *New York Times*, sponsored by the Coalition for Strategic Stability in the Middle East. Manatt has publicly identified himself with this group; sources close to the DNC assert that "Manatt started it and has privately funded it." The Coalition's sponsors include Winpisinger, Kirkland, and other Socialist International-linked figures such as J. C. Turner, President of the Operating Engineers and a member of the Trilateral Commission.

In the advertisement, which appeared in the *Washington Post* the day before Byrd's announcement, Senators are warned not to vote for the AWACS sale unless the President secures a "public agreement on assurances" concerning the use of the equipment from Saudi Prince Fahd at the Cancún summit. The "public agreement" the Manatt group demands is the same package the Saudis officially rejected several weeks ago. Yet five hours after Byrd's announcement on the Senate floor, Alan Cranston held a press conference to warn that should Reagan be unable to secure such assurances from Fahd, the administration would definitely lose the AWACS vote. The following morning, Oct. 22, Sen. Ernest Hollings of South Carolina, another Democrat, announced his opposition to the sale.

It is useful to note that a week before the DNSC meeting, former Vice-President Walter Mondale, Manatt's favorite as the 1984 Democratic presidential nominee, announced his own opposition to the AWACS policy. Mondale made his position known after he returned from a trip to Europe, during which he met with French President François Mitterrand and West German associates of Socialist International Chairman Willy Brandt. Mondale's visible presence at the DNSC meeting, where the final stage of the attempt to block the AWACS sale was hatched, was followed on Oct. 20 by Mondale's much-publicized speech to the Foreign Policy Association in New York.

There Mondale went well beyond AWACS, and charged the Reagan administration with having split the NATO alliance through its interest-rate policy. Mondale went further than a defense of Volcker by holding Reagan solely responsible for that disaster; he defended the Socialist International's rationale for the European "peace movement."

The former Vice-President repeated the same arguments Mitterrand delivered to Reagan in their private talks at the Yorktown bicentennial event the day before Mondale spoke. Both Mondale and Mitterrand warned that unless the administration speeds up arms talks with the Soviets and endorses "globality" in North-South relations, NATO would disintegrate and the United States would slide into isolation from the Third World.

These items were on the agenda, sources report, when Mondale met with Mitterrand in Paris, and on Oct. 19, the final day of the Reagan-Mitterrand talks, French Foreign Minister Claude Cheysson publicly ridiculed the U.S. AWACS plan.

The clear coordination between the increasingly powerful Socialist International and the Democratic Party leadership has several immediate aims. The joint escalation of moves against the AWACS sale is aimed at furthering the influence of British intelligence (mother of the Socialist International, and, through Averell and Pamela Harriman, mentor of the DNC) in the Middle East. Already, the administration accepted an increased role there for Mitterrand and British Foreign Secretary Lord Carrington when, on Oct. 19 and 20, the French and U.K. governments signaled their interest in participating in the Sinai peace-keeping force. The devastating loss of U.S. standing in the Middle East, compounded by possible British or French provision of substitutes for the warning system equipment, would put Washington in the remarkable position of having to openly work through London and Paris in order to operate in the region.

Isolating the United States

Beyond the Middle East, the activities of Manatt, O'Neill, Byrd, and most emphatically Mondale have as their tactical purpose the pre-eminence of the Mitterrand government and the British Foreign Office in determining U.S. policy toward Europe, the Soviet Union, and the developing sector. The Reagan administration in turn is both morally and political susceptible to this operation.

On Oct. 18, Reagan's senior economic and political advisers closeted themselves with Senate Republican leaders, including Majority Leader Howard Baker, at the White House. The purpose of the meeting was foreshadowed on Oct. 14, when aides to Mark Hatfield, Chairman of the crucial Senate Appropriations Committee, and Robert Dole, Chairman of the Senate Finance Committee, publicly reported that the President's proposed second round of budget cuts would have to be halved to between $5 and $6 billion, of which $4 billion would have to come from defense spending—twice as much as the President suggested. Further, on Oct. 14, the White House lost a vote on the dairy price-support bill, with many Republicans unwilling to accept its austerity slashes. By Oct. 16 Republicans on the Senate Finance Committee were discussing the possibility of hiking excise taxes on cigarettes and alcohol; by the weekend it was clear that the President's program was in a shambles, and emergency deliberations multiplied against the background of the President's acknowledgement that the economy is in recession.

The Oct. 18 meeting at the White House tentatively agreed to policy changes argued for by the *New York Times*, the *Washington Post*, and spokesmen for the International Monetary Fund. The administration agreed to further cut the defense budget and to increase taxes. On Oct. 20, the House Republican leadership, with an eye to O'Neill's stranglehold on the House Ways and Means Committee, which would have to pass any new tax bill, sent the message that such excise taxes would never get through. By the morning of Oct. 22, the administration was sending out signals that it was prepared to go even further, however. White House sources are now suggesting that the only acceptable tax increase would be the one Jimmy Carter himself suggested in his infamous National Energy Program: a surtax on gasoline.

These developments occurred while the President's stumbling remarks to an editors' conference on the possibility of nuclear war being confined to Europe were manipulated by the press, adding fuel to the Socialist International's new peace movement and adding to Chancellor Helmut Schmidt's problems. During Caspar Weinberger's trip to Scotland for the NATO Defense Ministers' meeting, the Secretary succeeded in obtaining a "vote of confidence" for the strategically cock-eyed Euromissile deployments; but at the same time, the President and his staff were fleecing the Pentagon's already inadequate budget.

POPULATION POLICY

Haig to write own Global 2000 draft

by Lonnie Wolfe

The White House has approved a State Department initiative to form an interagency task force that will produce its own version of the Carter administration's *Global 2000 Report,* a document which calls for the reduction of the world's population by some 2 billion people by the end of this century.

"There is a misperception that the Reagan administration has thrown the *Global 2000 Report* in the wastebasket," said a spokesman for the White House Council on Environmental Quality (CEQ). "The White House has no real problems with the report itself. There are some problems with some data, but that is usually the case with such reports. Global 2000 has been given a bad name unjustly."

The official proceeded to explain that the Carter administration document defined the need for population policy from an environmentalist and one-worldist standpoint. "Population control must be talked about with the appropriate free-market and national-security perspectives," said the official.

A similar point was made by a spokesman for the Committee for the Year 2000, the elite group of former government officials and prominent citizens set up earlier this year to promote the Global 2000 policy doctrine. "Global 2000 is like a beautiful, extinct bird," he said. "It can't fly in this administration. Not that its ideas are wrong. It just has to be reworked and resold."

"You can get people to deal with problems of overpopulation and resources scarcity if you make it patriotic," agrees one State Department official. This has been the approach, he said, of Henry Kissinger, who first established the population policy apparatus in both the National Security Council and the State Department.

The project is being carried out through the International Division of CEQ, which sent out letters to more than a dozen top officials of departments and agencies ordering their participation in an administration review of "global issues." The first meeting will take place in mid-November, at which point more personnel will be assigned to the project, and regular meetings will be scheduled.

Republican members of the Committee for the Year 2000 are working with the State Department and Council on Environmental Quality to launch the project. Most prominent in this effort are Russell Train, head of the Nixon Environmental Protection Agency and president of the U.S. branch of the World Wildlife Fund; and Robert O. Anderson, chairman of Arco and chairman of the board of the Aspen Institute, the think tank that launched the environmentalist movement.

Within government, the work will be concentrated within the State Department's Office of Population Affairs, headed by Carter holdover Richard Benedick. McPherson's AID will also be helping in the Global 2000 rewrite, as will the office of National Security Adviser Richard Allen.

A spokesman for the Committee for the Year 2000 reported that the main force inside State pushing Global 2000 and the point man for the project is Undersecretary of State James Buckley. "Buckley's the perfect guy for this," said the committee spokesman. "He works closely with Haig and has impeccable conservative credentials. No one could call him a one-worldist, environmentalist, or no-growther."

In addition, the project is known to have the support of the Treasury Department and David Stockman's Office of Management and Budget (OMB).

The IMF dimension

In his Oct. 14 speech, President Reagan stressed his administration's free-market approach to the developing sector. That means, he explained before the Philadelphia World Affairs Council, that the administration will seek to end all domestic food subsidies for developing-sector nations. Though the President presumably believes otherwise, this would cause a doubling and trebling of food prices and consequent starvation in many countries.

Behind that measure stands the administration's commitment to the conditionalities policy of the International Monetary Fund (IMF), which is responsible for depriving the developing-sector nations of the means for industrialization.

That point was underscored in conversations with aides to Meyer Rashish who boasted of their authorship of the Reagan North-South policy. Their goal, these aides insisted, is to force cutbacks in anything but labor-intensive projects in the developing sector. "We are seeking retrenchment of their economies," said a Rashish aide, reporting that the administration intends to pay lip service to the idea of "global negotiations," and even talk about the World Bank's proposed energy facility—provided the developing sector agrees to carry out those negotiations through the IMF/World Bank. The conditionalities must remain in effect, the aides emphasized.

DEMOCRATIC PARTY

Strategists say the U.S. system is dead

by Ronald Kokinda

The Democratic National Strategy Council of approximately 100 elected Democratic officials and former office holders met here last week only to be lectured by the Democratic National Committee leadership that the party of FDR no longer has a place in the United States.

The assembled Democrats were told that the country is "moving toward a union-free society"; that "Congress is becoming an increasingly obsolete institution"; that the family is no longer the basic unit of our society; that the Democratic, Republican, and other political parties exist in name only; that "wages and prices must be controlled"; that we are "going to save some of our cities . . . we are not going to save others"; and that, in short, the United States has already become a post-industrial society, and that must be the basis of formulating party strategy.

The Democratic National Committee, under the leadership of California banker Charles Manatt, has maintained the lie that the Democratic Party will let President Reagan take the blame of the collapse of the country and that the Democrats will put forward no policy alternatives to take the heat off the administration. That stance has translated into Democratic Party leadership protection especially for Federal Reserve Chairman Paul Volcker and his high interest rates.

So intent on remaining to appear "policyless" is Manatt, however, that he will not allow the group to use the word "policy" in its name, rather "strategy." But as the Oct. 16-17 conference showed, the next six to eight months are intended by the DNC to be full of "T-group" soft brainwashing sessions, in which the Democratic Party, traditionally resting on a producers' coalition of labor, small business, and farmers, will be reorganized around a set of zero-growth, wage-gouging proposals appropriate to the "post-industrial society" projected by Manatt and Co. The DNC expects this conversion to be accomplished by the spring of 1982, when the congressional elections will begin in earnest.

In this strategic framework, it is not so remarkable that almost all of those on the meeting agenda are on public record in support of population reduction policies of the *Global 2000 Report:* Rep. Richard Gephardt (Mo.), Rep. Timothy Wirth (Colo.), Sen. Alan Cranston (Calif.), Rep. Barbara Milkulski (Md.), and invited speakers such as John Naisbitt, publisher of the *Trend Report,* and a member of the Club of Rome (the latter credential was, in fact, omitted from his program biography).

Wirth, formerly the manager of the Rocky Mountain office of the Arthur D. Little Co., declared that the country is falling apart economically, as measured by traditional yardsticks. His solution? Measure the economy differently. "Productivity may be declining in manufacturing, but it is growing in hard-to-measure areas of the service sector."

But it was Club of Rome member Naisbitt, who served as assistant to former Common Cause head John Gardner when Gardner was at the Department of Health, Education, and Welfare, who declared that in a post-industrial society there is no need for labor unions, or political parties either. "We are no longer an industrial society," he said. "The fact that most of us were in industrial occupations until recently dictated the arrangements of the mass industrial society—which are now out of tune with the information society.

"Take for example labor unions. National political parties also had their heyday during the mass industrial society. Today, they exist in name only."

As for the party's urban base, Naisbitt stated, "We have no national urban policy today because the old 'top-down master plan' is completely out of tune with the times. We are going to save some of our cities, and not others."

Congress also "is becoming an increasingly obsolete institution. Its members spend more and more of their time . . . running errands for constituents and special interest groups," concluded Naisbitt.

Other participants joined in the effort to horrify the Democratic Party's traditional blue-collar, farmer, and small businessman base. Senator Gary Hart of Colorado announced that the Democratic Party was the real "free-market party" and then went on to call for wage-price controls. St. Louis Mayor Vince Schoemehl insisted that the Democratic Party "stands for the redistribution of wealth," a slogan of the Socialist International.

Detroit Mayor Coleman Young heatedly countered the post-industrial proposals to write off the auto and steel industries at the national level and leave it up to localities to save their own industrial bases. But, despite these and other reactions to the anti-labor, anti-constituency, and pro-Aquarian views that dominated, no one offered a sound economic development alternative for the Democratic Party.

Two battles for U.S. water development

by Nicholas F. Benton

A major battle in the fight to open up U.S. water development comes to a head in Texas Nov. 3 when a unique proposition to create a state water trust fund appears on the state ballot. Spearheaded by Texas House Speaker Bill Clayton, a Democrat, and endorsed by Texas Gov. William Clements, a Republican, Proposition 4 is an amendment to the state Constitution that is designed to utilize the tax base of a growing region to crack through the national fiscal and political roadblocks which have stalled virtually all new water development since 1976.

Clayton's initiative in Texas is one of two complementary campaigns toward vastly expanding the nation's water supplies. The Texas ballot effort, which was endorsed last spring by National Democratic Policy Committee (NDPC) Chairman Warren Hamerman, is complemented by a broader national campaign initiated by the NDPC to revive the 1960s push to bring massive new water supplies from Alaska and Canada into the "lower 48" states. Both the Clayton Plan and the NDPC's efforts to revive the plan known as the North American Water and Power Alliance (NAWAPA) were launched in response to the imminent threat of water shortages in some of America's most important agricultural areas.

Texas is one of six states whose highly developed agricultural productivity faces devastation as a result of depletion of a major ground-water aquifer, the Ogallala. Half the nation's cattle stocks and 22 percent of its agricultural exports come from the region—covering the Texas and Oklahoma panhandles, western Kansas and Nebraska, and eastern Colorado and New Mexico—whose only source of water for irrigation is the Ogallala Aquifer. The discovery that the huge aquifer was being depleted at an alarming rate led Congress in 1976 to create the High Plains Study Council, to conduct a $6 million study of possible remedies for the problem.

As a vehicle for action, the study was crippled at its outset by Sen. Henry Jackson (D-Wash.), who amended the original legislation so as to restrict the inquiry to transfer of water from the Missouri and Arkansas Rivers (thus eliminating the NAWAPA option). As an *EIR* survey made on Capitol Hill in late October confirmed, any Council recommendation for transfer of water from those two rivers faces certain rejection.

A look at the preliminary report prepared for the Council in August suggests why. The combined claims of the upstream and downstream states on the waters of the Missouri and the Arkansas would preclude any large-scale diversion, the report says. The quantities thus available to the High Plains states would be inadequate for the development needs of the region, and the costs in any case would be prohibitive—in one estimate running as high as $2,000 per acre-foot for water by the time it reaches farms in western Texas.

Clayton's ballot measure, however, offers a partial alternative. Opposed by the Sierra Club and the League of Women Voters (who would deceive voters into thinking it will create new taxes) the measure sets aside a percentage of the state's annual budget surplus for underwriting, at moderate interest rates, bond issues for regional water projects throughout the state. This is a shrewd maneuver to bypass the high interest-rate regime, which is wiping out the markets for development bonds and accomplishing the environmentalists' depopulation-through-underdevelopment policy.

Clayton's Proposition 4 measure will be decided by the vote in Houston, where the only large turnout of voters in the state is expected Nov. 3 due to a four-way mayoral race. There, the NDPC is adding its efforts to those of the "Water for Texas" committee headed by Austin Mayor Carol McClellan to win passage of the measure.

Although Houston differs from the Texas Panhandle in overall rainfall, it is no less in need of water development. Growing rapidly, it is now the nation's fourth largest city. Upgraded flood control and water and sewage-treatment plants are urgently needed. Proposition 4 will be approved if its proponents can get this point across to Houston voters.

Meanwhile, on Oct. 6, thirteen members of the High Plains Study Council attended a forum on NAWAPA held by the NDPC in Santa Fe, New Mexico. Those attending included four state senators from three states, two representatives of the U.S. Army Corps of Engineers, and senior water-resource department representatives from two states. Aware of the failure of their study, now virtually complete, four members of the Council, led by Republican State Rep. Keith Farrar, have responded to the NDPC initiative to make a national scandal of the Ogallala depletion, and to revive NAWAPA as the only viable solution from both an economic and political standpoint.

The original NAWAPA study established the feasibility from an engineering standpoint of every dam, ditch, tunnel, and pump required to divert a fabulous volume of water and surplus hydroelectic power from the headwaters of the Yukon, Tanana, and Peace rivers into productive use from Canada to Mexico.

Who would benefit from the NAWAPA program

The North American Water and Power Alliance (NAWAPA) is the most comprehensive of a number of plans developed during the 1950s and 1960s to deliver water from Alaska and Canada to the lower 48 states. Completed in 1964 by the Ralph M. Parsons Company of Pasadena, California, it was the subject of a report on Western Water Development prepared by the Senate Public Works Committee's Special Subcommittee on Western Water Development, chaired by Utah Republican Frank Moss in 1966.

The estimated cost at the time was $80 billion. Within five years after commencing construction, the project would begin to pay for itself with the sale of surplus water and hydroelectric power. Its full completion would take 30 years.

NAWAPA promises 80 million acre-feet of water a year and 30,000 megawatts of surplus hydroelectric power to the United States; 58 million acre-feet a year of water and 38,000 megawatts of hydroelectric to Canada; and 20 million acre-feet annually and 2,000 megawatts of hydroelectric to Mexico. By way of comparison, the U.S. presently consumes a total of 160 million acre-feet of water per year.

The virtue of the NAWAPA plan is its continent-wide approach, which not only heightens its political value by making it attractive to diverse regions, but exploits the benefits of grand-scale water diversion to the maximum.

The regional benefits include:

• **Alaska:** Water is diverted from the Yukon, Tanana, Peace, and other rivers in Alaska and the Canadian Yukon Territory. Although the water diverted from Alaska would be less than 20 percent of the total flows in the affected areas, Alaska itself would receive the equivalent of two and a half 1,000 megawatt nuclear power plants in surplus hydroelectric power.

• **Canada:** The gathered water would flow southward into a natural geological formation known as the Rocky Mountain Trench, containing the upper reaches of the Columbia and Fraser Rivers. Dammed off, this 500-mile long, 6-mile wide gorge would hold 450 million acre-feet of water in storage. As a gigantic artificial lake adjacent to Banff and Jasper National Parks, it would attract tremendous recreational development in the region. Water from this reservoir would then flow south into the United States and eastward through Canada, enabling the massive expansion of irrigation in the Canadian agricultural belt, and allowing for the construction of a navigable waterway extending from the Great Lakes to the Pacific Ocean (at last, the Northwest Passage!).

• **Pacific Northwest:** As opposed to "stealing" water from the Columbia River, NAWAPA would benefit the basin by regulating flows in the Columbia and Fraser River systems which presently are characterized by the tremendous seasonal river variations. The storage capacity of the NAWAPA reservoirs would regulate the flow of the Columbia River system to double the hydroelectric power-generating capacity of the system.

• **California-Arizona:** Presently supplied by the Colorado River, this region faces a severe water crisis as the quality of the Colorado water progressively deteriorates, and continued growth in the region stretches the existing supply beyond the limit. This will be felt even more dramatically upon completion of the Central Arizona Project, which will draw heavily upon the Colorado. NAWAPA will supply 11 million acre-feet annually each to California and Arizona (compared to the total of 46 million acre-feet presently used there), thus not only addressing the impending crisis, but also allowing for the flowering of the desertified Southwest beyond our present imagination.

• **Mexico:** The 20 million acre-feet of water delivered to northwestern Mexico alone would allow that country to irrigate eight times as much new land as the Aswan Dam allows Egypt.

• **The High Plains:** The depletion of the Ogallala Aquifer—the primary water supply for 11 million acres of the nation's most critical agricultural land—threatens the nation's economy more than any other single water problem. When NAWAPA was first developed, awareness of this problem did not exist; therefore, projected water delivery to this region (especially to western Kansas, Oklahoma, and Texas) was not made a priority in the study. However, modifications in an update of the study would easily provide an ample surplus to this region.

• **The Great Lakes:** The flow of 40 million acre-feet per year of water through the navigable diversion canal extending across Canada from the Rocky Mountain Trench to the Great Lakes would alleviate falling levels and pollution in the Great Lakes, and would augment the power potential of the Niagara and St. Lawrence Rivers.

Food bill could seriously affect development

Senator Mark Hatfield (R-Ore.) led a floor discussion on Oct. 16 of his Hunger Elimination and Global Security Act (S. 1975), a bill which could seriously imperil the already limited funding for industrial and infrastructural development done through various aid programs. Hatfield began by announcing that 20 more Senators of both parties have joined the three original co-sponsors.

The legislation would require that whenever food aid is given, the recipient nation detail measures to route it to the "most needy"; that multilateral development banks adopt requirements to give more than half their aid to the "most needy;" that food security reserves be established in poor nations; and perhaps most important, that U.S. bilateral aid be available only to nations emphasizing "basic human needs," with 50 percent of U.S. aid going to the "most poor."

While it might be argued that the bill merely ensured that aid is not frittered away, to the key authors of the bill the point is channelling money away from economic development programs, such as industrial plant construction and irrigation, under the guise of feeding the poor. The bill was the product of a group called Bread for the World, whose board includes Hatfield himself and such liberal anti-growth institutions as Amnesty International. "We want to focus lending on projects helping the poor, not overall economic development" declared a staff member of Bread for the World.

As Hatfield told the Senate during the discussion: "There are those who approach the hunger problem from a population control perspective." Senator Mathias (R-Md.), though not himself a cosponsor of the legislation, declared that Hatfield has his full support, and called on the Reagan administration to immediately review the Carter Global 2000 document calling for reducing the world's population by 2 billion by the year 2000.

Hatfield intends to introduce legislation Oct. 26 that would establish a Population Office in the executive to coordinate budget policy with population control.

New hearings on population control?

Sources at the Committee for the Year 2000, the elite group of former government officials and prominent citizens who back the *Global 2000 Report,* say that they are working through contacts in the House Energy Committee to set up hearings on the need for a coordinated U.S. government population policy of zero population growth world wide.

The Committee sources say that the chief counsel for the Energy Committee, Frank Potter, is trying to arrange hearings in the Oversight and Investigations Subcommittee chaired by Rep. John Dingell (D-Mich.) on what is termed "foresight capability" in the Global 2000 documents. The hearings will feature legislation already introduced by Rep. Richard Ottinger (D-NY), the Population Policy Act of 1981. Committee Counsel Potter, a member of the Club of Rome and a policy adviser to the Aspen Institute for Humanistic Studies, is a former aide to the New York Congressman.

Thurmond criticizes waterways policy

In a surprising break with the Reagan administration, Strom Thurmond (R-S.C.), chairman of the Senate Judiciary Committee, criticized the administration's proposal to have individual ports recover dredging costs locally through user fees on port traffic. Because small and medium-sized ports have lower volumes of traffic, they would have to charge more than large ports, said Thurmond in a floor statement Oct. 14, noting that the administration's bill, S. 809, would "be absolutely devastating to nearly all but the very largest ports and would be especially damaging to port authorities in the Southeast."

Perhaps most striking was Thurmond's criticism of the administration for breaking from a path set by the Founding Fathers that the federal government does have a critical role to play in fostering the country's economic development. The administration's bill, said Thurmond, "does not adequately consider the historical role of the federal government in maintaining a national system of navigation channels for international trade and defense purposes.

Thurmond's alternative to the administration's plan is a uniform, national port user fee, which would still be a serious impediment to shippers. In co-sponsoring the Waterways Transportation Development and Improvement Act of 1981 (S. 1586) which calls for such a uniform fee, however, Thurmond hopes to use the bill as the basis for working out a compromise on the issue. Both bills are still before the Environment and Public Works Committee.

Subcommittee seeks solutions to high rates

The Subcommittee on Tax, Access to Equity Capital and Business Opportunities of the House Small Business Committee held hearings Oct. 15 to seek effective ways to bring interest rates down. Committee Chairman Henry Nowak (D-N.Y.) insisted in announcing at the hearings that "the Administration and the Federal Reserve Board must take immediate action to dramatically reduce the current level of interest rates."

Dr. Jack Carlson, Executive Vice President for the National Association of Realtors, M. Eamonn McGeady, representing the U.S. Chamber of Commerce, and Frederick Napolitano, President-elect of the National Association of Home Builders, all testified with their well-worn line that reduced budget deficits through budget cuts and tax cut deferrals, and a less restrictive monetary policy on the part of the Fed, were the solution. Carlson also added that "a secondary, consistent interest rate target range, such as 13 to 16 percent for short-term rates" was actually a desirable.

One witness, Joe Cobb, Director of Economic Analysis for the Council for a Cooperative Economy, audaciously attacked those very funders of agricultural, home-building and small business loans that the Committee is desperately trying to save. "The small, protected banking industries in those states that forbid branch banking, that lobby in their state legislatures [against banking deregulation], are the real enemies of every other small businessman in the United States," Cobb raved. "Our financial system is fatally flawed, with a defect that goes back to the founding of the Republic. . . . [The belief] that a sovereign power must have a monopoly of its currency; and that to facilitate the exercise of this sovereign power, a government must have a central bank." As Cobb called for total deregulation of the entire U.S. banking system, Nowak rhetorically asked, "How does Japan do it? . . . they allocate and compete extremely well on the international markets." Nowak added that this is an important question that the Committee should consider.

Key GOPers back 'Bob Strauss Memorial Pipeline'

Several influential Republican Senators have been maneuvered into supporting changes in the Alaska Natural Gas Transportation System which will soon be yielding hefty returns to former Democratic National Committee Chairman Bob Strauss and Carter money man, John McMillian. On Oct. 19, Senate Majority Whip Ted Stevens (R-Alaska), Energy Committee Chairman Jim McClure (R-Ida.), Frank Murkowski (R-Alaska), and Scoop Jackson (D-Wash.) announced the introduction of S.J.R. 115, which would endorse the President's decision to waive certain provisions governing the construction of the natural gas pipeline from Alaska.

At issue is the fact that the company building the pipeline, the Northwest Alaskan Pipeline Company—owned by McMillian and represented in Washington, D.C. by Bob Strauss—needs changes in the legislation establishing the Alaska Natural Gas Transportation Act in order to obtain additional financing to complete the project.

The changes include: allowing Exxon, Atlantic Richfield and Sohio (British Petroleum) to buy up equity in the project (currently prohibited for Alaskan natural gas producers), and allowing consumers to be billed for costs of the pipeline *before* its completion.

In his floor statement, Senator Jackson noted that "the banks told us categorically that they would be unable to raise funds for the project" unless they received the waivers.

The necessity for these waivers in the existing law stems from President Carter's 1977 decision to choose the most expensive of three proposed natural gas delivery systems.

Added to this was the cost of "environmental safeguards" imposed by Canada's Northern Pipeline Agency head, Mitchell Sharp, a member of the Trilateral Commission.

With the Carter decision a fait accompli, President Reagan and his Senate supporters have determined that the waivers must be put into effect or the U.S. will not have access to Alaskan natural gas. Both houses of Congress must approve the resolution within the next 60 days for it to go into effect.

Now, after being walked into this corner by Jimmy Carter, Bob Strauss, et al. the Reagan administration will probably find itself the target of accusations of bailing out "big business," made by the very environmentalist movement deployed and funded by the Trilateral Commission and by multinational companies such as Arco and Exxon.

National News

NASA head calls for renewed space effort

Speaking Oct. 21 before the New York Patent Lawyers Association in New York, NASA Administrator James Beggs outlined what the space program in the U.S. could look like with "will and determination."

Beggs recalled the program proposed by former NASA Administrator Tom Paine in the late 1960s. Paine had outlined an ordered development from the Shuttle, Spacelab, and a manned space station orbiting around it, to a lunar orbiter in 1978, a first Moon base at the beginning of the 1980s and a Mars base by 1988.

In discussion with the press after his presentation, Beggs assured everyone that the Galileo mission had not been scrapped by NASA, and stated that even in the post-Apollo pullback of the space program in 1971, the space budget was $3.3 billion.

Beggs himself has been caught between the demand to be a "team player" in the administration going along with cuts, and his commitment to the space science and aeronautics community.

Harrison Williams gains Jersey labor support

The New Jersey Industrial Union Council of the AFL-CIO has called on its 225,000 members to support Sen. Harrison Williams (D-N.J.). At its Oct. 17 convention, a resolution called Williams "the victim of an entrapment scheme concocted by the U.S. Department of Justice, which is of dubious legality and propriety."

While Williams sat at the dais, the delegates to the New Jersey Industrial Union Council (IUC) unanimously supported a resolution praising the Senator's legislative record and deploring "entrapment" as "a dangerous weapon in the hands of politicians."

Senator Williams had been found guilty on Abscam charges in May 1981. In August, the Senate Ethics Committee voted to recommend that the Senate expel Williams. That full Senate vote, in which Williams will need 34 votes to survive, is currently scheduled for early November.

The IUC resolution praised Williams's record in "pioneering crucial legislation" such as the improvement of Social Security, aid to the aged, and his work in labor, education, and housing. The resolution also noted that "even during [Sen. Williams's] trial, FBI reports favorable to the Senator have been withheld as evidence," and that Williams "is appealing the constitutionality of his case" and "is in turn suing the government for its role in his Abscam conviction."

Mondale launches his Bilderberg campaign

Walter Mondale made what amounted to the opening speech of his bid for the 1984 Democratic presidential nomination Oct. 19 at the Foreign Policy Association (FPA) in New York.

At the head table with Mondale was Richard Gardner, Jimmy Carter's ambassador to Italy, the British-trained husband of Daniele Luzzato of the Italian oligarchic Luzzato family, and a supporter of the Italian Socialist Party. Next to Gardner was Gianni Agnelli, a Trilateral Commission member, as is Mondale.

In his remarks, the former Vice-President made special mention of his closeness to another member of the audience, Orville Freeman, head of Business International and a prominent member of the population reduction institute, the Draper Fund. Freeman told an interviewer there that his association with Mondale goes back to 1947, during one of Hubert Humphrey's campaigns: "In 1960 I launched Mondale on his career by appointing him Attorney General," Freeman recalled.

Mondale's bid for the White House was crafted at last May's meeting of the Bilderberg Society, where, as he privately boasted to FPA attendees, he had been an active participant in the discussions of arms negotiations and dissolution of NATO.

State Department cuts capital-intensive aid

The Agency for International Development (AID) is no longer engaged in providing assistance for large-scale development projects such as railways, roads, and electrification, according to the agency's Administrator, Peter McPherson. AID is a part of the State Department.

McPherson spoke at a joint congressional hearing in Washington where he discussed the agency's newly created Bureau for Private Enterprise. AID will send "reconnaissance" missions to the developing sector composed of business, financial, and investment experts.

The first team left in late October for Indonesia; similar teams are scheduled to go to Kenya, Sri Lanka, and Thailand before the end of the year. Egypt, Pakistan, the Ivory Coast, Zimbabwe, Jamaica, and Costa Rica have also been selected.

Philadelphia strike a national pace-setter?

The Philadelphia teachers' strike, which began Sept. 7, is being used to float alternatives to public education.

The strike was provoked midway into a two-year contract when the school district, which was facing a $236 million deficit, revoked a 10 percent pay increase and virtually eliminated language courses, science lab assistants, and library staff, while increasing class size by 10 percent.

The Common Court proceeded to hand down a bizarre back-to-work order in mid-October, terming the teachers' contract illegal because it unbalanced the budget! Having knocked out the contract, the court then found the union liable to $15,000 per day fines for striking without attempting to renegotiate the contract.

Liberal Mayor Green is intent on prolonging the confrontation. And on Oct. 18, a hundred labor leaders from the East and Midwest gathered in Philadelphia for a strike-support rally and a general one-day strike has been set for Oct. 28.

The *Philadelphia Inquirer* has opened its op-ed pages to a flood of scenarios for replacing the American system of public education. Examples include a "magnet" school in Massachusetts where the students receive nothing but vocational education; promotion of tax tuition credits and voucher systems; and death sentences for universal schooling.

Texas Democrats vote against Volcker

The Texas State Democratic Executive Committee passed two strongly worded resolutions against high interest rates with "overwhelming support" at its Austin meeting on Oct. 17.

The resolution, introduced by Bill Duncan, an auto dealer from Lufkin, Texas, charges that "the Federal Reserve Board has engineered the highest interest rates in our history and has brought on a senseless, unnecessary and crippling recession." It further charges that "the existence within our Republic of an omnipotent appointed agency such as the Federal Reserve Board which wields more power over the lives and welfare of our people than does our elected President and Congress is intolerably inconsistent with the principles of democracy and that powers of this magnitude should be vested only in our elected representatives."

A "drastic and immediate reduction in interest rates is necessary to end the recession and to restore vitality to our economy," the resultion states, proposing that the Congress "initiate immediate emergency legislation to hurl back interest rates to pre-1978 levels and to require prior congressional approval of all actions and activities of the Federal Reserve Board which will, could, or might affect interest rates."

Finally, it requires the Chairman of the Texas Democratic Party "be required to introduce this or a substantially similar resolution at the next meeting of the Democratic National Committee" and calls "upon all Democrats in Congress to sponsor, co-sponsor, support, and work for the legislation prayed for in this resolution."

The second resolution, calling on Congress not to lift state usury ceilings, was introduced by Carrin Patman, wife of Rep. Bill Patman, the son of the former head of the House Banking Committee, Wright Patman.

Melcher Bill returns to Senate floor

Senator John Melcher (D-Mont.) will reintroduce his binding legislation urging President Reagan to bring down high interest rates (Senate Joint Resolution 104) the week of Oct. 26-30, Capitol Hill sources report. The re-introduction is expected to occur as an amendment to the Small Business Administration bill before the U.S. Senate.

the same sources believe that Senate Joint Resolution 104 now has 40 or more votes. Support is expected from farm state Republicans Pressler (S.Dak.), Andrews (N.Dak.), and Democrats Long (La.), Bentsen (Tex.) and Glenn (Oh.). Senators Pressler, Andrews, and Long opposed the measure's first introduction Sept. 30 because of their promises to the administration not to add any amendments to the debt-ceiling legislation at that time.

Four other Senate Republicans are perceived as highly vulnerable to constituency pressure to support this bill: Senators Durenberger and Boschwitz, both of Minnesota, Jepsen of Iowa, and Spector of Pennsylvania.

Briefly

● **THE TREASURY** will pay $100 billion for interest payments in fiscal year 1982, it is now estimated. OMB estimates reveal that the federal government will spend more in the first six months of 1982 on interest payments than it will for all space, energy, housing, transportation, and environmental programs combined.

● **DEFENSE** Committee of the House of Commons invited a House Armed Services Committee delegation to London Oct. 15-29 for talks on U.S. Purchases of British military equipment. The British are interested in ensuring greater NATO weapons standardization and inter-operability, especially using British weaponry.

● **THE DITCHLEY** Foundation, the elite group of Anglo-American policy-makers, held their annual, and very private, dinner Oct. 21 in New York City. The main speaker was Lord Thompson of Britain, speaking on how much Ronald Reagan is a carbon copy of Britain's Margaret Thatcher. The Ditchley family, as they call themselves, includes Cyrus Vance; Thornton Bradshaw, President of Atlantic Richfield; and Frank Altschul, senior partner at Lazard Frères.

● **WILLIAM POLLIN,** director of the National Intitute of Drug Abuse (NIDA), revealed in testimony before the Senate Labor subcommittee, the results of a recent survey, which found that out of a sampling of teen-age marijuana users, 73 percent went on to use cocaine and 33 percent went on to use heroin. Coverage in the *Washington Post* on Oct. 22 featured the survey's results that marijuana use has declined slightly. Dr. Pollin attributed the decline to a greater decline in the teenage population and stressed that marijuana use by young people is higher in the U.S. than in any other developed country.

Eye on Washington by Stanley Ezrol

Haig eschews my inference

At an Oct. 20 White House press conference on the Cancún summit, I asked Alexander Haig, who had just attacked the growth of protectionist measures, if he denied the value of protectionism, which was a founding principle of his Republican Party, in the development of the U.S. economy. As he confessed his inability to understand my question—as well as his ignorance of the central economic policy debate in the historical development of the United States by replying, "I would eschew your inference that protectionism was founded by the Republican Party"—the normally loudmouthed ABC-TV White House correspondent, Mr. Sam Donaldson, whispered, "It was, it was." It is now rumored that Donaldson may be sacked from ABC for "insufficient ignorance of American history," and "knowledge unbecoming to a national newscaster." Haig, who has always enjoyed watching himself on television, or anywhere else, is said to possess the qualifications ABC is seeking. My reply to Haig was, "If you deny the history of the United States, you are a disgrace to the nation." I am prepared to offer that judgment to any private-sector employer seeking a man of Haig's qualifications.

A Cancún forecast

John Sewell, President of Father Theodore Hesburgh's think tank, the Overseas Development Council, which supports the Willy Brandt-Socialist International approach to North-South questions, said that he expects Cancún to end just as Ottawa did. The participants will leave feeling they had reached President Reagan with a new understanding for their needs, but on the plane homeward, as they reach for their wallets, they will be gone.

Second chance

Henry Precht, whose comment on his own removal from the State Department's Iran Desk after leading the Iran Working Group through 18 months of the hostage crisis was, "I suppose you're only allowed to lose a country once in your career," is at it again. Precht, who maintained contact with the Islamic fundamentalist and Socialist International-linked opposition to the Shah for about four years prior to the Khomeini takeover, is now Deputy Chief of Mission at the U.S. Embassy in Cairo, Egypt. The Egyptian allies of Precht's Iranian friends, the assassins of Anwar Sadat, are now involved in massive attacks on the Egyptian government. Maybe Haig isn't such a toughie after all; he seems to want to give Precht a second chance.

A.I.M. spikes

The Spike, the Arnaud de Borchgrave-Robert Moss pornographic fiction about Soviet "disinformation" measures, became a bestseller only with the assistance of Accuracy in Media, the Unification Church-interlinked "conservative" press group which purchased and distributed 40,000 copies.

Who's leading the team?

At the Oct. 16-17 Baltimore meeting of the Democratic National Strategy Council, Ted Kennedy's comment on a call for the barring of strikes, the elimination of cost of living increases, and other measures against workers' incomes was, "I think a little belt-tightening is absolutely necessary." Kennedy, to his limited credit, did express concern about the Volcker policy of maintaining super-high interest rates. Asked what he, as a leader of Congress, would do to lower interest rates, Kennedy said, "I think the President should sit down with the President of the Federal Reserve and tell him to lower interest rates."

Reminded that the President has repeatedly affirmed his support for Volcker's high interest-rate policy, Kennedy said, "I realize that, but I think the President should sit down with the Chairman of the Federal Reserve and tell him to lower interest rates." Being told that unless Congress acts, neither it nor the President has the power to force any positive action from Volcker, Kennedy repeated, "I realize that, but I think the President should sit down with the Chairman of the Federal Reserve."

Senate Minority Leader Robert Byrd responded to the Democratic calls for slashing middle-class incomes with a call for "a blue ribbon commission . . . to put together an incomes policy." When he was told that this was totally contrary to the wishes of the Democratic Party's middle-income constituency, Byrd said, "I think we need a blue ribbon commission."

House Majority Leader, Tip O'Neill said he was just listening to what people had to say and would have no comment on any of the strategies proposed. Asked if he would support action to encourage the resignation of Federal Reserve Chairman Paul Volcker, he said, "The Democratic Party will not obstruct any policies of the Reagan administration." Reminded of the growing bipartisan opposition to the Volcker high interest-rate policies, and the obvious need for a national leadership to modify the Reagan policies, Tip replied, "The Democratic Party will not obstruct any policies of the Reagan administration." No one bothered to ask him about AWACS in this light.

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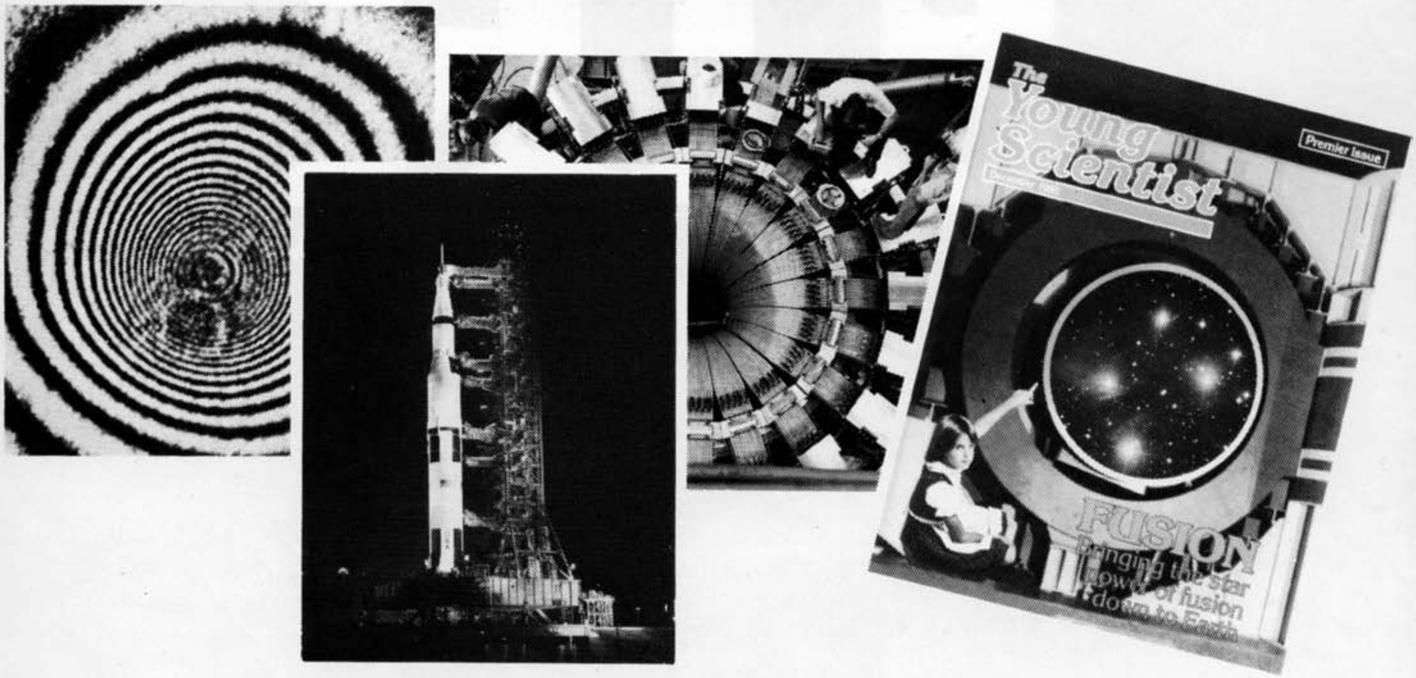

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