

recessed when the Boston police commissioner and other implicated officials refused to appear.

Councilman O'Neill plans to reopen the hearings and will subpoena a dozen Law Enforcement Assistance Administration officials — including Boston Deputy Mayor Robert Kiley, ex-CIA agent and covert action expert and James Vorenberg, author and original director of the Johnson Commission which conceived the LEAA — to testify.

LEAA Probed

The Council's probe — the first investigation held anywhere on the CIA's illegal domestic activities — will cover charges by the Labor Committees that the CIA-directed Federal Law Enforcement Assistance Administration (LEAA) has taken over local police departments in preparation for a military coup in this country planned by the CIA for later this year.

The Labor Committees are participating in the hearings as part of a nationwide thrust to destroy LEAA operations within the next months.

Pro-LEAA Councilmen tried to use student radical type tricks to disrupt the Labor Committee testimony. Councilman Frederick Langone repeatedly interrupted Labor Committee spokesman Mike Minnicino, who made an opening statement outlining the broad scope of LEAA operations and connecting them with the international strategy of the Rockefeller/CIA faction. "Let's get back to Boston," Langone shouted.

Later, Langone succeeded in exposing his own seamy past. He boasted that he had worked with the U.S. military to subvert Japanese labor unions following the Second World War. "Bringing democracy to Japan," was the way he described it.

Other councilmen, often in a chorus, redbaited Minnicino and Larry Sherman, who gave additional testimony on the Boston LEAA network.

Tenuous Alliance

The goal of these and similar maneuvers was to break the tenuous tactical alliance between the Labor Committees and other LEAA opponents, especially police officers and old-line politicians like O'Neill.

These right-wing forces are willing to make a temporary bloc with socialists because the LEAA's plans for creating a streamlined Gestapo-like police force threaten their own lives.

So far, heads of policemen's associations in Boston, Cleveland, Philadelphia and Newark have been sympathetic to the Labor Committees' campaign; some agreed to testify at the hearings but backed out at the last minute. Their testimony is vital because it helps establish the LEAA operation as a nationwide conspiracy and not just a series of incidents in Boston.

ECONOMIC REPORT:

WORLDWIDE LIQUIDITY CRUNCH

As all money-market indicators went wild, Federal Reserve chairman Arthur F. Burns told Washington newsmen on April 22 that the supply of money and credit in the economy had been growing more rapidly than the Reserve "wished or intended," and pledged to screw up interest rates even higher than their present record levels.

Violating the Fed's traditional silence on short-term policy goals, Burns openly threatened to provoke a

general liquidity crisis within the next two to three months. This eminent gentleman is a particularly terrified Rockefeller stooge, who turned white and shot off down a Congressional corridor recently when asked by a reporter from *New Solidarity* for his opinion on a possible European gold agreement.

Rocky's Squeeze on Credit

The credit crunch is the immediate result of the Rockefeller takeover of the Federal Reserve System, following a year-long factional battle by the New York Federal Bank, chaired by David Rockefeller. Fed Governor Vincent Sheehan, who claimed that "there would be blood in the streets" if Rocky's policy were followed to its conclusion, found himself the subject of an editorial-page blast in the Rockefeller-allied *Wall Street Journal*. Since then Rockefeller critics in the nation's central banks have kept their heads down, and Sheehan has been too shell-shocked to see reporters.

The explosive rise in short-term credit, combined with a 14 per cent rate of inflation which dwarfs the already-dangerous 11 per cent interest rate on short-term credit, indicates that the mass of short-term debt in the capitalist economy is fast approaching "critical mass."

Between 1970 and 1973, the total amount of liquidity (or capitalist debt) *doubled*, while both current industrial production and industrial investment stagnated in real terms (i.e., after inflation is deducted from the price of industrial output). The brunt of this mass of debt fell on the international credit market, usually referred to as the Eurocurrency market, which is totally unregulated by any national or international agency.

Twice in the past decade, the prospect of an international liquidity crisis has openly reflected the disparity between the cancerous expansion of credit and the growth of the real economy: in 1968 and 1970. During the latter crisis, interest rates rose to 10 per cent in the United States, and the giant Penn Central Railroad went bankrupt, threatening to drag along with it Chrysler, Lockheed, and other corporations.

Credit Explosion

The present situation is the result of the frantic attempt by the U.S. government, starting in 1970, to ward off a liquidity crisis by pumping masses of new credit into the market. Spilling over the domestic bounds of the U.S. economy, the mass of inflated dollars poured into Europe and Japan, turning the Eurodollar market from a middle-sized source of dollar credit of some few tens of billions during the mid-1960's, to a monster of approximately \$150 billion. For the past year, the market for bank loans from this pool has been the world's key international credit source.

The survival of an actually-bankrupt capitalist economy since Aug. 15, 1971 has depended upon the ability of the capitalists to defer the costs of maintaining their current debt service by re-financing this debt, i.e., borrowing long-term through the bond market and more recently in the market for medium-term Eurocredits. One sector which reflects the urgency of the problem facing the entire capitalist world is the underdeveloped countries, who last year borrowed \$8 billion publicly and probably twice that without publicity, to re-finance a debt which is now in the range of \$90-100 billion. Without this, as capitalist sources repeatedly emphasized, there would be massive debt defaults by these countries, with a resulting collapse of the international credit market.

Two-Digit Inflation

The direct result of the credit expansion is the two-digit inflation rate now afflicting the entire capitalist world, with the crucial U.S. rate (which effects the value of Eurodollars) last clocked at 14 per cent. At this point, the rate of inflation is higher than any conceivable money-market investment, and higher than the average rate of corporate profits. (Indeed, First National City Bank economists estimated this week that the increase in value of the raw materials inventories of industrial companies accounts for the entire profit of these companies!)

Simultaneously, inflation has destroyed the market for long-term credit. One by one, the bond markets of the advanced sector, beginning with the Eurobond market, have collapsed, because a fixed-interest security is useless in a period of inflation like the present.

Meanwhile, the basis of international banking has increasingly been short-term borrowing and long-term lending. This is exacerbated as savings flee from the banking system in Germany, England and the U.S. because inflation is rising faster than interest on savings accounts. In the Eurodollar market, the majority of all bank deposits are on a 30-day or shorter basis. Less than 10 per cent are over one year. This opens banks up to the threat of a large-scale withdrawal of short-term deposits during a liquidity squeeze, while their funds are tied up in loans of five to seven years average duration.

If the situation continues — without either Schachtian control of the world economy by the Rockefeller faction, or a "golden snake" arrangement by the Europeans within 60 to 90 days — the arrangement will collapse. This is confirmed, in essence, by Professor Robert Triffin, the only *bourgeois* economist who correctly predicted the onset of international monetary crises leading toward a new great depression, in an interview with *New Solidarity*.

Triffin, a long-time advocate of the use of European gold reserves, said he was "not a bit optimistic" about the current monetary situation. Asked whether he thought the house of cards could last more than 60 to 90 days, he stated, "I'm not close enough to the marketplace to make a judgement like that. But it's a very bad situation, from which it's hard to see a way out, and I'm very much afraid."

Chain Reaction

The rest is purely technical. Because interest rates are rising for short-term debt faster than banks can obtain long-term deposits at correspondingly high interest rates, banks (which make money primarily on the differential between borrowing and lending interest rates) cannot continue to mediate the process of circulating credit. Asked to comment on this process, a spokesman for the Rockefeller-controlled First National City Bank said, "Yes I know. We've been moving out of interest-rate differential business for a long time." That is, no matter how much money comes into the market — from the Arab oil producers or elsewhere — there must still be a general liquidity crisis.

Already, Eurodollar banks are saying they will not accept more short-term deposits on the scale needed to match the oil producers' \$50 billion in investible revenues, because they cannot possibly invest this money at a return sufficient to pay interest on these short-term funds.

At a certain point in order to maintain current debt-service costs, corporations and banks will have to borrow short-term money to cover the costs of debt-service on short-term loans. This is because all forms of more stable

long-term credit are collapsing due to the inability of investors to survive the erosion of long-term investments by inflation. Italy, for example, had to canvass 400 banks to find 100 participant banks in the last \$500 million she borrowed. According to inside sources, the British banks planning to borrow \$1 billion for the British government will not be able to find subscribers to such a loan. And in the U.S., a record number of borrowers in the bond market this week are expected by market insiders to go home hungry.

At this point where one borrows short-term funds in order to pay short-term debt service, the situation is adequately described by the formulas for nuclear chain reactions.

According to market insiders, the near record \$500 million on corporate and utility bond issues up for bidding this week will have a rough time finding buyers, because the record rates of "face-value" interest on high-grade bonds, now reaching 8.5 per cent, fail to compensate the investor for inflation. This will drive debt-strapped companies back to the already-glutted short-term credit market.

Market-place investigation by the IPS Intelligence staff indicates that some leading capitalists "don't believe their eyes" when they look at the symptoms of a credit collapse laid out before them. Indications are, in fact, that the Rockefeller forces have psyched out their business rivals in a sucker game that makes the legendary "robber-barons" look like small-time card sharps.

Not that the visible cracks in the financial edifice haven't widened. News items during the past few days have underscored *New Solidarity's* prediction that the whole shebang will go under in sixty to ninety days.

- The scramble for short-term loans precipitated \$583 million out of New York banks last week, the highest figure in four hectic weeks.

- Interest rates set new record highs across the board, with bank loans to top-rate customers going for 11 per cent, "federal funds" (overnight loans between banks) at 11.75 per cent, and government bonds yielding an incredible 8.75 per cent.

- U.S. banks will have to scrape up \$46 billion in short-term credit within the next two months to pay back big depositors — more than the entire volume of commercial and industrial loans outstanding from the New York banks!

- A top Swiss bank has refused to issue certificates of deposit (bundles of cash placed with banks for a specified interest rate) at its London branch, in fear that Britain might sap controls on money flows. The typewriter jockeys in the financial press flipped out, since London is the biggest and supposedly the most open international money center in the world. Said a U.S. banker, "If ever the whole system is going to collapse, this sort of thing would be the first sign of it."

Not that old-school banking experts haven't spoken up either. J. Roger Wallace in the *Journal of Commerce* predicts doom and destruction twice a week, and Alexander Paris lays out all the damning statistical evidence in a book entitled, "The Coming Credit Crash," slated for release in June.

Financial Snow Job

Yet the opponents of the Rockefeller crew in capitalist circles here and abroad are merrily going out on a limb, at a time when they should be tying themselves securely to the tree trunk. They are doing this because they have succumbed to the biggest financial snow-job in history.

The Rockefeller sweet-talk goes something like this: Since the oil "crisis" the Arabs have come into about \$50

billion in pocket money. Although all markets have been strained to the limit as countries scrape together the price of oil at quadruple last year's cost, never worry. All this money will flow back to the West, interest rates will fall, the market will "equalize" itself, and flowers will bloom this spring. IPS listened to two hours of this buncombe from Fred Klopstock, the Federal Reserve Bank of New York's chief Eurodollar economist.

All we need, the suckers chime in, is to run around and get all the Arab money we can, at whatever price! Typical is a five-page spread in the March 23 *Economist* entitled, "Which Banks Will Earn the Oil Commissions?" The *Economist*, the staunchest supporter of Rocky's "diplomacy" in the European press, writes, "American banks lead the race across the sands...British bankers may not be far behind...even continental bankers can hope that the politics of oil and the sheer magnitude of Arab portfolios will throw much of the business their way."

Supply-Demand Doesn't Work

With a rigged cheering section behind them, British, French, German and some U.S. banks are jumping on cue, building massive amounts of volatile, expensive Arab deposits.

These banks then turn around and lend out their money on the Eurodollar (non-U.S. dollar) market at an average take of one-half of one per cent above their own cost of borrowing, for periods of several years and longer. During a financial panic, short-term deposits have a habit of disappearing out of banks' coffers, while bank investments are tied up for years. Banks are then forced to dump their long-term assets for bargain-basement prices in order to put together enough ready cash (liquidity) to stay afloat.

And rather than declining as Arab money floods the market, as fools suggest, interest rates on the international market have been steadily rising. Beginning in March, Eurodollar interest rates have jumped from around 8 per cent to around 11 per cent — at the same time that most of the Arab cash hit the market. "Supply and demand" — the notion that the more money there is around, the cheaper it is to borrow — hasn't worked for three reasons.

First, debt-strapped corporations are gobbling up loans as fast as banks can dish them out. All the talk about "unprecedented and unexpected" loan demand amounts to one thing: instead of raiding off their short-term debts for long-term debts, usually in the form of bonds, corporations are increasingly paying the cost of short-term debts with *more* short-term debts. This is the financial equivalent of a nuclear chain reaction.

Secondly, the U.S. central bank, the Federal Reserve, has been under control of its New York member bank (whose chairman of the board is David Rockefeller) since February. Despite warnings from Federal Reserve governor Vincent Sheehan that "there would be blood in the streets" if credit got much tighter, the Fed has been turning the screws without mercy. The Fed's machinations in the U.S. credit market have pushed up interest rates in the Eurodollar market abroad, which moves in tandem with stateside developments.

Finally, the Arabs — whose financial advisors include Rocky's Chase Manhattan for Saudi Arabia, First National City for Kuwait, and the CIA itself for Iran — are in a position to bid up the interest rate on their deposits to whatever level they want!

The Victims

One non-Rockefeller bank that hasn't yet figured this out is the San Francisco-based Bank of America, the

country's biggest. Bank of America officials told *New Solidarity* that they are placing their bets on a fall in interest rates during the next few months, rather than covering themselves for a crash. This means, for example, holding onto fixed-interest securities such as corporate and municipal bonds, now selling for much less than their face value, since a bond bearing 6 per cent isn't worth much when interest rates are almost double that figure. The hope is that if interest rates fall, these bonds will rise again in price. Unfortunately, three months hence, this kind of capitalist paper may not sell for much more than its pulp value.

Similarly, Bank of America, which has been a big lender to Rocky's political antagonists in the French government, is joining the "race across the sands" for high-priced Arab short-term deposits.

RESEARCH REPORT: THE LAW ENFORCEMENT ASSISTANCE ADMINISTRATION

The Law Enforcement Assistance Administration (LEAA) constitutes a national Gestapo, engaged in covert operations aimed at establishing military governments in the U.S.A. and Canada within the coming two years. Its immediate historical antecedent is the CIA-run Office of Public Safety, of the Agency for International Development (AID). Potentially much more dangerous than Hitler's SS, the LEAA directly employs much of the personnel and institutions responsible for the training of police forces and subsequent mass murder in Vietnam, Brazil, Uruguay and numerous other Third World countries. The LEAA already systematically uses assassination, torture and menticide on the population of the U.S. The "Escuadro de Muertes" (Death Squads) of Brazil have come home in the LEAA-organized shotgun squads of Baltimore and the psychopathic trained killers of the STRESS units in Detroit.

In coordination with fuel hoaxes, food control and Rockefeller-engineered industrial collapses, the entire LEAA operation is moving to create a "controlled environment" for a psychologically castrated working class. By complete penetration into the working class through hundreds of thousands of blockwatchers, "community relations" police agents, and overt terror operations such as the recent zombie murders in San Francisco, Rockefeller and the CIA/LEAA plan to create an environment where a terrified working class sees only one option — military government.

The Beginnings of the LEAA

The urgent need for the LEAA became clear to Rockefeller and his collaborators in the mid-sixties. Following decades of primitive accumulation sections of the U.S. working class exploded in rage and rioted in the summers of 1964 and 1965. Across the nation, the police and National Guard followed the Newark pattern of using an initial outburst to cordon off an area, declare a free-fire zone and then to open fire on buildings, people everything in sight. That tactic was perfected by CIA Special Forces units in Vietnam, who calculated the crippling psychological impact of the total destruction on anyone who survived the carnage, and on all others who even heard about it. However, even with the domestic employment of these tactics, the ruling Rockefeller faction of the capitalist class and its hit-men in the CIA realized that the continent's 19th century police structure was inadequate to the inevitable worker,