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NEW SOLIDARITY International Press Service

DOMESTIC MARKETS

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CORPORATISTS PUSH

Jan. 30 (IPS) -- The now hegemonic liberal-corporatist political faction associated with the wing of the Democratic Party grouped around Averill Harriman this week began an all-out push for a slave labor jobs program to "put the unemployed to work."

These layers, represented by up-front political spokesmen such as Sen. Hubert Humphrey (D-Minn.) are attempting to counterpose their fascist program to the more traditional conservative austerity proposals contained in President Ford's State of the Union message. More importantly, much, if not all, of the organizing for the Harriman "program" is being directly counterposed against the Labor Party's International Development Bank and Emergency Employment Bank legislation which is rapidly gaining support throughout the working class. Highly placed government officials yesterday told IPS that Sen. Humphrey and Rep. Clement Zablocki (D-Wisc.), two of the principal supporters of the full employment legislation, have deployed their staffers to lobby against the EEA and IDB.

Acting as a spokesman for the corporatist faction, in the New York Times the editors this week laid out the policy line for a "Jobs policy." Noting that upwards of 2.5 million workers will exhaust their unemployment insurance compensation during the first quarter of 1976, a Jan. 29 Times editorial pushes for adoption of a newly revised version of Sen. Humphrey's fascist Full Employment Bill. If the bill "offers genuine hope for putting the unemployed back to work without reigniting the inflationary fires" (i.e. creates a large slave-labor apparatus at minimal wages) the Times editors write "it will represent an invaluable contribution toward meeting the country's most pressing domestic need."

The Times' call for slave labor came as the Democratic majority in Congress gave signs of being able to consolidate its strength vis-a-vis President Ford and successfully move on aspects of its corporatist employment policies. The Democrats had not been capable of doing this last year as Ford successfully vetoed every "jobs" bill the Congress passed.

On Jan. 28, the House Labor Committee approved, 26-6, a public service employment authorization bill which would nearly double the number of these low-paying, union-busting jobs to 600,000 and extend the program to September 1977. Ford had proposed to maintain the program at its present level this year, and then phase it out. A veto and subsequent override attempt is expected by mid-February.

Then, on Jan. 29, the House passed, 321 to 80, a \$6.2 billion public works bill which had previously cleared the Senate by voice vote in December. The size of the vote, indicating that a promised Ford veto could easily be overridden, attested to the gathering momentum in Congress for slave-labor type measures.

Sen. Humphrey and his allies are now mobilizing to achieve a more substantial victory. They intend to ram a corporatist Full Employment Bill through Congress by early spring.

Sen. Humphrey's aide, Jerry Jasinowski, told IPS Jan. 30 that the newly revised bill would deal with the interfacing of unemployment programs and jobs programs -- i.e. forcing the unemployed to work. At a conference on "National Issues" organized by the Democratic Socialist Organizing Committee (DSOC) today, Jasinowski indicated that the major thrust of the new bill would be to use funds presently going for unemployment compensation and welfare payments to create slave-labor jobs, especially to put youth to work. This is essentially the same program proffered several times previously by Federal Reserve Board Chairman Arthur Burns.

Though Humphrey's bill apparently will legislate the minimum wage (\$2 per hour⁰ as a "salary floor" (ceiling); Burns, who doesn't have to face the electorate, has been speaking in terms of \$50 per week per job. Humphrey, however, would have no qualms about accepting Burns' proposal if the political situation allowed him to.

The corporatists strategy is to starve the unemployed until they are willing to work at the newly created slave labor jobs. During the first quarter of 1976 the large number of workers who were thrown onto the unemployment insurance rolls during the Fall, 1974 collapse of production will have exhausted their final 65 weeks of benefits. A thorough IPS survey Jan. 30 of every relevant Congressional and Executive office indicated that there will be no further "emergency" extension of the time period for receiving unemployment.

Thus, as a staff worker for Sen. Javits (R-NY) put it, the mass of workers going off unemployment will either have to go on welfare, a prospect which is being made increasingly difficult by Federal regulations, or accept slave labor jobs. An aide to the Department of Labor's head of manpower programs told IPS Jan. 30 that these people "will just have to lower their sights" and accept lower paying jobs.

The agent leadership of the AFL-CIO and the UAW are planning to mobilize whatever remains of their demoralized bureaucracy in support of the Humphrey bill. According to AFL-CIO, which is now on public record as opposing further extension of unemployment insurance since it takes away funds from slave-labor jobs, 65 labor lobbyists will infest Capitol Hill; Central Labor Councils will be told to support the bill. The bill will be the central agenda item at an AFL-CIO executive council meeting in Florida in mid-February, as it was at the United Auto Worker-International Association of Machinists legislative conference January 25-26 in Washington, D.C.

Another fascist Humphrey bill, the Initiatives Committee for National Economic Planning (ICNEP) planning bill, will also be coming up for hearings in early February. The bill is supported by the U.S. Conference of Mayors, which lobbied heavily for the public works bill this week, the UAW, etc., and was the subject of a major article in the Sunday New York Times magazine section last week.

COMPROMISE ON FORD BUDGET IN THE OFFING

On Jan. 27 and Jan. 28 the House and Senate respectively overrode a Ford veto of a \$45 billion HEW appropriation bill by well over the

necessary two-thirds majority. The size of the vote was labeled "surprising" by many bourgeois press commentators.

The \$45 billion appropriation represents, however, only a slight increase over what Ford himself was actually proposing. In fact, despite all hot air against Ford's budget emanating from his corporatist opponents, it is the general political consensus that the Democratic-controlled Congress will eventually increase Ford's proposed \$395 billion budget a mere \$20 billion, a sum which will not even continue present programs at their statutory levels or even account for inflation, let alone increase them.

The usually reliable "Washington Wire" column of the Wall St. Journal assured its business readership Jan. 30 that "Democrats will go slow on boosting Ford's budget. No big rise is likely."



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Special Briefing On The World Economic Situation

I. INTRODUCTION

The world is now four weeks into the final quarter of the post-war Dollar Empire. To the extent this is recognized even among the purportedly most sophisticated banking circles, it is a cause for hysterical demands for austerity, which would rapidly worsen the financial situation past the point of no return. In general the current proprietors of the Dollar Empire have no grasp whatsoever of the reasons for the imminent collapse of the international financial markets, intertwined with the constriction of international trade and economic activity in the industrialized countries. This accounts for the depth of programmatic bankruptcy which Atlanticist financier and political circles have sunk to since the "recovery" of the third quarter disappeared during the final months of the year.

Therefore, the immediate removal of the Atlanticist debt-collectors from policy direction in the advanced sector, and their replacement by factions who can help bring into being a New World Economic Order, are the only tasks on the world political agenda.

The following analysis of the condition of the world economy is comprehensive proof that any scheme to prop up the \$800 billion in illiquid debt obligations in the dollar sector is a passing annoyance that should not preoccupy serious people.

We shall summarize below the state of the U.S. and European economies, their banking structure, the position of the Third World, and the state of the international markets, and identify the weak links in the chain of dollar indebtedness.

Since approximately the fall of 1974, the continued existence of the dollar reserve system and its associated debt structures has been founded on the collapse and contraction of the post-war dollar system, just as much as its previous endurance was based on the expansion of the same dollar system. Starting with the collapse of U.S. industrial production at the point, with a related sharp decline in purchasing power of the U.S. population, the "balance of payments" crises of 1974 seemed to have ended temporarily. This balance of payments crisis following the oil price increase sponsored by the "Seven Sisters" oil cartel had threatened to provoke a general liquidity crisis throughout the dollar system, and required more than \$20 billion of financing for Japan and a similar amount for the Third World to contain.

During 1975, however, the precipitous drop in industrial production world-wide enabled the weaker European sectors and Japan to ease their balance of payments position considerably, on the basis of depression levels of austerity. This,

in the broadest terms, immediately set the following destructive processes in motion:

1) The Third World's balance of payments deficit, due to the collapse of both the price and volume of its raw materials exports, became uncontrollable. Of the \$40 billion in short-term financing made available through the private banking system between June 1974 and December 1975, approximately half, or \$20 billion, now represents debt in effective or actual default, rolled over on an extremely short-term basis.

2) The income of the oil-producing countries fell sharply, eroding their capacity to purchase Western goods and services, thus cancelling out much of the apparent paper gain in balance of payments, albeit with a six-month lag.

3) A corporate liquidity crisis began to develop in all of the key Western European sectors, averted temporarily through \$15 billion in "countercyclical spending" in Western Europe mainly during the third quarter, and rates of money supply increase exceeding 20 per cent per year in France and West Germany.

4) The dollar regained strength after a period of prolonged collapse through June 1975, on the basis of an \$11 billion annual U.S. surplus in balance-of-payments, and the more rapid collapse of the trade-dependent European economies.

Far from demonstrating the revival of the dollar system, the dollar's strength is an ironic symptom of the state of crisis. The expansion of the Western capitalist economies since the war has been based on the capacity of the dollar to tolerate a deficit, in the process of financing the rest of the world's expansion. The dollar's strengthening relied on the contraction of the income-producing base of the Dollar's Empire satrapies in Western Europe and Japan.

The qualitatively new development, as of the new year, is that the ability of the contraction of the dollar system to finance its collective debt-service burden has come to an end. Simultaneously, crises have broken out in the external positions of France, Italy, Britain, Spain and Scandinavia; in the indebtedness of the Third World, whose short-term obligations are sufficient to provoke a general banking collapse by a factor of four; in the \$35 billion short-term shipping loans sector; in the internal credit systems of France, Germany, and Japan; and in the banking system of the United States, provoked by a second ratchet-collapse of U.S. industrial production.

Taking note of the proclivity of terrified ignoramuses to describe each horrifying symptom of this decay as a new "isolated case," we emphasize that these crises merely reflect

the implosion of the dollar system as a whole. World economic life will cease by the end of March, outside of the relatively insulated socialist sector, unless we take appropriate action.

II. THE UNITED STATES

The economic recovery of the second half of 1975 was a combination of statisticians' bluff and temporary stabilization measures, such as transfer payments and consumer credit expansion, whose effect is already faltering sharply. The capital goods and construction sectors of the U.S. economy, which never experienced a recovery, remain in a depression, while the most recent figures of the Ford Administration on capital spending and housing starts indicate a continued downturn. Only one sector of the U.S. economy has blocked the downward slide of industrial output: the automobile industry, with limited support from other consumer-goods sectors. In this context, the implications of the announcement this week of 17,500 new layoffs in Detroit, due to the fall of new car sales below industry expectations, are clear.

Under current circumstances, the foreign trade prospects for U.S. industry appear even more grim: with the exception of West Germany and Japan, virtually every developed and developing country is under severe financial constraints to reduce imports during the months ahead. During 1975, when the financial strains on the developing countries only began to emerge, their imports fell by 8 per cent in real volume. Brazil, the "model" country for U.S. exports to the developing sector, cut its imports by 30 per cent in dollar terms during the second half of 1975. Collectively, the deficit nations of the Organization for Economic Cooperation and Development (OECD) are projected to show a \$16 billion balance-of-payments deficit during 1976, under the assumption of modest growth in world trade led by a U.S. recovery.

Against this picture, President Ford's proposal to cut the Federal budget by \$70 billion in constant dollars raises some astonishing questions. The Federal government concentrated most of a \$26 billion increase in transfer payments last year into the second half of 1975. Since the banking system's loans outstanding to business contracted by an unprecedented \$30 billion during the year, and continue to contract, the Federal government acted as the financier for the liquidation of inventories during the second and third quarters at an annual rate of \$30 billion. This properly accounts for the impressive rise of third quarter nominal Gross National Product. When the input of Federal transfer payments — through tax reductions, increased social security, and so on — began to peter out, the "recovery" ended. If Administration economists are still at their desks several months from now, they will postulate that the "recession of 1976," following the "recession of 1975," could be traced to November, the month in which manufacturers' shipments and orders turned down, and overall inventories rose.

A Short History of the 'Upturn'

Beginning in November 1975 the economy entered a new phase of industrial collapse, guaranteed to produce a killing magnification of the present disastrous liquidity crisis and a blowout that will make that of the 1930's look small. There will be no recovery for the U.S. economy in 1976.

The reasons for the renewed downturn are rooted in the so-called "upturn" of April-September 1975, which in fact represented no economic upturn at all.

Although industrial output increased 5.6 per cent, the increase came strictly out of workers' hides. During this entire period personal disposable income actually declined in con-

stant dollar terms. The so-called drop in unemployment, from 9.6 to 8.3 per cent, occurred only because government statisticians played their familiar game of writing those unemployed not officially registered as actively looking for work out of the labor force. The total workforce has officially declined by 3 million — a whopping 4 per cent — since June.

These figures make it plain why production in the consumer goods sector, maintained principally by such devices as the five-year auto loan, will not hold up much longer. Workers will soon lack the wherewithal to make consumer purchases on any terms.

This has already become evident in September when the manufacturing sector in the U.S. showed major signs of renewed collapse. Beginning in September wholesalers and retailers experiencing flat sales to cut back orders from manufacturers. The immediate effect of this was that in November, for the first time in 5 months, manufacturing shipments plunged by almost 1 per cent. This was reflected in a sharp drop in business sales. As a result of these developments production began to slow down in October and November.

In the capital goods sector, the picture was far worse. Housing construction last year experienced its worst year since 1945, and housing starts in October and November fell by nearly 10 per cent. Contract awards for construction of new plant and equipment fell by 25 per cent. And in November durable goods orders dropped by 3.2 per cent — with machine tool orders, a key economic indicator for industrial production, falling 33 per cent.

Far from even reproducing plant and equipment, 80 per cent of so-called capital investment during the "upturn" was in inventories. Through the summer months production was fed by a transfer of inventories from the manufacturing to wholesale and retail level. To the extent that there was an increase in sales, it was almost entirely due to workers digging into the personal savings — to the tune of about \$30 billion dollars.

The "upturn" in 1975 should properly be compared with 1934-1937 of the Great Depression, a period of supposed recovery which ended with a sharper collapse than the 1929-1933 period. To the extent that the transfer payments — unemployment compensation for example — financed a certain temporary expansion then as now, the process was cruelly aborted by the fact that it simply generated greater government debt, requiring greater austerity measures to prop it up, and so on in a downward spiral. That is the significance of the Ford administration's projected \$70 billion federal budget deficit for fiscal 1976.

The Expanding Liquidity Crisis

The funds being sucked out of both the reproduction of a skilled working class and the capital goods required to sustain real production showed up as a major inflow to large financial institutions — \$13 billion in life insurance companies and \$41 billion in savings and loan associations, for example. These institutions in turn had nowhere to invest at the rate of return required to refinance their own indebtedness except in sheer speculation — hence the stock market bubble.

Wall Street financial analysts admit this inflow will increase massively — \$16 billion into life insurance firms and \$46 billion into savings and loan associations — even if industrial production continued to increase at a 5 per cent rate. As production has actually entered a new collapse phase, the problem can only intensify.

Analysts already estimate that investments in corporate bonds will be only half what they were a year ago, and that those related to manufacturing production will plunge from

\$11 billion to \$2 billion. Investment in tax exempt securities is expected to drop 30 per cent.

The alternative investment is government securities, but the huge excess of funds is driving down interest rates here to the level of other investments.

This was the situation which produced the 1929 market collapse. But there are two major differences between now and 1929. First, the liquidity crisis is much worse; the ratio of the economy's debt to income is at least four times greater today than in 1929. Put another way, the capacity of the economy to service debt requirements is one-fourth what it was during the last speculative bubble. Second, the present stock market splurge reflects much more a full-scale liquidity crisis throughout the entire dollar sector, centered in the banking system.

Because the ratio of debt to equity in the financial system represented by the relationship of huge bank loans to actual ownership instruments such as stocks, for example — is far worse than in 1929, the outcome of the present crisis will not simply be a stock market crash, but a full scale collapse of the capitalist banking system.

The Banking Collapse

The large New York and related money-center banks are already insolvent by any competent accounting standard. Any renewed economic downturn, as the Comptroller of the Currency has admitted, makes the survival chances of the Chase Manhattan Bank and its New York banking colleagues questionable. These banks comprise one-fifth of the U.S. banking system.

Federal Reserve Chairman Arthur Burns, with more than a little irony, warned Congress last week that the crippling of the banking system would have devastating implications for the U.S. economy and the international community. The banks however, will be crippled. On whose behalf will the Administration act? Set against the rest of the economy, the largest U.S. banks, as the nation's foremost creditors, demand protection at the expense of industry, agriculture, foreign trade, employment, and living standards. President Ford and his advisors are in danger of having no greater historical role than bailiffs in the worst foreclosure in world history.

Contrary to published reports that the potential losses of the largest commercial banks are in the range of 98 per cent of capital in the case of Chase Manhattan and 114 per cent of capital in the case of Citibank, the New York financial community in general is operating on the premise that 50 to 70 per cent of the large banks' loans are questionable — representing 1,000 per cent of capital. That is if only one-tenth of the questionable loans of these institutions must be written off, they will be insolvent.

These banks have concentrated their assets principally in the following lending areas: the \$14 billion of loans to Real Estate Investment Trusts (REITS); the \$12 billion of construction and development loans to developers; the \$80 billion of private credits to the developing countries; \$35 billion in international loans to tanker operators; \$10 billion in loans for international commodity stock-piling and speculation; \$30 billion in short-term loans to Japan; \$14 billion in loans to Italy; \$13 billion in loans to Britain; \$6 billion in loans to France; and related weak sectors.

Not only are the large New York banks heavily immersed in the most illiquid sectors of international lending, but the proportion of their assets representing illiquid loans jumped exponentially during the past year. Net repayment of commercial and industrial loans of \$30 billion during 1975, of

which \$11 billion went to banks in the New York Federal Reserve's district, corresponds to a similar amount of corporate financing on the long-term debt markets. The most creditworthy of the customers of the money-center banks refinanced their short-term debts, repaying the most reliable of the banks' earning assets, and thereby raising the proportion of bad loans in the banks' portfolios.

But even the concern over these banks at the office of the Comptroller of the Currency is fundamentally incompetent. New York banks' deposits at their foreign branches, overwhelmingly engaged in lending to the quadriplegics of the world economy, now total \$74 billion — compared to \$77 billion in total demand deposits.

What Ford and his advisors miserably ignore is the fact that the financial structure on which the U.S. economy depends in an international financial structure. Almost one-fifth of the Federal debt, whose explosive growth the Administration views with such distaste, has been financed through foreign central banks' holdings of dollar reserves. The same process of international expansion, the \$250 billion dollar overhang, that made possible the financing of the hated Federal deficits, will shortly destroy the U.S. credit system.

The actual, near-collapse situation of the banking structure was underscored by government statistics released this week. According to statistics made available by the Federal Reserve Bank Jan. 22, the top ten New York banks which comprise one-third of all U.S.-owned banking activity, are experiencing an "implository" contraction of loans and investments unsurpassed in any three week period in recent history. In the past three weeks alone, commercial and industrial loans have fallen by \$1.7 billion, or an astonishing five per cent.

Meanwhile the renewed economic downturn reflected in this contraction of loans has also created an excess pool of funds so large and so desperate for investment that all short-term interest rates have fallen to a level which makes such loans no longer profitable investments for banks. As a result, during this same three week period the New York banks have also reduced their holdings of U.S. Treasury debt by more than \$1 billion.

With high earning assets in real estate, Third World and municipal bond investment having turned overnight into massive losses, there are only two remaining sources of bank income available to cover bad loans and delay outright bankruptcies: loan shark interest rates on commercial and industrial loans; and swindle-like investment in short-term Treasury bills with cheaper funds slipped to the banks by the Federal Reserve. Now the renewed collapse of production wipes out these two short-term swindle operations by the banking system and throws it over the edge, putting an end to the hope that the banks can recover even a small proportion of their loan losses.

More devastating proof that this is a collapse of the whole banking system and not simply isolated banks was revealed this week in what happened to the marketability of IOUs (blocs of \$100,000 or more deposits negotiated with corporations) of those banks exposed as financially troubled. Since these IOUs reflect a bank's creditworthiness in the eyes of corporate depositors, one would have expected these corporations either to demand much higher interest rates to offset the risk, or to start panic runs of the kind which Federal Reserve Chairman Arthur Burns this week warned might occur. What actually happened was that interest rates on such deposits — including those of exposed "problem"

banks — plunged to everyone's surprise. The reason is simple; the collapse of the loan and investment business by these banks is occurring so rapidly that they themselves are liquidating their own deposits at record rates. Over the past three weeks the New York banks alone have reduced their holdings of these IOUs by \$2.1 billion. This is an actual deposit run — only one induced by the banks themselves in response to the collapse of banking activity in general rather than by depositors in response to the shakiness of individual banks. This has created such an excess of funds that corporations which are desperate to earn income are now investing in banks they would not previously touch with a ten-foot pole.

III. CURRENCY CRISIS

During the past ten weeks, international banks, multinational corporations, and other affiliates of the New York banking community organized a run on the Italian lira, which reduced Italian currency reserves from \$1.8 billion ten weeks ago to \$500 million at the point that the Bank of Italy threw up its hands and shut down the foreign exchange market and stock exchange. In turn, massive pressure "spilled over" this week onto the French franc, British pound, and other currencies of the OECD deficit area, forcing the Bank of France to intervene with several hundred million dollars of its mostly borrowed foreign exchange reserves.

The stated motive of the New York financial community's Italian maneuver, coordinated between Chase Manhattan Bank chairman David Rockefeller and FIAT President Giovanni Agnelli, is to solve the domestic political crisis in Italy through external brute force. The program of the New York banks, which represents de facto the present foreign policy of the United States, is a 15 to 20 per cent devaluation of the weaker European currencies, a consequent cut in Europe's share of world production and international trade, and a teeth-breaking austerity policy for the European workers. This policy, is openly discussed in the New York financial community and the European press.

What prompted Mr. Rockefeller and his collaborators to push a creditor such as Italy to the brink of bankruptcy even though such a bankruptcy would stagger the international banking community? Italy's present \$500 million in reserves represents approximately one-seventh of external debt payments due to banks in the coming year. In fact, the intentional provocation of a currency crisis in Europe reflects principally the horrified awareness of financial circles that such a crisis must emerge whatever their actions during the next several weeks, and comprises an attempt to steer the crisis in a direction favorable to their financial interests.

IV. EUROPE AND JAPAN — AN OVERVIEW

Europe began a second round of trade and international production contraction during the fourth quarter of the past year, for reasons similar to the beginning of the second ratchet of production cutbacks in the United States. Over the year, European national sector had been forced to drastically cut imports as export markets stagnated. This fact provides the principal explanation for positive balance of payments positions reported for 1975. A severe contraction in international borrowing also contributed to this cosmetic "recovery", (Table 1a and 1b) while actual production fell.

Under the orders from the International Monetary Fund and the Organization for Economic Cooperation and Development, Western Europe and Japan undertook last May and June an internal stimulation program which in-

jected \$15 billion into the national sector economies within a three month period. (see Table 2) The Auto, housing, and other select sectors were propped through an expansion of the money supply at annual rates exceeding 20 per cent. This adrenalin shot which created artificial consumer demands mitigated but could not prevent production cuts of 10-25 per cent in basic capital goods industries — the guts of these economies (Table 3) To production cuts caused by decreased demand were added those necessitated by the need to slash operating and capital investment expenses to free funds for corporate debt service. These policies resulted in fantastic illiquidity in the corporate sector.

"Many enterprises are bankrupt but don't know it yet," widely-read West German industrial journal *Handelsblatt* reported (December 22, 1975). "They display profits that stem not from economic gain but dissolving reserves, up-valuing inventory... heavier outside borrowing."

The growing corporate illiquidity in turn, increased the demands on national sector banking systems already overstrained by their shares of bad loans to LDCs, tanker companies, municipalities, etc. "The period seems to have come to an end," states the December 1975 report of the West German central bank, the Bundesbank, "in which corporations, because of pronounced cuts in investment activity and decreases in inventory, can draw on liquidity from current earnings to redeem their bank debts or form financial reserves."

By the fourth quarter 1975, raw materials stocks and corporate reserves had been depleted causing the balance of payments situation to fall through. Bills for increased imports consumed in the artificially created demand boomlet came due simultaneously with a severe fall off in exports to the East bloc, (which was shut off to the credit markets) according to a IMF-Rockefeller-NATO political decision and to OPEC, whose funds declined as the West cut oil imports. The corporate demands for domestic banking funds produced liquidity snaps such as that in Britain where in the first week in January the Bank of England had to release its 1 per cent Special Deposit banking reserves in an emergency action. In turn, the revelation of exacerbated balance of payment problems and demand for overseas funds greatly contributed to runs in January on the lira, franc, and pound (see France below).

The Two Tier Plan

To maintain the ability of these crippled national economies to continue to pay their debts a while longer, a "two tier" currency plan is currently in effect for the other 5 nations that met with the Rambouillet in France last November — Britain, Italy, West Germany, France and Japan.

As proposed one year ago by Willy Brandt, chairman of the West German Social Democratic Party, the plan calls for further austerity cutbacks in Italy and Britain, the proverbial sick men of Europe, and satisfaction of credit demands via hyperinflationary central bank printing press operations elsewhere. This policy is already producing corporate and banking collapse throughout the advanced sector along with the more publicized currency crisis.

The precarious liquidity positions, of the major U.S. international banks — a fact which has recently been made public — has drastically reduced the possibility of additional international loans to this sector. European and Japanese corporate loan demand projected to climb back to 1974 levels and no prospects for funding either domestically or on international markets, analysts and corporate officials are grow-

ing uneasy about an impending wave of corporate bankruptcies.

France, will need somewhere near its 1974 Eurocurrency borrowings of \$3.3 billion, according to one New York bank's international economist, up from a mere \$450 million last year.

"U.S. banks are very nervous about loans to West Europe and Japan," the same source indicated, "especially given their borrowing for debt financing that's not a very attractive investment ... We must look at loans one by one, conservatively, with all these REITS and tanker loans we have and the high reserve ratios we must carry since the Washington Post disclosures on Chase and Citibank. And the European banks are nervous, too, look at the Pfalts Kreditbank (a West German bank which went under two weeks ago) and other recent bank failures in Germany. British banks have the same problem."

"France and Germany will have to stimulate domestic demand," the source continued, "do not expect an export upswing: force down the interest rate by increasing the money supply, making as much money available to the corporations as they need."

This is already happening.

Inside sources at the Paris branch of a major New York bank told IPS last month that French President Giscard d'Estaing is secretly planning a Fr. 120 billion credit expansion to commercial banks in 1976 explicitly for the purpose of financing corporate deficits and debt service. This approaches the equivalent of one third of the French national budget.

In West Germany, a similar situation has existed since October with a 23 per cent annual rate of growth of money supply.

In Italy, if a moratoria on dollar-denominated debt is not instituted the IMF will impose severe austerity. As announced Jan. 28 by Italian Treasury Minister Colombo, conditions for the \$450 million IMF loan under negotiation include drastic government spending cuts, industrial credit restrictions, and speeding up of production.

Similar policies continue in effect in Great Britain and will be imposed soon in Japan if recent proposals by Deputy Prime Minister Takeo Fukuda are followed.

BRD: The End of the Schwindelkonjunktur

Over the last three months, the chief characteristic that has determined West German economic life has been the total collapse of the so-called *schwindelkonjunktur* or fraudulent upswing. This phony recovery, — fueled by the tremendous expansion of consumer credit — was capable of only masking the weaknesses of the economy, not doing away with them. When the export picture deteriorated during the last quarter of 1975, as trade with the East bloc and OPEC nations fell off drastically, the so-called recovery vanished.

As steep as the drop in production in basic industry was over the last year, it would have been far worse were it not for the artificial propping up of the auto sector through consumer credit. This injection ballooned to one tenth the total increase in all new credit during the Aug-Oct. period. Domestic sales for the year rose by 30 per cent, while foreign sales fell 15 per cent, with the key U.S. market suffering a 22 per cent drop. Through such manipulations the industry, which provides demand stimulus for other sectors such as steel, was able to show a modest 3 per cent increase in overall production.

A similar operation was performed in the housing sector where housing loans were twice the volume of consumer credit. A slight variation was used for the machine tool sector, where tax breaks for capital improvements hyped-up domestic orders by 14 per cent; this however was not able to offset a 25 per cent drop in foreign orders, producing a net decrease in production of 8 per cent.

As the Handelsblatt indicated last month, the fag end of the government's credit injection has hit the already nearly illiquid companies quite hard. "The upvaluation of assets may make the books look good," the paper reported, "but then comes debt service, payment for past investments, delivery of pastpaid goods, etc." The fourth quarter spurt in bank lending, over DM 11 billion, was pure refinancing of corporate debt. As workers savings declined due to prolonged unemployment, (reflected in the low growth rate of the broadly-defined money supply (M2) compared to the accelerating growth of the narrowly-defined money supply (M1)) banks increasingly drew their resources from the Bundesbank, borrowing ten day money (DM 4.5 billion at its peak) to make long-term loans to their corporate customers.

The entire West German banking system is thus extremely sensitive to drops in corporate profits and rollover pressure on consumer credit-related loans. The Pfaltz Kreditbank, a consumer credit institution of considerable size, was closed in mid-January by the government control board for "excessive indebtedness," — the third major bank this month to have either collapsed or to be reported near collapse. The head of Citibank's Frankfurt office told IPS bluntly that "even the top addresses" of the German banks are on the U.S. Controller of the Currency's secret list of problem banks. The Italian paper, Corriere de la Serra has predicted that an additional thirty banks will soon have to be closed.

The Lost Gamble

The recent drop in the unsupported value of the franc in the wake of the collapse of the lira was a direct result of France's inability to maintain drastic levels of import cutbacks. Without such cutbacks — the artificial prop behind France's improved 1975 balance of payment's picture — the French economy is quickly revealed to be in disastrous shape.

The entire corporate sector is being overwhelmed by an enormous debt burden. Le Monde, the major French daily, reported last month that the annual debt service of major French concerns averages 20-25 per cent of their turnover, including the following selected debt ratio figures: Michelin, 26.3 per cent; Cements du Nord 25.4 per cent; Renault Industries, 19.5 per cent; Taittinger Champagnes, 15.2 per cent. The state electric monopoly, the EDF, commits its entire annual borrowings of over Fr. 4 billion to debt service.

Under such conditions, all of the Fr. 120 billion in Giscard's heralded "relaunching" program will be sucked into debt service.

"The government has lost its gamble," Le Monde stated on Jan. 19, commenting on the dismal state of the economy and of a reported trade deficit for last month of some Fr. 289 million. Following the release of the trade figures, Banque Parisbas promptly predicted that France's 1976 balance of payments picture will swing back to a deficit of 1974 proportions — somewhere in the Fr. 12 to 15 billion range.

"People don't realize how fast the franc will fall ... much faster than the lira," a Forex trader at a New York brokerage house told IPS. In the first week of the lira crisis, the Banque France spent \$1 billion to support the country's

sagging currency, with undisclosed additional amounts added by the U.S. Federal Reserve.

BRITAIN: The Sick Man Grows Sicker

The already sick British economy deteriorated rapidly over the last quarter of 1975. Final production figures showed a drop of six index points; meanwhile unemployment has shot up to 6.1 per cent — the highest figure since 1939 — with more than 220,000 thrown out of work in the mid-January to mid-February period alone.

Under newly announced government plans, the government's borrowing will total 12 billion - or 25 per cent of the entire government budget for 1976 and 10 per cent of the year's projected Gross National Product.

While French and German auto production was maintained last year by artificial stimulation the British auto industry was allowed to fall apart; domestic sales and exports are down markedly. Steel and other basic industry, which are intimately tied to the fate of auto, are collapsing as well.

Waving the January unemployment figures as its justification for extreme action, the government has called for additional belt tightening — another year of wage controls, cutbacks in credit for industrial production, and a decrease in the rate of the money supply expansion down from 15 per cent in 1975, to 4 per cent.

ITALY: Down to the Wire

The 1975 "miracle" turnaround in Italy's balance of trade (table 1) was accomplished through a 10 per cent drop in imports along with a 15 per cent rise in exports (the later being largely reflective of credits to the Soviet Bloc in the first three quarters of 1975.) Overall industrial production fell 12 per cent under severe import restrictions requiring large advance deposits and under the maintenance of a 12 per cent plus minimum lending rate through the year. Corporate deficits rose \$19 billion during 1975 to \$45 billion, more than double the 1974 figure. Speculation against the lira was in part triggered by official projections of an increased balance of trade deficit in 1976 of from \$5 to \$4 billion.

The new credit and budget restrictions now asked by the IMF will reportedly exceed those measures stipulated by the EEC late last year for renewal of its \$1.8 billion outstanding loan to Italy. The EEC conditions for 1976 included a 13 trillion lira credit ceiling and the elimination of a 14.8 trillion lira budget deficit. New York bankers estimate that this will mean severe privation to Italian industry and greatly increased unemployment.

JAPAN: Production Cut in Effort to Halt Slide of Yen

The pressure on the yen at the end of the last year has now been relieved by policy decision of the Bank of Japan under the control of Deputy Premier Takeo Fukuda to cut production in basic industry. According to sources at the Bank's New York office, the cuts will be even more severe than last year's 10-15 per cent.

As was the case with West Germany, France, and the U.S. the auto sector kept the economy from immediately going down for the count. Overall, auto sales rose 20 per cent, buoyed by gains in the U.S. market where Japan replaced West Germany as the major supplier of imports.

Under a regime of forced import cutbacks, Japanese corporations became net repayers on the U.S. and Euro currency markets by the end of last year. This caused a tremendous demand for dollars which in turn drove the yen down. Under conditions similar to those in France where industry is screaming for lower interest rates so that it can refinance its debt, the Bank of Japan has ruled that there will be no additional loans, that bank interest rates will be kept high to attract dollar inflows — all so that the weak yen might be supported.

It is now openly predicted in the Japanese press that the strategy for this year's spring wage negotiations will be to first offer a 10 per cent (below inflation) wage increase ceiling and then, once the issue is settled, force several million additional layoffs. This roughly corresponds to the number of workers over-employed under the patriarchy system for whose paychecks the industries have run out of reserve funds.

INTERNATIONAL MARKETS

The solvency of the European corporate sector, and even the debt-servicing abilities of countries such as Britain and Italy, take second place to the dangers that the downturn in international trade has set into motion. The fuse which might detonate the world financial structure at any moment is \$40 billion in very short-term debt of the developing countries. Of this, \$30 billion was extended over the eighteen months between June 1974 and December 1975, mostly by U.S. banks and their Eurodollar subsidiaries. The Administration has neglected to inform Congress and the public that this unprecedented growth in bank illiquidity provided the principal means of financing the Third World's massive balance-of-payments deficits during 1974 and 1975. The single underpinning for these loans is the continuity of Third World commodity exports, which were propped up by the temporary effect of government spending in Western Europe and the United States. In effect, the continued flow of internationally-traded commodities, even at half of their peak 1974 prices, represents interest payments on Third World debt, and the last margin of income to permit refinancing. (see charts)

When Ford's advisors were submitting their final drafts of the State of the Union message, the world economy turned the corner, when the international price of copper dropped below the cost of production. To sustain the copper trade after the 1974 price collapse, the banking creditors of the Third World provided a further \$1.5 billion to sustain stockpiles in private hands, held in anticipation of economic recovery. It is now common knowledge in financial circles that this flimsy arrangement is in the process of collapse.

In addition, the \$35 billion of short-term debt extended to tanker operators came under international scrutiny last week when a Greek shipping group defaulted on several hundred millions of bank debt. The tanker industry has collapsed, with one-third of capacity in mothballs, as a direct result of the 20 per cent drop in European foreign-oil consumption. With a renewed downturn in European industry, the banks' gamble in tankers will have lost.

TABLE IA: EUROPEAN AND JAPANESE TRADE TRENDS

COUNTRY	PERCENT CHANGE EXPORTS 1974-5	PERCENT CHANGE IMPORTS 1974-5	TRADE BALANCE (billions) (Current account balance)		
			1974	1975	1976 projected
FRANCE	+118%	-8%	-FF 16 (--)	+FF 6 --)	-FF 10 --)
ITALY	+15%	-10%	-\$11 (-\$4)	-\$3.5 -\$1.5)	-\$5 -\$3)
WEST GERMANY	-4% (+10% volume)	+3%	+\$19.5 (--)	+\$14 +3)	+\$10 +1)
JAPAN	+0.5%	-7%	-\$6.6 (--)	-\$2 --)	(--) (--)
GREAT BRITAIN	+15%	+3%	L5.2 (L3.7)	L3.2 L1.7)	(--) (--)

TABLE IB: INTERNATIONAL LENDING TO EUROPE AND JAPAN (in billions of dollars)

	1974	1975
U.S. Bank Credits to Advanced Nations (excluding U.S.)	6.9	-2.4 (net repayment)
to Japan	4.8	-2.7 (net repayment)
Eurocurrency Credits to Advanced Nations (including U.S.)	20.9	6.4
to France, Italy & Britain	11.2	0.9
U.S. and Eurobond Foreign Bond Issues to Advanced Nations	3.0	9.1

Note: Cutbacks in short and medium term currency lendings were not at all compensated for by the slight rise in long term bond issues. These, in any case, were not for investment funds but were borrowed in order to retire the previous year's short term debt.

Source: Morgan Guaranty Trust Co., World Financial Markets, Dec., 1975

TABLE II: GOVERNMENT DEFLATION PLANS BY NATIONAL SECTORS

U.S.	\$26 billion
France	Fr 30 billion
Italy	\$5.2 billion
BRD	DM 75 billion
U.K.	L145 million
Japan	Y2 trillion

TABLE IIIA: INDUSTRIAL PRODUCTION & EXPORTS 1975

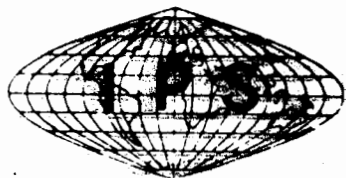
<u>West Germany</u>		<u>France</u>	
Steel	-24%	Steel	-20.4%
Chemical	-16%	Chemical	-18%
Machinery	-9%	Machinery	-24%
Textiles & Clothing	-15%	Oil Refining	-20%
Construction	-10%	Exports (value)	
Machine tools	-8%	(2nd half, 1975)	
Automobile	+3%	Iron & Steel	-20%
		Chemical	-11%
1975 Exports (value)		Fertilizers	-68%
Auto	-15%	Metals Mfr	-25%
Auto to U.S.	-22%	Auto sales	+15%
Machine tools	-25%		

<u>Japan</u>		<u>Great Britain</u> (Index Avg (Dec 1970=100))	
		1974	4th Qtr., 1975
Steel	-12.7%	Overall prod.	106
Machinery	-10%	Manufacturing	107
Chemical	-8%	Chem. Mfr.	125
Textile	-16%	Metals Mfr.	92
Auto	-16%	Engineering	105
(no figures available for exports)		Automobiles	97

(no figures available for exports)

TABLE IIIB: WORLD STEEL PRODUCTION: 1974 vs. 1975 (m. tons)

	1975	1974	% change
Belgium	11.582	16.227	-28.6
Germany	40.418	53.232	-24.0
France	21.520	27.021	-20.4
Italy	21.852	23.804	-8.2
Luxembourg	4.624	6.447	-28.3
Netherlands	4.819	5.837	-17.4
Denmark	0.557	0.535	+3.9
U.K.	19.833	22.404	-11.5
TOTAL EEC	125.205	155.508	-19.5
U.S.	105.972	131.992	-19.7
Japan	102.210	117.131	-12.7
Spain	11.095	11.502	-3.5
Canada	13.015	13.606	-4.3
Soviet Union	142.0	136.2	+4.3
Comecon excl. Soviet Union	53.6	48.9	+9.6
China	36.0	27.0	+11.1
Others	62.80	168.06	-62.64
TOTAL	651.8	799.9	-8.2



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The Realignment Of Forces In The U.S.

I. INTRODUCTION

Jan. 30 (IPS) — The disastrous and dangerous foreign policy associated with U.S. Secretary of State Henry Kissinger and the Rockefeller financial faction he acts for has forced a realignment of forces within the U.S. ruling class.

Traditional "eastern establishment" policy makers, generally identified with the finance-based wing of the Democratic Party (people such as former New York Governor Averell Harriman, investment banker George Ball, former Defense Secretary Clark Clifford), have perceived the twofold danger of Rockefeller's foreign and military policy: a Schlesinger doctrine nuclear exchange with the Soviets or the complete loss of the Third World, the Mideast and Western Europe.

These eastern "patrician" layers have joined with a faction of Chicago-based industrialists and the Ford Administration in a tactical alliance against Rockefeller and his foreign policy. This has resulted in a shift in the balance of forces in the U.S., which currently roughly favors the Harriman-Ford faction over the Rockefeller faction by a ratio of 60 to 40.

Although the Harriman-Ford faction is at this moment hegemonic in determining foreign policy in the United States, that faction is stupidly clinging to Rockefeller's fundamental economic policy — maintenance of the dollar-based credit structure and the outstanding \$800 billion debt. This necessarily entails dismantling of productive capacity in the world's industrialized sector and reducing the living standards of the world's working and farming population to the point of irreversible ecological holocaust. That incompetent choice gives Rockefeller the capability to regain the upper-hand and leaves essential Rockefeller policy intact in the United States.

This also leaves the Harriman-Ford faction in an extremely unstable position domestically. Key sections of the base of this faction are being destroyed by the current "guns-not-butter" economic policy, and as a result, are being rapidly propelled toward the only programmatic alternative to Rockefeller's austerity — the U.S. Labor Party's proposals for the International Development Bank (IDB) and the Emergency Employment Act (EEA) of 1976. In particular, the urban democratic machines and the industrial trade union base of the Democratic Party are increasingly responding to USLP direction and rapidly reaching the point of political explosion, as Mr. Harriman and his allies know quite well. The actual industrialists of the Chicago faction — especially the agricultural implements and tractor industry — like working-class based politicians, must orient towards the debt moratorium and the IDB if they want to continue in business. For obvious class reasons, this is occurring much more hesitantly with the industrialists than with the urban

and industrial working class. The leading banks in the area — First National Bank of Chicago and Continental Illinois — are more hesitant but nonetheless orienting themselves in the same direction. (See the economic section of this brief for the in-depth programmatic critique of the Ford-Harriman faction.)

II. BREAK FROM ROCKY'S FOREIGN POLICY

Since the Chile coup of 1973 and the October Mideast War and oil hoax, the Soviet Union has been educated in bloody detail on Rockefeller's methodology and intentions. U.S. policy makers have been significantly slower in realizing the lessons of that Soviet education. Not until early summer of last year, when U.S. politicians and press mobilized against the activation of the "Schlesinger doctrine" of tactical nuclear warfare, did limited public acknowledgement appear that Rockefeller's nuclear war doctrines would blow the world up. Not until late summer of last year, when a leading Chicago industrialist warned that the outcome of current disastrous economic policy would result in the U.S. Labor Party victory in 1976, that these layers offered limited public acknowledgement that Rockefeller's economic policy would hand the country to the communists.

Even so, it took the threat of Rockefeller's insane Hilex 75 mobilization, most immediately the mid-January threat of nuclear war in the Mideast, to force this erstwhile "ruling class" to wrest control from Rockefeller.

This general category "eastern establishment policy-makers" is best represented by the aforementioned Harriman, Ball or Clifford.

Harriman, for example, is the son of a railroad-turned financier family now associated with the investment house Brown Bros. He has had a career which has spanned the Democratic governorship of New York State to Ambassador-at-Large during the Kennedy Administration. Harriman thus has extensive contacts in New York investment circles, in foreign service layers, and in the National Democratic Party. The 84-year-old Harriman is currently co-chairman of the Democratic Party Foreign Policy Task Force.

Ball, a former Undersecretary of State, currently with Lehman Brothers, and Clifford, a former Secretary of Defense, now a corporate lawyer, have had similar careers.

From the standpoint of the Democratic policy maker the dangers of the Rockefeller-Kissinger policy were too overwhelming to ignore. The Third World was rapidly careening toward the pro-development, anti-dollar sentiments expressed by Iraq, India, Algeria and Mexico. Most of the OPEC countries, including the normally reliable U.S. satrapy Iran, were veering out of western control. Western European, pro-detente, pro-development factions such as the Cefis industrial grouping in Italy — threatened with eco-

conomic, political or military ruin — were openly splitting from the Atlanticists in their own countries.

The patrician policy makers represented by such investment houses as Brown Bros. Harriman, Lazard Freres, Kuhn Loeb, and Goldman Sachs and by such newspapers as the New York Times, the New York Post, the Washington Post and Long Island Newsday, began by early January to push their "traditional" foreign policy in earnest. That foreign policy includes a basic commitment to detente, a clear delineation of the nuclear war threshold, a rational understanding of the actual strategic interests of the United States, a rejection of the Schlesinger Doctrine and a return to the doctrine of flexible response associated with the Kennedy administration. As an important aspect of this policy, uncontrolled "dirty tricks" and covert operations of U.S. intelligence agencies were to be sharply subordinated to overall foreign policy goals.

III. HOW THEY DID IT

This faction, by mid-December set out to publicly break Rockefeller on two interconnected issues — Angola and the CIA. Stopping the Rockefeller-Kissinger adventure in Angola was uncomplicated. The eastern patricians activated a network which runs through the State Department, Congressional staffs, the press and left-wing think tanks. Anti-Kissinger Harriman-type layers in the State Department leaked information to their counterparts — State Department alumni in the Senate Foreign Relations and Armed Services Committees (men such as Richard Moose, George Ashworth, Norville Jones). A layer of "left foreign policy" think-tanks such as the Institute for Policy Studies, the Center for National Security Studies and the Institute for International Policy — generally grouped around former National Security Council staffer Morton Halperin and funded by the Carnegie Endowment for Peace — were also activated against the Angola policy. The same layer of State Department alumni in the press, such as Leslie Gelb of the New York Times who served in the State Department with Halperin, conducted press exposures.

The liberal Senators generally responsive to the eastern policy makers — such as Democratic Senators Edward Kennedy (Mass.), John Tunney (Cal.), Dick Clark (Iowa), Alan Cranston (Cal.), and John Culver (Iowa) — pushed the anti-Angola resolution through the Senate with little trouble.

The same network was also activated against Rockefeller's control of the CIA and the invisible government. Here the eastern press mentioned above played a key role — especially the Kennedy-linked Newsday which exposed Rockefeller's maintenance of a police-state capability through the State Police during the 16 years he was governor of the State of New York.

The Institute for Policy Studies-run Counterspy outfit, meanwhile blew the covers off of CIA operatives in several world capitals and fed this information to indigenous radical newspapers — e.g. the Richard Welsh assassination.

Within Congress, the Eastern policy makers worked through the Senate Select Committee on Intelligence Activities chaired by Sen. Frank Church (D.-Idaho) and the House Select Committee on Intelligence Activities chaired by Rep. Otis Pike (D. N.Y.). Pike in particular seemed to take marching orders directly from Harriman.

The Pike Committee led the way in exposing Kissinger's operations in the Mideast, Cyprus, Iraq, etc. It also leaked limited but damaging details on the CIA's infiltration of the

press. Church meanwhile released the report on CIA assassination attempts.

The eastern patricians found themselves working in tandem with the Ford Administration in their attempts to bring Rockefeller's intelligence and covert operations capability under control. Since at least last October, after two assassination attempts on the President, then White House Chief of Staff Donald Rumsfeld began to head up a secret White House investigation into Rockefeller's "invisible government" — the CIA's so-called "old boy network." The first manifestation of this investigation was the "Halloween Massacre" which involved the firing of Defense Secretary Schlesinger and CIA Director Colby and the removal of Henry Kissinger from his National Security Advisor post.

Throughout the next two months, the so-called "Rumsfeld Commission" continued its investigation, and no doubt quietly made the investigations into Kissinger's wrongdoings of the Pike and Church Committees easier on occasion. Rumsfeld has been the key bridge between Ford, Chicago and the Harriman grouping.

Within the past two weeks, the efforts of both the Harriman and Ford factions to curb the CIA have essentially merged. Ford drew former Administration officials into the White House for private consultations. This group included Kennedy and former Nixon Administration officials, and likely included Harriman himself. Ford also worked in close private consultation with Sen. Church and the ranking Republican on the Church Committee — Sen. Tower (Tex.).

On Jan. 19, Harriman testified in closed session in the Church Committee on the reorganization of the CIA. The intent of this reorganization is to subordinate covert operations to overall foreign policy. The form the proposals have taken are for the establishment of Senate and House CIA Oversight Committees and for sanctions against government employees who leak classified information. Ford, Church and Pike converge in their support of these basic proposals.

But as long as the foreign policy to which the intelligence agency is supposedly subordinated is one of maintaining dollar debt and international austerity, the necessity of police state operations to collect the debt will tend to thrust the Rockefeller forces into preeminence once more.

IV. THE FUNDAMENTAL FLAW

The above fundamental flaw runs throughout the areas of policy convergence of the Ford and Harriman factions. In the Mideast, where Ford has curbed Kissinger's relationship with the Israeli banks and has called for a rapid return to Geneva, and where heavy intervention by Kennedy and Harriman forces in concert with the French has cooled the Lebanese situation, the environment is still unstable. The Syrian-French backed slaughter of leftists in Lebanon and the implicit attack on Iraq seriously injured the only basis for a viable peace in the Mideast — a regional development program operating as a subsumed part of an IDB international system.

Similarly, the patricians' jettisoning of the Schlesinger tactical nuclear war insanity — which was made explicit at the just concluded Nuclear Planning group meeting in Hamburg — is completely undermined by their current commitment to austerity and military production. Maintenance of the debt and continued massive arms expenditures will force confrontation with the Soviets within 12 to 18 months, despite the gentlemen's "commitment" to detente and flexible response doctrines.

Each of these Eastern establishment "policy makers," every one of Ford's economic advisors, every member of the Chicago capitalist establishment, and every major urban mayor knows that the Labor Party's proposals are the only alternative to Rockefeller's political and economic insanity. As a White House economic advisor remarked in public today, "The White House talks to the USLP more than anyone else in the country!" The reason is that no one else has anything to say.

V. ATTEMPTS AT CONTAINING LABOR COMMITTEE INFLUENCE:

The Harriman-Ford-Kennedy bloc last week tried to throw up a *cordon sanitaire* around the National Caucus of Labor Committees to keep the NCLC's ideas from reaching susceptible Congressional, governmental, and industrial layers as well as the population at large. This patrician faction and their allies are fully aware that the International Development Bank (IDB) and related policy initiatives of the Labor Committees not only command the support of significant portions of the U.S. working class, but also determine the scope and strength of the pro-development, anti-austerity battle now being waged against the tottering dollar empire. Their broad effort to contain the Labor Committees' programmatic influence is based on their own programmatic bankruptcy; they are committed to maintain dollar debt payments and have refused to take the necessary steps to initiate a new international economic order.

This containment effort began in earnest immediately following successful meetings between U.S. Labor Party presidential candidate Lyndon H. LaRouche and a number of Congressmen last week. The Chicago Sun Times, to take one example, Jan. 25 published a libelous article on the Labor Committees, trying to shut down the proliferating lines of communication between the Labor Committees and industrial and Democratic Party layers based in Chicago.

Today, the Chicago Tribune ran a front page article on the Labor Party which serves as a corrective to the Sun Times slander. The USLP is described as "an intense group of people who are making their presence felt at newspaper offices, television stations, universities, and political meetings all over the country." With "a few respectable election showings," the article continues, "the Labor Party cannot be dismissed too quickly."

Even more significant is the activation against the Labor Party and the IDB of the same "State Department alumni" layer mentioned in connection with breaking Kissinger's Angola operation. According to highly placed White House sources, Congressional committee staffers are informing interested parties that the IDB is not "politically practical." These staffers, former National Security Council staff, are directly associated with Senator Hubert Humphrey (D-Minn), according to the source.

Equally intense but more widespread is an enormous domestic terror operation, directed against any worker or politician who begins to orient toward the Labor Party and its program. Rockefeller's domestic Gestapo — from its in-plant kapo network to its dirty tricks and death threat operation against politicians — has not been dismantled by Rockefeller's factional opponents; they have taken it over..

Plaguing the Harriman-Kennedy-Ford alliance is the fear that their limited victory over the Rockefeller faction will soon give way to Labor Party programmatic hegemony. A

trio of lead editorials in the Jan. 29 New York Times exemplify this fear. In the first two editorials, "Europe's Socialist Split ... and Communist Gains," the Times counsels the U.S. and West Germany to provide Italy with a "safety net of billions of dollars in credits" to stabilize and reflate her economy, because of the "grave danger ... that larger numbers of Europeans may conclude that Communist accession to power is a lesser evil than permanent joblessness." In a follow-up editorial, "Uninsured Joblessness," the Times brings the dilemma back home, warning that 2.5 million American workers will run out of unemployment benefits in the first quarter of 1976, and further, that 16 states have exhausted their state unemployment funds. As a "solution," the Times recommends the same hyperinflationary non-policy it does for Italy: printing up masses of dollars to hire unemployed workers in useless "make work" public service employment programs.

The spectre of communism, specifically in the context of the Italian and U.S. situations, similarly dominated discussions at a "Quadrangular Conference" hosted for a select group of European and U.S. participants at the Georgetown Center for International and Strategic Studies (CISS) this week. Organized by Sen. Hubert Humphrey (D-Minn) the AFL-CIO, and several prominent "think tankers," including David Abshire and military-strategic "expert" Ray Cline, the conference devoted much of its time to debating the historical compromise in Italy. In general, the European participants lined up in favor of the communists entering a bourgeois government, while their American counterparts were far more reluctant to do so.

But perhaps the most telling comment at the conference was made by Ernest Lee, head of the AFL-CIO's International Affairs department, who anxiously informed the conference attendees that there are "sympathizers with the Soviet bloc — not only workers, but intellectuals, too," gaining influence within the U.S. labor movement. The AFL-CIO is in a good position to assess the influence of "Soviet bloc sympathizers" (i.e., the Labor Committees) within the trade-union movement, since the policy perspectives and organizing of the Labor Committees and U.S. Labor Party have handed them virtual hegemony over rank-and-file union members and increasing numbers of union officials.

The Austerity Alternative

Although the containment campaign against the Labor Committees involves a wide range of "dirty tricks" harassment, it is, obviously, clear to the more sophisticated Harriman cabal that this alone can not succeed. Thus, several well-publicized "populist" campaigns have been set into motion primarily to divert attention from the Labor Committees' reconstruction program.

The central policy development last week was the Harriman faction's accelerated push for domestic austerity via New Deal-style forced-work programs. Senator Humphrey and his allies mobilized to ram a revised version of his Full Employment bill (formerly known as the Humphrey-Hawkins Bill) through Congress by spring.

Reached for comment today Humphrey's aide on the Joint Economic Committee, while refusing to divulge any details of the new bill, admitted that it would deal with the problem of employing at minimum wages people who have exhausted their unemployment benefit levels.

To force workers into these jobs, Congress apparently will not extend unemployment benefits any further. An aide to Sen. Jacob Javits (R-NY) a so-called friend of Labor who in

the past has loyally sponsored several extensions of unemployment benefits, told IPS today that no such further extensions would be brought up in Congress. Workers who exhausted their benefits would either have to go on welfare or take government jobs; public works, the aide stated specifically, referencing the fact that yesterday the Congress passed by overwhelming majority a \$6 billion public works bill.

The AFL-CIO meanwhile has openly come out against any further extension of unemployment benefits reasoning that the money spent should be used to finance slave labor jobs. Washington spokesmen for the AFL-CIO and the United Auto Workers revealed that both organizations are planning a major lobbying campaign on behalf of the Humphrey full employment bill aimed at getting it passed by early spring.

Stripping the Seven Sisters

Another major push of the Harriman faction is the campaign to enforce divestiture (vertical and horizontal) on the multinational oil companies. Leading this push are several liberal Senators generally associated with the Kennedy wing of the Democratic Party, including Ted Kennedy himself. While this campaign against the "Seven Sisters" is part and parcel of the Harriman faction's assault on the banks of the Rockefellers — an assault launched two weeks ago on the front page of the Washington Post — it is also clearly intended to coopt working-class ferment away from the Labor Committees' program, and into the FDR New Deal corporatism of the Harriman-Kennedy circles.

Like this same group's Financial Institutions and the Nations Economy (FINE) proposal for reorganizing the country's banking system on a corporatist basis, the divestiture campaign is based on incompetent assessments of the current state of international economic collapse. There is no question that efforts to dismantle the multinational oil cartel's stranglehold over world oil production, distribution, and prices are laudable, especially since the oil company-rigged 1973 Mideast war and ensuing oil embargo price rise have greatly contributed to the drastic decline in world production and trade. But the divestiture advocates' attempt to slash world oil prices by half — in the hopes that debt moratoria can be avoided by relieving economic pressures on Western Europe, the Third World and Japan — can only hasten the final chaotic collapse of the international monetary system, by completely destroying the already fragile Eurodollar market. Since the Harriman group and its Congressional frontmen have nothing to put in its place, their drive to dismember the oil companies is little more than a dangerous gimmick. The sole "positive" aspect of their divestiture program, the establishment of a federal purchasing agency for all imported oil, is another empty, corporatist ploy.

The faction is nonetheless, attempting to rally support for this "program." On Jan. 29, a newly formed "grass-roots" Energy Action Group controlled by Kennedy opened fire on the "Seven Sisters" with an organizing luncheon for 74 Congressmen in Washington. Spokesmen for the lobby promised that a scandal bigger than Watergate was brewing around the multinational oil companies. At the same time, several Congressional units are holding hearings (or preparing to do so in the immediate future) on the numerous divestiture bills now up for consideration.

The Brookings Institution, a traditional top "brain trust" dictator of economic policy to the Democratic Party, is a prime mover behind the divestiture push. Brookings is involved especially in setting up brainwashing sessions on the

topic for those Congressmen and other political layers who would generally be most open to Labor Committee policies. Last week Brookings organized a debate along with the American Petroleum Institute on whether or not the "Seven Sisters" were the actual power behind OPEC, a subject currently being investigated by the energy Subcommittee of Humphrey's Joint Economic Committee, headed by Kennedy. While the Energy Action Group was entertaining Congressmen on Jan. 29, Brookings held a seminar on energy at its Washington, D.C. headquarters, attended by nearly every significant participant in the "bust the oil cartel" effort. Next week it will hold a special seminar on the federal budget for Congressmen.

Control of the Intelligence Community

One of the most important battlefields for the Harriman faction's fight for hegemony over the Rockefeller forces has been the intelligence community. Control over this \$10 billion annual enforcement apparatus is absolutely necessary for any bourgeois faction which wishes to see its policies implemented, especially since no cohesive bourgeois group has yet put forth a pro-development policy which could gain the actual support of the population. Thus, both the Senate Select Committee on Intelligence (chaired by Senator Frank Church (D-Idaho) and the House Committee (chaired by Representative Otis Pike, (D-NY) have functioned as direct arms of the Harriman-Kennedy-Ford alliance as they have sought to knock out the Rockefeller faction of the intelligence community. This Rockefeller faction runs the "Seven Sisters" cartel and has played a trigger role in the Rockefeller-Kissinger Mideast war scenario.

To replace the Rockefellers, the Harriman bloc intends to install its own faction of the intelligence community, represented by a number of dissidents who formerly worked for the State Department or other government agencies. This group includes Morton Halperin, who is a former staff member of the National Security Council under Henry Kissinger and is currently head of the Washington, D.C.-based Center for National Security Studies. (This organization is one of several "left liberal" think tank operations funded by the Harriman-allied Fund for Peace, which functioned as the Harriman groupings "government in the wings.") Halperin and his circle have been responsible for many of the recent attacks against Kissinger and the CIA, including the lists of names of CIA agents recently published in several U.S. and European press outlets.

Now that the patricians have wrested control for the most part over the intelligence community away from both Rockefeller and a third, "traditionalist," faction, they are attempting to clamp the lid over exposes of CIA activities. Both the Pike and Church committees, in direct collaboration with President Ford and his advisors, are converging on essentially identical proposals for "reforming" the intelligence community, including a do-nothing permanent Congressional oversight committee, and a version of the British Official Secrets Act.

As part of their attempt to destroy the Rockefeller-Kissinger covert operations capabilities (especially in the Mideast), several spokesmen for the Harriman alliance, including former U.S. Attorney General Nicholas Katzenbach and former National Security Advisor to President Kennedy, McGeorge Bundy, have recently called for a moratorium on covert political and paramilitary activities — to last until control over U.S. foreign policy and the CIA is decisively in its hands. Not surprisingly, the patricians have

played up the CIA's funneling of money to Italian political parties, since by such exposes they hope to further their "White Communism" policy for Western Europe, while discrediting Kissinger.

As long as the Harriman faction continues to avoid facing the fact that the only sane policy option open to them is debt moratoria and an IDB-type arrangement, they will be forced

to wage a constant battle just to retain their newly achieved relative dominance over the Rockefeller faction. Exposures of CIA agents, assassinations of agents, and blowing of secret CIA operations can be expected to continue, as the two major contending forces, Rockefeller and Harriman, fight a war of attrition. The free-for-all atmosphere is also encouraging the third, "old boy," faction of the CIA (characterized by over cold war, anti-detente sentiments).

The State of the World

Jan. 23 — President Ford's State of the Union message to the U.S. Congress Jan. 19 comprises a level of incompetent bungling on the part of a U.S. chief executive far surpassing Herbert Hoover's pathetic record during the last depression. Since a similar kind of incompetence prevails in the ranks of the president's non-socialist critics, it is now the responsibility of the U.S. Labor Party and its presidential candidate to address the American people in order to give the American people an accurate account of the sheer magnitude of the national and international economic catastrophe now upon us and to inform them of the bold measures required to put the world back together again.

Collapse of Employment and Production

The world economy and that of the USA has already entered the breakdown phase of the depression crisis that began in August 1971. Before the end of the present quarter, the collapse of dollar-based financial institutions in the United States and other industrial countries will lead to the devastation of international trade and production on a scale not imagined in recent capitalist history. Any competent policy must proceed from this dire fact, as President Ford's decidedly does not; otherwise it will simply further the precipitous economic collapse — which Ford's policy does.

The general industrial decline in the United States, statistically obvious in January 1976, is occurring in the context of a new round of massive contraction of international trade, strangulation of West European and Japanese industrial production, collapse of world commodities markets, and generalized bankruptcy of raw materials producers and others in the developing sector of the world economy. So long as the continuance of such conditions in the world economic environment is tolerated, U.S. industrial production will continue to collapse until a generalized breakdown of all civilized life occurs sometime in 1976.

Since there are approximately at least 20 million Americans now unemployed, all capital formation activity has long ceased here. Reduced industrial production, disaccumulation of inventories, and disinvestment in plant and equipment have shown up in every sector of the economy. The capital goods and construction sectors of the U.S. economy, which never experienced a recovery, remain in a deepening depression, while the most recent figures — even those of the Administration — on capital spending and housing starts indicate a continued downturn. January reports on the automobile industry, the only sector during 1975 to block the collapse of industrial output, indicate that production collapse has commenced there as well. The country's most prestigious investment houses are operating on the projection for 1976 that the issuance of long-term corporate bonds will fall by half. The volume of securities issued relating to manufacturing production is expected to fall from \$11 to \$2 billion.

The International Setting

Confronting us as we enter 1976 is a landscape of inter-

national economic wasteland. Nations with which the United States formerly traded are now on the verge of economic extinction. The industrialized Western nations of the Organization of Economic Cooperation and Development (OECD) and the underdeveloped countries of the Third World are in the midst of terminal financial hemorrhage, shutting down economic activities and reducing imports to near zero levels. To put it in terms that the American farmer and industrialist can understand: the kind of world market that could support even the present pitiable levels of U.S. production no longer exists, and what is left of a world market is rapidly shrinking toward a vanishing point.

Western Europe and Japan, now in a situation best exemplified by Italy's closure of its foreign exchange and stock markets, are once again forced to cut imports and impose vicious austerity measures on their populations to remain solvent. Because of horrendous balance-of-payments problems that resulted from the consumer-led pseudo-recovery in the third quarter of 1975, these countries began cutting back imports of industrial raw materials starting in November and December. The result is that Western Europe's inventory of production materials is now lower with respect to capacity than at any time during the post-war period.

Virtually the entire European corporate sector, with a much worse debt-equity ratio than its American counterpart, is running at zero or less profitability. In Britain, bank liquidity experienced a sudden turn for the worse during the first week in January, forcing the release of special deposits held by the Bank of England at the point when British corporations began to demand credit to replenish their depleted stocks.

In turn, the imminent devaluation of European currencies with respect to the dollar, which will raise the cost of imported raw materials traded in dollars to the European economies, is bound to constitute the final death blow to European industry. Exemplary of what is occurring to the European economy even before this death blow is delivered is West Germany, the industrial heart of the Common Market. There foreign sales of heavy machinery fell by 25 per cent and foreign auto sales by 15 per cent. Overall, West Germany's steel output fell by 22 per cent, chemical by 16 per cent, machinery by 9 per cent, textiles by 15 per cent, and construction by 10 per cent. In every other West European country the picture is by far worse.

The Third World, which under appropriate circumstances could be turned into an insatiable market for industrial exports, is racing toward general bankruptcy around the end of the first quarter of 1976, forced by the renewed fall in international trade levels. The indebtedness of the Third World, moreover, functions as a trigger for \$800 billion of illiquid debt internationally which will be reduced to wallpaper in the upcoming round of crisis. The year 1975 afforded a mere glimpse of the consequences of devastation in the developing

countries. As the financial strains of the developing countries only began to emerge, imports fell by 8 per cent in real volume. Brazil itself, the model designed by U.S. experts for the developing sector, cut its imports by 30 per cent in dollar terms in the second half of 1975.

The Deadly World Debt Structures

At the root of President Ford's pathetic incompetence is his failure to understand how the deadly weight of the \$800 billion unpayable worldwide debt acts to destroy all meaningful economic activity. Ford's further inability — and that of his advisors — to understand that it is humanly impossible to avert the collapse of this debt structure within the first quarter of 1976 prompted him to announce measures that will speed the process toward that inevitable direction.

There is no question that the present elimination of profitable banking operations resulting from the renewed economic downturn will turn into a general banking crisis within weeks. The financial underpinnings of the large New York banks are so weakened by bad loans to speculative areas that a sharp decline in the banks' current earnings threatens to provoke insolvency in the largest U.S. financial institutions.

Every statistical bulletin released by the Federal Reserve during recent weeks invariably demonstrates that there is a continuous shrinkage of the banking system occurring in both the U.S. markets and the Eurodollar market. As a result of the collapse conditions prevailing in industry and commerce — a condition itself triggered by the overwhelming debt burden of these sectors — no loan demand exists for purposes that would make banking investments profitable. The present downward spiral of interest rates on all financial instruments mimics the precise events of 1929 and 1930, when available funds could not be invested in productive activity. In point of fact, this process of shrinkage in meaningful banking activities started last year before the tumble of interest rates, as the banking system's loans outstanding to business contracted by an unprecedented \$30 billion during the year.

The only loan demand now is for purposes that have absolutely no hope of repayment: loans to repay existing debt!

During 1975, the banking system prevented an explosion of illiquidity by increasing fourfold its rate of return on funds lent, with the assistance of the Federal Reserve System which reduced the cost of banks' resources much faster than the banks were compelled to reduce their lending rates. As a reverberation of the renewed industrial downturn, the general fall in interest rates has wiped out the banks' margin of profitability. It is doubly ironic that Federal Reserve Chairman Burns has protested to Congress over the issue of disclosure of bank losses at a moment when these losses can no longer be papered over.

Banking and Credit: A Cold Corpse

President Ford's incompetence on this matter, moreover, is illuminated when it is pointed out that the banking and credit structure which he is attempting to rescue is already a cold corpse. Contrary to published reports that the potential loan loss of the largest commercial banks are in the range of 98 per cent of capital, in the case of Chase Manhattan, and 114 per cent of capital, in the case of First National City Bank of New York, the New York financial community in general is now operating on the premise that 50 to 70 per cent of the loans made by large banks are questionable. This represents 1,000 per cent of capital. That is, if only one-tenth of the questionable loans of these institutions must be written off, they will be insolvent.

These banks have concentrated their assets principally in the following lending areas: \$14 billion in loans to Real Estate

Investment Trusts, \$12 billion in construction and development loans to developers, \$80 billion in private credits to the developing countries, \$35 billion in international loans to tanker operators, \$10 billion in loans for international commodity stockpiling and speculation, \$30 billion in short-term loans to Japan, \$14 billion in loans to Italy, \$13 billion in loans to Britain, and \$6 billion in loans to France and related sectors.

The large New York banks are not only most heavily immersed in the most illiquid sectors of international lending, but the proportion of their assets representing illiquid loans jumped exponentially during the past year. Net repayment of commercial and industrial loans of \$30 billion during 1975, of which \$11 billion is to banks in the New York Federal Reserve's district, corresponds to a similar amount of corporate financing on the long-term debt markets. The most creditworthy of the customers of the money-center banks refinanced their short-term debts, repaying the most reliable of the banks' earning assets and thereby raising the proportion of bad loans in the banks' portfolios.

But even the concern expressed by the office of the U.S. Comptroller of the Currency over these banks is fundamentally incompetent. New York banks' deposits at their foreign branches, overwhelmingly engaged in lending to the quadrilegics of the world economy, now total \$74 billion, compared to \$77 billion in total demand deposits.

This dramatic situation takes us directly to the issue that both President Ford and his athletic Secretary of the Treasury, William Simon hysterically fail to see: The fuse which is about to detonate the world financial structure at any moment — since the memorial services that were held at Kingston, Jamaica for the erstwhile International Monetary Fund — is the \$40 billion in very short debt of the developing countries. Of this, \$30 billion was extended over the 18 months between June 1974 and December 1975, mostly by U.S. banks and their Eurodollar subsidiaries.

Now President Ford and the banking system, whose bailiff is he is in danger of becoming, have taken every measure to ensure that this short fuse is going to burn out sometime between now and the early spring. The massive austerity assault against both consumers and industry that is embedded in the irrationality of the president's budget and his State of the Union message is ensuring the further collapse of industry which can no longer absorb Third World raw materials and commodities whose sale proceeds would have made repayment of such short-term debts possible. The cumulative impact of this, as well as numerous other converging detonation situations, is absolutely to guarantee that result which President Ford and his associates are determined to avoid: the total chaotic collapse of world credit structures and all production.

An Urgent Meaningful Agenda for Congress

Under the present extraordinary circumstances, no meaningful message on the State of the Union and State of the World can neglect to deal with the most awesome predicament of all, the profound intellectual bankruptcy and bungling incompetence now permeating all institutions professing authority to deal with this matter, starting with the White House itself. In point of fact, we have now reached the point where incompetence of economic management from President Ford, to the U.S. Treasury, to the Federal Reserve on down has become an inextricable feature of the process of world economic collapse.

Ford's proposal to treat this disease with the "common sense" of a \$70 billion cut in constant dollars from the federal budget must be viewed as a tasteless joke on the population

of the United States and the world population. We are faced with the breakdown of the entire complex of economic relations of the postwar period. It must now be taken for granted by both Congress and the U.S. population that what is urgently on the agenda is nothing less, absolutely nothing less, than the drastic, deliberate replacement and redefinition of world economic relations. It is now America's turn, and not merely a matter for the Third World, to urgently consider the building of a New World Economic Order.

Without appropriate countermeasures to the present breakdown, the breakdown crisis will unleash a holocaust in conditions of life throughout the world that will devastate the human race through famine and disease by the late 1970s. The sheer magnitude of this task now puts to severe test the intellectual stature of President Ford and his advisors.

The collateral danger is that the White House, sunk to this depth of incompetence, is in no position to govern the United States through a period of crisis. The President hinted at his inability to govern by including in his State of the Union and budget messages the notorious Energy Independence Authority proposal authored months ago by Vice President Nelson Rockefeller and by proposing an increase in military spending. President Ford must demonstrate that his fallback position from the present hopeless policy is not the corporatist policy of Nazi Germany and, more recently, Vice President Rockefeller.

Two important points must be emphasized both to the American people and to Congress with respect to what must be done in the present emergency. First, there is no time to lose in correcting Ford's deadly errors and putting into effect the required, competent alternative policy. Second, as present historical circumstances have determined, any possible extrication of the country from the looming economic

catastrophe will now necessarily be associated with the proposed policies and special insights of the U.S. Labor Party and its presidential candidate. In acknowledging this state of affairs, Congressmen, industrial leaders, specialists, and government officials who have been sufficiently acquainted with our policy recommendations as well as with our unique competence will be simply displaying, finally, that quality of forthrightness necessary if these layers are to be made capable of dealing with the present crisis.

Otherwise we are saying to the American people, particularly the working people, that they will be exercising wisdom if they take into account the malice that almost always accompanies incompetence. And to take this into account means that unless the working people of this country begin to move politically to enforce what reason and scientific competence dictate as the viable alternative policy, it will be they who will suffer the horrendous consequences. On the other hand, our own outlook is guided by a reliably founded conviction that humanity, whenever compelled by unavoidable necessity to make history-shaping choices, will make such choices on the basis of reason and progress.

Regarding the necessary urgent reestablishment of a New World Economic Order, the available alternative has already been put at the disposal of members of Congress and the Administration by the U.S. Labor Party in the form of the International Development Bank proposal and the Emergency Employment Act of 1975. Before the mass of illiquid debt strangles production and trade, we must impose moratoria on the debt of developing countries, municipalities, agriculture, and key industries. There is no way to salvage the mess of the U.S. banking system without permitting the bankruptcy of the New York and related institutions to take its natural course and replacing them with new institutions to finance production and trade.



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Guns, No Butter — No Brains Either

Certain drastic changes on the top policy-making echelon of the Atlanticist cabal have occurred which no longer justify the appellation "Rockefeller Cabal" in describing this entity. The Rockefeller family grouping, finding now itself in a defensive minority position is left with no choice but to allow the Averell Harriman -George Ball -Kennedy line on foreign policy to exert hegemony over affairs of state. Nonetheless, the recent actions and stated intentions of the newly hegemonic grouping leave no doubt that incompetence and its accompanying viciousness are by no means the exclusive preserve of the Rockefellers — their factional opponents in the Atlanticist cabal share abundantly in these qualities.

As a result of this strategic shift at the top, the entire capitalist world today is at an inflection point identical in character to the 1937 situation in Nazi Germany when that country's financial-industrial elite made the decision to unleash world war and started its preparations to that end under Hitler's "Guns, No Butter" policy.

Viewed from the standpoint of the Soviet leadership, this shift seems to be offering a reduction of the immediate danger of nuclear world war as a result of the abandonment of the "Schlesinger Doctrine," coupled with an all-out political and economic attack against the working class throughout the capitalist sector. Examination of the internal political-economic features of this new situation ought to immediately convince Soviet policymakers that the deal they are about to buy from the Atlanticist cabal cannot but be a deadly fraud: unless the Western working class busts up the entire Atlanticist arrangement and replaces it with a New World Economic Order to emerge out of a worldwide debt moratorium, the entire Socialist community will be faced with the choice of either going to nuclear war or capitulating within the next 18 to 24 months — at any rate, certainly before this decade is out.

The Hitler Model

The decisions presently being made by the newly hegemonic group in the Atlanticist cabal will lead to war as surely as Hitler's 1937 "Guns, No Butter" policy led straight to war in 1941. The substance of this policy, then as well as now, is total austerity, i.e. terminal looting of all manpower and resources in order to maintain existing debt structures. In this respect, the analogue, today, of 1937 Germany is the entire dollar sector of the world economy, i.e. the capitalist sector as a whole. In Nazi Germany in 1937 it had become obvious that any further increase in the rate of looting of manpower and resources was bound to lead to generalized disintegration of all internal economic, political and social

structures. Likewise today, a glance at both the Third World and the developed capitalist sector, including the United States leads any competent economist to the same conclusion. From 1936-37 on, all new credit in Nazi Germany was issued against future assets to be accrued by means of war.

This process is bound to occur if the new management of the Atlanticist Cabal has its way. These people have displayed a special kind of imbecility by which they choose to make blunders which leave them in a situation that dictates even grosser blunders in their subsequent efforts to extricate themselves from trouble. This is the nature of the present Guns, No Butter policy of Rockefeller's successors.

Austerity

The new line has come down in the USA with Ford's State of the Union and Budget messages; in Western Europe with the Tindemans Plan; in Japan with the Fukuda-inspired new Liberal Democratic Party Program; in the Third World with the manically vicious debt-collection expeditions of the U.S. Treasury and the International Monetary Fund policemen. The word is: increase worldwide austerity by upwards of 20-30 per cent immediately and drive for a massive arms buildup. The two interconnected issues, one economic and one military of this new Atlanticist perspective interplay to create a single political situation which spells: WAR.

Firstly, on the economic issue. The policy for escalated austerity is meant to avert the imminent collapse of the worldwide debt structure of \$800 billion. Its immediate effect, ironically, is precisely to accelerate the already occurring collapse. The shutdown of industry now resulting from austerity policies has already fed into collapse of raw materials and primary commodities prices, thus eliminating any possibility of Third World debt payments. Any austerity policy, instead of arresting the financial collapse, is actually a trigger that will bring down the \$72 billion Third World debt due in 1976. This chain of events leads directly to the desperate search for an outside area to loot, and there exists only one such area today: the Socialist bloc.

It is therefore obvious that the renewed armament drive is merely the one side of the coin whose other side is austerity. The present emphasis on conventional arms buildup merely represents an increase of emphasis by the Atlanticist cabal, on John F. Kennedy's old "Flexible Response" strategy at the expense of the Rockefeller-sponsored "Schlesinger Doctrine." This renewed emphasis represents Averell Harriman's and George Ball's perception of "how to deal with the Russians." On the issue of nuclear war, these individuals reject the dangerous lowering of the nuclear

threshold embedded in the doctrine of "tactical nuclear war." Instead, they prefer to sit down with the Soviets and mutually determine what each side considers the "tripwire" threshold, which would lead to nuclear war. Once these extreme limits are mutually clearly determined, everything else is considered permissible. To meet the challenge in this broad area not subject to nuclear war provocation, this faction advocates "Flexible Response," i.e. maximum buildup of conventional forces of all the types that one must use in any conceivable non-nuclear situation. They are out for blood as much as the Rockefeller family is.

No Time to Relax

Therefore, from the standpoint of working-class strategists, the present situation in the Atlanticist camp is as follows: the Rockefeller tendency has shifted from an approximate 60 per cent majority to a 40 per cent minority. The difference between the two sides is not so much as the difference between the Krupp-Schacht wing of the Nazi Party and the Strasser ("Left") wing as it shaped in 1936: They are both for debt collection; they both agree to intensify their

austerity drives; they are both against the working class; they are both unscrupulous about going to war against the Soviet Union; they both share the same abundance of stupidity.

It would be suicidal for the U.S. working class to sigh in relief at either Kissinger's imminent removal, or the deceptive impression that the threat of nuclear war is lessened now that the "Schlesinger Doctrine" is out of favor among the warmongers. The idiots' oblivious march to nuclear extinction can only be stopped by a worldwide mobilization of all available forces for the imposition of debt moratoria and reversal of the imbelic austerity policies presently bringing the world economy to a grinding halt. Undoubtedly, these criminal bunglers' attempt to arrest the worldwide wave of bankruptcies by more austerity is laughable; yet one must forego the luxury of simply laughing at these criminal fools until the job of organizing the working class to wreck both the financial-political nexus of the Atlanticist cabal and its imbecilic austerity policies is decisively completed: Else the human race is in dire danger of dying laughing.



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The Present Key Role of the Labor Committees

Developments around the Italian crisis and runs against the French franc require us to clearly and publicly identify the exact nature of the Labor Committees' leading role of influence concerning current major world developments. Among leading capitalist, developing-sector, and socialist-sector strata, most of the facts concerning the Labor Committees' role is already more or less known, so that our present statement coincides with knowledge already in their possession. Unfortunately, because of Rockefeller control of most major press media — either directly or indirectly — the facts known to leading strata around the world are not generally known to the secondary levels of political leadership (such as numerous parts of the U.S. Congress) or to most ordinary persons in the street. For reasons to be spelled out here, it is time that we reported the relevant facts in terms useful to the ordinary working person.

The Facts

Recent events in Paris, Bonn, Rome, Washington, Chicago, New York and elsewhere show the Rockefeller-Kissinger forces deploying at the highest levels of government to terrorize leaders of major political parties, government officials, key financiers, and even heads of state for the explicit purpose of preventing mere meetings between such persons and U.S. Labor Party Presidential Candidate Lyndon H. LaRouche, Jr. In addition to our possession of the relevant facts concerning such incidents, we have received from nominally powerful political forces in various parts of the world statements to the effect that their forces are afraid to meet with LaRouche for fear of the reprisals which Rockefeller-Kissinger might take against their nations!

This terrorism is by no means entirely successful. In addition to opposition to Rockefeller-Kissinger from both the Comecon and developing sectors, there is a three-way factional struggle among capitalist factions within the industrialized capitalist sector. In this configuration, there are highly-placed representatives of capitalist factions who have opened up channels of communication with us in anticipation of the possibility that they may probably be placed in a position of negotiating with us in connection with the establishment of a new world economic order even during 1976. Despite the raging factional struggles between Leninists and Oblomovist-Centrists within the Comecon sector, there exists there a more-or-less accurate perception of the Labor Committees' role and potential global importance, and there is of course a closer contact between Labor Committee and leading Third World representatives also around the international Development Bank program.

In part, the Labor Committee influence reflects the fact that during a period of less than a decade, beginning from "scratch" a new mass-based political working-class force, the U.S. Labor Party, has been brought into being in the USA. Unfortunately, the U.S. Labor Party is presently only a mass-based force, not yet an actual mass organization in the formal sense. To clear away any confusion concerning the facts, the numbers are as follows. In addition to between 270 and 280 persons attached to the New York City national office intelligence and administrative operations, the Labor Party is represented by just over 1,150 regular Labor Committee and Labor Party organizers in the field, with an immediate supporting layer of approximately 10,000 part-time Labor Party organizers leading approximately a half-million persons who identify with the U.S. Labor Party as their electoral organization, and with penetration on issues to between five and seven million persons in total. This is dispersed throughout the nation, but is chiefly concentrated in the Atlantic Coastal, Midwestern, and Northwestern states, where current levels of voter preference for the Labor Party in congressional and municipal voting districts runs to between twenty and thirty per cent with majority Labor Party support in numerous precincts within those districts. In addition to its own immediate strength, the Labor Party's influence on program and issues heavily penetrates labor-based strata of the Democratic Party and trade-union organizations, with some significant penetration among former Wallacite labor support and some Republican strata. Hence, within the indicated limitations, the Labor Party is already a major political influence within the USA, especially in forms of activity relating to electoral politics, program, and specific issues.

The weakness of the Labor Party is directly related to the fact that the organized labor movement has been crushed under the successive impacts of the Phase I, Phase II, and Phase III anti-labor austerity measures launched in the aftermath of the August 1971 collapse of the Bretton Woods agreements. Although there have been "wildcat" and "lightning rod" strikes during the period since April 1972, the organized labor movement has been generally crushed and demoralized at the same time that the Democratic Party has continued to be relatively a shambles as a national organization relative to the pre-1972 period. With little confidence in the Republican and Democratic national parties, and with no confidence in either the AFL-CIO or UAW national leaderships, the U.S. working man has endured speedup, brutalizing layoffs and depression with that appears to be a surly but otherwise passive acceptance. Hence, since the Labor

Committee and Labor Party leaderships are not opportunistic adventurers, we have not attempted to crystallize the Labor Party mass-base into actual formal mass organization through such ruses as major strikes. The basis for such strikes has not existed — although that is beginning to change significantly. Consequently, lacking the crucial developments out of which mass-based support becomes actual mass organization, our direct influence as a mass-based party has been based on our party's potential for organized strength, a potential which is a very real practical factor in national politics at this time.

The Labor Committees' principal global influence has been developed in parallel to the emergence of the Labor Party itself. Our successes in political intelligence work and, more importantly, in programmatic influence have worked in the fashion of the ingredients specifically wanted to fill up what was otherwise a vacuum in the efforts of various major world forces to develop an effective counter-program to the fascist austerity schemes and brinkmanship of the Rockefeller "utopian" faction. Indeed, the perception of this Labor Committee influence among Rockefeller supporters has been the chief reason for the unprecedented extent and intensity of "Cointelpro"-type CIA, LEAA, FBI, IACP operations against the Labor Party in the USA and against the Labor Committees in Italy, France, Sweden, Denmark, the Low Countries, Great Britain, and the Federal Republic of Germany, as well as representing the motive for the cited terror and related operations against governments and other key figures.

Although, at the beginning of 1974, the Rockefeller-allied and controlled agencies were initially successful in efforts to slander, libel and otherwise discredit Labor Committee political intelligence exposures, from the Summer of 1974 onwards, the Labor Committees have developed enormous credibility in the highest circles of government and finance around the world — especially as those circles have noted that each of the Labor Committee warnings, which they themselves each once or twice ridiculed, have been massively corroborated by developments.

More specifically, our analysis of the nature of the process of financial collapse and our International Development Bank proposal have won us the reputation in the leading circles of being the only force (or, at least, possibly the only force) which actually understands the nature of and remedies for the present situation. Typical of the response among capitalist circles is the statement: "Your analysis is correct, but your solution is 'too radical' to be implemented all at once as you propose."

Indeed, such capitalist circles have been playing a kind of game with us. At each new devastating break in global financial-political situation, increasing numbers of those strata open up channels of negotiation with us under auspices of the thematic outlook, "I guess we are going to have to deal with your proposed alternatives." In turn, as each new patch-work agreement is made in the name of stabilizing the situation, those channels of communication diminish and even threaten to dry up entirely. Then, as the next crisis inevitably upsets the ill-fated illusions of the patch-work arrangement, the channels reopen, usually on an expanded scale.

What tends to occur, more specifically is this. We are simultaneously engaged in discussions with various socialist and capitalist factions in numerous parts of the world. Inevitably, the forces with whom we are in discussion proceed to negotiate directly with one another. In this way, through such

latter direct negotiations, usually also involving anti-Rockefeller elements among the Atlanticists (e.g., the Harriman or Kennedy faction types), they patch together some recipe — a recipe which soon enough becomes unstuck. When the recipe becomes unstuck, the Labor Committees come back into the picture again. The relationship tends to take the form of attempting to "pick the brains of" the Labor Committees while simultaneously pursuing a policy of either attempting to contain the Labor Committees' independent influence or merely tolerating the CIA-FBI-LEAA-IACP-NATO intelligence containment operations directed by the Rockefeller-Kissinger forces.

Implications

This does not represent a Labor Committee "popular front" with capitalist forces. The fact, as we have repeatedly emphasized, is this. With the advent of the CIA's "white Communist" coup in French Communist Party leadership, there is not a single viable "official" Communist party in any key nation of the industrialized capitalist sector. The only important actually-to-nominally socialist forces in the capitalist advanced sector are the Labor Committees and U.S. Labor Party, plus the Mancini faction of the Italian Socialist Party and, for what it is worth, the Herbert Wehner-led faction within the German social-democracy. Thus, given the fact that generalized debt moratoria and the initiation of an International Development Bank new world economic order must be initiated during the first six months of 1976, such urgent policy changes within the industrialized capitalist sector must occur through a combination of aggressive leadership by the indicated socialist forces acting upon hegemonic industrial-capitalist-oriented capitalist political forces.

If that new capitalist order within the advanced capitalist sector does not emerge during the first six months of 1976, the world goes under in a combination of hyperinflationary Schachtian superausterity and an inevitable procession toward general thermonuclear war within not less than twelve to eighteen months ahead (during 1977). Hence, since the Labor Committees are the only force qualified to place in the capitalists' hands the kinds of policies needed to enter a new world economic order during 1976, it is our absolute obligation to use our unique practical-theoretical political-economic competence to mediate such agreements between key capitalist forces and among the Comecon and developing sector. To the same point, it has been demonstrated repeatedly that those various forces are not qualified to pull the arrangement together in time without a direct, leading role of the Labor Committees in shaping the terms of agreement of such urgent negotiations.

The Reasons For This

Although key Soviet strata are studying the Labor Committees' fundamental contributions to the direct connection between the epistemology of physical science and that of political science, there is otherwise no strata but that of the Labor Committees' leadership which is presently technically qualified to shape the kind of policies needed to get the world out of the present general capitalist breakdown crisis. In broad terms, this special competence reflects the statements of Karl Marx (*Theories of Surplus Value*, Part III) and Rosa Luxemburg to the effect that only a socialist is qualified to solve the internal contradiction of capitalist accumulation. Unfortunately, after Marx and Luxemburg, until the emergence of the Labor Committees, there was no socialist

agency which itself possessed the kind of specific competence to which Marx and Luxemburg referred.

There is nothing properly mysterious in this special competence of ours. The issue of the **Campaigner** now at press provides some of the essential relevant background, bearing on the points which have attracted special interest in some Soviet scientific circles. The principles of political economy which underlie Marxian economics, stated in the terms desirable to an advanced theoretical physicist, define a system of higher-order nested manifolds for which the unifying characteristic (or invariant) is a world-line of increasing negentropy. The fact that such a conception is embedded as a more or less finished product in the Marcus **Dialectical Economics**, and also represents a devastating criticism of the absolute blunders of Einstein and others in respect to general relativity and quantum physics indicates the kind of special competence which a deliberate exposition of the Marxian dialectical method actually involves. By contrast, the sort of economic theory employed by the capitalists and even by most professed Marxists is not only pathetically crude but entirely inadequate to the sort of policy tasks immediately confronting the world.

Despite the inability of leading capitalists and others to formulate the policy conceptions the Labor Committees have advanced, the policy formulations produced are readily comprehended as practicable, once produced. The appropriate analogy is the case of the automobile: it is not indispensable to be an automotive engineer to perceive that an automobile is workable and useful. For this reason, the capitalists in particular are able to see that the specific proposals are eminently workable and sound in conception, and therefore readily imagine that having such proposals in hand they can utilize them on their own without further assistance from the Labor Committees. However, as developments proceed, the basic policy model must be continuously adapted to those new conditions. At that point, the capitalist (among others) discovers that he lacks the special competence needed to develop the required policy solutions for the new conditions.

This specific problem is to be treated as one among a series of special IDB Technical Papers in production, papers which will clarify such points for the information of various agencies involved in preparing to negotiate International Development Bank agreements.

Socialist Perspectives

The new world economic order, which must be established during 1976, will be a three-way relationship among the industrial capitalist sector, the Comecon sector, and the developing sector. Under this arrangement, the basic principle of economic cooperation among the three participating groups will be of the form of socialist principles of expanded reproduction, within which inclusive framework capitalist accumulation in the specifically capitalist sector will inevitably proceed in a specifically capitalist way. That is not only our proposal, but the way it must be, since no alternative would be workable. There are three qualitatively distinct sectors involved — the socialist sector, the industrialized capitalist sector, and the developing sector. The three can not be directly mixed, and neither the socialist sector nor the

developing sector as a whole will or can accept a global principle of capitalist accumulation as the common basis for a new world economic order. Hence, the new world economic order will find capitalist accumulation occurring in the specifically capitalist sections of the world under the auspices of global socialist principles of expanded-reproductive development.

Within this general setting, the continuation of capitalist society in the industrialized capitalist sector has a transitional character. The possibility of transition of workers' economy in the USA and other industrialized capitalist nations is a political question, which depends upon developing the organized political working-class force prepared to effect such transformations.

It should not be imagined, however, that there is any sly feature in our introducing socialist principles of international cooperation to the IDB arrangement. That is by no means a clever ruse for tricking the capitalists; the capitalists can not be tricked in such ways, and we are not going to waste valuable time and effort attempting to play confidence games. It should not be imagined that we are postponing our socialist principles in this connection. We are not realpolitikers or opportunists; however, the survival of the human race beyond this decade depends upon the Labor Committees' irreplaceable role in developing the International Development Bank and related emergency programs. We are simply not foolish sectarians who hesitate to negotiate with capitalists for fear of soiling the "purity of our socialist essence." Our task, as representatives of the working class, is to act to ensure that the class first of all survives and survives free of fascist austerity, general thermonuclear warfare and ecological holocaust. It is within those immediate primary daily issues that we fight to do this in a socialist form — because, as our scientific superiority to other leading global forces demonstrates, only the socialist world-outlook, in which ordinary men and women understand our conceptions, conceptions beyond the comprehension of Einstein et al., can the world successfully meet the kind of challenges before it.

Your Task

The survival of humanity beyond this present decade will be determined by the leadership of the Labor Committees in pulling the world together in a new world economic order during 1976. Without an immediate guiding role by the Labor Committees the probability of success is very small, and without such success either thermonuclear war or at least disaster through hyperinflationary austerity are the inevitable alternatives. Hence, your most urgent task is to force all leading institutions to deal directly and openly with the Labor Committees for this purpose — everything else would be otherwise a waste of time, a tragic waste of time.

Any agency or individual who attempts to illegally prevent the Labor Committees from performing that function is an enemy of the entire human race. As for those fools who protest that the Labor Committees are merely bragging, ignore such idiots as cretins who lack the brains to survive. If the Labor Committees do not succeed, you and your children may be dead within less than eighteen months, and the human race will probably be virtually extinct within less than a decade. We are the most important fact in your life.



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SPECIAL REPORT

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SUPREME COURT DECISIONS PAVE WAY FOR U.S. POLICE STATE; LABOR PARTY MOUNTS LEGAL COUNTEROFFENSIVE

Jan. 30 (IPS)--Two Supreme Court decisions in the past two weeks have handed government agencies the weapons to enforce a police state in the USA. The U.S. Labor Party this week called for a complete Congressional investigation of this "backdoor" passage of Senate Bill 1, the fascist revision of the criminal code now before Congress. A spokesman for the party announced that it would immediately submit a proposed Social Justice Act to Congress to overturn the decisions and put an end to the Supreme Court's rampage against the Constitution.

The campaign will add momentum to the Labor Party's drive to dismantle the bankers' "invisible government" police terror machine. The Labor Organizer's Defense Fund's current docket of legal cases strikes directly at the machine's heart: four separate federal suits aimed at the FBI, its Justice Department controller Attorney General Levi, and its purported legal basis, the witch-hunting Smith Act and McCarran Act; Larouche v. Rockefeller, which threatens to open up the entire sordid history of Rocky's New York model police state; eight suits against state and local police appendages of the CREEP apparatus; major suits challenging election fraud in Boston, Seattle and San Francisco and a pending suit against anti-communist immigration statutes; and scores of First Amendment cases in defense of workers' right to organize.

MOVE TO THROW OUT CONSPIRACY SUITS

On Jan. 19 the Court threw a huge roadblock in the way of bringing CREEP criminals to justice and opened the doors to increased police harassment of the Labor Party. According to the Court's decision in Rizzo vs. Goode, conspiracy suits against the police agencies and their controllers attempting to impose Gestapo rule in this country are now limited to hauling in the individual at the lowest level of the conspiracy.

Under the Rizzo ruling, it is possible that only individual police officers or agents may be held responsible for damage claims on illegal arrests ordered by their superiors in the CIA and FBI. If pushed to its furthest limits, the Rizzo decision could mean a virtual guarantee of immunity to FBI Director Clarence Kelley, at a time when the Justice Department is known to be desperate to protect Kelley from the consequences of the Labor Party's Detroit FBI suit.

In addition, the Supreme Court in the Rizzo case has severely curtailed the power of the courts to order investigation of police agencies' crimes by other branches of government. The Supreme Court

ruled that a lower court had acted beyond its powers in setting up the Philadelphia Police Civilian Review Board to deal with police abuses of justice. The decision is clearly intended to inhibit both federal courts and Congress from investigating and punishing police agencies' crimes.

The decisions taken as a whole amounts to a long step toward a court-legislated Official Secrets Act protecting the CIA and FBI against further exposure of their crimes. Such laws are now being prepared by Senator Frank Church's Intelligence Committee and its counterpart in the House, the Pike Committee.S-1, which the Senate Judiciary Committee plans to defend, contains similar provisions.

Yesterday the Supreme Court followed up its decision to protect the police agencies with a direct frontal assault on civil liberties. In U.S. vs. Watson, the Court handed down a 6-2 decision that felony arrests no longer require a warrant from a court as a matter of preferred procedure. All that is now required for any arrest is the judgement of the individual police officer, acting on orders from his superiors, that there is probable cause that a crime is being committed. Even more appalling, the Court ruled that the arrested individual could be searched immediately without his consent. In a decision worthy of a Nazi court, the majority asserted that the arrested person, by reason of his arrest, had implicitly consented to a search.

Since Richard Nixon appointed Justice Warren Burger to succeed Earl Warren in 1970, the Supreme Court has mounted a consistent attack on the Bill of Rights; the latest decisions are the most savage aspect of this onslaught.

To disguise the directly proportional relationship between increasing economic collapse and social dislocation during this period, a great hue and cry has been raised in both the media and by spokesman for the Republican and Democratic Parties about Warren Court decisions which supposedly "coddled criminals" and "handcuffed the police." The law and order campaign reached its zenith last month when FBI Director Kelley, in public speech in St. Louis, Mo., declared that "...abrogation of individual rights is unavoidable if we are to maintain national security." An aide to Kelley in an interview in the Washington Post termed the constitution a "suicide pact" that protected terrorists and other criminals.

Now the Supreme Court is seeking to push the repressive S-1 Bill which has so far failed for three years running to win Congressional approval, through the back door into law. The Burger Court's previous rulings have already had a major impact on the Labor Party in the area of First Amendment (free speech and organizing) cases. For example, the Court has ruled that shopping centers--held by the Warren Court to be a quasi-public space subject to First Amendment guarantees--private property which can be declared off limits for many types of organizing. The ruling has forced the Labor Party to fight hundreds of shopping center "lock-outs" on a time and money-draining case-by-case basis.

The Court's rulings on criminal law have facilitated the continuing harassment and arrest of organizers. In New Jersey, for example, over 70 arrests of USLP members on such charges as

"soliciting" have resulted in only four convictions, yet the police are free to continue such arrests. In its continuing attack on the Miranda decision, one of the Warren Court's landmark cases, the Burger court recently held that arrested persons facing limited misdemeanor sentences were not entitled to counsel as a matter of right. This decision has already been applied against the Labor Party.

At the present time the Labor Party and the Labor Organizer's Defense Fund are the principal agencies standing between the American people and a "legalized" police state which would arouse the envy of Hitler's gæstapo.

CRITICAL CASES

Among the critical Federal court cases on the LODF docket: LaRouche v. Kelley and Levi--a suit filed under the Freedom of Information Act to force disclosure of FBI files on 14 individuals and the USLP and the Labor Committees as organizations. The action directly challenges the FBI contention that they are exempt from compliance on the basis of "ongoing criminal investigations" of the Labor Party by asking that the courts rule the Smith Act and other McCarthy era witchhunt laws--much of it already declared unconstitutional--totally void.

USLP v. City of Reading, Pa., the Treasury Department Bureau of Alcohol, Tobacco and Firearms, the FBI and individually named agents of these agencies--a suit for injunctive relief and damages which the USLP is prepared to lay out documented evidence of gun and-drug running operations carried out under the direction of the National Security Council (NSC) through the police agencies named. The operations were blown on CBS network television through revelations from former intelligence agent Roy Frankhauser

Ghandi et al. v. Detroit Police Department and the FBI--FBI Director Clarence Kelley is subject to deposition and must appear in court to answer Labor Party suit for damages and injunctive relief stemming from the FBI's infiltration of the USLP by Bay of Pigs soldier and explosives expert Vernon Higgins. Following the discovery and exposure of Higgins in June, 1974 Detroit Police and the FBI staged an armed raid on USLP Detroit offices during which they stole documents and addresses of Labor Party sympathizers.

NCLC v. Anthony Banks, the FBI and various special agents of that agency--civil rights suit stemming from FBI's attempted infiltration of informer Anthony Banks into the Newark Labor Party chapter. Banks admitted in previous court testimony that he was acting on FBI orders when he stole telephone lists of Labor Party supporters.

THE FLINT SPECIAL OPERATIONS BUREAU
OPERATIONS AGAINST THE U.S. LABOR PARTY

Jan. 30 (IPS) -- The following is a preliminary report on the Flint Police Department Special Operations Bureau, part of the Michigan "Corporate State" Gestapo apparatus, against the U.S. Labor Party. The report was prepared by the Flint, Michigan chapter of the Labor Organizer's Defense Fund (LODF) under the direction of attorney Max Dean. Dean has been a distinguished civil liberties and labor attorney in Michigan for the past thirty years.

On Jan. 26 and subsequently Dean and others testified before the Flint City Council on the matters described in this report, urging a complete investigation of Gestapo operations in Flint. After initial inquiries, during which the police department denied any criminal activities, the Council refused to pursue the investigation.

On Dec. 30, 1975 U.S. Labor Party organizer Paul J. Harcz, Jr. was attacked while organizing in the parking lot of the K-Mart outlet located in Mt. Morris Township at the corner of North Saginaw and Coldwater.

The assailant was William L. Browning, an agent-informant of the Flint Police Department's Special Operations Bureau. Contrary to the State Police report which depicted the incident as a mere scuffle arising over the sale of a newspaper, Browning attempted to murder Harcz using hand-to-hand combat techniques that he learned while in the armed services.

Browning had approached Harcz while Harcz was talking to an elderly black woman. Browning waited until Harcz had completed his conversation with the woman. He engaged Harcz in an amiable discussion about politics and socialism. In the course of the discussion, Browning indicated that he had worked for the United States government in a "sensitive" capacity inside the Soviet Union for 18 months.

Then without any warning or apparent cause, Browning attacked Harcz attempting to crush his windpipe and apply intense pressure to a pressure point behind Harcz's right ear. Harcz was kicked and punched repeatedly. Harcz was able to escape only because the shouts and screams of passerbys distracted Browning.

Browning followed Harcz into the lobby of the K-Mart. In front of witnesses, including U.S. Labor Party organizer Carol A. Efron, Browning threatened to attack Harcz again. Again, in front of witnesses, Browning threatened to shoot two other U.S. Labor Party members, Don Mullins and Mitchell Brown, who were taking down the license number of his automobile.

Browning then left, returning thirty minutes later after the State Police arrived at the scene. The first thing that the State troopers said as they approached Harcz and Efron was that they were not supposed to be organizing on the K-Mart premises. The two troopers identified themselves as Trooper Anthon and Trooper Johnson. There are no troopers by those names at State Police Post #35. They were driving a marked State Police vehicle #3518. On the basis of

the State Police report of the incident, we believe the troopers to be Trooper Juhaz and Trooper Curtis.

The two troopers took a brief report from Harcz and then spent thirty minutes with K-Mart manager James Grover and Browning. Harcz was then taken to Hurley Hospital for treatment of his wounds and l-rays.

The Dec. 30, 1975 attack against Harcz is the 20th assault on a U.S. Labor Party organizer in Genesee County in the past year. All assaults were reported to the police. Most were reported to the Flint Police Department, since the incidents occurred within the Flint city limits. Virtually all assault complaints made to the Flint Police Department were subsequently "investigated" by Sgt. Martin Ailsworth of the Special Operations Bureau.

On Jan. 13, 1976, Harcz was organizing at the gate of the Chevrolet V-8 Engine Plant on Van Slyke Rd. Browning, who is an employee in the plant, drove by, saw Harcz, and in the presence of witnesses threatened to shoot Harcz the next time he saw him. Harcz filed a complaint with the Flint Police Department. On Jan. 20, 1976 Harcz was contacted by Sgt. Ailsworth of the Special Operations Bureau who told him that nothing could be done about the incident.

Ailsworth appears to be the police officer assigned to monitor the activities of the U.S. Labor Party in Flint. Officials in the police department have been unable to explain why or how all cases involving the Labor Party are referred to Ailsworth, about whose conduct the Labor Party complained in a letter to then Chief of Police James Rutherford in Jan. 1975. The Special Operations Bureau handles all vice investigation, including narcotics, gambling, after-hours joints, prostitution, illegal firearms traffic, etc., etc. Presumably, the Labor Party's advocacy of worldwide economic development is a vice in the eyes of some in the Flint Police Department.

The Special Operations Bureau is the liaison unit with federal law enforcement agencies such as the Federal Bureau of Investigation, the Treasury Department's Bureau of Alcohol, Tobacco and Firearms, the Drug Enforcement Agency and others. Special Operations is also connected to the Genesee County Sheriffs, the State Police and the Genesee County Prosecutor's office. Special Operations has received an undetermined amount of money from the Justice Department's Law Enforcement Assistance Administration (LEAA). Ailsworth himself made the front page of the Flint Journal early in December 1975 following the arrest of an individual for the manufacture and sale of bombs. The arrest was made by agents from the ATF, the Genesee County Sheriff's Department and the Flint Police Department. This task force is overseen by agents in the Genesee County Prosecutor's office, operating under a large grant from the LEAA. Ailsworth was pictured in the Journal hooking up a detonator to dynamite seized in the raid. Ailsworth appears to be the Flint Police Department's "bomb" expert as well as their Labor Party expert. Ailsworth has received extensive training at federal law enforcement agency bomb schools.

Perhaps the close connection between Special Operations and the Genesee County Prosecutor's Office is responsible for the "seriousness" with which the Prosecutor has handled the case (against Browning -Ed. For over two weeks, the files on the case, including the State Police cover-up report, were lost somewhere in a Henry Stevens moving van in-between the old 67th District court offices and the new.

While the Dec. 30, 1975 attack on Harcz was the first direct contact the Labor Party had with Special Operations agent Browning, it was not the first time his name had come up. In Dec. 1974 and Jan. 1975, the Flint branch of the U.S. Labor Party was infiltrated by two agent-informers, Lacey D. Brown (or Lennie Brown) and Mary Ann Rugg. Brown had mentioned several times that he had a look-alike named William L. Browning who was the only man he knew among all his friends and acquaintances who could "lick" him in a fight.

Lennie Brown and Mary Ann Rugg attended Labor Party meetings in Flint and Detroit for a two-month period. When Labor Party members objected to the propriety of Brown's bestial extra-marital affair with Rugg, both he and Rugg fell apart psychologically. Rugg called the U.S. Labor Party office in Detroit the next day to confess that she and Brown were agent-informers of the Flint Police Department Special Operations Bureau and the FBI. After Rugg had admitted that she and Brown were police-agents, Labor Party members found papers that Brown had inadvertently left behind in the Flint Labor Party office, including several essays for an English composition class at Mott College. Those essays revealed an intimate knowledge of the methods of the Special Operations "vice" details. In one of the essays entitled "Who Am I", Brown wrote "I have another side and role few people know about."

Brown was a fugitive from justice, having jumped parole in California where he had been arrested, convicted and jailed for attempted murder. Brown had a lengthy arrest record and had served several years in prison in at least three states. He indicated that he was also wanted for the murder of a law enforcement officer in North Carolina. Rugg told Labor Party members that Brown had become an undercover agent-informer for two reasons: to avoid extradition to California and incarceration for violating parole; and to become a police officer in effect, since his arrest record barred him from official employment by police departments or agencies. Rugg herself had murdered her own husband in the fall of 1974 following an argument, but had not been prosecuted by the Genesee County Prosecutor's office.

According to Rugg, she and Brown reported to the police on Labor Party meetings they attended, provided the police with the names of Labor Party members, supporters and contacts and compiled psychological profiles of Labor Party organizers. Brown had received extensive training in coercive group-therapy psychological practices from John Crane, director of the National Council on Alcoholism in Flint, Mich.

The fact that Brown was and is an agent of the Flint Police Special Operations Bureau was confirmed by Sgt. Martin Ailsworth who told Flint attorney and LODF executive board member Max Dean that Brown "worked in Gilmore's group." Gilmore is a prominent member of the Special Operations Bureau LEAA-funded Intelligence Unit.

William Browning's role as an undercover agent was confirmed by another sergeant attached to Special Operations. This sergeant not only told Dean that Browning was an informant for Special Operations, but provided Dean with background biographical information on Browning. Like Lennie Brown, Browning's long record of arrests made it impossible for him to realize his ambition to obtain official employment with a police department or agency. Several arrests, including one for attempted murder and another for carrying a concealed weapon, appeared to have been "pleaded down" to lesser charges in exchange for Browning becoming a police agent-informant.

Browning is a repairman at the Chevy V-8 Engine plant. He works on the motor-line in Department 41. Workers in the V-8 Engine plant have told Labor Party members that Browning was under suspicion by his fellow workers as a police agent for a year or more. Browning was believed to have been dealing in drugs. Members of the shop committee have reported that Browning had a notoriously bad disciplinary record. During the lay-offs in 1974 and 1975, Browning worked as a para-medical for the Kearsley-Genesee Rescue Squad located at 7244 N. Genesee Rd. in Flint, Mich. Investigation by Labor Party researchers has uncovered the fact that many of the "volunteers" are informants and undercover agents for Special Operations. The Kearsley-Genesee Rescue Squad appears to be a cover-operation and a nexus-point for a large portion of the Special Operations Bureau agent-informant network.

Even after the publication of a Labor Party leaflet naming Browning as an undercover agent, he continues to be utilized by the Flint Police Department. On Jan. 12, 1976 Brown and Browning met with Lt. William Foley of Special Operations in Foley's office in the Police Department basement. On Jan. 16, 1976 Browning was seen in a city vehicle with a member of the Special Operations Intelligence Unit.

In all probability, the Dec. 30, 1975 murder attempt against U.S. Labor Party organizer Harcz was a National Security Council directed test-case, conducted through the FBI and "farmed out" to an informant attached to the FBI-connected Special Operations unit. The founder of Special Operations, now assistant chief of police Louis Szabo, is a graduate of the FBI Academy. The use of intelligence community "stringers" for dirty-tricks and political assassinations is a practice with which the American people have become all too familiar through such persons as Lee Harvey Oswald, James Earl Ray and most recently Sarah Jane Moore. Since these agents are "mere" informants, if their identities are traced back to the relevant police agencies, the agencies then simply state that they cannot possibly be held responsible for crimes committed by "mere" informants.

At present, the entire city government of Flint and much of the community is in an uproar over the shooting of police-woman Madeline Fletcher by her fellow police officers several weeks ago. A special Justice Department Community Relations Service Team has been brought in to "investigate" the matter. Everyone is saying that there must be adequate psychological testing of police officers ... the people of Flint must be protected against psycho-

tics becoming police officers and abusing the powers inherent in their positions.

But what about the psychotics employed by the Special Operations Bureau of the Flint Police Department? Do not the people of Flint deserve to be protected against them? If ordinary patrolmen are being asked to pass psychological fitness tests, what about the murderers and drug-pushers employed by Special Operations? In a telephone conversation with attorney Dan Bremer of Eastern Michigan Legal Services, City Councilman John Northrup said that due to the fact that he doubted the veracity of the Labor Party's spokesman in general, it was his opinion that Labor Party members would be provided less police protection than the average citizen. Psychological testing for murderers and drug-pushers? Why bother, they're "mere" informants.

The deployment of Special Operations "stringers" against Labor Party organizers has weighty enough implications in itself. During the 1950's the FBI illegally directed a terror campaign against persons suspected of left-wing beliefs. Accompanied by the slanders of the Flint Journal, the FBI directed beatings, bombings and killings against Flint-area leftists using company goons and police stringers, knowing full well that neither the Flint Police nor the Genesee County Prosecutor's office would do a damn thing. Of course, recently, Congressional investigating committees have revealed the FBI's role in massive dirty-tricks, harassment and intimidation programs directed against civil rights, anti-war and other political activists in the 1960's. The Flint Police Special Operations Bureau maintains trained killers as "mere" informants who can be and have been deployed against Labor Party organizers, union militants and community activists. This gestapo-Brazilian death squad operations must be fully investigated and shut down immediately.

The hit-squads are not the only capability of the Special Operations Bureau. Their network of agent-informants, numbering in all probability into the hundreds, infests every community, every auto plant and every secondary school in the city. High-placed city officials intimately acquainted with Flint Police Department practices have told Labor Party organizers that the Special Operations agent-informant network is responsible for much of, if not most of, the crime in Flint!

Under the guise of offering murderers, drug-pushers and other criminals immunity from prosecution if they agree to function as Special Operations informants, the Flint Police Department has thus given their official sanction to the numerous breaking-and-enterings, the numerous assaults, the numerous drug-transactions and other crimes committed by their informants. Being a Special Operations informant entitles one to a virtual license to break the law, knowing that in the event of an arrest one's controller-agent from the police department basement will step in to obtain one's release. The Genesee County Prosecutor's Office, dependent as they are upon the "intelligence" provided them by the Special Operations Bureau Intelligence Unit, is completely complicitous with this operation!

While members of the Special Operations Bureau have said that their informants are "volunteers" not paid by city tax dollars, it is highly unlikely that they turn their tricks entirely for free. Special Operations maintains money and contraband amassed in raids and "donated" by sister agencies from the federal government. After "vice" and narcotics arrests, the property room rarely contains all the contraband seized in the raids. Instead the contraband, including narcotics and illegal firearms, is used to maintain the "positions", "covers" and "businesses" of informant drug-pushers and informant illegal-gun dealers.

While maintaining their covers as drug-pushers by continuing to push drugs in the community, police informants attached to the Special Operations Bureau actually constitute a major network for the sale and distribution of illegal narcotics!

The immunity from prosecution if arrested is not the informant's only protection. Through his close association with the police, the informant - criminal acquires enough "working knowledge" of police procedures to be able to commit crimes without even getting arrested.

The Special Operations Bureau has been in existence for close to ten years. Throughout that period, its agents have compiled illegal dossiers on Flint residents suspected of crimes or targeted for harassment or blackmail. Files are maintained on trade union leaders and public officials. Special Operations Intelligence Sgt. James Hamilton has such bugging expertise that he manufactures and sells surveillance equipment to the FBI!

The Special Operations Bureau of the Flint Police Department is a twofold operation: First, in connection with the FBI office here headed by Special Agent Jack Duvall, and through their massive network of agents, informants and spies in the community and in the plants, Special Operations functions as a major instrument of social control. After key activist or potential activists are targeted by the spy network, the psychotics and murderers employed by the Bureau are deployed for assaults and attempted murders or other, lesser, forms of political harassment. Second, in connection with the ATF office here and other federal agencies, and through the protection offered drug-pushers, robbers and other criminals by virtue of their status as police-informers for Special Operations, Special Operations functions to maintain crime rather than to combat it! Hence, it is also a major instrument of crime maintenance! What a mockery of law enforcement!

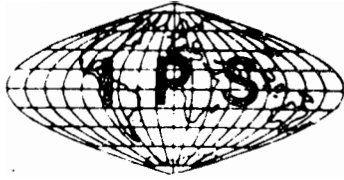
There must be a full investigation of this network. Genesee County Prosecutor Robert Leonard is supposed to be the chief law enforcement officer in Genesee County. He himself is a prominent figure even nationally, serving as the first national Vice President of the National Association of District Attorneys, an organization closely connected to the office of the U.S. Attorney General Edward Levi. Through the LEAA-funded Organized Crime Task Force, Leonard's office is directly connected to the Special Operations Bureau's illegal activities, such as the political dirty tricks and surveillance, the compilation of illegal dossiers on Flint residents and the maintenance of crime through the aforementioned criminal-informant network.

Robert Leonard has a sacred responsibility to the constitution of the United States, to the laws of the State of Michigan and to the people of Genesee County. The law is being broken on a major scale by the very organizations that have been empowered to enforce it!

There must be a full investigation, resulting in full disclosure of illegal files and dirty-tricks programs. This criminal operation must be shut down. The guilty must be prosecuted to the full extent of the law. The people of Flint must be protected against any further such hideous abuses of their constitutional rights!

If there is no investigation, if there are no disclosures, if there are no prosecutions, if this criminal operation is not shut down, it is because there is a massive cover-up going on instead! Any public official who attempts to justify the above-cited activities of the Special Operations Bureau on the grounds that they constitute "standard law enforcement practice" is merely trying to save his own skin!

Finally, the FBI and National Security Council links to this entire operation must be more fully uncovered and exposed!



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Soviets On White Communism

by Rachel Berthoff

Jan. 27 (IPS) — Concurrent articles in the Communist Party press of the Soviet Union and its allies this week — all attacking nationalism and the fragmentation of the international communist movement — have triggered widespread speculation that the Soviet leadership is debating whether to split openly with the leaderships of the Western Europe's pro-U.S. "White Communist" parties. While several European papers have mooted a split, a meeting in Warsaw of the socialist countries' party secretaries assigned to "communist movement relations" ended yesterday with a statement on Eastern European affairs only. Significantly, the statement failed to mention the long-planned Berlin conference of East and West European Communist Parties.

The press articles, all written as theoretical discussion pieces, mostly confined the attack to the white communists' anti-Sovietism. Reflecting a **yet unresolved** factionalization and confusion over world communist movement policy, the writers concur on one thing: anti-Sovietism must be stopped. This limited hard line coexists with the clear centrist message: let the white communists make policy as they please and don't recognize the Labor Committees' leadership.

Writing in Pravda Jan. 24, leading Soviet commentator Vitalii Korionov asserted that communists must proceed from common international interests, rather than narrow national ones. Quickly reprinted in the German Democratic Republic's daily Neues Deutschland, and just as quickly and boisterously rebutted by Gian Carlo Pajetta, a NATO agent in the Italian Communist Party (PCI), Korionov's article externally presented a paradigm for the East vs. West split of the movement. Internal evidence of the article reveals the hard line-centrist mix. The first "communist leader" Korionov cited was the CPUSA's notoriously duped General Secretary, Gus Hall: a unique signal in the communist movement for disassociation from Labor Committee views. Then, after routinely quoting recent tough statements on anti-Sovietism from the Czech and Hungarian press, Korionov concluded that it is, after all, necessary to "listen to the opinion of the fraternal parties" — unless those opinions are anti-Soviet.

The Eastern European hard-liners have also given no sign of understanding the other, crucial aspects of white communist policy, above all its **criminal commitment to inflict austerity on the working class on behalf of the imperialists.** A

Polish specialist, Jerzy Pawlowicz, for example, concluded a blistering polemic in favor of internationalism with endorsement of the pro-austerity, essentially fascist PCI leadership! In his party's paper, Trybuna Ludu, Jan. 24, Pawlowicz warned with insight that imperialism is using "refined methods" against communists, like offering them a spot in the government in order to "achieve total integration of the communist parties into the political system of capitalism." But the communists, "the PCI, for example," said Pawlowicz, will not be fooled and will push for progressive policies when in the government.

Similarly, Pravda's own coverage of the current Italian government crisis has portrayed the PCI as the party with "a concrete plan of action to liquidate the economic difficulties." Readers of the PCI press would recognize that this "concrete plan" is no more than support for Atlanticist agent Gianni Agnelli's austerity policy.

Real Potential

Despite its broad ignorance of political reality, even the limited "anti-Soviet" hard line has important potential if it moves to open or recognized de facto break with the white communists. Such a break would de-legitimize the white communists in the eyes of the European working class, actually moralize the now isolated clusters of pro-Soviet cadre in the Western parties, and fuel recruitment to the European Labor Committees and European Labor Party.

Such developments would also be welcomed by significant members of the left (hard line) factions in the Eastern parties, who — like the Czech writer who reminded readers Jan. 22 that revolutionary policy is needed throughout the movement — are not satisfied that anti-Sovietism by itself is a viable policy.

The bourgeois press response to the Korionov and simultaneous articles has expressed fear of a break, for precisely the above reasons. The West German daily Frankfurter Allgemeine Zeitung today clearly linked the threat of an open split by Moscow from the white communists with caution-dominated overall Soviet policy — Moscow's "striving for a more limited version of detente..." Thus the white communists should be supported, said the paper. But a companion piece warned that the white communists are not fully dependable: despite what the leadership of parties may do and say, there is the unpredictable "pro-Soviet base," the working class.



SPECIAL REPORT

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The Mideast: The Search for a New Policy

Jan. 31 (IPS) — Western political-military strategists began groping this week for a new NATO policy toward the Middle East in the wake of a narrowly averted thermonuclear confrontation between the U.S. and the Soviet Union over the Rockefeller-provoked Lebanese civil war. Over the next six weeks, the New York Times reported Jan. 27, President Ford “intends to develop a new policy on how to proceed in the Middle East.” Ford is reportedly planning a five-nation tour of the region in March or April, which would include visits to Israel, Egypt, Syria, Jordan and Saudi Arabia.

The reports of a new Administration policy toward the Middle East came amid widespread recognition in the press that the famed “shuttle diplomacy” of Secretary of State Henry Kissinger has come to an end. According to the West Germany daily, the Frankfurter Allgemeine Zeitung, Ford is planning to take personal control of U.S. Middle East policy, signifying the President and his backers were determined to end the manipulative role played by Kissinger since the October 1973 Arab-Israeli war in deliberately maintaining tensions in the area. As a representative of the Rockefeller interests, Kissinger had pursued a consciously provocative policy in the Middle East aimed at — in the words of pro-NATO investment banker George Ball — “humiliating” the USSR and seeking to replace Soviet interests and influence in the Middle East with an imposed “Pax Americana.”

The philosophy of the new Ford policy was articulated in an article by Ball in the February 1976 issue of the Atlantic Monthly. Ball, a former undersecretary of State who is a spokesman of the now hegemonic, non-Rockefeller faction of the Atlanticist cabal, writes in an article entitled: “Kissinger’s Paper Peace — How Not to Handle the Middle East,” that the U.S. should replace Kissinger’s scenario for U.S.-Soviet confrontation with an effort to draw the USSR into jointly policing a “stable” Arab-Israeli truce. This policy is also backed by the Kennedy-Shriver wing of the Democratic Party.

However, neither Ford nor Ball nor the Democrats have openly announced their intention to begin the process of dismantling the network of warhawks and extreme nationalists on both sides of the Arab-Israeli ceasefire lines that for a generation has served as puppets of the Rockefeller oil cartel. Led by the right wing of the Israeli military establishment headed by former Defense Minister Moshe Dayan, the fanatic Falangist party of Christian extremists in Lebanon, the Syrian military junta led by Hafez Assad, and the Saudi royal family, a deeply ingrained Rockefeller machine stands continually ready to launch yet another bloody Arab-Israeli war at the behest of its new desperate masters.

This reality was dramatically underlined this week with the revelation in the Chicago Sun-Times Jan. 28 that Israeli Defense Minister Shimon Peres and his allies in the Dayan wing had proposed a plan for an Israeli invasion of Lebanon last week at a secret meeting of the Israeli cabinet held during the height of the Lebanese civil war. According to correspondent Thomas Ross, the plan was “personally blocked” by Prime Minister Yitzhak Rabin. IPS later learned that Ross received the story directly from Rabin’s closest aide following the prime minister’s arrival in the U.S. Jan. 27. Rabin, who is here to meet with Ford and with Israeli dove leader Abba Eban, also in the U.S., thus intervened at a critical moment to block a war move by the Rockefeller-allied Dayan-Peres gangsters.

Last week, IPS reported that a war was narrowly averted in the hours following the Jan. 19-20 invasion of Lebanon by Syrian-backed right-wing Palestinian commandos, during which key Christian fascist leader, Lebanese Interior Minister Camille Chamoun, demanded foreign intervention. The expected Israeli invasion, which was timed to follow the Syrian move and could well have triggered a U.S.-Soviet showdown, was blocked by Rabin only as a result of strong outside pressure from pro-detente factions in the U.S., including most likely President Ford himself.

The Soviet Angle

In place of the Kissinger confrontation policy — which led directly to the war crisis last week — Atlanticist policy makers are gradually reaching a consensus that the Soviet passive, “Oblomov” faction can be strengthened against the hardline Leninists in the Kremlin by pursuing a softer, less provocative course in NATO-Soviet relations. The extremely volatile Middle East is thus consciously being cooled down in an effort to offer Moscow a deal: jointly enforced “stability” in exchange for a tacit Soviet pledge not to lend support to revolutionary movements and governments in the Middle East and elsewhere.

According to IPS intelligence evaluations, the elements of the new Ford policy, framed around the concept of “stability,” will probably involve some or all of the following ideas. First, a NATO-imposed settlement of the Arab-Israeli conflict, ratified at a Geneva Conference during which the Atlanticists hope to induce the USSR to “bargain away” its influence in Syria and the Palestine Liberation Organization (PLO). Second, a policy of detente in the Persian Gulf, based on the Iran-Iraq agreement of last March; this will include a scale-down of arms supplies into the region and a subversive “soft” policy toward Iraq. Third, a sharp political attack against the Rockefeller-controlled Seven Sisters oil cartel

and its chief Middle East allies, the Saudi royal family.

This intended pacification of the Middle East, however, is based on a number of exceedingly dangerous fallacies, which, if left uncorrected, will ensure that within weeks or months the region will again become an arena for U.S.-Soviet nuclear confrontation.

The Ball Fallacy

"If the Soviets agreed to join with us in a serious effort to establish an enduring peace in the Middle East," writes Ball in his Atlantic Monthly piece, it would mean that detente extended beyond...strictly bilateral problems....The Cold War could recede into the mists of history."

What Ball neglects in his proposed strategy is the existence of extremely powerful pro-development sentiments throughout the Arab sector, represented most strongly within the Arab Baath Socialist Party, which currently rules in Iraq and which has an organized network extending into most Arab countries. In addition, the peculiar character of Arab nationalism, which, since the rule of former Egyptian President Nasser, has been closely identified with development and social progress, guarantees that a "stable" Middle East cannot exist in its present state of miserable economic stagnation. Unless Ball's, or any other program, includes a strategy for increasing real income and standard of living of the Arab worker, then the resulting social unrest from working class and pro-development military layers in Egypt, Syria, etc., will in short order topple one or more Arab governments. This would immediately unravel the patchwork "stability" Ball seeks.

Further, without the crucial ingredient of the programmatic integration of Israel's highly developed technology into a regional development program — as outlined in the July 1975 ICLC Resolution on Israel — any "peace program" that is based solely on border adjustments and formal peace treaties contains the seeds of future conflicts. To establish a real stable peace in the Middle East, the mutual paranoia and nationalist hostility on both sides of the Arab-Israeli dispute must be permanently overcome by breaking down the intense, quasi-religious fear of outsiders that dominates Israel and, to a lesser degree, the Arabs. Ball and his co-thinkers ignore this very real problem, as they ignore the need to seek a negotiated solution to the Palestinian issue. Only Arab socialists, such as those in the Baath party, along with some relatively sane pro-peace factions in Israel have the ability to even begin to overcome a generation of brainwashing and hysteria and take the initial necessary steps toward achieving a lasting peace in the Mideast.

Compounding the shortcomings of his policies, Ball thus proposes to leave intact the Rockefeller-created networks led by Assad, Dayan and the Saudis. To maintain this dangerous troika in power would require a deployment of counter-insurgent forces that will rapidly lead to an expanded civil war in Lebanon, a revolt in Syria, and a collapse of the shaky Israeli regime. The gains of the pro-Iraqi and Communist left in Lebanon, and to some extent in Syria, since the beginning of the Kissinger-provoked Lebanese civil war last year dictate a fundamental shift in the political alignment of those two states in the near future.

Lebanon: Syria's "Operation Takeover"

The Syrian invasion of Lebanon, while having failed to produce the intended Israel-Syria war planned by the Rockefeller forces, has crushed Lebanon under the weight of a brutal occupying army. This force, which includes both

Syrians and Syrian-controlled Palestinians, has virtually taken over the day-to-day affairs of the Lebanese state — a state which has all but ceased to exist. A tripartite junta, comprised of the commanders of the Syrian, Lebanese, and Palestinian Liberation armies, has now assumed near dictatorial powers in Beirut.

The Rockefellers and their opposition are in uneasy tactical unity on this policy of "stabilization" of Lebanon through Syrian occupation. Both factions have endorsed the massacre and repression of Lebanon's Communist and Baathist left, an operation being carried out under the direct control of the NATO-backed Assad regime in Damascus.

Zuhair Mohsin, the Syrian Military Intelligence agent who heads the PLO military department, has moved to break the back of the Palestinian left wing in Lebanon, which in recent months had become increasingly allied with Lebanon's left. Mohsin announced earlier this week that he had formed a court to "try, find, and execute" leftist Palestinians who attacked the mansion of the fascist Interior Minister, Camille Chamoun. Mohsin and his Syrian backers have set up armed patrols in Moslem working class districts of Lebanon, often murdering on sight anyone seen carrying "unauthorized" weapons.

"A communist Lebanon would be a catastrophe," wrote the chief editorialist in the Syrian party newspaper Al-Baath Jan. 25, justifying the Syrian-PLA move into Lebanon. The Washington Post reported Jan. 27 that the Syrian junta in Beirut would order "restrictions on political liberties, the press, and trade union freedom" under an "authoritarian regime." In Washington, the State Department openly endorsed the Syrian move into Lebanon, welcoming it as introducing "calm" into the war-torn country.

The Syrian takeover of Lebanon has the following strategic objective. Until now, the powerful Lebanese left has been the center of a large and growing opposition to both Assad and PLO chief Yasser Arafat. Since Lebanon was a relatively democratic country by comparison to the Syrian dictatorship, the flourishing left using numerous channels, had a strong input into Syria itself. The left's strength, as well as that of the free-wheeling Palestinian movement in Lebanon thus made it virtually impossible for Assad to follow Egypt's Anwar Sadat along the path of overt pro-Western activity. In a sense, Assad was thus a hostage of the Lebanese left and the Palestinians.

By seeking to establish Syrian police and military hegemony in Lebanon, Assad is thus attempting to clear the path for an eventual Israeli-Syrian military disengagement, modeled on the Sinai pact. This would allow NATO to capitalize on the fact that Assad, like Sadat, is a would-be open collaborator of the Atlanticists.

The sort of "stability" that NATO hopes to impose on Lebanon through simple police and military measures, however, is incapable of securing the region without a parallel Marshall Plan-type infusion of development aid. Despite the fact that the overwhelming military force of Syria has temporarily submerged the Lebanese left and their Palestinian allies, both Syria, and more importantly Egypt, the linchpin of the Arab East, are nearly bankrupt economically. However, to the extent that capitalists cling to the bankrupt dollar and its enormous debt overhang, the financing of such programs is out of the question.

The Case of Egypt

The case of Egypt is exemplary, since under Sadat the

Egyptian government has gone virtually as far as an Arab regime can go in endorsing pro-NATO policies — yet basic economic reality now threatens to rapidly undo the work of 18 months of Kissinger's step-by-step diplomacy.

The government of Egypt this week bucked International Monetary Fund policy to increase the level of government subsidies on food and other basic commodities to the country's starving population. In a sharp reversal of economic policy, Anwar Sadat issued 700 million Egyptian pounds of subsidies, over 58 million from 1975 and 200 million over the projected level for 1976.

The government decision reflects an intense struggle behind the scenes between President Sadat and elements of the Egyptian government bureaucracy and military who have retained adherence to the policies of the late President Nasser, which called for close cooperation with the Soviet Union around development. Pressure from these layers now outweighs pressure for austerity from the IMF. "Within months," a U.S. based think-tank spokesman informed IPS, Sadat will totally reverse his famed Open Door policy towards Western capital.

Since he ascended to the presidency, Sadat, in cooperation with Secretary of State Henry Kissinger, has opened up Egypt to capitalist investment. IMF promises of substantial investment were accompanied by the proviso that Sadat institute "reforms": paring the Egyptian bureaucracy, permitting private investment, devaluation of the Egyptian pound, and chopping food subsidies.

As a result, Egypt, placed on the World Bank's 1974 list of Fourth World nations slated for triage, now faces an enormous national debt of \$12 billion and declining revenues. In addition, those Mideast oil-producing nations which have always bailed out Sadat in the past are now withholding funds as pressure to conform to IMF demands. This week Egyptian vice-president Mamdouh Salem cancelled for the second time his fundraising trip to Saudi Arabia, Iran, Kuwait, and other oil sheikhdoms to raise \$4 billion needed for refinancing the debt.

This week Egypt participated in the Group of 77 of Nonaligned Nations "experts" meeting in Manila, Philippines, where according to the French daily *Le Figaro*, all nations formally agreed to a debt moratorium.

When asked about the recent signs that Egypt has stopped bowing to the IMF, a State Department simply replied, "The IMF doesn't understand politics." The combination of the miserable level of working-class and peasant living standards and the existence of pro-Soviet layers in the bureaucracy make it almost impossible for Sadat to proceed full-steam ahead with more austerity. According to one Commerce Dept. official, recently returned from Egypt, solid "East European-type" planning groups exist in the Planning Ministry and other departments of the bureaucracy. As reflected periodically in the Egyptian press, these layers are engaged in serious discussion around a debt moratorium and an International Development Bank. This layer is also in direct contact with the Soviet Union. Last week, representatives from the Soviet Union ran a conference on national planning in Cairo.

Persian Empire Folds Up

Paralleling the clumsy efforts of the pro-NATO, non-Rockefeller financiers and their allies in the Ford Administration to cool down the Arab-Israeli conflict, an effort is now underway to stabilize the Persian Gulf. They key

element of this operation is a NATO-dictated reversal of the Rockefeller policy in Iran, formerly a bastion of the Rockefeller oil cartel and a leading proponent of the Rockefeller faction's pro-war and anti-Soviet policies in the region.

The change in policy was announced this week by the Shah of Iran himself. In an interview with the *Washington Post*, the Shah declared that Iran intended to "revamp our foreign policy and maybe limit ourselves to defending the interests of our country alone, which is probably going to create an entirely new situation." Confirming that Iran's role as regional policeman was being entirely junked in favor of a much more inward-looking strategy "because we have to spend every last dime for our own internal development," the Shah said that Iran would abandon its previously proclaimed role of defending the naval and shipping lanes in the Persian Gulf and Indian Ocean. The Shah added that perhaps a sharp cut in military spending would follow these moves.

Coinciding with the Shah's new outlook, the Iranian government took steps to dismantle the Rockefeller apparatus inside the country. The commander of the U.S. military mission in Iran, General Vandenburg, was fired for "abrasive" diplomacy, according to the *New York Times*. Vandenburg is the son of a former chief of the U.S. Air Force who was closely linked to the Rockefeller-connected RAND Corporation. In addition, the Shah announced, tough new measures aimed at halting the practice by which U.S. arms manufacturers paid huge "commissions" to Iranian officials, thus eliminating a primary mechanism by which the Rockefeller "arms mafia" made inroads into controlling key elements of the Iranian bureaucracy.

The de-emphasis on Iran's military and arms role coincides with the Sen. Edward Kennedy (D-Mass) policy toward the Persian Gulf area. Almost one year ago, Kennedy suggested that the U.S. encourage a ban on further military sales to Iran and the Arab Gulf because of the danger of a conflict with Iraq in the region and the resulting threat of a U.S.-Soviet showdown. Kennedy is also pushing to investigate the role of the oil companies in controlling the oil producers' cartel, OPEC, and is sponsoring legislation to break up the Rockefeller-owned oil cartel, the U.S. Seven Sisters. On this, too, the Shah demonstrated that he had changed with the changing times: in an interview with the *Christian Science Monitor*, he attacked the Rockefeller oil companies for strangling Iran's production and thus crippling Iranian internal development programs.

The Shah received backup on the U.S. side from the House Intelligence Committee, which is essentially controlled by the new Atlanticist cabal. First, the U.S. ambassador to Iran, Richard Helms, a former Director of the CIA, was put under heavy fire by the committee for his role in CIA domestic covert activities in the 1960s. This, combined with the firing of "abrasive" Mr. Vandenburg, has greatly undercut the Rockefeller military and intelligence capability within Iran. Secondly, the House revealed that Kissinger was directly and personally responsible for the dangerous covert aid to Kurdish rebels in Iraq during 1972-1974, thus providing an official condemnation of the Rockefeller-Kissinger policy of fomenting war between Iran and Iraq.

From all indications, Iran is being readied as a potential force to intervene in the Middle East on the side of the Ball-Kennedy forces against the Rockefeller faction. The Shah announced that all foreign aid was being suspended as a result of the economic crisis — except for \$2.5 billion aid promised to Syria and Egypt.