ciency and energy saving devices for the last few years, while capital spending plans have been halted. Koppers Corporation, for example, is building a new chemical processing plant which consumes 40 percent less energy than an older plant and produces the same output. But Koppers' capital-goods producing divisions are bearing the brunt of that commitment to zero-growth, "energy efficient" industry in the form of its dwindling orders for steel blast furnaces and other capital goods.

Allied Chemical, Atlantic Richfield, and General Motors are among the financial backers of the new MIT study, "Energy: Global Prospects 1985-2000," which predicts a grave danger of an oil shortage in the 1980s and makes recommendations almost identical to Carter's energy package. General Motors is feeling confident that it will benefit from Carter's energy program, being in the best financial position of its competitors to make the change over to "fuel-efficient" small cars.

In fact, the Federal Trade Commission, the government agency which monitors impediments to competition within industry, is well aware that one of the effects of the Carter energy program will be the elimination of smaller businesses which can't "adjust." Michael Pertschuck, the new FTC chief, has just established a taskforce within the FTC to study precisely such questions. A member of the taskforce and of the FTC's Bureau of Competition told NSIPS last week that any government efforts to protect smaller corporations will probably not succeed. "I don't think the government is going to protect the status quo," he said. "Some companies will be able to adjust better than others, some will be hurt more than others... but it's too much to ask for government to protect smaller businesses — and that is not necessarily good in terms of the necessary allocation of resources. In some cases the process will be particularly harsh."

Saudis, Japan Under Pressure To Join IMF Bailout

FOREIGN EXCHANGE

Strong indications appeared this week that two reluctant financial powers, Saudi Arabia and Japan, have come under extreme pressure to cooperate with the International Monetary Fund's proposed $16 billion special facility for countries with large payments imbalances. As of the April 28 meeting of the International Monetary Fund's Interim Committee in Washington, D.C., both countries indicated unwillingness to contribute to the facility, which top U.S. officials think is essential if the monetary system is to get through 1977.

Knowledgeable Mideast specialists and banking sources in New York, Washington, London, and Zurich identified last week's explosion in Saudi Arabia Ghawar oil fields as a terror operation run through Zbigniew Brzezinski's National Security Council, with the objective of forcing the Saudis to put across large sums of money to stabilize the international banking system. This view was reinforced early in the week of May 16, when large Saudi long-term deposits began to appear on the Eurodollar market. At least several hundred million dollars have been placed in the form of five to seven year maturity, $50 million denomination Certificates of Deposit, written by leading Eurodollar banks. Euro-CD traders report interest rates on this paper, which is extraordinary, far below market rates, allowing the banks an arbitrage margin of about 1 percent with the three-month deposits market.

Until now virtually all Saudi money had been kept in deposits of three month maturity or less. Saudi and Federal Reserve sources agree on this version of what happened: from some time before David Rockefeller's March visit to Riyadh, the leading New York international banks and some other leading institutions virtually boycotted large Arab three-month deposits, in a game of "chicken" intended to force the Saudis and others to put their money into longer maturities. Rockefeller made this demand to the Saudi leadership, and was rebuffed out of hand. Instead of placing excess funds in bank deposits, the Saudis invested heavily into U.S. short-term Treasury securities during the first quarter, contributing significantly to the unexpected $4 billion run-up in foreign holdings of U.S. government debt, and in the Eurobond market, aiding the huge expansion of that market during the first quarter from a previous average issue volume of $1 billion or less per month, to $3 billion during the single month of April.

However, there are strong indications that this situation has been reversed, and that the big oil fire at Ghawar terrified the Saudis into accepting the banks' terms. This flow of long-term deposits has a marginally significant impact on the overall financial situation.

There is no sign, however, of precisely what the Saudis will do about the IMF facility itself; IMF managing director Johannes Witteeveen demanded a $5-6 billion contribution, several times the amount the Saudis have expressed willingness to contribute.

There is some blunt admission of what the means of persuasion are circulating in respectable press sources. For example, the current issue of the London publication *International Currency Review* has printed a scenario reminiscent of Paul Erdman's bestseller, *The Crash of '79*. According to this scenario, the Ford Administration made a deal with the Saudis under which they would agree to maintain a relatively stable oil price and place half their funds in the form of long-term investments in the United States. Otherwise, the *ICR* story says, the United States would use its in-place capabilities in the Gulf to foster "domestic opposition" to the current Saudi leadership, or employ some other form of military capability against it.

Although this particular story contains some pretty fanciful elements, its appearance at this time indicates

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the openness with which intelligence circles associated with the Carter Administration are advertising their offer to the Saudis, which they believe Riyadh cannot refuse.

The deployment of Saudi reserves is a matter of life-and-death for the New York banking group whose leading exponent, David Rockefeller, is Zbigniew Brzezinski's long-time patron. The banks were not in a good position to continue their pressure on the Saudis on the question of deposit-maturities much longer. According to figures released this week by the Department of Commerce, commercial bank liabilities to foreigners fell by $3.4 billion during the first quarter of 1977, compared to a $9 billion rise during the last quarter of 1976. There is virtually no precedent for this $12.3 billion net swing, which some officials familiar with these statistics attribute to the small banking war noted above.

Bailing Out Hotspots?

In related developments, the Gulf States group at the Paris meeting of Egypt's creditors (dominated by the Saudis) agreed to provide precisely the volume of funds required to enable Egypt to pay its current debt-service obligations, without having funds left over to continue its investment program. This took the form of $1.5 billion in rollovers and $1 billion in new money. World Bank and New York commercial bank officials say they are extremely pleased with the results of the meeting and with the cooperativeness of the Saudis.

Also, there are rumors in the Turkish press that the Saudis have placed $300-500 million in convertible Turkish lira deposits, which, if true, would indicate the Saudis are bailing out another hotspot for the New York banks.

On the basis of evidence available at deadline, it is not possible to make a final evaluation of the Saudis' overall monetary stance, in particular whether they are using their reserves to cool out every trouble area in the Eurodollar debtors' list.

Japan Yields to Blackmail

Immediately following the visit to Japan of Carter's special trade negotiator Robert Strauss, the Japanese government indicated a change in its position regarding the IMF's special facility. Japanese Finance Minister Matsakawa told a press conference May 18 that the Japanese government had abandoned its previous view that the intention of the Witteveen facility was to bail out private banks. Now, the finance minister said, Japan would support the scheme, provided that the oil-producing countries provided half of the total funds.

Some press reports say that IMF managing director Witteveen told the Japanese he had pledges from the Saudis to make such contributions during his April visit to Tokyo; if these reports are true, Witteveen was being less than candid. The Saudis have not decided on a full reversal of their previous stand against such a magnitude of contributions.

Immediately before the Interim Committee meeting last month, senior U.S. State Department officials fairly boasted that the Japanese would have no choice but to pony up funds for the IMF's special facility. Japan depends on U.S. markets for 30 percent of its exports, officials said, and would be subject to trade sanctions in the event that it failed to cooperate on the bailout question.

Since Matsakawa's at least pro forma concessions about the IMF facility coincided with the announcement that Japan would voluntarily limit color television exports to the U.S. by 40 percent, the State Department's tactic seems to be having some effect.

— *David Goldman*

Hambro's Norland Blunders

SHIPPING

The following statement was released May 14, 1977 by U.S. Labor Party National Chairman Lyndon H. LaRouche, Jr.:

According to press reports received here yesterday, the Hambros-associated Otto Norland unwisely supported the proposal that support be withdrawn for existing shipyards, as part of the measures he deemed required to restore ocean-freight price structures. Norland's proposal is all too typical of the kind of incompetent bankers' policies which got the world into the present financial mess and depression. His proposed remedies are incompetent — typical of remedies which are more deadly to the patient than the illnesses they purport to cure.

The collapse of ocean-freight price-structures is a direct result of the current world economic depression. The collapse in tanker bookings, the kernel of the present shipping problem as a whole, dates from the 1973-1974 OPEC rise in international petroleum prices. This price rise did not cause the problem, but rather triggered it. In brief, because the debt-depressed petroleum-importing nations could not absorb the price increases at levels of petroleum-imports consistent with earlier trends, the trends in world petroleum consumption fell off sharply — excessing and beaching large numbers of tankers.

Since energy consumption is the key parameter of the total constant value of tangible industrial and agricultural output rates, the value of global production fell off sharply for reason for the fall-off in petroleum consumption trends. This was aggravated by the post-1971 speculative boom in debt-refinancing and related non-productive financial flows. The debt-equity burdens on nations and on industries, aggravated by the fall-off in constant-value production-output trends, effected a downward spiral in key categories of world commerce. This affected trends in both high tariff cargo, and in broad categories of bulk freight.

This broad fall-off in demand for ocean-freight bookings hit most directly at the estimated $35 billion tanker-