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# **EXECUTIVE INTELLIGENCE REVIEW**

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# EXECUTIVE INTELLIGENCE REVIEW

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## IN THIS WEEK'S ISSUE —

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Last week's **IMF-World Bank meeting** in Washington was an open effort to impose the "British system" of massive **money-printing**, industrial **shutdowns** and **wage cuts** on the USA and Western Europe...and outright **genocide** on the Third World. Our **International Report** leads with an **eyewitness account** of the proceedings...includes a background **bio** on new **IMF Interim Committee chairman** and top British monetarist agent **Denis Healey**...plus a precedent-breaking statement by French Prime Minister **Raymond Barre** rejecting the British policy in favor of a **new world economic order**.

\* \* \*

The **U.S. Congress** is locked in a stalemate over the wreckage of the Carter Administration's no-energy program...and V.P. **Walter Mondale** and energy czar **James Schlesinger** have made detailed **secret plans**...known as the **WEEP** scenario...to declare a national energy emergency and impose a variety of British-style top-down **fascist controls** on the U.S. economy. **Felix Rohatyn's ENCONO** bill...introduced in Congress last week...is part of the package...see **National Report**.

The **New York Times** and other establishment press are now **openly pushing** to make British agent **Mondale** the **kingpin** in Washington...as shown by press excerpts in the **National Report**. But a consensus is building that **conservation won't work**...and that **energy development** and **industrial growth** are the keys to **economic recovery**...as shown by the fact that even "shrink the cities" advocate **Roger Starr** of the Times, interviewed here, is backing **nuclear power development**...

\* \* \*

The **Mondale crowd's answer** to its opponents...a new round of **rigged elections**. In this week's **National Report**, Col. **Thomas McCrary**, chairman of the **National Coalition of Independents on Issues** warns in a special statement of the **frightening consequences** for the American people if the **vote fraud** he **documents** is allowed to continue.

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Our **European Economic Survey** takes a hard look at the **new Marshall Plan schemes**

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INTER-NATIONAL
NATIONAL
ECONOMICS
CANADA
EUROPEAN ECO-SURVEY
MIDDLE EAST
LATIN AMERICA

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for Europe...the dismal prospects for the **West German economy** under the dollar system...why **reflation won't work** for the BRD...and the emerging **Franco-German alliance** with the potential to break the monetarist stranglehold on the continent...

\* \* \*

The continued battering of the **obsolescent U.S. steel industry** is highlighted in our regular **Economics** coverage...Additional reports on the international currency front explain why the **North Sea oil bubble** is about to **burst** for Britain...what's behind the strong **resurgence** in the price of **gold** and the **dollar dip**....

\* \* \*

At the eleventh hour...a **truce in Lebanon** and apparent renewed chances for a **Middle East peace** settlement. A comprehensive **news analysis**...plus **interviews** with top Mideast experts and State Department officials...the key **statements** by European and Eastbloc **foreign ministers** at the UN, **Carter's**

**comments** on recognition of the PLO...and the full extant text of historic **ABC interview** in which PLO chief **Yasser Arafat** made a dramatic peace overture....

\* \* \*

Mexico has sternly **rebuffed the IMF**...and this week's **Latin America** report recounts the strong anti-IMF campaign by **Mexican economists** which preceded simultaneous **development policy declarations** by France and Mexico. Also featured...U.S. Labor Party chairman Lyndon H. LaRouche, Jr.'s proposed **amendment** to the **Panama Canal treaties**....

\* \* \*

A **pro-growth counterattack** in Canada...see our **Canada** section for the latest **news**...Plus a background feature on the **roots** of the **Parti Quebeçois's** no-growth, separatist **programs**...the strange career of the **Abbé Groulx** and his friends...(our apologies for the inadvertent omission of this feature from our last issue).

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# International Monetary Fund Meeting Is A Washout

None of the annual meetings of the International Monetary Fund since its inception in 1944 has received an evaluation so clear-cut as the one that ended Sept. 30 at the Sheraton-Park Hotel in Washington, D.C.: It was a total washout, at which nothing was accomplished.

From the standpoint of the IMF and the World Bank spokesmen, outgoing Managing Director Johannes Witteveen and World Bank President Robert McNamara, the tasks set forth were no less than a general bailout of the world debt structure and the establishment of inflationary monetary and fiscal policies throughout the advanced sector. Witteveen and McNamara had the strong public backing of the U.S. and British administrations, but faced hostility on every flank, including from the U.S. Congress. U.S. congressional conservatives, most of the Western Europeans, the Japanese, and most of the oil-producing countries have combined to make the word of the IMF a dead letter.

Sophisticated observers, including European Community delegates, considered that events far from the meeting-rooms, such as the visit to Moscow of French

Prime Minister Raymond Barre, would determine the world financial outlook, not the conference proceedings. Senior European officials told EIR in background discussions that they had plans in the works to undermine Anglo-American influence in Europe, and to clear the way for a European break with the dollar.

### *The Reflation Program*

In his speech before the Fund meeting Sept. 26, Managing Director Witteveen said on his own behalf what the West Germans and Japanese had censored from the Annual Report of the IMF and from the statement of the IMF's steering body, the Interim Committee of Finance Ministers. Witteveen demanded that the industrial countries now in payments surplus, that is, West Germany, Japan, and the United States, undertake fiscal and monetary stimulation programs to inflate their economies. Otherwise, the managing director said, the world might continue into the current slump. In particular, Witteveen said, the United States need not worry about weakness on its

## What The Intl. Journals Are Saying

*Euromoney*, September 1977

Editorial, "It Won't Work"

A lasting partnership between the banks and the IMF will become increasingly difficult to implement. That partnership, such as it may be, could come about in two ways: one, it may merely involve the collation and pooling of information between the banks and the fund: two, it may go further and involve the IMF in negotiating on behalf of the banks in the event of a default or a rescheduling. But, in the first case, countries will be reluctant to pass information to the IMF if they believe that the IMF will pass the information on to the banks...in the second case, it will quickly become obvious that the IMF is merely fronting for the banks, and its greatest asset — its apparent independence from the commercial community — will be lost...it is only a year since the Chancellor of the Exchequer (Denis Healey) of a developed country said there would be rioting in the streets if the IMF sought to impose a tough economic programme. Think what capital politicians would make out of the IMF if it is seen to be in bankers' pockets. The partnership is not on.

*International Currency Review*, September 1977

The boom in the Euromarkets, which reflects continuing subdued loan demand in national economies associated with the recession, has reached proportions reminiscent of 1973 and 1974. Some of the transactions concluded recently have been so risky as to raise questions about whether the Eurobankers concerned have taken collective leave of their senses. As usual, no doubt, an abrupt and nasty setback will lead, in due course, to the familiar shake-out — bringing lenders back to earth again. This time, however, they may well touch down with rather a bump...

The Peruvians have shown that they are prepared to accept money from the West, and to recycle such funds direct to Moscow — which has been supplying them with armaments on a gigantic scale. If these people are seriously contemplating a political default, then such an event might well turn out to be the setback that produces the financial implosion which seems increasingly unavoidable.

\* \* \*

foreign accounts — the stupendous \$30 billion per year trade deficit — because it has shown thus far that the rest of the world is willing to reinvest dollars back into U.S. paper.

However, as British Chancellor of the Exchequer Denis Healey made clear in his report for the Interim Committee, "It was clear from the word 'go' that we would not reach a consensus here" on the reflation issue, among others. Despite urgent protestations by U.S. Treasury Secretary Blumenthal at the meeting of the "Group of 5" large industrial countries, according to reliable sources, the Japanese and West Germans refused to undertake reflation programs beyond the modest measures announced earlier in the month.

Without the backing of the Interim Committee, Witteveen's position — backed by Denis Healey, the Italians, and a few other secondary voices — lacks credibility, let alone influence. Firstly, the argument that the United States need not pay attention to its foreign deficit is nonsense, even in the published opinion of the Wall Street establishment, e.g., Citibank Vice-President Ernst Brutsche in *Euromoney* magazine:

"Since the U.S. current account has fallen into a large deficit, the U.S. must either cut back its private lending abroad, rely on OPEC increasing its holdings of dollars, or hope that foreign officials' demand for dollar reserves increases rapidly. Some combination of these actions will be necessary to keep the dollar from weakening. The prospect that this outcome of events would prove less and less likely apparently led to the nervous fluctuation of the dollar at midyear... Two major factors overhanging the long-term outlook for the dollar are the U.S. Administration's new concern with detente, and its involvement in the Middle East. Adverse developments in either of these areas could touch off widespread selling of the U.S. currency, and this makes it potentially costly to hold a substantial long-dollar position."

Secondly, Witteveen announced days before his address that he would not seek a second term as managing director when his current one expires next August. Although he cited personal reasons for his decision, it is reliably reported — and universally perceived — that he left because he expected the whole program of the IMF to fail miserably, and decided to bail out in advance.

In an interview, West German central bank president Otmar Emminger derided the Witteveen-Healey program. "Only last spring, Healey was warning about inflation and calling for cuts in demand," Emminger said. According to the West German central banker, no negotiations for increases in the IMF's spending power will begin until the next meeting of the Interim Committee in Acapulco next March. Citing the IMF Secretariat's proposal for a 75 to 100 percent increase in IMF quotas, Emminger explained, "No figures can be cited at this time. (West German finance minister Hans) Apel has earlier mentioned 50 percent, and I had mentioned 25 percent. Both Apel and I have withdrawn those figures. There will be no mention of figures until negotiations begin, and that is at Acapulco next March."

#### *The Arab Position*

Although IMF officials must be discreet on the subject in public, the orientation of the U.S. Treasury, the Senate International Relations Committee, and Witteveen and

McNamara is to force the Arabs to place their funds at the disposal of the IMF and World Bank. Since the Saudis gave the IMF half of what it had wanted for the special financing facility that Witteveen had called for, it has been clear that OPEC will not hand over its oil earnings to the IMF short of military pressure.

The Saudis' \$2.4 billion contribution to the so-called Witteveen facility, which is to total almost \$10 billion, has not even been paid in yet; it will have to wait until the U.S. Congress votes on the \$1.6 billion American share which will not happen until well into 1978. Effectively, the Saudi net contribution to the IMF at the moment and for the immediate future is zero. Arab sources at the IMF meeting reiterated in background discussions that the OPEC countries were concerned with getting a real return on their investments, and were not willing to make loans that would never be paid back.

Even worse, the Saudis are holding up even routine, scheduled contributions to the IMF-World Bank group. The most recent Saudi installment of \$250 million to the International Development Agency, a World Bank Group member, was paid in the form of inconvertible Saudi riyals. Presently the World Bank is holding R225 million which it cannot spend, and World Bank officials are frantically searching around the Swiss market for a buyer with dollars.

In addition, European private and official sources say that European countries are intensifying their efforts to attract the Arabs into investments in industrial development in Europe and Third Countries, in direct competition with the IMF.

The main public pressure for the Arabs to hand over their petrodollars to the IMF has come from the Subcommittee on Foreign Economic Policy of the Senate International Relations Committee, from Sens. Jacob Javits and Frank Church. Acknowledging the orneriness of the Arabs, one senior Committee staffer said, "The only real solution to the OPEC problem is military — and I'm not saying I'm against that."

European financial leaders are generally contemptuous of the Javits effort, however; "Name me one person who takes Javits seriously — name me one!", West German central bank chief Emminger exclaimed.

In fact, there is so little hope of getting control of the \$42 billion per year Arab oil surplus that the U.S. and British are venting their rage on secondary targets, such as the West Germans and Japanese. At the moment, the leading international banks who have major exposure in loans to the developing countries are still receiving vast amounts of petrodollar deposits. In this sense there is no immediate crisis, because financial resources are still available to finance country payments deficits through the private markets. *International Currency Review* estimates that the total volume of syndicated Euroloans may reach \$50.4 billion in 1977, 20 percent above the total raised in 1976 and 50 percent above the total raised in 1974. But this situation is extremely tenuous for, as *ICR* comments, "an abrupt and nasty setback will lead, in due course, to the familiar shakeout."

Interviews off-record with several New York bankers, including senior people at Lazard Freres, indicate there is strong pressure on the Administration to force the West Germans and Japanese to reduce their current-

account surplus in order to take strains off the dollar. The bankers' argument is that if the two big trading companies export less and import more from the Third World, they will create more export income and take away less foreign exchange from the debtor countries, easing the LDC's payments positions. In addition, by running a smaller surplus against the dollar, the West Germans and Japanese will reduce the relative magnitude of the dollar's deficit, and take some of the strain off the U.S. currency. The bankers *EIR* interviewed believe that the Treasury should threaten the West Germans and Japanese with protectionist sanctions against their products, since they will not cut their own economic throats voluntarily.

Treasury Secretary Michael Blumenthal's remark at a Thursday morning press conference that "a new wave of protectionism will emerge in many countries, including this one, and justifiably so" if the West Germans and Japanese keep trading, appears to follow this general approach. Blumenthal's statement is by far the strongest on record from any Administration official.

#### *The Position of Congress*

As Witteveen emphasized in the press conference following the Sept. 25 Interim Committee meeting, most of what the IMF can do in the short-term depends on passage of the Witteveen facility through Congress. However, according to senior World Bank and IMF staff, total uncertainty prevails on this front. The Witteveen facility, now in hearings before the House Banking

Committee, will not even come up for a vote in the Senate until next year, and dozens of pitfalls stand in its way otherwise. A core of congressional conservatives is committed to stopping the facility, along the logic of the Sept. 26 editorial of the *Wall Street Journal*. The *Journal* called the facility "the Bankers Relief Act of 1977," and attacked the IMF for imposing "grinding austerity" upon debtor countries.

There are some indications that a conservative steamroller is in the works to defeat Congressional passage of the Witteveen plan. For example, a former senior Nixon Administration official, Wilson E. Schmidt, a former Deputy Assistant Secretary of the Treasury, attacked the facility in Congressional Testimony Sept. 30. "The proposal," Schmidt told a House Banking subcommittee, "adds to this borrowing-money creation-inflation process... the proposal may reduce our real income, move away from clean floating, and, along with other measures to expand the Fund's resources, adds to world inflation."

#### *The Europeans and a New Monetary System*

At the moment, according to top-level Western European sources, Europe is not prepared as a whole to follow through the implications of its scuttling action last week and break with the dollar. However, powerful forces inside Europe are, and are looking for openings to start the ball rolling.

The first problem on the agenda is what to do about the British, whose government has been the chief ally of the

## Raymond Barre: 'The World Economy Suffers From Absence Of A Real International Monetary System'

*The following are excerpts of an interview of French Prime Minister Raymond Barre — who just returned from Washington, D.C., and is now in Moscow — conducted by Le Figaro's Alain Vernay in the Sept. 28 issue; the questions are not included:*

"While in Washington, if I insisted on the importance of the problems of the Middle East it is because we must seek to reduce tensions in the world and those which manifest themselves in this region are cause for the most concern. I will also bring up this problem in my talks with Soviet leaders... It is in the interest of the balance and peace in the world for the Soviet Union to be associated with the solution of the problems relative to the relations between developing and developed countries. A new international economic order cannot be durably established if a great country, having world responsibilities like the Soviet Union, keeps out of the efforts made to build it and the mechanisms which could be set up to ensure it..."

"The monetary conflicts have been appeased over the last two years thanks to an international monetary cooperation which has allowed us to avoid the collapse of the 1930s... This is significant progress, but it cannot allow us to forget that the

world economy is presently suffering from the absence of a real international monetary system and that this will only be able to be re-established when the participating countries will have restored the fundamental balances of the economy and will maintain them by respecting individual and collective discipline... If monetary conflicts are particularly acute, it is because money is the synthetic expression of economic activity and also because — which is too often forgotten — money is power...

"(West) Germany suffered on two occasions from a galloping inflation whose social and political consequences were dramatic. German psychology has been marked by this for a long time. One cannot hold it against a country and a government for being attached to the stability of their currency... Let me also recall that the BRD and Japan are important exporters of capital and thus contribute to the support and development of economic activity in other countries..."

"... I have the feeling that the American leaders have understood that if we have an independent policy and have no intention whatsoever of giving it up, we are nonetheless disposed to contribute to the solution of international problems and put all our means at the disposal of peace and cooperation between people..."



New York banking group. Healey is hated by most European officials, more so than even U.S. Treasury Secretary Blumenthal. A special worry is European Economic Community commission chairman Roy Jenkins, a Healey cofactionalist in British and European politics. "Isn't it ironic that Jenkins, of all people, has proposed a common European currency?" asked one European central bank chief. "What he wants is a common currency that the City of London will use to control Europe." Even more emphatically, there is general acceptance among French, West German, and Belgian — as well as Arab — officials that Healey and Jenkins are implicated in terrorism against their efforts to break with the dollar, including the July 29 murder of West German banker Jürgen Ponto.

The French, in particular, are anxious to establish closer economic and financial ties with the Soviets and with Eastern Europe, but thus far have not succeeded in breaking through on the most important issues. France's central bank conducted negotiations on the subject of European use of the Comecon's transferable ruble in Moscow two months ago, which yielded no significant results. France's perception is that the now-dominant Soviet faction blocked this development, but that other forces in the Soviet Union and in the East Bloc, especially the Hungarians, are anxious to proceed with the T-ruble.

However, European officials are unanimous that

nothing can be done before the "British problem" is cleared up. There are strong indications — from cautious suggestions by senior officials — that some of the continental financial authorities are prepared to take some action on it. The most recent tremors in the London market and the sudden appearance of intermittent pressure against the pound sterling last week may have been encouraged by some of the Europeans, who want to cut down Britain's political influence in Europe. The perception of some top Europeans is that a financial disaster in the City of London would have a more than salutary effect in reducing the influence of Healey and Jenkins, and that they are taking certain actions to encourage this.

More broadly, the more aggressive European proponents believed that a return of instability for the dollar and pound would open up political space for their efforts, and prompt the vacillating elements of the European governments to take stronger action against the dollar.

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*Also available from EIR* are extracts from an IMF publication, "The LDC's and Stable Exchange Rates," by Sir Arthur Lewis. City of London bankers have indicated that the views expressed in Lewis's paper are representative of their own policy-orientation.

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## International Press Slams IMF Austerity, Reflation

*The following excerpts from last week's international press serve as a barometer of opposition to the continuation of International Monetary Fund-World Bank zero-growth:*

*The Wall Street Journal*, Sept. 26, "The Witteveen Facility":

...The plain fact is, the IMF is among the chief sources of the planet's economic problems and it shows no sign of reforming.

The main topic of mischief this week no doubt will be the care and feeding of the Witteveen Facility, named after its creator, Johannes Witteveen, the IMF chairman. What is the Witteveen Facility? First we will tell you the problem the W-F seeks to correct.

Over the past 25 years, a lot of poor countries around the world came to the IMF and asked what they had to do to get ahead. The IMF advised them to borrow lots of money in the world's capital markets — the big New York and London banks, mainly — and use this capital to build "infrastructure." Dutifully, the little countries did so, but this has not proved the key to development.

So today, throughout the Third World, there is an abundance of rusting infrastructure, creaky steel mills, potholed roads. The cumulative debt now ranges around \$200 billion, and the little countries have had to jack up their taxes to pay the debt service. From time to time a team of IMF economists drops by to recommend "austerity," mostly meaning higher taxes. By now the

little countries have raised taxes on their miserable citizens to levels that can only be called "grinding." How can they now be further squeezed so the banks can be paid off?

Enter, the Witteveen Facility. The industrial countries should put \$5.2 billion into the W-F, and the Arab oil sheiks will put up \$4.8 billion. American taxpayers, in other words, will be asked to cough up a few billion for the IMF to loan to the poor countries so that they can pay off the banks.

This indirect approach is necessary in order to fool the taxpayers into thinking they are really helping the poor. Imagine the flap if the problem were solved honestly and directly: The Bankers Relief Act of 1977. How much more heartwarming it is to hear Sen. Jacob Javits, who represents Manhattan, including lower Manhattan, warning that there will be an economic collapse unless we bail out the Third World (banks).

We doubt that such terrible things will happen if we fail to bail out the banks, though the big banks with the most infrastructure loans will no longer be quite so big unless they and the IMF can figure out another way to salvage their loans. We note that their problems can be solved by economic growth in the Third World, and see no reason why the IMF economists couldn't tell the little countries that what they need is not infrastructure but lower taxes, lower government expenditure, lower taxes, freer markets and lower taxes.

*The Daily Telegraph*, Sept. 26:

... Healey should examine his policies before he gets completely carried away by the excitement of his unaccustomed ranking as teacher's pet at the International Monetary Fund....We cannot be too often reminded that neither North Sea oil revenues, nor make-work programmes financed with those revenues, will do anything to secure a lasting improvement in our fortunes....any economic recovery boosted by "reflation" is going to be very shortlived. Mr. Healey would be well advised...to take the plaudits of his new-found IMF friends with a large pinch of salt....Boosting demand by increasing the government's deficit only debases the currency, leading to successively larger doses of unemployment."

*Les Echos*, Sept. 26:

Relaunching will again be the key word at the General Assembly of the International Monetary Fund, opening today in Washington. But if the industrialized countries are all aware of the problems they have to solve to get the world economy out of its slow asphyxiation, chances are they will only agree on band-aids. Obsessed by the problems of unemployment and the inflationary risk of a brutal boost, they will avoid dealing with the basic problems....There is, however, an explosive dossier which shows the scope of the economic challenges confronting the international community today in order to avoid scarcity: 40,000 billion dollars will have to be allocated between now and 2020 for the development of

energy resources. Dollars will not suffice. Such is the lesson of the Istanbul Conference (World Energy conference — ed.)

*Münchener Merkur*, Sept. 27:

Healey says that (the British and U.S. — ed.) \$25 billion deficit will help solve the economic problems of other countries, and that other countries should use this as an example. But there is not the slightest reason to follow this recommendation. America is no model for us, and Healey ought to know that....Precisely the same people who are now demanding that Bonn should get the runs instead of being constipated, only one year ago were bewailing the imminent ruin of national finances and were calling for extreme austerity.

*The Financial Times*, Sept. 29, "100 Finance Ministers Can Be Wrong":

There are people for whom the incitement to world "reflation" by the IMF — or more accurately its managing director, Dr. Johannes Witteveen — will clinch the argument. This applies to those who look at the IMF as a stage villain, taking a delight in the sufferings of his victim. For such people, it will be as if Baron Scarpia (the sadistic chief of police in Puccini's *Tosca*) has said that the torture had gone too far. Who then would want to argue to the contrary?...The real answer to Mssrs. Healey, Van Lennep of the OECD and the other demand expansionists is that the kind of boost they seek will not merely lead to a return of soaring inflation, but in the end will make unemployment worse...

## Who Is Denis Healey?

When International Monetary Fund Director H. Johannes Witteveen paid tribute to the "really astonishing success" of Britain's economic stabilization policies over the past year, British Chancellor of the Exchequer Denis Healey "seemed barely able to contain his delight," according to the *Financial Times* of London. A man who thrives on praise from Wall Street and the City of London — whose interests he has served for well over 30 years — Healey was already concentrating on his next assignment for the Lazard-Rockefeller clique: to push a recalcitrant Europe into a destructive program of Schachtian hyperinflation.

In three short years as Chancellor of the Exchequer, Healey has succeeded in turning Britain into a "showcase of success" for IMF austerity policies by systematically gutting working class living standards, destroying the growth potential of industry and, most significantly, by cutting British Prime Minister James Callaghan off from his prodevelopment allies in Europe. It is largely due to Healey's monetarist pressure tactics — which have become the dominant motif in the British Cabinet since the death of Foreign Secretary Anthony Crosland last spring — that Callaghan has effectively renounced his former commitment to promoting Europe's industrial potential and has instead become a

virtual captive of the Lazard-London wrecking crew.

Healey never saw his role in purely domestic British terms. Put in charge of the Labour Party's tiny International Department in 1945 as an up-and-coming Member of Parliament, Healey immediately took on the task of reorganizing the Socialist International, which had then fallen into disuse. He did this with the help of Willy Brandt, another leading agent of British Intelligence whom Healey met in 1947. Healey was at that time London correspondent for the Norwegian Labour Party paper *Arbeider bladet*; Brandt was its German correspondent.

As part of his job of determining who were the "true democratic socialists" after World War II, Healey cultivated an extensive network of contacts in Eastern Europe — many of whom later turned up as British agents working to undermine Soviet influence. He appealed to Social Democrats in Hungary, Romania, Czechoslovakia, and Bulgaria to reject collaboration with the pro-Moscow Communist Parties of those countries, warning that by failing to do so, they "would have connived at their own destruction." In 1950, he helped draft the founding charter of the "new" Socialist International, used to this day as a tool of the Rockefellers to destabilize European governments that

stray from the monetarist fold.

“Basically I was an Atlantic Community man from about 1948,” Healey says immodestly. From about that point on, he was fully committed to a U.S.-supported NATO arms buildup in Europe to contain the threat of Soviet expansion. In the 1952 *New Fabian Essays* and in several books and Labour Party documents that played a key role in the party’s postwar foreign policy, Healey argued that there was an “organic unity” between all noncommunist forces against the USSR and its allies and called for an expenditure of ten percent of Britain’s gross national product on the defense of Europe against Soviet “imperialism.”

Healey’s anticommunism and pro-NATO position did not prevent him from sympathizing with the “ban-the-bomb” movement of Fabian agent Bertrand Russell, which demanded that Britain renounce its independent nuclear deterrent and future technological capability. Healey welcomed the excuse to sacrifice the deterrent and thereby wed Britain more closely to U.S. defense policy, while concentrating on the buildup of conventional arms. In March 1957, Healey attended a meeting of a small group of friends, including writer Kingsley Martin, J.B. Priestly, Canon John Collins, and George Kennan to discuss nuclear problems. Out of this the Campaign for Nuclear Disarmament (CND) was born; Healey described it as “the precursor of the hippie movement, and the antipolitical movement among the young.” Bertrand Russell became the movement’s ideologue. Healey and Kennan discretely did not join.

Healey’s reputation as a “defense intellectual” who could out-argue the party’s policymakers with his strategic thinking developed through the 1950s and 1960s while the Labour Party was in the opposition. When Healey became Defence Minister following Labour’s victory in the 1964 election, he immediately got to work revamping Britain’s entire defense program to bring it more into line with the “flexible response” strategy announced by then U.S. Defense Secretary Robert McNamara — another of Rockefeller’s protégés. Healey collaborated with several other defense analysts to produce the book, *On Limiting Nuclear War*, which

spelled out the necessity for a policy of graduated response as an alternative to all-out nuclear war. Such efforts prompted the Soviet newspaper *Pravda* to dub him: “Horrible Healey ... the atomic maniac.”

To the chagrin of old-timers in NATO, Healey also wound down Britain’s military commitments east of Suez and in the Far East on the basis of “cost-benefit analysis” — a euphemism for Britain’s declining economic fortunes. But Healey had definite plans for Britain’s armed forces as a specialized counterinsurgency force in sophisticated internal security operations. As a member of the top secret Northern Ireland Cabinet Committee during the bloody Ulster confrontations of 1967, Healey had a chance to try out his ideas first-hand, deploying British Army troops to the province. It was through this deployment that Ireland was turned into a laboratory of social control — with Healey’s “special” army units actually training and controlling both IRA and Protestant terrorists.

Many of Healey’s ideas about defense and international politics were shaped through various international meetings he attended, such as the notorious Bilderberg gathering, which provided a forum for discussion among top Rockefeller and Lazard policy planners and their lackeys from Europe, Canada, and the U.S. At a 1957 Bilderberg meeting in Fiuggi, Italy, Healey first floated the idea of a London-based center for strategic studies and approached an influential member of the Ford Foundation for funding. By the end of the next year, the International Institute for Strategic Studies, a think tank specializing in military and defense matters had been set up with the Ford Foundation giving a three-year \$150,000 grant. The widely read strategic analyses published by the IISS amount to only about 10 percent of its work. The other 90 percent — which involves direct input by Lazard Freres and Rockefeller-linked Council on Foreign Relations personnel — is devoted to profiles of European countries for the purpose of keeping those nations in the firm grip of Wall Street and the City of London.

— Marla Minnicino

Congress Deadlocked On Energy

## Mondale Allies Paralyze Senate

A bill to decontrol the price of U.S. natural gas has become the momentary focus of the most bitter congressional fight to date on the question of national energy policy. For the past week Vice-President Mondale, aided by Energy Secretary Schlesinger, has led a filibuster against the deregulation proposal that has succeeded in completely paralyzing the Senate. Attempts to reach a compromise between the largely conservative supporters of the decontrol proposal and the political faction allied with Mondale's brand of Fabian liberalism have collapsed, highlighted by acrimonious exchanges between President Carter and leading Senate conservatives.

At issue is not the incompetent deregulation proposal per se, but the deepening deadlock over energy policy throughout the government. Unable to muster sufficient support to enact their "deindustrialization" package of conservation, labor-intensive "public works," and regional energy corporatism, the Mondale group is plainly working to paralyze and disorient all opponent congressional efforts at energy legislation, or anything else, by turning the Senate into a zoo. As long as theirs are effectively the only proposals on the table, the Fabians apparently believe that they will be able to buy time until a new "national energy crisis" creates the climate for passage of their proposals — the same "crisis" that Energy Secretary Schlesinger is looking to as the pretext for imposition of his soon-to-be-unveiled WEEP energy dictatorship (see below).

The originally narrow policy basis for opposition to the Carter-Mondale energy program among Republican and conservative Congressmen — of which the decontrol proposal itself is an example — is evolving into an insistent demand across the political spectrum for serious economic program that will stress energy and industrial production, not conservation, and ensure the survival and expansion of the nation's industry and agriculture. The formation this week of a Senate "steel caucus" to deal with the crisis in that vital industry, the wide demand on Capitol Hill for the U.S. Labor Party's just-published detailed programmatic proposal for the rebuilding of the U.S. steel industry, and the failure so far of diversionary yelps for steel protectionism to gain significant ground, all point to the change in political climate that has driven the Mondale group to its present nihilist strategy.

*Compromise Fails*

Earlier Administration attempts to reach some sort of compromise with its conservative opponents over the de-

regulation issue, including offers of a much higher price for natural gas but under continued controls, went down in flames after President Carter tried to defend his badly faltering program against Senate "special interests" in a Sept. 28 press conference. The previous Monday, the Senate had voted to kill the Administration's oil equalization tax, a tax on oil at the wellhead which would have greatly raised oil prices. In remarks that bore the clear stamp of his energy czar, Carter threatened an "imminent" energy crisis and attributed Senate amendments to his energy program to "powerful lobbying influences." The Senators, he said darkly, "have their own reputations to protect." Commented the *Baltimore Sun*, Carter "stopped (just) short of accusing his Senate opponents of being in the oil industry's hip pocket."

The result of Carter's statement was to increase both the vehemence and the number of his opponents. Senator Barry Goldwater (R-Ariz.) denounced the President as "dishonest" for implying that Senators were "under the control of the oil lobby," while his Democratic Senate colleagues Nunn and Burdick both joined the decontrol bill's list of supporters.

The filibuster therefore is rolling on, in an attempt to keep any further legislation from being passed before Congress adjourns for the year (sometime around October 15). Vice-President Mondale, in his capacity as President of the Senate, has already provided sufficient means to keep "debate" on the bill going forever, by allowing his cohorts to propose more than 500 amendments to the deregulation bill. In a breach of Senate procedure that outraged his opponents, Mondale refused to follow the custom of allowing the Senate majority and minority leaders to speak before other Senators, and instead recognized those who wanted to introduce still more amendments to the bill.

The Senate met all night Sept. 27 to discuss the amendments, adjourning at 7 a.m. only to reconvene two hours later, having acted on only 38 amendments. Led by Senators Abourezk (D-S.Dak.) and Metzenbaum (D-Ohio), Mondale's supporters dragged out the action on each amendment, forcing rollcall votes and demanding a quorum call. Anyone who left the Senate floor was immediately surrounded by Administration lobbyists, including energy czar Schlesinger himself. Gloated an aide to one Senator in the Mondale faction, "We may lose the vote on deregulation eventually, but the Senate will be good for nothing when we are finished."

# Roger Starr: Move The People To The Jobs

*The following are excerpts from an interview with Roger Starr, member of the New York Times editorial board and the former Housing Commissioner of New York City. Starr, who has connections to planning circles in both Lazard Freres and Rockefeller camps, is best known for his advocacy of the "planned shrinkage" of New York City by driving out some 2 to 3 million ghetto residents through a calculated policy of service cuts and aid cutoffs. Starr was originally consulted in the planning for Rockefeller's 1974-75 Project Independence scheme; his concept of massive relocation of urban poor to energy development sites was incorporated into the Project's planning.*

*Starr's views on relocation have been advocated in varying degrees by several members of the Lazard Freres grouping. His views on the "emptying of New York City" are reported to be the operational policy of the crowd behind the Moyoralty campaign of Lazard operative, Ed Koch.*

Q: How would you describe current urban policy?

A: Taking an historical view, we never talked about the country having an urban problem before World War II. At the end of World War II, the cities needed to make a tremendous additional investment. Everyone assumed that ultimately it would pay off, and the federal government would benefit from having the cities adjusted to the needs of the second half of the 20th century. We had a tremendous growing population from the people who were displaced from the farms of America and they could be put to work in the cities if they (the cities) could be made more modern. That was urban renewal. But the program was totally undermined by the loss of the economic power of the cities. The jobs weren't there. They had disappeared at a rapidly increasing pace.

During the Johnson Administration, we began to hear about "poverty." You know, there were 15 years where you never heard about poverty. Then, all of the sudden, poverty was rediscovered and we had the Great Society programs which were intended to make the poor people in the city fit into industrialized society. But what had happened is the industrialized society went somewhere else and the poor people were left here without jobs.

Unless someone is willing to face the fact that the cities cannot be revived on the scale which we thought they were going to achieve in the late 1940s and 1950s and that industrial production has gone somewhere else and there are only certain kinds of jobs that can be in the cities because they are no longer industrial centers, then all we are going to do is support poor people in poverty, on federal stipends keeping them away from moving to other parts of the country.

Q: Are people willing to confront this in the Administration?

A: Well, the federal government's current role is "what can we do to take the pressure off us as quickly and cheaply as possible." The President says: "Do something to get the pressure off me." That winds up translating into: "Pump more money into the cities keeping the people where they are. The elected officials like that." But if you really want to do a job, then you have to ask yourself how do you get the poor people into the economic mainstream of American life. Then you have to look at where the mainstream is and you will find that it is now in much smaller cities and cities in different parts of the country. But the poor people are held here by the suction of the social programs that were created.

In New York and Massachusetts for example, people on welfare get much more than in other states and that keeps them here. You have to figure out some way to make it possible for these people to migrate to where the jobs are. You have to do some very basic thinking — which few people in Washington want to do — about what kinds of jobs there are going to be in the United States, where do you want them and how can you best invest capital and funds of the federal government in developing those industries which are going to give us the best results for America in the future.

Q: Doesn't what you are talking about involve a major restructuring of all political and economic constituencies. Particularly, doesn't this mean that you are going to eliminate the present constituencies of almost every black and minority Congressman by shipping them somewhere else?

A: That is exactly what we were trying to say in that editorial that we ran last week (which called for an urban policy which would support relocation of the poor — ed). Those black leaders who come to Washington to demand full employment and a national urban policy may be asking for two things which are incompatible. What they want is everybody to be kept exactly where they are in the cities so their constituencies would remain there and keep voting them back into Congress.

Q: What you are talking about is what you call "planned shrinkage" or what others have called "managed decline?"

A: Someone put this for me in a very concise fashion the other day. He asked me to tell him what the United States would be like today if in 1865, instead of opening the country widely to European immigration...we had really made a determined effort to use the black people of the U.S. to do the kind of work which we were then trying to recruit immigrants to do.

Now in a very important sense, we are facing something of the same problem. Now, instead of putting

the black men to work, we have put to work a large part of the female white population. What I am saying is that the economy of the southwest, the south and the booming parts of the American heartland is based on the employment of white women rather than black males. This is not recognized as racism, but it is... Now what are we going to put the black males to work doing and where are the industries and what are the American needs of capital investment that we can put these people to work constructively." I am not a believer in "make work" jobs — to make the city more habitable. That depends entirely on federal charity.

One of the big things for us to exploit is natural resources, particularly fuel resources. We should look at that industry and ask ourselves what is it going to need to develop resources that have been uneconomic to develop up to now. In a large part they may be uneconomic because there may be huge labor requirements. But what the hell, instead of paying money for people to sit in the cities and do nothing, it would be much better to encourage them to move elsewhere and subsidize their work in those capital industries which we really have to develop now.

Q: What about Felix Rohatyn's program for an Energy Corporation for the Northeast (ENCONO) to fund the kinds of projects that you are talking about. His proposal, for example, speaks of solar energy development.

A: Solar energy. Blech! As far as I am concerned, there is only one great source of energy that is really worth developing, especially for the Northeast and that's atomic power.

You can see what it is like politically to try to develop atomic power. It is fascinating to me that there is such resistance to the development of atomic power from middle class and upper-middle class people. It is not working people who form the "Clamshell Alliance." They keep worrying about pollution and they talk about radioactive pollution, but I think they might be worried about racial pollution.

In an industrial society the only way to keep people busy is in industrial activity. The resistance to the development of atomic power seems to be closely connected to a kind of return to simpler America, a kind of America in which black people were in slavery and it was a country with great resources to be tapped. We are in a much more complex situation — for better or worse — and we seem to be resisting realizing that the attitudes towards technological development have a hell of a lot to do with the future of the cities.

Q: You seem to be talking a lot like Governor Rockefeller when he testified last week before the Senate Finance Committee asking for a revival of his "Project Independence." He stressed nuclear power.

A: I think that is the direction that we have to move...No one is discussing this thing in what I consider to be its most important aspects.

Q: Isn't anybody except Rockefeller thinking about urban policy, energy policy, and relocation.

A: I don't know anybody who is daring to look at this

thing...I don't say replace the private sector, but to understand the limits within which it must work and make governmental policy to enable it (the private sector) to work more efficiently.

Q: How would you do this? What would you want the Administration to do?

A: The whole notion of developing what Rockefeller calls "Project Independence" is of the utmost importance. If we are going to be independent of foreign fuel sources, we have to plan out an industrial development of energy in the U.S. That brings the problem to measurable proportions. We start thinking of what is going to be required and what are the forms of transportation and other forms of energy usage which we are going to permit within the configuration of an "energy independence" status — maybe not a 100 percent independence, but at least we won't be in morass we are in now where we are becoming more dependent on foreign energy sources every year.

Q: Do you feel that the Administration's energy program is adequate?

A: I think that it is puny and a bad joke. If you want to encourage the development of oil and gas resources, you have to allow prices to go up and then you can apply excess profits tax on the bottom line of the developers and you should subsidize poor people who simply can't afford the increased prices. The only way to increase your energy resources is to make it economically attractive to put capital in those kind of ventures.

Q: So I take it from those comments that you think that the Carter program stresses conservation too much?

A: Conservation is a bad joke. There is nothing more wasteful on a very large scale than the attempt to eliminate waste. Nothing cures waste quite so fast as increasing the cost of what it is that is being wasted. That is absolutely axiomatic.

Q: Would you go back to describing how you would construct what you referred to as a national energy development policy?

A: To the extent that we are going to be at least temporarily dependent on foreign fuel sources, — and this may cover a long time period — we have to be able to make exports to pay for what we have to import. What are the products that the U.S. makes that are attractive to foreign markets. You have to analyze what is to be done to make its exports more efficient and more effective so that it can pay for what it has to buy.

The energy profile of a new America and the export-import balance sheet will keep a small army of people occupied in planning for a long time. That is the beginning however of a real program. To start off at the other end in talking about urban policy and to say what we are going to do to save the U.S. is ass-backwards. You don't start out with a geographical locus instead...

Q: You speak of a policy to aid export-oriented industry. Which industries are you talking about precisely?

A: Well for starters I'm talking about the nuclear energy industry. I'm also talking about high-technology capital goods and electronics and the computer industry. I think we should include food and food processing as well. There are other industries, but now you have the basic idea. We have to give these people help, so that we can generate the capital we need to buy our energy. Eventually, we should be exporting other energy supplies, also.

Q: Are you for what has been referred to "oil-for-technology" deals with the Arabs?

A: Yes. The Arabs think that they are clever, that they can become some new kind of imperialist power, turning the United States into their fiefdom. But we can outsmart them. They might have oil, but they need our technology. I don't want these Arabs using their petro-dollars to buy equity positions in the U.S. capital markets. Let them pay for our technology or give us oil. After they run out of oil, they'll be begging us for help and it will be our turn once again.

Q: What about the Soviets and the East Bloc? How do you think they would respond to this type of program.

A: I don't trust the Soviets. I just don't like them at all. I am an unreconstituted cold warrior. I'm bad on this question, so I let other people, more temperate speak about it.

Q: How do you get the people in the cities jobs? Does the welfare system block this move?

A: The welfare system is devastating. It is corrupt. It is evil. But you can't, unfortunately, just cut it off because people would starve...The Administration's plan to put people to work is a little help. But I really think that we should let people relocate and have them carry their welfare with them for a little while. But welfare and jobs training and unemployment insurance should be coordinated so that people would be encouraged to improve their skills to make them employable.

Q: You seem to be talking about a manpower program along the lines suggested by Eli Ginzberg (the head of the National Commission on Manpower Policy — ed.)?

A: Yes, that's right.

Q: You, like Dr. Ginzberg, are not in favor of a program like Humphrey-Hawkins, correct?

A: Yes. I am not in favor of the "government as the employer of last resort." I don't think that we can afford

to waste money employing people for things that have no economic value. I am in favor of doing much to put people to work with respect to raw materials that we will need for the future. The oil situation is something that we can see in front of us, but there are similar shortages brewing.

Q: Mr. Rohatyn seems to be stressing regionalism, you and Mr. Rockefeller seem to be talking about a national — federal — policy. Is there a difference?

A: Yes. Felix is looking at things from the region a little too much. I think that the nation is in a very critical period. This nation became so rich because it had all the natural resources that it needed within its boundaries. We ultimately developed our manufacturing where we became a unique self-contained nation and we built up a fantastic industrial plan. Now we have run out of the easy recapture of natural resources and there is great resistance to development of new ones — i.e., atomic power. This imperils our nation in a very serious way. Poverty is after all related to the national level of wealth. I promise you what we are seeing is perhaps only the first stage in a decline of national wealth... You cannot lick poverty in its geographic locus — the city — unless the economy as a whole is going to lick its poverty problem. That problem has to come first. Felix may have his priorities reversed a little, in my view.

Q: You are talking about creating industry in the natural resources sector, where it isn't, so you will have to build housing, etc. .

A: That's right, but you must go where the resources are. This also means that at some future time, as the newer cities begin to develop their problems and the emptylands of the Bronx, served with transportation, water, electricity, and sewage begin to be more attractive for investment. It is at this point that Felix and I come together again, because there is this point in the future where New York's urban resources become attractive again. But you don't start there, like Felix is saying.

Q: Did not Mondale back in 1974-75 have some kind of legislation that would help on the relocation problem, the so-called NERA bill.

A: Yes and it was shot down. That's because you don't start with the moving of the people. You start with reviving the economy.

Q: You're saying that if as part of a Project Independence resource development program you tacked on a relocation program, it would be much more political and socially acceptable.

A: You dig me. That is how it must be done and we are beginning to see it happen.

# WEEP: Schlesinger Plan For National Industrial Shutdown

The United States is already in the grip of a three-phase emergency plan administered and devised by Energy Secretary James Schlesinger to deal with an "expected national coal shortage" — even though the newly created U.S. Energy Department has no legal authority until October 1.

A top aide to Secretary Schlesinger has confirmed the existence of the yet-to-be-made public scenario and reported that the Energy Department is currently putting the plan into effect. "We may be overstepping the letter of the law," he said, "But the Secretary regards the situation as extremely dangerous and warranting the risk."

The coal emergency plan is part of a larger scenario document, the so-called Winter Energy Emergency Plan (WEEP) which deals with "natural gas shortages" and "a new Arab oil embargo triggered by the threat of or an actual Mideast war." Schlesinger intends to use WEEP and the extraordinary powers granted him under the Congressional legislation that created his energy czarship to militarize the economy and impose no-growth energy conservation through back door measures.

## *Still Secret*

Only the barest of hints of the existence of the WEEP plan have appeared in the press. But according to knowledgeable Schlesinger aides, the overall document is "many inches thick" and contains planning down to the "minutest detail" about any number of possible energy emergencies, with "step-by-step plans of action" for meeting them. The WEEP draft, an aide said, reflects "Secretary Schlesinger's fetish for scenario planning that he gets from his RAND experience." The feeling around the Energy Department is that "Schlesinger is all set to run everything...he'll make the decisions, tell people in an emergency what they must do...the law (that created the energy department) gives him enormous discretionary powers, some people might say dictatorial powers..."

The public release of the WEEP document had been scheduled for sometime this week, but according to a Schlesinger spokesman, "will be held up for several weeks." The document as it stands is for "certain eyes only," the aide said. Copies have reportedly been given to selected people on the (Capitol) Hill, in the Administration, in industry and state government. "We're not out to scare anybody," said another spokesman.

It could not be learned if President Carter had been given a copy of the draft WEEP plan.

## *Coal Emergency*

The WEEP document lists three "significant threats" to the nation's coal supply: 1) an "almost certain

national miners' strike or wildcat activity...beginning sometime between mid-October and December"; 2) "severe winter weather," which is termed "likely but difficult to forecast accurately"; 3) a "highly possible national rail strike sometime in the early winter."

The Schlesinger spokesman reported that any single contingency or combination of contingencies would activate the full plan. Schlesinger has spoken about another "trigger factor," the possibility of "terrorist activity" surrounding a national coal strike "which could shut off the nation's rail lines" and seriously affect other energy supply sources.

After assessing the current situation, especially the "instability" in the United Mineworkers Union and the "unfortunate recent wildcat activity," the spokesman indicated that the decision has been made to activate — de facto — the first phase of the scenario. According to WEEP's assessment, there is currently an ample supply of coal and coke for utilities and industry for a "short strike" — 75 days for utilities and 33-60 for industry — but a strike of an extended period would "create severe shortages" and "threaten the national economy."

In phase one activation for this contingency, Schlesinger's staff is meeting with the Commerce and Labor Departments to plan emergency cutbacks in industrial production.

Under the "second phase of the scenario," a "slight or moderate shortage" occurs necessitating initial cutbacks in industrial production and power generation and shifting of some supplies. In the third phase or a "severe shortage," a form of total rationing is imposed, with Schlesinger having the power to order partial cutbacks to industry, plant closings and conversion to other fuels. The spokesman added that the Secretary may also ask the President and Congress to invoke anti-strike provisions of Taft-Hartley. But the "thinking around Washington" is that a Taft-Hartley injunction won't work in the miners situation. If that's the case, the aide said, the Secretary and the President, in concert with local governors, might order the National Guard into the situation. The aide, however, felt no coincidence in that solution either. "It will be the extraordinary powers of the Energy Secretary that will get us through what looks like certain disaster."

## *Miners Angle*

At this moment, a national miners strike or extensive miners wildcat — the "primary trigger" for the Schlesinger scenario — is almost a certainty.

After more than seven years of Institute for Policy Studies-Joe Rauh wrecking operations the union has been turned into a leaderless group. Even if some contract agreement were reached with coal operators before the Dec. 6 strike deadline, the factionalized union leader-



ship could not sell it to the membership. Sources close to the union report that a new wave of wildcats will likely begin next month over the dismal condition of health and benefit funds — a condition created by wildcats incited by IPS plants earlier this year.

But as several industry sources report, a national UMW strike or wildcat *could not alone* cause a coal shortage. The IPS wrecking job on the union has caused a proliferation of non-union mines which now account for more than half the nation's coal production. This accounts for the preoccupation of Schlesinger's office with the possibility of terrorism or the mix of a UMW strike

with unforeseen factors like "severe winter weather."

#### *Congress' Responsibility*

The President of the United States, according to the law that created the Energy Department and granted Schlesinger his power, has the ultimate authority to put a brake on the entire WEEP scenario. "But we don't think he (Carter) will interfere," Schlesinger's aide asserted. Carter's statements yesterday that he will follow the Energy Czar's dictates on gas deregulation and the breeder reactor indicated that the White House may very well accede to WEEP.

## McCrary Cites Pattern Of 1977 Election Fraud; Calls For Emergency Action By Congress And Public

*Colonel Thomas McCrary, Chairman of the National Committee for Fair and Honest Elections, is submitting a statement to the United States Congress on the need for emergency action to restore honest elections. Citing the interlinked pattern of election fraud in recent municipal returns, and the takeover of public offices by individuals with known terrorist connections, McCrary termed the situation a "national emergency."*

*Colonel McCrary is also national chairman of the National Coalition of Independents on Issues — a multipartisan group committed to the developing national policies in the historic interest of the nation. The Fair Elections Committee is part of the National Coalition, representing leaders and activists across the country, Independent and Conservative Parties, plus representation from the Republican, Democrat and U.S. Labor Parties. On behalf of the Fair Elections Committee and its supporters Colonel McCrary testified before the Senate Rules Committee, May 6, against President Carter's proposed Election Reform Bill, and was instrumental in causing the Administration to withdraw the Bill. Colonel McCrary has just returned from a month-long, nationwide tour in which he held policy discussions, press briefings and public meetings, organizing for the Coalition.*

*The following is the full text of his statement:*

"We believe, as we think most Americans believe, that the Right to Vote in a free society should be held sacred. Today that right in the United States is now in jeopardy.

"I should like to call your attention to the massive fraud which took place in the 1976 general elections in New York, Ohio and Wisconsin.

"Now we see that fraud is rampant in the local elections. From the preliminary analyses made available to me of the results and conduct of the elections held earlier this month in Seattle, Detroit, Boston, New York City and Buffalo, I am convinced emergency action is required to restore honest elections.

"This is demonstrated by even a surface examination of the relevant features of the elections and results:

"First, in Seattle and Detroit individuals with known environmentalist-terrorist connections won the primary rounds with astounding totals, despite demonstrated

public disapproval. In Seattle, for example, Chip Marshall won a place in the final City Council run-off, with an unofficial 42 percent of the vote; Marshall is a named co-conspirator in the Weathermen's Chicago "Days of Rage" rioting, and is likewise named in the House Internal Security Committee Report on the Weathermen. In Detroit, a similar figure, Kenneth Cockrell was given a final run-off position.

"Second, the size of the primary turnout in Detroit, New York City and Buffalo is bogus either overall, and-or in several large districts. In Detroit, a supposed 47 percent of the entire electorate turned out, in pouring rain, exceeding the most extravagant predictions of experienced observers. On the basis of this and related facts and complaints, the City Clerk Bradley has officially opened an investigation of the extent of the fraud in the September primary. In Buffalo, 1800 irregularities were cited in a suit filed yesterday by City Council candidate Dougherty.

"Third, in Seattle, the demonstrated malfunction of the Computer Elections System Voting Apparatus, and the lack of sample hand-count double checks, is prima facie evidence of the need for a new, safe-guarded election. In addition to the refusal of election personnel to perform the necessary checks, computer voter cards were processed wet, a circumstance known to affect the results.

"Fourth, an analysis of the results in all three cities, by experienced members of all principal parties, confirms that the results bear no relationship to the range of outcome consistent with voter preference, even considering the most extreme voter choice shifts imaginable. The heavy vote reported for extremist environmentalist-terrorist individuals, plus the light or negligible vote for progrowth candidates such as Seattle mayoral candidate Wayne Larkin, who backed by the United Republicans of Washington and who enjoyed strong labor support, was knocked out with a 17 percent vote and the Labor Party candidates' low showings in all three cities, is only explicable by the existence of massive fraud. In Seattle, Republican pro-growth candidate Jack Cunningham had just defeated environmentalist Democrat Marvin Durning in a special Congressional election upset, nationally recognized as a pro-

growth mandate.

"If the fraud in these situations is not totally eliminated, and fair and honest elections guaranteed for November, then this nation is headed for some form of dictatorship. If we allow our elections to be chaotic, and rigged, we are inviting rule by despots. History, much of current history, amply bears out this fact.

"What is required is a mobilization of citizens nationally and locally to demand and enforce fair elections.

"Because of such mobilized public pressure on Congress, earlier this year we succeeded in preventing the attempted enactment of Federal election "reforms," which if enacted would have ended fair elections by fiat.

"Renewed vigilance is now required. On the state and local level, individuals, principally associated with the National Conference on Alternative State and Local Public Policies — a creation of the Institute for Policy Studies — are implementing measures to be able to totally control elections. In the state of Washington, post-card registration, rejected by Congress for sound reasons, has been pushed through the state legislature.

"Opposition has also formed on the state level to these illegal takeover operations. In Washington, the

Republican Party and the Labor Party have collected over 75,000 signatures this month — many thousands signed by Democrats — which will guarantee a state referendum on the post-card registration act.

"However, we will not be able to stop fraud in a defensive manner, waiting until after the crimes occur. Fighting after the fact is not effective.

"We must mobilize now for honest elections. Where fraud is detected, elections must be declared null. Election machines capable of manipulation must be removed, computer experts must check the programming going into computer elections. Election officials should be selected from local jury lists and a national norm for ballot position requirements should be established.

"My Committee will solicit and submit to Congress the evidence on terrorism and conspiracy to defraud the elections in Seattle and other cities. We call on Congress to initiate the necessary investigations.

"At the same time we will circulate the evidence throughout the country to organize the public action that can guarantee the restoration of honest elections, the cornerstone of the republic."

## Rohatyn's Northeast Energy Corporation Introduced In Senate

Legislation for an Energy Corporation of the Northeast (ENCONO) was introduced in the Senate Sept. 26 by 14 Senators, including Henry Jackson (D-Wash.), Jacob Javits (R-N.Y.), Abraham Ribicoff (D-Conn.), and Edward Kennedy (D-Mass.). The ENCONO proposal aims to achieve "full employment" through labor-intensive solar energy, coal gasification, and other technologically worthless energy Kruppwerke.

The bill was written by Felix Rohatyn, chairman of New York's Municipal Assistance Corporation ("Big MAC") and a partner in the Lazard Freres investment house. It is the frontrunner in a larger package of fascist legislation, including some version of the Humphrey-Hawkins Full Employment Act.

On Sept. 27, Senators sponsoring the bill issued statements praising it as a "creative effort" to deal with energy problem. All of the statements, issued simultaneously by the Senator's offices so as to avoid the question and answer embarrassments of a press conference, were virtually identical in content.

In fact, the content of the releases closely reflects the input of ENCONO promotor Walt W. Rostow, a Vietnam war planner under President Kennedy who is currently a professor of history and economics at the University of Texas. Rostow spent a week in Washington, D.C. recently organizing congressional support for ENCONO. Then last week he organized a weeklong conference at the University of Texas in Austin on "alternatives to regional conflict." The Sept. 28 *Boston Globe* reports that Rostow told 400 participants, which included Felix Rohatyn, that a "massive public and private investment policy" was needed to save the nation.

Support for the ENCONO bill does not go far beyond its 14 supporters. Conservative Representative Jack Kemp (R-N.Y.) issued a statement together with liberal Rep. Richard Ottinger (D-N.Y.) condemning it as a "regional ripoff." A spokesman for Rep. Kemp's office said that the Congressman would not launch a major campaign against the legislation only because thus far it has had so little support.

# Establishment Press Nominates Carter For V.P.

Having forced the resignation of fiscally conservative Budget Director Bert Lance, influential U.S. press are now proposing Vice-President Walter Mondale, the tool of British-connected Lazard Freres banking interests behind the policy of hyperinflationary and fascist economic controls, as the de facto chief of the Carter Administration. Behind last week's press barrage touting Mondale was the clearly implied threat that Jimmy Carter would be watergated right out of the Presidency if he resisted orders to toe the Mondale line.

The Los Angeles Times initiated the furor over Mondale's influence in the White House, by demanding from Press Secretary Jody Powell why Mondale had seemingly been relegated to the background in the Administration. Carter telephoned the paper the next day to assert that Mondale is his closest policy advisor — and consulted closely on the Lance Affair. White House advisor Hamilton Jordan also praised Mondale as “the most involved and effective Vice President in the history of this country,” but said that Carter will not widen the White House inner circle to include more “non-Georgians,” as the press outlets pushing a Mondale ascendancy have repeatedly demanded.

The following article excerpts highlight the “Carter For Vice President Drive.”

Los Angeles Times, “Carter Reiterates Mondale's Importance,” Washington Bureau, reprinted in Seattle Times, Sept. 28:

President Carter, in an extraordinary response to rising questions here about Vice President Walter Mondale's power in his Administration, said yesterday that Mondale had played crucial roles in domestic and foreign affairs, including the Bakke civil rights case and the strategic arms talks. In addition he said Mondale was among those advising him on how to deal with the controversy over the financial affairs of former budget director Bert Lance.

On strategic arms proposals, Mr. Carter said, “Before going into a negotiation with the National Security Council to evolve our nation's policy, I always very carefully check with Fritz. He knows the details of past negotiations as well or better than I do. He has full participation.” ...The President said he spends more time with Mondale than with all members of the White House staff combined.

Seattle Post Intelligencier, September 28:

(A Mondale staff member said) “In terms of strategy it makes sense for Mondale to be a little more visible than he's been.”

While Mondale takes pains to defer to the President, his staff members are mindful of his public image and the possibility that someday he may run for the Presidency himself.

New York Times, “On Replacing Lance,” column by James Reston, Sept. 28:

But in general, the record seems to suggest that what Presidents need more than “friends” in key posts like the budget are muscular, objective minds that can master the intricate problems of their departments and can say “no” even when it hurts. This was the tragedy of Richard

Nixon: he misjudged both his “friends” and his “enemies.”

...Mr. Carter applied Roosevelt's “competitive principle” of administration when he picked Fritz Mondale as his Vice President; not because they thought alike but because in many ways they didn't. This “partnership” has worked better than any President-Vice President relationship in recent memory.

Most Presidents have found that the “friendship principle,” while comfortable, is not “irreplaceable” and that the “competitive principle,” while awkward and even exasperating, is more effective in the long run.

New York Times, “Lance's Loss and Mondale's Gain as Carter Confidant,” news analysis by Hedrick Smith, Sept. 29:

The departure of Bert Lance from the Carter Administration seems more likely to add to the influence and importance of Vice President Mondale than any other Administration official.

...But no one except Vice President Mondale is qualified by experience, stature and close relationship with the President to play the role of across-the-board advisor to Mr. Carter that helped make Mr. Lance so important to his old friend in the Oval Office.

...But for all their affection for Mr. Lance the President and his aides insist this was an exaggeration of his function, “Fritz has always been the deputy President,” Mr. Carter said in a telephone conversation this afternoon.

“With the exception of actual budget hearings and Cabinet meetings which Bert and I both attended, I saw Bert one or two hours a week. I see Fritz four to five hours a day. There is not a single aspect of my own responsibilities in which Fritz is not intimately associated...”

Washington Post, “Will Carter's First Term Parallel Nixon's?” column by David Broder, Sept. 28:

Udall learned a lot about what this President looks like from the back.

It was his observation a couple weeks ago that the course of the Carter administration is beginning to resemble that of the first Nixon administration. And it strikes me that developments in the last couple weeks make the Udall notion more than slightly plausible.

...It seems quite likely to me that events will bear out Udall's hunch that the next 12 to 18 months will be rough for Carter, just as the comparable period was for Nixon.

...By spring of 1971, the polls showed Nixon in a dead heat with Sen. Edmund S. Muskie (D-Maine), and columns were being written about his being a one term President.

...Major Carter legislative initiatives are being scrapped or manhandled by the Congress; the economy is sending out some nervous hiccups; and abroad, there are storm signals flying from Moscow to the Middle East and on around the globe.

...But that's where Udall's final reminder becomes pertinent: never underestimate the capacity of a President to change policies, change personnel and change the political equation.

## Steel: A National Crisis

The wave of closings throughout the U.S. steel industry, which was highlighted by Youngstown Sheet and Tube's announcement Sept. 19 that it was closing its entire 5,000-worker Campbell Works in the Mahoning Valley, has made the collapse of this central sector of the U.S. economy a foremost national issue.

### STEEL

In Congress steel caucuses have been formed in the House and the Senate over the last two weeks to deal with the crisis. Some 60 steel-district Congressmen attended the first meeting of the House steel caucus on Sept. 21; the approach within the caucus has been notably more far-sighted than that of the industry and USW to date. Congressman Adam Benjamin (D-Ind.), Charles Carney (D-Ohio), John Buchanan (R-Ala.), and other members are drafting an emergency legislative package which includes measures aimed at fostering steel industry modernization; however, the size of the loan program is miniscule, and the package gives equal weight to measures to limit imports.

The outline of the four bills circulated by Congressman Benjamin's office includes the following measures:

- \* Imposition of a "temporary ad valorem tariff surcharge when imports of a particular iron or steel product exceed the apparent domestic consumption of that product as established by a defined base period";

- \* Extension of the 1933 "Buy America Act" to domestically manufactured articles which have been more than one-half financed by government subsidies, loan guarantees, etc.

- \* Allowance for rapid write-off of pollution-control facilities;

- \* Temporary increase in the amount of credit the steel industry can claim under the Investment Tax credit;

- \* Increase in the amount of government-backed tax-exempt industrial development bonds that the steel industry and other industries can float from \$5 million to \$25 million (under Title 26 U.S.C. 103). An earlier version of the legislation called for some \$15 billion in government loan guarantees for the industry, but an aide to Congressman Benjamin said the present scale of the capitalization program is "more realistic."

The U.S. Labor Party's \$50 billion program is filling the vacuum left by this limited congressional action and the industry's suicidal cries for protectionist measures. Trade unionists and industry executives throughout the nation's steel belts are, for good reason, not sold on protectionism, and are looking for a competent program

to reverse the shutdowns and bring the antiquated U.S. steel industry at least into the 1970s. The USLP program is the one practical program on the table: it recognizes that the industry's survival and U.S. steelworkers' jobs depend on restarting the world economy and reviving world demand for steel and U.S. capital goods. On that basis, the program calls for urgently needed expansion and upgrading of U.S. steelmaking under the aegis of new national and international credit mechanisms to finance the industrialization process, for a conservatively projected five-year growth pattern adding 186 million tons in steelmaking capacity and 446,000 productive jobs in steel alone.

In the four-day period following the USLP steel program's release on Sept. 20, 20,000 out of 30,000 copies were sold, amid intense political discussion over how to reverse the plight of the entire economy. Release of the program was recorded in the steel belt press, with a Hammond, Ind. newspaper announcing U.S. Labor Party's Illinois Senatorial candidate Gerry Rose's campaign against deindustrialization proponent and prime Lancegater Charles Percy under the headline "Percy Opponent Brings Steel Program." Within four days 475 copies of the program were sold at the annual convention of the American Association of Iron and Steel Engineers in Cleveland, Ohio. The program's counterposition of the tradition of Andrew Carnegie with the monetarist policy which has doomed the U.S. steel industry to stagnation struck a chord with executives and engineers who are eager to see their industry expand and modernize.

### *Administration's View*

The view of most industry observers — that the Administration will not take any action on limiting imports of steel into the country — was backed up by President Carter's statement at his press conference Sept. 29. He said he was not sure that the industry needed import relief; its problem is its old and inefficient plants. However, the President reiterated his commitment to environmental measures against steel plants, which have resulted in several closings already.

The Administration's general strategy has been to advocate "free trade," while holding up the protectionist sentiments of segments of the steel industry and the USW as a threat to pressure Japan into "voluntarily" restricting imports and into acceding to the Administration's global deflation program. Last week Commerce Secretary Juanita Kreps was the latest of the Administration officials to visit Japan and apply such tactics.

As the OECD meeting on steel opens in Paris, the U.S. is expected to give the European governments a hard time for limiting foreign (Japanese) steel imports into the European Economic Community under an EEC-Japan "gentleman's agreement," and thus diverting exports to the U.S. markets. But it is clear that "free trade" advocates such as Special Trade Negotiator Robert Strauss do not mind "orderly market agreements" per se; they want them to be international

agreements. According to a report in the *New York Times* on Sept. 29, the U.S. will seek the creation of an international "monitoring" body at the OECD meeting. The article also noted that there is one feature of the Europeans' steel rationalization program that the U.S. delegation will give its wholehearted approval to — a proviso which forbids the building of new plants, unless old plants of equivalent size are dismantled.

## Gold Up, As Dollar Down

Gold hit its 1977 high of \$154.50 per ounce in London last week as the U.S. dollar fell to new lows and the British pound sterling began to shake under the weight of contradiction between falling industrial production and speculative money printing. U.S. Treasury Secretary Michael Blumenthal's taunt to the world's financial leaders at the Washington International Monetary Fund conference that the U.S. trade deficit will run to \$30 billion and the current account deficit (trade plus short-term capital flows) will run to \$20 billion has brought the dollar to new lows against the Swiss franc and German mark. U.S. Federal Reserve Chairman Arthur Burns' attempts to cushion the dollar's fall by shoving up U.S. short-term interest rates will, if continued, spell early doom for the speculative rush into sterling and the British stock market.

comment at the embassy in Washington, South African Finance Minister Horwood said, "I can't go into that now."

### *U.S. Demand Dollar Support*

This week's dollar decline was largely touched off by Treasury Secretary Blumenthal's threat to Europe and Japan that the U.S. will bloody well run its \$30 billion deficit. The rest of the world had better not let it hurt the dollar, "whose health is in the interest of the world," or else the U.S. will let loose a wave of protectionism to shut down European and Japanese export industries. U.S. Commerce Secretary Juanita Kreps in Tokyo bluntly told the Japanese government that Japan's healthy trade surplus is "unacceptable, economically and politically." But the increasing amount of gold buying and dollar dumping *in the U.S. itself* shows that Blumenthal's threats, even if carried out, cannot hold the dollar.

At the same time, President Carter told the press Sept. 29 that the U.S. will double its oil trade deficit this year, from \$23 billion in 1976 to \$45 billion — a statement which immediately hit the dollar on the markets — and tried to use this prospect to insist the Administration's worn-out no-energy conservation cutbacks be enacted. Morgan Guaranty's latest *World Financial Markets* similarly warned that the U.S. deficit "carries the risk of triggering major dollar weakness... (this) could have serious inflationary overtones... and major destabilizing effects on the international economic and monetary situation."

Finally, the spread between Eurodollar and Eurodeutschemark rates reached what John van Eck of *International Investors* called a "crisis level" this week, with banks paying depositors 25 percent to put their money in 6-month Eurodollars while Eurodeutschemarks are so much more highly valued that depositors received only 4 percent. This spread of more than 3 percent between the two currencies foreshadows a major shift from dollars into marks in the coming weeks. The last time these two barometers of confidence diverged so widely was the height of the Herstatt Euro-market crisis in 1974 when Eurodollars paid 12 percent and Eurodeutschemarks paid 9 percent.

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## FOREIGN EXCHANGE

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Gold's rise, which coincided with the beginning of the dollar slide in mid-June, is due to the perception in both Europe and the U.S. that "the U.S. cannot continue debasing its currency and calling on the rest of the world to debase theirs without serious dents in general confidence in paper money," one trader said.

Sources in Johannesburg, meanwhile confirmed that both the setting up of a new gold market in Luxemburg, where the government has already agreed to revamp tax structures at the behest of the major German banks who want more gold business, and Kuwait's hiring of a West German advisor on international investments, are not unrelated to the South African government's announcement that a new gold marketing strategy is underway.

The Swiss central bank, said the source, has twice this year "swapped" excess dollars to the South African central bank for gold, government to government, to keep the deal from weakening the gold price, and passed the gold on in turn to Arab buyers. The big West German banks: led by the late Jürgen Ponto's Dresdner Bank, may wish to use the Luxemburg market or direct deals with South Africa to get the Arabs on the track to a gold monetary system, he said. Reached for

Adding to the dollar crisis from the trade deficit is the growth of money supply and banking reserves in the U.S., particularly of short-term monetary fluff, which led several market participants to comment this week that the money supply "is out of the Fed's control." Since the dollar began dropping in mid-June, the Fed has raised the U.S. central bank "Fed funds" rate from below 5.5 percent to this week's level of 6.5 percent to attract money into dollars. However, with the total lack of long-term borrowing due to no plans whatsoever for capital spending in the U.S. economy, short-term rates are rising with the Fed funds rate up over 6 percent, while long-term rates have stayed flat at 7.5 percent for months.

As a result, both funds, already in the long-term portion of U.S. banking such as parts of M-2 time deposits and foreign funds such as oil dollars, have fled from long-term investments into short-term demand deposits, creating a self-feeding bulge in M-1 which feeds fear of inflation and thus further forces Federal Reserve Chairman Burns to hike interest rates indefinitely to protect the dollar from inflation fears. The incoming short-term deposits, particularly short-term Eurodollar deposits, have also been hastily acquired by the Euromarket banks to roll over non-paying Third World loans now coming due; as the banks borrow more reserves to meet the new deposits and loans on their balance sheets, M-1 rises.

## North Sea Oil Bubble Hitting The Rocks

The City of London stock and government debt market bubbles, premised on "confidence in sterling" as North Sea oil is pawned abroad to give Britain a new balance of payments surplus, are fast heading for the rocks. The boom began last summer when Britain's payments went into the black, but with industrial production at 1970 levels, unemployment growing, and personal consumption expenditures dropping monthly, the payments picture is a purely cosmetic financial papering-over of an underlying mess. "Nothing's changed," editorialized the respected London *Investors Chronicle* this week to that effect.

To keep the initial inflows coming, the Bank of England since summer has promoted a regular North Sea bubble modelled on the disastrous 18th-century South Sea Bubble speculation of the stock of the South Sea Company to fantastic heights, and then fantastic depths. The Bank of England has been concerned to bring plenty of money in to finance Britain's huge government deficit through sales of government "gilts" (treasury bills), and is being pressed by Morgan Grenfell and other Lazard-influenced British banks to bring in enough foreign reserves so that sterling can rise from its current \$1.74 level to \$1.80 or higher.

This new, more solid sterling would then be used, according to a scenario circulated by Schroeders Bank, to force the BOE to loosen exchange controls so that an international boom in loans to European and Third World governments in sterling rather than dollars can begin, and bring back 19th century finance. Consortia to float sterling loans to the European Economic Community and World Bank are already being formed, Schroeders says, even though the exchange laws have not been modified. Since December 1976, over \$12 billion has flowed into Britain this way.

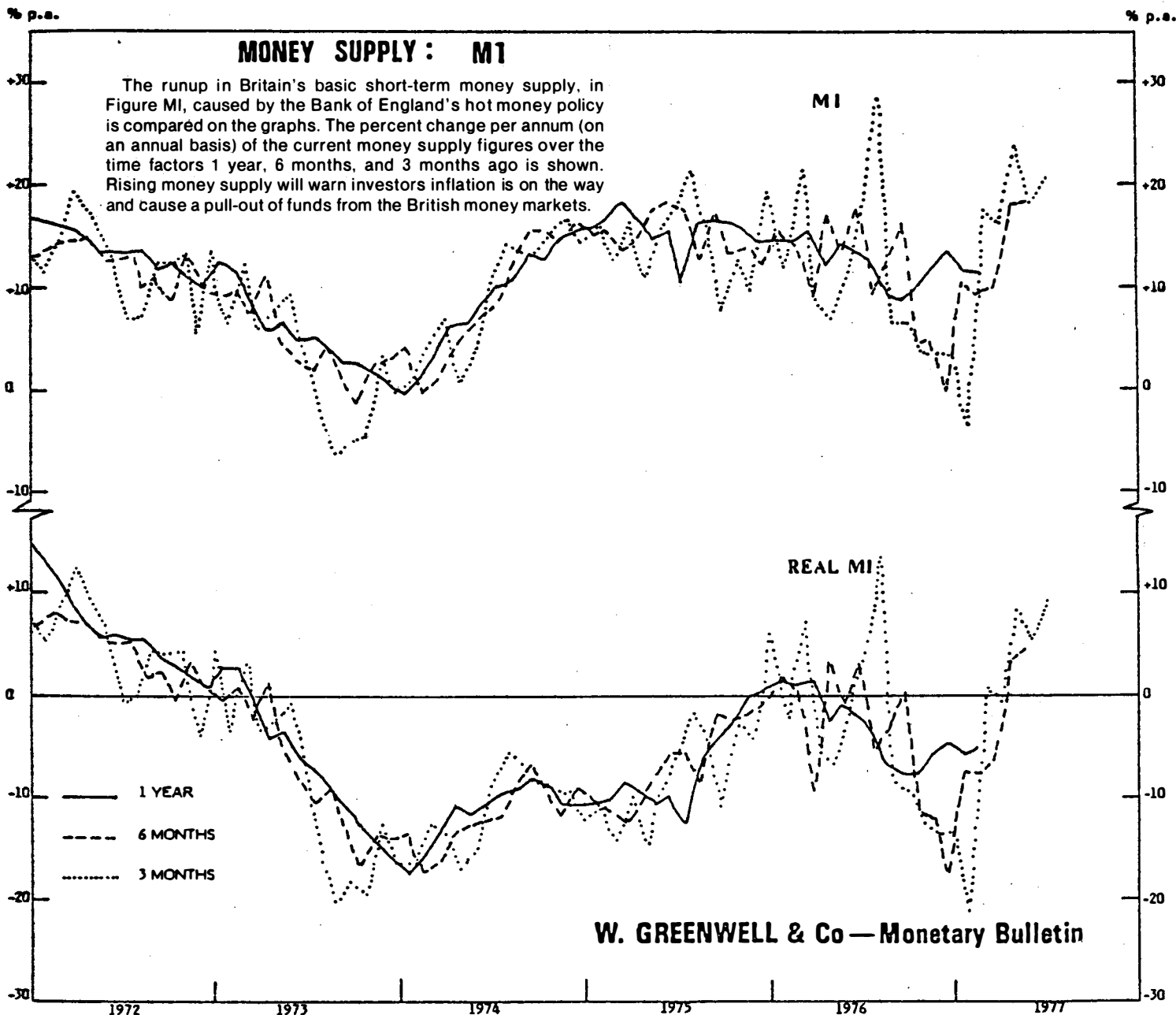
The Bank's strategy has been nominally simple. Short-term rates have been lowered, with the British central bank rate now at 6 percent, below the U.S. Fed Funds rate of 6.5 percent, for the first time since N.Y. Federal

Reserve chief Benjamin Strong and Bank of England head Montagu Norman agreed in 1920 to keep the geriatric pound alive as a handmaiden to the dollar by maintaining London rates above those in New York to discourage movement out of sterling into dollars. With these cheap short-term rates, U.S., European, Arab and British investors are furiously borrowing short-term at 6 percent and then buying stocks and government bonds at 8 to 12 percent rates of return — in the case of government gilts, doubling their money. In the past two weeks, the Bank has further encouraged these moves by removing tax exemptions on foreign funds brought in, encouraging foreigners to borrow more of the 6 percent sterling. The Bank has also issued a large amount of "part paid" government debt, i.e., margin paper bought for a fraction of its value and paid for on installment, which has further gunned the rise in the gilts market.

### "Sobering Effects"

But the game is coming to a halt. First, the stock market, which rose from the mid-300's on the *Financial Times* Industrial Ordinary index this spring to an all-time high of 545 on Sept. 14, a 60 percent increase, did so only due to a total lack of corporate capital stock issued, which were chased by all the hot money. With no incentive for capital spending in the sagging world economy, British corporations plan to raise less than £600 million this year, of which £500 million has already been raised, compared to £1 billion raised in 1976 and £1.2 billion in 1975. Even so, last week, the *Financial Times* index plummeted to the 500 level in two days after Dunlop, Vickers, and GKN and other major corporations reported "dangerously low" profit figures for the first half of this year, reflecting poor "industrial performance," the *Financial Times* warned Sept. 24. At this writing the *Financial Times* index has recouped to the 514 level but is expected to fall through the 500 psychological "floor" next week.

The government debt market is headed for "the same



sobering effect which has already been seen in equities," the *Financial Times* warned editorially Sept. 24; it is here that the margin of sales and Bank of England's direct excitation of speculative activity has "made some brokers very nervous," the *Financial Times* added yesterday. The Bank has been encouraging investors into the long-term gilt by maintaining a *moving trend* of falling long-term interest rates, from 20 percent in January to 12 percent now. As long as rates fall, investors will buy gilts "now," before the rate of return to them gets lower.

However, the tremendous kick to the money supply built up by the short-term lending in sterling will soon hit the papers and cries of "inflation!" will bring down all London markets unless the Bank can control money growth. To control money growth, the Bank must *raise* long-term interest rates by selling more Treasury bills to sop up the money sloshing around. In such a case more

government debt is chasing the same amount of cash and long-term rates the government must pay will rise. The minute even an end to the downward long-term rates, let alone a shift to upward, is perceived, most of the \$6 billion which has flown into the gilt market from abroad will start to flow right out again "in a wave of forced selling," the *Financial Times* states.

When will all this happen? Market observers say that it could be soon, if the U.S. is forced to raise the Fed Funds short-term rate to 7 percent or above to keep funds in the dollar.

An *Executive Intelligence Review* preliminary survey of the U.S. banking reserves and shifts from long- to short-term funds trends indicates that the Fed rate could move up faster than most analysts believe, especially if Japan and Germany keep announcing trade surpluses which bang on the dollar.

## The Ideology Of The Parti Quebecois:

# The Heritage Of Abbé Groulx

In the early spring of 1931 a small, balding French-Canadian priest made a pilgrimage to Rome. A trip by a Catholic prelate to the Vatican might hardly appear worthy of historical record, were it not for the extraordinary nature of the Canadian's political associations.

The Canon Lionel Groulx had come to Italy to behold the "new nation" that had been created by Benito Mussolini's Fascist regime. Groulx was to consult with the architects of Italian corporatism in hopes of replicating their work in his own Quebec. To this purpose the Quebec prelate, although he held no official status as emissary of either his country or his church, met at length with the British ambassador to the Vatican, Mr. G. Olgive Forbes, a man whose effusive admiration of Mussolini's "new race of Italians" later earned him the post of British ambassador to Spain during the rise of Franco's Falangists from 1935 to 1937. Groulx, whose ecclesiastical post hardly merited such attention, was then granted a rare private audience with the Fascist sympathizer Pope Pius XI and top Vatican officials. The abbé also discussed the particular problems of French nationalist organizing with the French ambassador to the Vatican, the Vicomte Fontenay, a powerful figure in Rome at the time, who offered advice and assistance for Groulx's nationalist crusade in Quebec.

This series of meetings over 45 years ago marked the official integration of French-Canadian "nationalism" into the current of racialist "national movements" that included the fascist regimes of Italy, Germany, Portugal, Spain and, eventually, Vichy France. On Nov. 15, 1976 this tradition was resurrected in its every detail with the creation of a Parti Quebecois government in Quebec.

From the zero-growth ravings of Parti Quebecois Energy Minister Joron, to the agricultural and "re-forestation" job-creation schemes and austerity plans of Finance Minister Jacques Parizeau, and the patently insane language policy of psychiatrist and Culture Minister Camille Laurin, the Parti Quebecois has proven itself the heir to the fascist traditions of the Abbé Groulx.

### The National Mystique: "The Past Is Our Master"

For over 300 years the population of Quebec has had the dubious distinction of embodying the spirit of the Middle Ages long after the decline and disappearance of feudalism from the rest of the western world. Under the careful control of Jesuit orders and the skillful ideological manipulations of their British "conquerors," Quebec farmers and peasants remained locked in a hier-

archical world of Church, parish, and fiefdom even into the 20th century. Quebec was thus cut off, since the 18th century, from developing European and American traditions of democracy and republicanism. Not surprisingly, late 19th century romantic writers found French Canada an ideal subject, and a flourishing school of novelists glorified the "Arcadian" lifestyles and rural backwardness of Quebec.

By the turn of the century this "quaint" literary romanticism had taken on distinctly political overtones, feeding the paranoia of the rural population with extensive moralistic warnings against the evils of industry and progress. French emigré Louis Hemon's best-seller *Maria Chapdelaine* (written in 1913) epitomized the terror of development:

Three hundred years ago we came and we have remained... Strangers have surrounded us whom it pleases us to call foreigners; they have taken all the power, they have taken almost all the wealth, but in Quebec nothing has changed. Nothing will change because we are a plébe... That is why it is necessary to remain in the province where our fathers dwelt, and to live as they lived, so as to obey the unwritten commandment which shaped itself in their hearts, which passed into ours, and which we must transmit in turn to our innumerable children. *In the land of Quebec nothing must die and nothing must change!*

Jules-Paul Tardivel, Quebec's first radical separatist and one of Groulx's first nationalist mentors, wrote in a similar vein in his review *La Vérité* in 1902:

It is not necessary that we possess industry and money. We will (then) no longer be French Canadians, but Americans almost like the others. Our mission is to possess the earth and spread ideas. To cling to the soil to raise families, to maintain the hearths of intellectual and spiritual life, that must be our role in America.

Thus, Groulx's predecessors were a rather quaint group of semi-colonial romantics who sought virtue in the miserably underdeveloped agrarian Catholicism of turn-of-the-century Quebec. Groulx's own activities were less picturesque. His work as historian, teacher, and political organizer on behalf of feudal and Catholic tradition was not merely apology, but was undertaken at precisely the period of rapidly developing industrialization of the province.

Groulx's nationalism, shaped by the likes of Tardivel,



was refined during studies in Rome and at the University of Freiburg in 1906 and 1907. Freiburg in particular was a breeding-ground of extreme right-wing, racial "theorists" including Gonzague de Reynold, a disciple of the Comte de Gobineau, Hitler's inspiration. Groulx imagined that the population of Quebec, descendants of 17th century migrants from northern France, constituted a distinct "race" in both a physiological and "spiritual" sense. What distinguished this "race" in Groulx's doctrine was its "spiritual mission." For Groulx, the French Canadians were destined by God to follow the "missionary path" of the first Canadian Jesuit settlers: establish and preserve their language, their culture, their rural roots ("notre vocation paysanne") and, importantly, their autonomy.

Thus armed with a vision of a permanently backward Quebec, Groulx set forth to battle industrial progress, development, and the integration of Quebec into 20th century America with the watchwords "Notre Maître, le Passé" (The past is our master). It is this same conception of Quebec as a medieval land of peasants and missionaries that absolutely permeates the Parti Québécois philosophy and all of the party's programmatic initiatives.

### Myths, Doctrines, And Policies

Beginning with the decade immediately preceding World War I and particularly during and after the war, Quebec experienced one of the most phenomenal rates of industrial development of any region in the Western Hemisphere. The "Open Door" policy on foreign investment maintained by the Liberals (who governed the province from 1896 to 1936), coupled with near nonexistent labor laws, attracted British and U.S. investment in forest industries, hydroelectric power, asbestos and other mining, and shipping. The demand for skilled labor began to loosen the stranglehold of the Jesuit clergy and feudal landholding system, as rural farmers and peasants moved to urban centers for jobs, skills, and education.

The nationalists reacted violently, arguing that this industrial progress was undermining and destroying the "French-Canadian soul," blemishing the racial purity of the population, wrecking family life, and depriving Quebec of its holy mission. Under the direction of Joseph Papin Archimbault the Ligue des Droits des Français began publishing, in 1917, a small magazine, *Action Française*, to publicize their cause. Their work was greatly expanded when, in 1920, they reconstituted themselves as the Montreal Action Française under Groulx's direction. Not coincidentally, Groulx was himself in France at the time, completing two years of studies at the Sorbonne and the Institut de l'Action Française with Charles Maurras and other leaders of the protofascist French right.

Upon his return to Quebec, Groulx directed the nationalists' first attempt at specific policy formulations. As an outcome of this "Inquiry Into the Economic Problem and Our Political Future," the Action Française published its comprehensive economic program based on zero growth, relocation of urban population to remote areas through "colonization" schemes, and reestablishment of the

primacy of family and parish in social life.

Paralleling the rather academic debates over economic policy in the *Action Française* were Groulx's own "historical" and propagandizing efforts. "There must be... a mystique of our Nation," he wrote (Groulx, *Dix Ans d'Action Française*, 1926). There can be no French State, no French people, without a French mystique... and we must have a mystique that is organic" (L. Groulx, *Orientations*, Montreal, Editions du Zodiaque, 1935).

And so Groulx created myth and "mystique," including the very concept of the existence of a French-Canadian race which all his historical research and writing were designed to prove. But Groulx went much further than simply inventing a history to justify his myth. To create the proper "mystique" Groulx invented "saints" of Quebec culture, including the sometime bandit of the 17th century, Dollard des Ormeaux. He sponsored much publicized "pilgrimages" to patriotic sites, pushed for adoption of a fleur-de-lys national flag, and participated in such campaigns as marketing post cards with patriotic slogans ("Colonisons, rapatrions, restons chez nous"; "Soyons vraiment chez nous, chez nous") and calendars with selected "national holidays" (St. Jean Baptiste and Dollard for example). With other members of the Action Française, Groulx sponsored contests for patriotic songs and slogans and even for the best play with the theme of Anglomania.

### Fascism In Quebec, 1920-1977

The Action Français collapsed in fits of embarrassed paranoia following the papal condemnation of their French cothinkers in 1926. (The Montreal group suffered two years of internal turmoil and erratic financing awaiting a similar condemnation that never came, and finally folded when Groulx resigned in 1928). A somewhat demoralized Lionel Groulx departed for Europe the following year to receive new strength and direction from the rising fascist movements there. In addition to the visits to Rome, the Abbé further cultivated his ties to right-wing circles in France. These were later to become the backbone of the Vichy regime.

Returning to Canada in 1932, Groulx set about reconstructing the nationalist movement, a task facilitated by the already extensive networks of followers established during the 10 years of *Action Française*. These included almost all of the mass-based Catholic organizations: the Catholic trade unions (CTCC); farmers cooperatives; peasants unions; youth groups (ACJC); the very powerful cooperative credit unions, the Caisse Populaires Desjardins; and the semi-clandestine Ordre de Jacques Cartier, a sort of French Catholic Ku Klux Klan set up in Ottawa in 1926 to counter the Protestant right-wing "Orangemen." The nationalists also enjoyed control over a significant section of the press, in particular the powerful *Le Devoir*, as well as having firmly established a foothold at the University of Montreal. In the mid-1910s Groulx himself had participated in a reorganization of that school, with particular attention to the Ecole des Hautes Etudes Commerciales (EHEC), which counts Jacques Parizeau among its alumni and is

currently headed by Pierre Laurin brother of Quebec's "Culture" Minister.

Groulx recruited from these layers, transforming the older generation of the defunct Action Française into the "Action Nationale" and creating a youth movement, Jeune Canada, for promising newcomers, including Jean Drapeau, future mayor of Montreal (who would deviously betray his corporatist sponsors), and Estras Minville, director of the HEC. Jeune Canada was headed by one of Groulx's most dedicated students, Andre Laurendeau. The Abbé brought to his new organizing efforts the latest innovations from Europe: corporatism, anti-semitism, and love of authoritarian dictatorship.

### "Instinct Of Civilization"

In 1931 Pope Pius XI, on behalf of Mussolini, issued his encyclical *Quadregesimo Anno*, a fascist "critique of capitalism" which rejected both economic liberalism and socialism as solutions to the economic crisis. The document was joyously received by the Quebec Jesuits who had been combatting the growing communist organizing in the province with threats of excommunication and hoped to add to these a concrete alternative program. The provincial Jesuit order thus commissioned the Action Nationale-associated think tank, the Ecole Sociale Populaire, to translate the Pope's encyclical into Quebec terms. Hoping to directly counter the Communist Party's "Program of Social Reconstruction", the Ecole Sociale drafted a "Program of Social Restoration" which was completed in 1933. It was a model of Catholic corporatism, quoting extensively from the papal document and incorporating Groulx's colonization and anti-imperialist schemes. In intent as well as detail, the Program of Social Restoration was the basis not only for Groulx's later political forays, including the Bloc Populaire, but also for the Parti Quebecois since its inception.

The Program outlined the principles of a vast restructuring of Quebec society, economy, and political life. The upper chamber of the legislature was to be abolished and replaced by a "National Economic Council", a corporatist board modeled directly on Mussolini's government. On this board would sit the representatives of the "organic" corporations of Quebec: the heads of the Caisse Populaires, of the Catholic trade unions, the farmers cooperatives, the universities, professional groups, etc.

There were to be 13 areas of specific reforms for "restoring" capitalism, much as the recent budget statements of M. Parizeau have been aimed at "restoring" the creditworthiness of the province in the eyes of certain New York banks. These reforms included establishment of corporatism and cooperatives in all sectors of the economy, colonization of "excess" urban population to remote rural areas, restriction of "industrialized cultivation" ("save the farmlands"), and various "anti-trust" schemes to ensure local control (or French control) over industry and resources. The main target of these efforts were the electricity trusts, but coal, gasoline, bread and even milk were also suspect of being controlled by non-French "cartels", particularly

Jewish ones. In the form adopted by the Action Liberale Nationale the following year, the Program included specific provisions for policing these reforms in order to protect "our economic independence."

Electoral financing was also a major target, as it is today with the PQ proposing, under the guise of referendum, the elimination of small parties and restructuring of the financing of the Opposition by exerting controls on spending. The program proposed limiting electoral financing, publishing of electoral contributions, and requiring identity cards in large towns.

Labor reforms, themselves quite secondary to agrarian reforms and extended colonization included increases in worker participation. Autogestion in this case was to be an integral part of the "cleaning up the trusts" ensuring French Canadian control over factories. This would also be accomplished by ensuring that public works contracts were all carried out locally, and that newspapers publish sworn statements of ownership.

The program was mainly the work of HEC director Minville, assisted by Action Nationale leaders such as Wilfred Guerin, secretary of the Caisse Populaire, Albert Rioux, president of the Catholic Farmers Union (UCC), Alfred Charpentier, head of the Catholic labor union (CTCC), and Dr. Philippe Hamel, who led the attacks on the electricity trusts.

Groulx was overjoyed:

We think it would be better, for the health (well-being) of the State, that it find before it well organized corporations, rather than this dust of individuals that are unleashed in the circus we know as elections. Everyone knows, moreover, that corporatism holds in reserve many other resources for social and political reform. That corporations, for example natural associations, fruits of social necessity and of the instinct of civilization, achieve the composition of a structure of the nation and the great body of the State and thus, the link is reestablished, the true link between the living country and the legal country.

(L. Groulx, "Pour nous grandir,"  
*Le Devoir*, June 26, 1937)

### "Language: Guardian Of The Faith"

Ensuring the success of the "divine" mission of the French Canadian race meant, above all, preserving French Canadian Catholicism which, in turn, was most directly accomplished by ensuring that French Canadians remained, above all, French.

It is worth noting that this was precisely the policy devised by the British conquerors who, fearful of the revolutionary developments in the southern colonies, sought to guarantee the isolation of the newly acquired French territories by perpetuating French Catholicism under Jesuit control. The success of this scheme is testified to by the unsuccessful attempts by George Washington and Benjamin Franklin to recruit French Canadian participation in the American Revolution. The Quebec Act of 1761 establishing the primacy of French

language, law, and religion in Quebec was, in fact, a major grievance of the American colonies which protested the continued enslavement of these new British citizens to the Royalist and Papist traditions of France.

Thus the watchwords: "Langue, gardienne de la Foi": Language is the guardian of the faith. Groulx's best known attempt at fiction, *L'Appel de la Race* (The Call to the Race), published in 1922, was devoted almost entirely to proving the disastrous consequences that befall those who allow themselves to be corrupted by English Protestantism. In fact, Groulx's extensive efforts on behalf of French Catholic education, in Manitoba and Ontario as well as Quebec, were deeply rooted in this concept. The parallels to the Parti Quebecois's Bill 101 limiting access to English education in Quebec need no elaboration.

And what of the French Canadian non-Catholics? Groulx had undoubtedly learned in Europe, probably from Rothschild-related mentors, the necessity of dealing with "the Jewish problem," and, not wanting to be so un-Christian as Adolph Hitler, Groulx devised a more simple solution:

Antisemitism, not only is not a Christian solution, it is a negative and useless solution. To resolve the Jewish problem it would be enough for French Canadians to recover their common sense. There is no need of an extraordinary legislative apparatus, no need of violence of any sort. We would not even give our people the order "Don't buy from the Jews!" We would simply say to our French-Canadian consumers, "Do like all ethnic groups, shop among yourselves!" ... And, if by some miracle our orders are followed and understood (then) in six months, a year, the Jewish problem would be resolved.... Of the Jews, there would only remain those who could survive among themselves.

J. Brassier (pseud. de L. Groulx),  
"Pour qu'on vive,"  
*Action Nationale* III, Jan. 1934

Thus the origins of the Parti Quebecois's campaign to "Buy Quebec."

### A Chief!

Groulx had also learned in Europe that the success of his fascist schemes could only be guaranteed by the force of dictatorial leadership. This was perhaps the Abbé's one occasion for despair.

Who here will be the motor, the supreme distributor of élan and will? Who will be the national chief? The Valera, the Mussolini, whose politics might be disputed but who, in ten years, have psychologically recreated a new Ireland, a new Italy, like a Dollfuss, a Salazar are now recreating a new Austria, a new Portugal? Alas, we must admit to ourselves; this national leader, we do not have him...

A man! A Chief! Will he come to us? (...) The crisis, alas, has not yet brought to us, as to other

peoples, the great fortune of making rise from the crowd a man, a real man, who could pull us from this abyss where we find ourselves.... Happy are the peoples who have found their dictators.

J. Brassier (pseud. de L. Groulx) "Pourqu'on vivre," *Action Nationale* III (Jan. 1934)

Groulx's dream of "a chief" was not to be realized until René Levesque was adopted as the protégé of the radical nationalists and carefully groomed for his "mission" in the late 1950s. That Groulx's efforts to realize a semi-medieval, corporatist state in Quebec would only near success with the current Parti Quebecois regime was not for lack of earlier attempts by the nationalists to seize the provincial government, however.

René Levesque's unlikely career from small-town radio announcer, to Liberal Party cabinet member, to separatist radical and finally, Quebec Premier, in fact closely follows the script of the political organizing efforts of Groulx and the *Action Nationale* separatists in the 1930s. Not only does Levesque embody the odious traditions of Groulx's social and economic myths, but in almost every step of his political career; factionalizing within the provincial Liberals, allying briefly with the conservative Gilles Grogire, even his focus on nationalizing the electrical industries, Levesque is the rightful heir of Groulx's nationalists.

### Setting The Record Straight: Duplessis "The Traitor"

Some modern Quebec observers might wonder why Groulx did not see in Maurice Duplessis, redoubtable Union Nationale leader who governed the province for some 20 years, the "chief" of his dreams. In fact, Groulx harbored a bitter hatred of Duplessis (who became known as Le Chef) because this supposed oppressive dictator (as Duplessis has so often been denounced by all shades of "left" and "liberal" tendencies in the province) absolutely refused to accept Groulx's fascist plans for Quebec.

For several months between the provincial elections of 1935 and those of 1936 Groulx's nationalist forces, under the banner of "Action Liberale Nationale", and Duplessis' Conservative Party were allied to overthrow the 40-year old liberal reign in the province. The *Action Liberale Nationale*, with Paul Gouin, son of a former Liberal Premier, as figurehead leader, had already run one election campaign, after years of factionalizing within the Liberal Party itself. The party was essentially run by *Action Nationale* figures, including Groulx, and had fully adopted the notorious Program of Social Restoration as its platform.

In allying with the Conservative Party, which under Duplessis' leadership had strong federal connections and was decidedly conservative in its programmatic outlook, the ALN hoped to ferret out nationalist sympathizers and dominate the alliance. (In fact, before Duplessis was elected party leader in 1933, the Conservatives had been dominated by a "radical" element who also embraced the Program of Social Restoration and had strong separatist tendencies). The ANL sought guarantees from Duplessis that their new union party

would, if elected, enact "social restoration"; and, while the Premiership would be Duplessis's, ALN members would have a majority of the Cabinet.

In the weeks preceding the 1936 election, however, Duplessis shrewdly "reorganized" the Union Party, creating the "Union Nationale" as an opposition party open to all who would oust the corrupt Liberal regime. Having successfully outnumbered the ALN, and even driven ANL leaders including Gouin, from the party Duplessis disregarded all commitments to enact ALN corporatist programs or install ALN figures in his cabinet. With the notable exceptions of extending agricultural credit and doubling expenditures on colonization projects, Duplessis completely and pointedly ignored the ANL program. Groulx fumed over this "treason" and branded Duplessis a "traitor" to his race. Thus, despite the 20 years of heavy-handed reactionary government Quebec suffered under the Union Nationale "Chief," it would be no exaggeration to say that Duplessis would find it ironic, if not embarrassing, that the Parti Quebecois has recently chosen to claim him as an inspiration and restore his good name by unveiling a statue of the former premier that has been in storage since his death.

### Andre Laurendeau

While Groulx's first political sortie was ending in disaster in Quebec, Andre Laurendeau, Groulx's promising young student and head of Jeune Canada, was receiving further training in France. The trip would help prepare him for his future role as Groulx's most energetic and successful disciple and a major role in promoting René Levesque as a nationalist leader.

Following in his teacher's footsteps, Laurendeau undertook studies at the Sorbonne and the Institut Catholique in Paris, surrounding himself with assorted right and left-wing student groups and becoming particularly close to French Protestant sociologist and historian André Siegfried.

Siegfried, in addition to organizing a Paris-based French profiling operation for British intelligence, had earlier published what today appears to be a handbook for French-Canadian nationalists, entitled *The Race Question in Canada*. Lecturing his students, Laurendeau among them, at the College de France in 1937, Siegfried drew the lessons of the conscription crisis of the First World War and of the "race question":

Local politicians did not hesitate to say that French Canadians should at all costs avoid getting themselves killed in Europe so they could remain and flourish in Canada where it was their mission to preserve the future of the race. Never doubt for a minute the power of this argument. It corresponded to the instinctive conviction that the first duty of French Canadians is towards Canada — towards French Canada.... It was an instinct for local survival, a narrow but powerful instinct, which determined this attitude.

(Andre Laurendeau recalls Siegfried's words in his autobiographical work *Conscription Crisis 1942*.)

Siegfried's lessons were not lost on Laurendeau, who put them to use most immediately in the Bloc Populaire which he helped form and, much later in his work of the late 1960s as co-chairman of the Royal Commission on Biculturalism and Bilingualism. In addition to these openly political roles, Laurendeau was to preach what he practiced when, returning to Quebec in 1937, he assumed editorial direction of *Action Nationale* (a monthly publication of the Action Nationale group). The quality of this publication is perhaps best summed up by an editorial from the August-September 1940 issue, "On the Military Defeat in France," which gives effusive praise to Pétain's regime and the measures Vichy undertook to re-create the French people.

After the defeat of the Bloc Populaire, Laurendeau was to move on to play an important role at Radio Canada and to become editor of *Le Devoir*. It was in this role that he was to play a major role in convincing Radio Canada news commentator René Levesque of the advantages of becoming a militant separatist.

### The Bloc Populaire

World War II, and particularly the question of conscription, was the issue to revive the nationalist movement so sorely "betrayed" by Duplessis four years earlier. After a brief and unsuccessful effort to re-create the ALN in the provincial elections of 1936, the nationalists gathered forces for a more organized and energetic campaign to oppose conscription and the War. Canadian Premier MacKenzie King had called a plebiscite in 1942 as a gimmick to allow for universal conscription. The nationalists' "League for the Defense of Canada" headed by André Laurendeau and including most of the Action Nationale, the Catholic trade unions, farmers cooperatives, and the Société St. Jean Baptiste, campaigned heavily for a negative vote in the plebiscite. While the vote went heavily for King in English Canada, the nationalists claimed a significant "victory" in Quebec, where over 72 percent of the vote was against conscription.

Imposition of the draft was thus clearly a provocation for Quebec, and the nationalists rallied around the slogan "Vote de Race" (vote by race) in denouncing the plebiscite and English Canada generally. Groulx took advantage of the renewed nationalist fervor to draft his plan for a new political party, the Bloc Populaire, which would attract support and votes by representing the anti-conscriptionists while otherwise incorporating exactly the same program as its predecessor, that is, the thoroughly fascist Program of Social Restoration. ("The program that was so odiously betrayed in 1936," Groulx would write.) In fact, the Bloc was initially to be called the Renovation Party.

That the Bloc Populaire attracted "radicals" of all sorts, including Pierre Trudeau, Quebec labor leader Michel Chartrand, and Montreal Mayor Jean Drapeau, is well-known fact. But despite its perverse appeal, the Bloc failed. Even before the first electoral campaign the Bloc's leader, Maxime Raymond, a popular Parliamentarian, was immobilized by a stroke, and the secondary leadership, including Andre Laurendeau, was

too divided to successfully direct the party. Also the Bloc had so aroused the anti-fascist sentiment in the rest of Canada, as well as Quebec, that, particularly in war time, electoral success would have been out of the question. In 1944 the Bloc was able to muster only four seats in the provincial assembly, overwhelmed by Duplessis' Union Nationale and the federally-linked Liberals.

Groulx retired from public life. He emerged briefly in 1962 to lend his support in *Le Devoir* (then edited by Andre Laurendeau) to the proposal to nationalize the remaining 11 privately run hydroelectric companies in the province. The controversial proposal had been advanced by the young Liberal Minister of Natural Resources, René Lévesque.

— Jane Berg

## PQ Collaborates With Rohatyn On Energy

During the last two weeks, PQ Energy Minister Guy Joron has called for a sweeping 30% reduction in current levels of energy consumption and complete scrapping of provincial plans for nuclear energy development, and announced a forthcoming "restructuring" of the provincial crown corporation Hydro Quebec for the purposes of achieving these ends. Hydro, through its massive James Bay project in northern Quebec, is otherwise slated to become the largest producer of electrical energy in the world by the 1980s. Joron, who recently issued an unconditional endorsement of the Club of Rome "Limits to Growth" policy, admitted last week to a reporter that he is cooperating closely with Lazard Freres' Felix Rohatyn and

Rohatyn's comparable drive for northeastern U.S. regional "energy independence," the ENCONO program covered in recent issues of this journal.

In the same two weeks, a program for full "balkanization" of Canadian raw materials policy has been asserted by the PQ Mines Minister Yves Berube. Berube advised a conference of provincial mines ministers to form a common front to force a "constitutional test" before the courts to overturn federal jurisdiction over mining and export policy. Each major export mineral would then be assigned to a specified province which would in turn dictate "national" policy which would be determined to suit that province's special "needs".

## Canada Shifts To Pro-Industrial Stance

In 12 days following Canadian Prime Minister Pierre-Elliott Trudeau's federal cabinet reshuffle, Canada's newly appointed Finance Minister Jean Chretien has already emerged as the leading advocate of an aggressively pro-industrial policy thrust. Since his promotion to Canada's leading ministry from his previous position as Minister of Trade and Commerce, Chretien has voiced commitment to active pursuit of a solution to Canada's burgeoning economic and financial crisis based on industrial expansion and technological development mediated importantly through multilateral trading agreements with the EEC countries as well as through expanded positive ties to the U.S. economy.

The Trudeau cabinet shift, unveiled Sept. 16, followed the abrupt resignation of Finance Minister Donald Macdonald two weeks before. Macdonald was identified with the current Canadian wage-price control program, and reportedly differed from Trudeau in favoring an indefinite continuation of the control policy rather than a lifting of the controls linked to more aggressive development of industry. In addition to the promotion of Chretien to the post of Finance Minister, Trudeau appointed former Progressive Conservative Jack Horner to the Ministry of Industry and Trade, and created a new ministerial post to be filled by Marc Lalonde: Intergovernmental Affairs and National Unity.

Chretien's strong appeal for strengthened economic ties with the EEC was voiced in an extended interview in

the West German industrial daily *Handelsblatt* last week. Emphasizing that no aspect of Canada's Foreign Investment Review Act is intended to discourage pursuit of investment opportunities in the Canadian economy, Chretien stressed that the FIRA aims rather to insure that as much foreign investment as possible takes the form of "direct capital investment — which makes possible in turn a Canadian balance of payments status favorable to Canadian direct investment abroad and also works through the development of new technologies to bolster Canadian industrial and competitive strength." In the same interview, Chretien confirmed Canada's commitment to the development of the energy and raw materials resources necessary as a basis for confidence in investment in industrial expansion.

In an interview carried this week by the Montreal daily, *La Presse*, Chretien denounced the environmentalist Berger Commission report which has served as the basis for deferring development of Canada's conventional natural gas and oil reserves. He stated, "If the reported 20 trillion cubic feet of natural gas reserves in the Mackenzie Delta exist, there will no longer be any question of waiting ten years to construct a pipeline." This statement flies directly in the face of both the longstanding North American "Project Independence" policy thrust heretofore promoted largely through Rockefeller-allied interests, as well as the even more drastic "no-energy" policies currently identified

with Quebec's ruling Parti Quebecois. The Berger Commission report, released earlier this year, was the basis for the Canadian National Energy Board decision to quash plans for the early construction of a gas line through the Mackenzie Delta and was in turn seized upon as a decisive victory by Fabian zero-growth proponents of all descriptions throughout the U.S. and Canada.

Filling out the flavor of the new Canadian cabinet profile, both Chretien and the new Industry and Trade Minister, Jack Horner, have made clear that Canadian concern for the unemployment problem will not weaken the commitment to a solution based on industrial growth. Both in the *Handelsblatt* interview and in the course of his speech to the IMF meeting in Washington, Chretien acknowledged the necessity of an aggressive solution to the current crisis, but nonetheless firmly rejected an inflationary approach (such as make-work job programs), explaining to the IMF delegates that in Canada's case any approach to unemployment not based on increased exports will only increase unemployment in the long run.

#### *Challenge Facing New Cabinet*

Motivating the new "show of strength" by the Trudeau cabinet is one of the most serious political and economic crises in postwar Canadian history. While official second quarterly economic indicators reveal a record current account deficit of \$1.55 billion (Canadian dollars) with mounting foreign debt service obligations far overbalancing a faltering balance of trade surplus, information made available to the *Executive Intelligence Review* indicates that the latest deficit was very likely met by means of an emergency "bail-out" loan of between \$600 and \$700 million (Canadian dollars) arranged discreetly between the U.S. Treasury and the Bank of Canada. If such an emergency short-term loan had not been made, the deficit could only have been met by means of a drastic lowering of Bank of Canada reserves. This would have led to an additional collapse of the Canadian dollar on a scale which would in turn have threatened a general panic within the North American economy.

'De Gaulle-Adenauer'-Type Alliance Emerges:

## Focus On European Economic Recovery

French Prime Minister Raymond Barre's recent interview defending West Germany's Schmidt government against Washington and London criticisms that Bonn has contributed too little toward inflationary stimulation of the world economy (see *International Report*), has provided an official signal that Franco-German collaboration of the type that characterized relations between former French President Charles de Gaulle and West German Chancellor Konrad Adenauer between 1958 and 1963, has been reestablished as the basis for reviving Europe's sagging economy.

Such collaboration pits Western Europe's two largest economies squarely opposed to the Lazard Freres and City of London banking interests which have unleashed terrorism throughout Europe to back up their demands for European hyperinflation policies as a vehicle for refinancing present bankrupt international monetary structures and establishing City of London hegemony over them.

The Barre interview puts official economic policy firmly behind a swarm of major Franco-German deals which have emerged in recent weeks.

Collaboration between the two countries is presently most developed in the field of nuclear energy planning. France recently proposed that it make available to West Germany its own technological expertise in facilities for nuclear waste reprocessing and storage. Under the proposal, French experts will assist in the construction of West Germany's first reprocessing facility at Gorleben. As noted in the conservative daily *Die Welt* Sept. 24, this offer has pulled the rug out from under environmentalist organizations which have used the absence of such facilities in the Federal Republic to gain court approval for postponement of construction of fission and fast breeder plants.

The French offer follows agreements reached in June between the French and Soviet governments for massive

scientific collaboration in nuclear energy research, including technologies for fast breeder development. At that time, conservative industrial circles mooted the possibility of West Germany linking up with these agreements.

Now, the *Frankfurter Allgemeine Zeitung* reports that the Christian Democratic Union's energy experts are going to propose that France and West Germany collaborate to continue the JET (Joint European Torus) fusion project themselves, bypassing the British who have stalled the project for months with a series of procedural snarls concerning the siting of the project, etc.

At the same time, West Germany's industrial daily *Handelsblatt* recently reported favorably on French agreements with Niger for a massive expansion of Niger's uranium mining. According to this report, France will finance construction of five uranium processing installations by paying higher prices on present uranium deliveries. This will permit Niger to increase output to 8,000 tons per year by 1985. West Germany also relies on Niger for uranium supplies.

Moreover, the West German Nuclear Construction Consortium has agreed to aid in the construction of France's second nuclear fuel reprocessing plant.

Indicating the direction in which the Franco-German collaboration is heading, a leading French banker recently told this publication that a new gold-backed monetary system is the only workable solution to the international economic crisis. He added that his circles of colleagues also favor an agreement with the Soviet Union to use gold-pegged transferable ruble accounts to finance long-term East-West trade. It is widely known in French financial circles that the major French private bank, Parisbas, also favors such a solution as a basis for issuance of credit to expand economic development.

## The British In Europe: De Gaulle's Worst Fears Realized?

The accession of former Labour Party Minister Roy Jenkins as head of the European Commission last January, the apparent proof of Britain's final "Europeanization," has, ironically, signalled one of the most serious challenges to the concept of an independent Europe in the European Community's history. As a stalking horse for top neoFabian cothinkers in the United States, Jenkins, in conjunction with the current British government and financier factions in the City of London, has been pushing the reform of key EEC institutions and

policies to one purpose: to anchor the EEC as a strong partner for the collapsing "Anglo-Saxon" monetary system.

Not that some people in Europe do not understand the British operation. Before his assassination, Dresdner Bank chairman Jürgen Ponto was organizing a Franco-German axis in Europe to draw Arab funds — now pouring into speculation in New York and London — towards funding of international development projects. And, a top French banking official made his govern-

ment's views very clear during a private discussion with EIR this week when he commented: "We find it extremely ironical that the British are now proposing European Monetary Union which was originally a French initiative. What Jenkins wants, of course, is a common European currency which the City of London can sit on top of."

#### *The Jenkins Initiative*

Jenkins has made little secret of his collaboration with the Carter Administration, openly labelling his economic and social programs the European equivalents of Carter's contentious energy and "full employment" policies.

In his first major programmatic presentation to the European Parliament on Feb. 9, Jenkins clearly laid out the strategy of his Atlanticist collaborators. Above all, he said, Europe must become a strong, unified, whole from which it could carry out united foreign policy initiatives, as well as undertaking major programs to ease unemployment and low industrial investment throughout the Community — hardly objectives which any European could disagree with. But Jenkins's methods for achieving his goals smacked of unadulterated Fabian "share the wealth" schemes, a strategy which the West Germans have had little trouble in identifying as primarily an attempt to sap Germany's relative industrial strength. The real give-away in Jenkins's speech, however, was his stress on the EEC's need to collaborate closely with the U.S., a statement which in the days of General De Gaulle would have rightly elicited cries of "Perfide Albion!" Tossing aside more than 25 years of postwar European history, Jenkins proclaimed: "We shall play our full part in achieving a firm cooperation between Europe and the United States. *There has never been any contradiction between European unity and as close as possible an Atlantic relationship.*" (emphasis added)

It is hardly coincidental that Jenkins's declaration immediately followed his consultations with Vice President Mondale during Mondale's tour of Europe. Mondale's visit marked the beginning of an intensive campaign by the U.S. and its partners in Britain to "politicize" the EEC. This campaign has centered around the demands for "reflation" in the strong industrial countries, i.e., West Germany, Japan, and the United States. British organizing for German and Japanese reflation and concurrent insistence that Third World and other lending continue to be recycled through the existing institutions of the IMF and World Bank,

culminated in the London Summit May 10-11, at which Jenkins was present (despite strong French protestations), the first time an EEC official has attended a Western economic summit.

Jenkins's grand scheme is to establish a "Marshall Plan" for Europe which would recycle funds away from financially strong West Germany and the Common Agricultural Policy (CAP) towards the underdeveloped regions of Western Europe and to Greece, Portugal, and Spain. (The latter three, according to Jenkins's vision would be part of an enlarged EEC). The attack on CAP is Jenkins's most serious challenge to the Franco-German axis. The very backbone of EEC policy, CAP symbolizes West Germany's commitment to industrialize France through the modernization of the French agricultural sector.

Not surprisingly, Jenkins has the backing of the Brandt wing of the Social Democratic Party in Germany for this proposal. It was Brandt, then Chancellor of West Germany, who in the late 1960s attempted to bring the British into the EEC in an alliance against De Gaulle, and later Pompidou in France who envisaged a single gold-backed European currency as a rival, and not just a junior partner, to the collapsing U.S. dollar.

According to Barbara Castle, notorious "left-wing" British Labour Party member, "a new Marshall Plan for southern Europe with billions of units of account being poured into its planned economic redevelopment," was the subject of a recent meeting of European Socialists in Sorrento, Italy. Following the Jenkins-Brandt line, Castle complained that "the likelihood of raising such sums with so much of the Community's budget being siphoned off by the CAP is slight indeed."

While British control over the EEC is hardly monolithic, French, German, and Italian charges that the British have severely blocked essential work of the Community is certainly true. Besides the monetary issues mentioned above, Jenkins, in collaboration with British Energy Minister Tony Benn, has exported to the EEC the same stalling tactics on development of a European nuclear program that have effectively blocked the British project at home. British sabotage of the agricultural policy through unilateral declarations to cover domestic British production of key commodities, keep British food prices artificially low in comparison with the rest of the EEC, and similar tactics have been consistently denounced by her European partners.

— Pam Goldman



# Why Reflation Won't Work In West Germany

French Prime Minister Barre's statement to the French daily *Le Figaro* last week that West Germany had experienced hyperinflation twice during this century and was not about to go that route again, was not an exaggeration to make a point. Even the Brookings Institution economists — the staunchest proponents of West German reflation to prop up the U.S. dollar — have recently admitted in private that the West German government cannot reflate much further without ruining the country's credit system.

The 10 percent increase in Federal government expenditures (less than 1 percent of Gross National Product) provided for under Chancellor Schmidt's "stimulation" budget for 1978 does not seem like much. However, since 1973, the economy of the Federal Republic (BRD) has *already* undergone an extremely rapid growth of public indebtedness to the detriment of industrial production and investment.

From the end of 1973 through March 1977, total public authority debt including the federal, state, and local government sectors, rose 82.2 percent, to the sum of \$131 billion or nearly 12 percent of the country's GNP. Federal government indebtedness alone shot up 109 percent to \$58.5 billion. During the same period, manufacturing output actually fell 2.1 percent (see article, this section). Every government "boost" package since the onset of the world depression in 1974-75 has merely tended to aggravate the shift of liquidity out of investment in basic manufacturing into government paper and other nonproductive financial speculations.

## *New Budget, New Deficits*

According to BRD Finance Minister Hans Apel, the new "pump-priming" budget will result in a total public sector deficit of DM 47 billion in 1978, up from DM 33 billion, incurred in the 1975 depression year. Already, in September, the expectations of a higher budget deficit combined with reduced foreign capital inflows (due to the temporary dollar stability) and expanded lending to foreigners (required to bolster BRD exports) has forced the Bundesbank to inject new liquidity into the banking system.

While the 1978 budget deficit financing is unlikely to result in wholesale "crowding out" of the private sector from the capital markets — as occurred in 1975 — this is only because private corporations have already curtailed their capital spending. With existing industrial capacity grossly underutilized, investment in new plant and equipment is simply unprofitable; BRD firms have instead directed the bulk of their cash resources into purchases of high-yield government bonds or long-term

bank certificates of deposit. The apparent "excess liquidity," resulting from this stagnation of investment, has brought federal government bond rates down as low as 6 percent this year, compared to 11 percent in 1974.

As Table 4 on page 6 shows, corporate purchases of bonds rose to nearly 90 percent from 1975 to 1976. The apparent stability in corporate deposits obscures the drop in demand deposits maintained by corporations with their banks for immediate spending purposes from DM 12.4 billion to DM 4 billion, while time deposits more than tripled from DM 4 billion to DM 12.8 billion. Corporate holdings of certificates of deposit (CD's) rose 36 percent in the same period, with long-term CD's (four years maturity or more) accounting for most of the rise. Long-term CD's jumped from 35 to 44 percent of the total corporate-held bank instruments.

In this way, vast sums of liquidity have been momentarily "sterilized" from circulation and redirected to financing government deficits or exported via foreign bank deposits on the burgeoning Eurodeut-schemark market. The Bundesbank's "orthodox" monetary policies therefore appear to have successfully curbed money supply growth and brought the annual inflation rate down to 4 percent. In reality inflation, in the form of spiraling fictitious paper claims against a stagnating productive base has merely been "forced underground."

## *Corporate Losses*

Moreover, BRD corporations, attempting to compete on world markets under conditions of a rising deut-schemark exchange rate, have not been able to pass along their increased costs. They have consequently absorbed much of the inflation themselves in the form of reduced profits. According to a recent Commerzbank report, "on average the return on sales in the manufacturing industry will probably go down again to approximately 1.5 percent this year (against 1.7 percent in 1976); in other words, it will be far below the level of some 3.0 percent which was usual in the past and necessary, if capital spending is to be encouraged."

Another inflationary surge — brought on by government pumppriming — would cost BRD firms both their profits *and* their export markets. An aggravating factor is that, due to austerity conditions in other countries, BRD corporations have been forced to finance their own exports. Credit facilities provided by BRD firms to their foreign customers, often on very easy terms, ballooned by 143 percent from 1975 to 1976.

The truth is that despite tremendous injections of credit into the BRD economy since 1974, it is already sinking back into depression.

Virtually none of the BRD corporate credit expansion has been directed into manufacturing. Instead, installment loans and other types of consumer debt soared in order to finance an ephemeral auto boomlet.

Official figures for BRD credit to economic sectors show, for a January 1974-December 1976 period, that the percentage growth per annum has been the following:

Total private sector .....	+ 7.6%
Enterprises .....	+ 6.6%
— Manufacturing .....	+ 2.25%
Private individuals .....	+ 15.3%
— Installment credit .....	+ 22.3%

Bundesbank figures for 1977 indicate that this trend has worsened. At the end of March 1977, consumer credit

had risen 20.5 percent from the 1976 level but bank lending to manufacturing was up only 6 percent on the year. Bank lending to the public sector continued to grow at 10 percent annual rates — faster than the private sector as a whole.

Meanwhile, the rapid growth of the Eurodeutschemark market primarily based in Luxembourg, represents a potentially dangerous inflationary cancer. Since 1969, the Eurodeutschemark pool has multiplied twelvefold from a mere \$3.9 billion to \$48.7 billion in 1976.

For all the above reasons, further internal “stimulus” programs cannot possibly revive the BRD economy but will only severely aggravate the already rapid decline of its industrial base. West Germany’s main hope now lies in a reconstruction of the international monetary system to provide the context in which the country’s capital goods exports can expand.

— Alice Roth

## BRD: Industrial Colossus With Feet Of Clay

While the evident lag in the West German economy recently has led to redoubled calls from such U.S.-linked forces as trade union leader Eugen Loderer for massive government deficit spending to create make-work public jobs, analysis of the latest West German figures and trends appears to strongly bear out Chancellor Helmut Schmidt’s insistence that no stimulation program of any size can take the place of a flourishing world market for West German industry.

Thus, while the disturbing decline in the rate of growth of the West German GNP was cited by Schmidt in proposing a modest reflation program of a 10 percent increase in the federal budget and cuts in personal and business income taxes recently (the Chancellor has also taken steps to enable local governments to get easier credit, though he has not given any money to this program), the total federal, state, and municipal government debt for 1977, DM 47 billion, is not organized to provide any such jobs at all.

It remains to be seen, however, what strategy the Schmidt government will adopt, beyond resisting British and Carter-Mondale Administration calls for world hyperinflation, to bolster West Germany’s plodding performance in the anemic international industrial market.

Foreign orders, which account for 25 percent of the West German Gross National Product, decreased 4 percent in July, following a 6 percent decrease in June. Steel production in August was only 1.4 million tons, compared to a just as discouraging 1.51 million tons in August 1976. Incoming steel orders in August from European Economic Community countries decreased 42 percent and domestic steel orders dropped 8 percent compared to July.

This plunge in orders and production caused West German exports to decrease by .8 percent in July against June, although imports increased by 3.4 percent during the same month. A preliminary overview of import and

export figures for August, however, indicates that both imports and exports dropped. This means that the decrease in West German exports to several key sectors since January (Table 1) is finally deepening to an overall export and import decrease, too. The export decline started with a fall off in orders from the weaker economies of Italy, France, Denmark, and the Third World, and as these countries form one-third of West Germany’s total export market, the drop-off in exports indicates export markets are undergoing a dangerous contraction.

The dollar-debt overhang that is preventing West German trade from advancing was analyzed in a recent *Executive Intelligence Review* (Vol. IV, No. 37, “The Dilemma of East Bloc Debt”) for the centrally planned economies. The decrease in exports, and its accompanying import decrease, will accelerate as corporations find that they are increasingly unable to either sell their products or pay for raw materials in the amount they were accustomed during this downswing.

As Table 2 shows, the world depression has collapsed West German manufacturing as such a rate in the 1975-1976 period that manufacturing has done far worse than stagnate — it has actually decreased. The only sectors that have not decreased are the auto sector, whose products have been purchased through the issuance of disturbing quantities of consumer credit, and the electro-technical sector, which has been helped by several one-shot sales such as the purchase of \$4 to \$5 billion worth of nuclear energy equipment by Brazil. The auto sector, with its feeble “boom” of a 2.2 percent increase in output from 1973 to 1976, is the sector cited by economic apologists as proof that collapsing world markets can be offset by increased domestic demand.

The real effect of the depression is best shown by the decreases in output in the basic producer, capital, and engineering goods sectors, the backbone of BRD in-

dustry, and the source of about 60 percent of its exports. The anemic condition of these production categories show that the economy has never recovered from the onslaught of the world recession.

As a result of this collapse in industrial production, manufacturing investment has decreased in both current and constant deutschemarks (Table 3). The cumulative investment gap, the figure that would have been spent on capital renewal and improvement in a flourishing economy since 1971, is approximately DM 50 billion. As this investment gap increases, West German industry becomes increasingly undercapitalized and obsolete, losing markets, (such as its own domestic steel market) to more advanced industries elsewhere. The West

**Table 1**  
**Changes in BRD Exports and Imports in First Half of 1977**

**Note:** A minimum increase of 4-5% per year is needed just to keep up with inflation

	1/76-6/76 Compared to 1/77-6/77 % Change in Year	1/76-6/76 Compared to 1/77-6/77 % Total
<b>All Countries</b>		
Exports	+ 8.9	100.0
Imports	+ 8.3	100.0
<b>Western Industrial</b>		
Exports	+ 8.8	70.7
Imports	+ 7.0	70.8
<b>Denmark</b>		
Exports	- 8.5	2.6
Imports	+ 5.5	1.5
<b>France</b>		
Exports	+ 2.1	13.1
Imports	+ 6.3	11.6
<b>U.K.</b>		
Exports	+19.6	4.7
Imports	+18.3	3.8
<b>Italy</b>		
Exports	+ 3.1	7.4
Imports	+11.0	8.5
<b>Centrally Planned</b>		
Exports	- 8.6	6.8
Imports	- 0.6	4.9
<b>OPEC</b>		
Exports	+30.1	8.1
Imports	+ 5.3	11.0
<b>Developing</b>		
Exports	+ 7.0	14.1
Imports	+21.8	13.2
<b>Non-Euro LDCs</b>		
Exports	+ 3.7	8.2
Imports	+26.7	9.5

Source: Deutsche Bundesbank

**Table 2**  
**Index of Net Output of BRD Manufacturing (% Change 1973-1976)**

<b>TOTAL</b> .....	-2.1
<b>Basic Producer Goods</b> .....	-5.0
<b>Capital Goods</b> .....	-0.9
—Engineering.....	-3.6
—Auto.....	+2.2
—Electrotech.....	+1.2

Source: Bundesbank

German steel companies' charge that Japanese, Italian, Spanish, and South African steel companies are dumping steel reflects the fact that these companies, with more modern equipment than their West German competitors, can successfully out-produce and undersell West German producers on their own home market.

West German corporations themselves have become increasingly aware that there is no longer much profit in industrial investments, given shrinking world and domestic markets. Table 4 shows where West German corporate funds are going — not into investment, but into bond purchases and foreign trade credit. Corporations increased their speculative holdings of financial paper by 88 percent in 1976 in order to get a return on their capital that they would not get from manufacturing. Foreign trade credit given by private companies also soared as companies, desperate to keep up their foreign order inventories, were forced to finance their customers' purchases of their products because of those customers' debt overhang. This form of autogestion "stimulation" in 1976, which jumped by more than DM 10

**Table 3**  
**Investment in BRD Manufacturing (billion DM)**

	Total Manufacturing Investment		Annual Investment Gap
	current DM	constant DM	
<b>1970</b>	35.5	35.5	—
<b>1971</b>	37.2	34.9	2.3
<b>1972</b>	34.3	31.5	4.0
<b>1973</b>	34.2	30.3	5.2
<b>1974</b>	33.7	27.7	7.8
<b>1975</b>	32.7	24.9	10.6
<b>1976</b>	34.1	25.0	10.5
<b>1977</b>	36.9	26.9	9.3

Table 4

BRD Corporation Credits			
(billion DM)			
	1975	1976	% Change
Bond Purchases	2.7	5.1	+ 88.8
Deposit Purchases	16.4	17.0	+ 3.7
Equity Purchases	3.3	2.3	- 30.3
Foreign Trade Credit	7.2	17.5	+143.0
<b>TOTAL</b>	<b>31.7</b>	<b>44.1</b>	<b>+ 39.1</b>

billion cannot continue for a long time, given the growing squeeze on importers' finances.

The general survey of West German production (Graph 1) shows that production has variously either stagnated in the first half of 1977 or declined, continuing the trend begun in 1973. Mining alone dropped 10 points between January and June as steel companies cut back on orders for coking coal, and utilities, despite a minor upturn in energy production in April, still had giant stockpiles of lignite used for electrical generation. Both construction and mining indicators have stagnated at 1970 levels, while manufacturing has stagnated around 115 (base 1970) for six months. Within manufacturing, moreover, there has been a shift from construction and capital good to auto production.

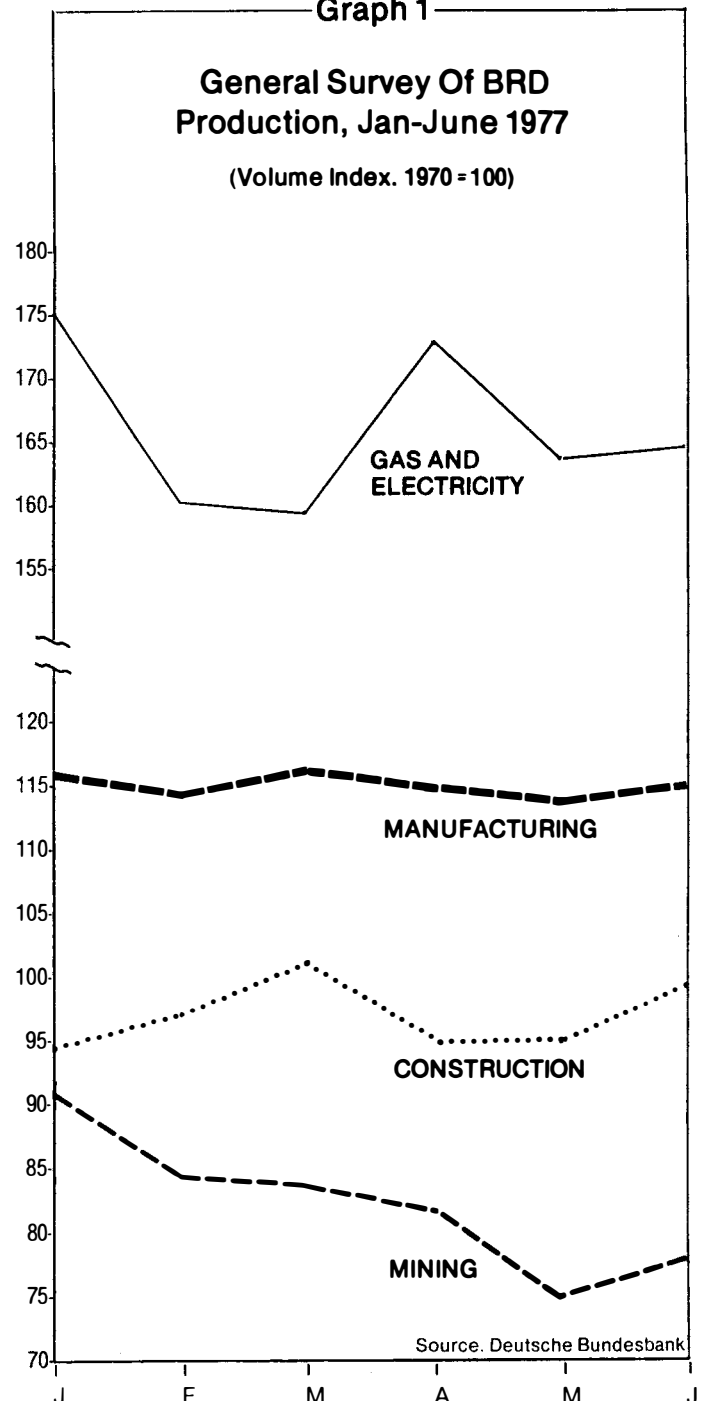
#### *GNP Increase Drops To 3 Percent*

The picture of general economic stagnation is borne out by last weekend's Federal Statistical Office's statement that the West German GNP only increased 3 percent in the first half of 1977, compared to a 6.1 percent GNP increase in the corresponding period in 1975. Adjusting of inflation, this means that for three half-year periods in a row the West German GNP has actually declined with the rate of growth in current DM decreasing from 6.1 percent in the first half of 1976 to 5.3 percent in the second half of 1976 to only 3 percent presently.

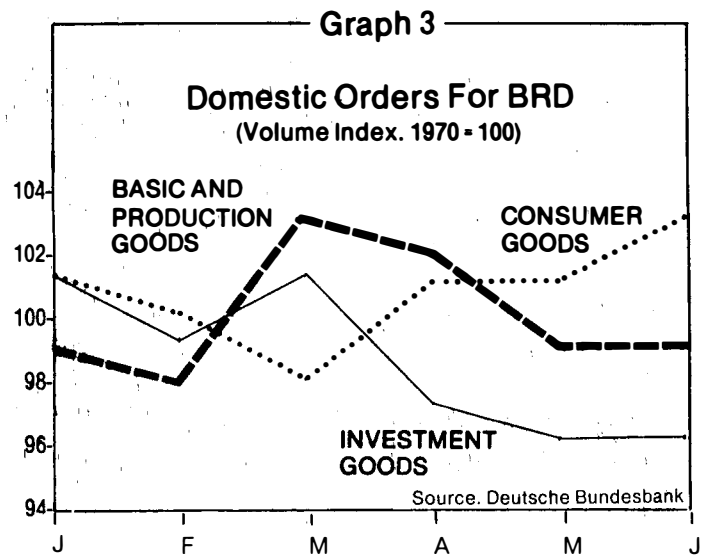
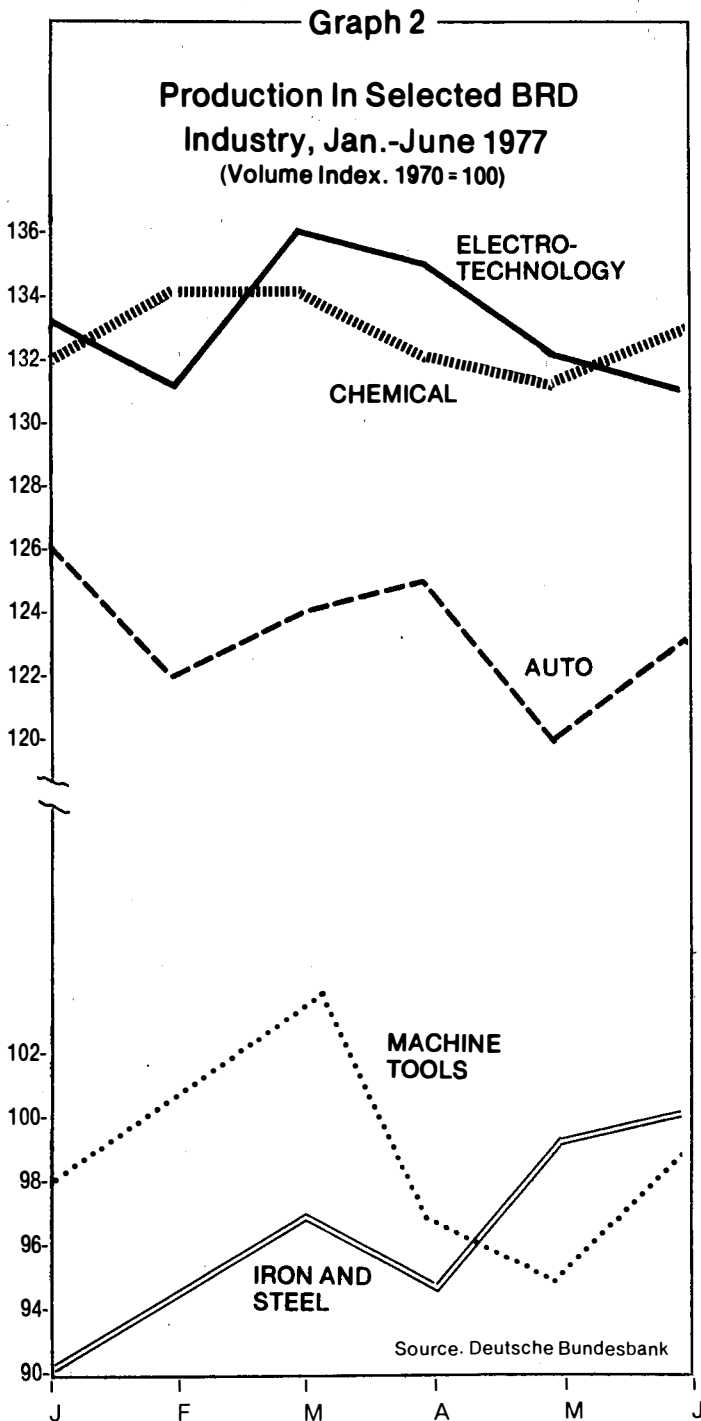
An analysis of key West German industries (Graph 2) shows that although there was some first-quarter improvement in machine tool, iron and steel, electrotechnical, and chemical sectors, the improvement was temporary and insignificant in light of the miserable 3 percent GNP increase. The steel industry, the backbone of any industrialized country, has already laid off 100,000 workers in the past decade; 20,000 were laid off in 1976 alone. The remaining steel industry, with 315,000 workers, is operating at 60 to 70 percent capacity and barely produced 20 millions tons of steel from January to June, which is 8 percent less than comparable figures for 1976. Increasing plant obsolescence has also caught up with the industry, with 37 percent of all January to June 1977 domestic steel sales going to cheaper and more efficient foreign steel firms.

The Dutch-German Estel group, the parent company of the Hoersch steel group in West Germany (West Germany's fourth largest steel producer), gave a good indication of the state of the entire industry when it posted pretax losses in 1976 of \$7 million and promised it would be profitable again by 1980. Even Krupp, which has managed to get DM 10 billion worth of orders on its books, is releasing no information on profits, and stated that it cannot guarantee jobs in its machinery, machine tool, and industrial plant construction division. Some steel companies, like Mannesmann, the world's leading manufacturer of seamless and large diameter pipe, are only staying in business due to massive orders for large

Graph 1



Soviet industrial projects. Eighteen percent of Mannesmann's turnover in 1976 depended on Soviet orders, and the firm conducts 15 percent of all West German-Soviet trade. Mannesmann shipped 300,000 tons of large-diameter pipe to the Soviet Union in 1976, and the Soviet Union has a September order for 200,000 more tons that will completely occupy the Mannesmann large pipe mills for October, November, and December 1977. The recent *Chemie 77* chemical and industrial processes trade fair in Moscow produced Soviet orders worth DM 10 billion (\$4 billion) for a huge Soviet petrochemical complex in



Siberia, but despite these large East Bloc orders, the steel indicator is still below 1970 production levels, and West German exports to the East Bloc are decreasing.

The improvement in the machine tool sector from May to June only looks good in relation to the 10 point drop in machine tool orders from March to May. April orders alone were down 17 percent from March, and, as in iron and steel, the temporary improvement is due to non-repeatable orders such as rationalization of existing machines and machine retooling for the miniscule auto boom. The machine tool indicator has yet to permanently break the 1970 level of production this year.

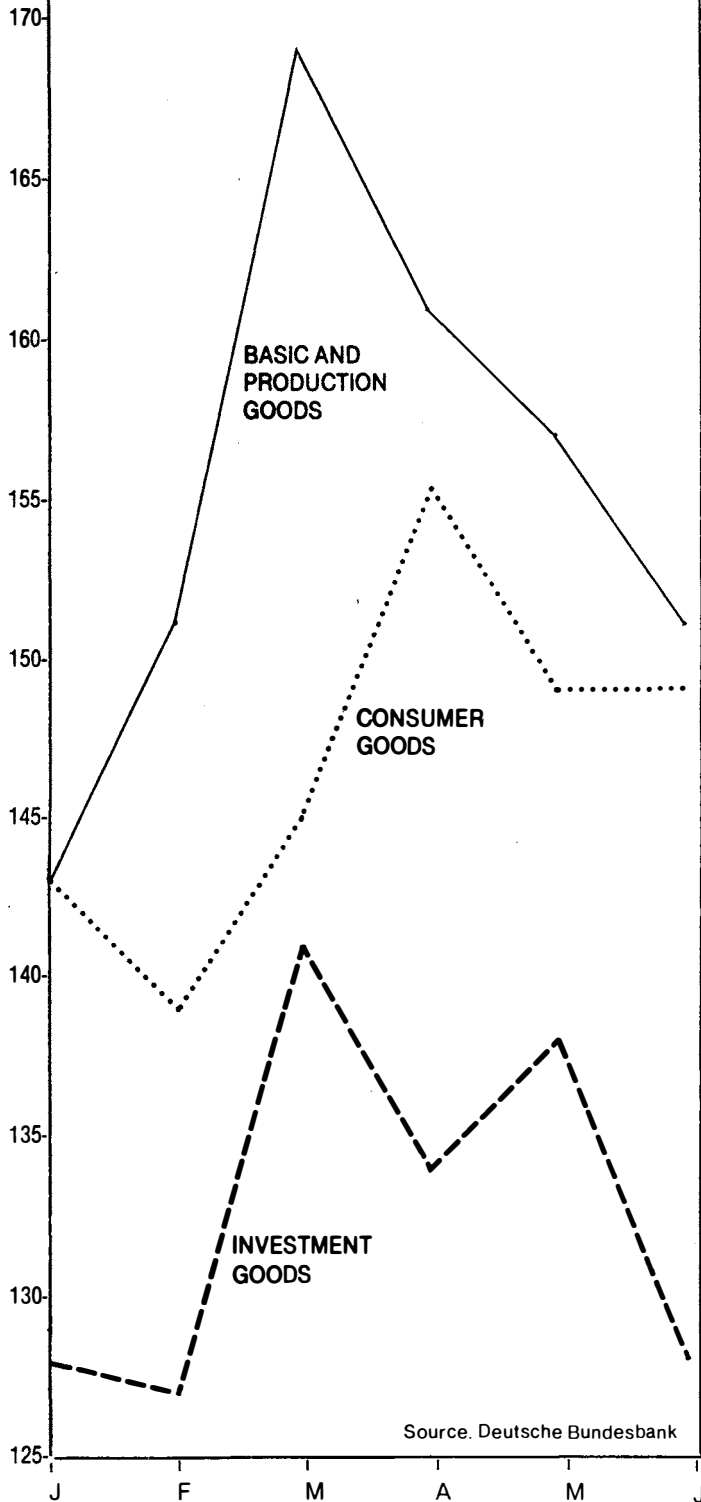
The second major West German industrial sector, chemicals, resembles the steel industry in its last-ditch dependence on large Soviet orders. Bayer has a DM 100 million-per year business with the Soviet Union, BASF DM 200 million a year, and all three West German chemical giants have picked up several large one-shot orders from the East Bloc in the past year. Although the chemical industry has managed to keep their volume up by the traditional chemical industry approach of creating new markets for new products, their profits have dropped drastically; Bayer and Hoeschst's pretax profits for the second quarter of 1977 were down approximately 11 percent, while BASF's profits dropped by 33 percent. The industry cannot continue to suffer such profit losses, even though it has traditionally subordinated profits to achieving a steady increase in production and sales.

Electrotechnology has clearly not recovered from the delay in domestic power plant construction caused by ecologist law suits, or from the international ecologist attack on the export of nuclear power equipment to the Third World. There have been no major foreign orders for this sector since the Brazil deal last year, although discussions are underway for reactor sales to Nigeria, Algeria, and Spain. Nuclear industry scientists and technicians protest that they cannot wait indefinitely for nuclear expansion to revive.

The graph for domestic orders (Graph 3) and foreign orders (Graph 4) speak for themselves. Domestic orders

Graph 4

**Foreign Orders For BRD  
Industry, Jan.-June 1977**  
(Volume Index. 1970 = 100)



for the two categories of capital goods — basic and producer goods — and investment goods, have stagnated below 1970 levels for the first six months of 1977. Only the consumer goods sector has been able to climb beyond the 1970 level, but consumer goods represent only 20 percent of West German industrial production. Even though automobile purchases are classified in West Germany as capital investments, the alleged auto boom has been unable to stimulate the overall capital goods indicators. The stagnation in the capital goods indicators between May and June shows that car orders are not going to regain their first quarter peak.

It is foreign orders that have seen the widest fluctuations and steepest drops in the first six months, with the two capital goods indicators approaching the lows they hit at the beginning of the year. The continual drop in orders in the capital goods sectors in the first half of 1977 proves that there will be no upswing in these sectors in the second half, and these sectors are the driving engine of the West German economy.

— James Cleary

# Begin Overrules Dayan On Lebanon Truce; Int'l Consensus Grows For Mideast Peace

Israeli Prime Minister Menachem Begin overruled his Foreign Minister Moshe Dayan and backed a truce in southern Lebanon last week, that ended ten days of heavy fighting between Palestinians and Lebanese right-wing extremists supported by the Israelis. Israeli troops and tanks fighting in Lebanon were immediately recalled to Israel.

The truce, agreed to by Syria, Lebanon, and the Palestine Liberation Organization (PLO) as well as Begin, is the first real fruit of long-term peace efforts undertaken by the Europeans and the Arabs, with the assistance of certain circles in the United States. As the international has noted, the tentative PLO agreement with Israel over Lebanon is a diplomatic first that increases chances for reconvening Geneva peace talks and for clearing the way for a viable Middle East peace settlement. The U.S. side of the peace push was reflected in President Carter's stated willingness to bring the PLO to the negotiating table, at his Sept. 29 press conference.

Begin has defused another constant Israeli provocation by refusing to issue new permits to the Gush Emunim religious sect to set up new settlements on the West Bank. The insistent Gush Emunim policy of populating that Israeli-occupied area has been a red flag to the Arabs signaling Israel's unwillingness to negotiate territorial withdrawals. On Sept. 28, Begin ordered out the Israeli military to block several Gush Emunim groups which had defied his order to refrain from establishing new settlements.

## The Background Of The Truce

Arab press sources report that William Scranton, former U.S. ambassador to the United Nations and now a member of President Carter's Foreign Intelligence Advisory Board, has been secretly meeting with PLO officials since March preparing for PLO recognition of Israel in return for a UN resolution that would identify Palestinian rights.

Two weeks ago, in an interview with ABC-TV, PLO leader Yasser Arafat for the first time publicly committed himself to recognize Israel in exchange for a new UN resolution acknowledging the right of the Palestinian people to set up an independent Palestinian homeland. Arafat's overture is in keeping with Scranton's efforts to clear the way for such a resolution. According to the same Arab press sources, Scranton is also behind negotiations to have the PLO form a government in exile.

The PLO itself played an initiating role in the Lebanese ceasefire. The London *Financial Times* reported that the PLO was the first to accept a truce agreement with the Lebanese government. Initially, Israel refused to accept the ceasefire, and it was reported in Jerusalem that this was the decision of Foreign Minister Dayan, in Washington, working through U.S. State Department official Philip Habib and Israeli Ambassador Simcha Dinitz. Dayan refused the truce because he did not want to "throw the Christian population to the dogs," according to a televised interview with the Foreign Minister. Shortly afterwards, Begin and Israeli Defense Minister Ezer Weizman countermanded Dayan's decision, and Israeli troops were pulled out of Lebanon.

According to a former State Department official, the traditionalists in the State Department are backing the latest peace efforts implying recognition of the PLO. (See interview below.) A current State Department official told a press conference the same day the truce was announced that the U.S. was keeping an "open mind" about a new UN resolution that "would enhance" the status of the PLO.

## Consensus Grows In Favor Of Peace

International pressure on Carter to facilitate the integration of the PLO into an overall Mideast settlement is growing rapidly. The forum for this drive is the UN General Assembly. Last week, French Foreign Minister De Guiringaud welcomed "the PLO's presence here" as evidence of increasing PLO "association" in the process of working out a peace settlement. Soviet Foreign Minister Andrei Gromyko appealed directly to the Israelis to use the current "good chances" to agree to a settlement that would correspond to Israel's "own national interests." Gromyko emphasized Soviet support for Israel's existence as a "sovereign independent state." Italian Foreign Minister Forlani noted Italy's "de facto recognition" of the PLO, called for reconvening the Geneva conference with the PLO agreeing to the "form of Palestinian participation," and said Italy was "disposed to participate in an international system of guarantees" for Israel's security.

The notion of guarantees for Israel is rapidly becoming a focus for the ongoing negotiations, and provides Carter substantial leverage in dealing with Israel should he go along with the emerging consensus for the creation of a Palestinian state. According to an informed U.S. jour-

nalist, Egyptian Foreign Minister Ismail Fahmi told Washington officials, and later asserted at the UN, that Egypt would support international security guarantees for Israel including "buffer zones, demilitarized zones, the establishment of UN forces, reduction of forces or arms in areas adjacent to the borders, or even the use of modern early warning systems." Along the same lines, Lebanon has requested the reconstitution of the 1948-49 Mixed Israel-Lebanon Armistice Commission, headed by a French colonel, to patrol the Israel-Lebanon border.

To block Carter from moving towards recognition of the PLO, informed Capitol Hill sources report that New York Senator Jacob Javits and New Jersey Senator Clifford Case, both powerful forces in the U.S. Jewish lobby, are preparing an anti-Carter propaganda barrage should Carter tilt toward the PLO.

## Dayan Under The Gun

Dayan, the main architect of the provocative Israeli invasion of southern Lebanon, has long been the trusted inside man in Israel for the Jewish lobby and its controllers from the Lazard Freres banking firm. Recently Dayan has acted in concert with the President of Egypt, Anwar Sadat, in an effort to wipe out the PLO as a first step in reaching an "agreement" between the Arabs and the Israelis.

Javits is currently circulating a proposal for a Saudi-Israeli deal to settle the Mideast question by relocating Palestinian refugees throughout the Arab world. The relocation plan is widely seen as an attempt to destroy

the core of the PLO and set a series of Vietnam-style "strategic hamlets" in the West Bank and elsewhere.

But Dayan's honeymoon may be nearing an end. Professor Moshe Arens, chairman of the Knesset Foreign Affairs and Defense Committee and Begin's close ally, has publicly attacked Dayan for his "secret diplomacy" and for promising a policy of settlements on the West Bank precluding a "genuine peace" under which Israelis could settle anywhere in historic Palestine, including areas not under Israeli sovereignty. Arens' statement is significant since the PLO's Arafat, in his ABC interview, pledged that Jews would be welcome to settle on a Palestinian-controlled West Bank. Arens also criticized Dayan for withholding information from the Knesset, contrasting Dayan's secrecy with the openness of Begin and Weizman.

Arens also revealed that Begin has established a Knesset subcommittee to maintain parliamentary control over Israel's secret service, an area that Dayan has covertly been trying to take over.

Now that his diplomacy and the peace package he brought to the UN last week are under attack, Dayan announced that he will hold extensive sessions with Henry Kissinger, whose step-by-step diplomacy is responsible for the bloody Lebanese war. The danger is that in the face of a real peace, Dayan and his backers will go for broke. *Time Magazine* this week commented that if Dayan and his Jewish Lobby cohorts are pushed too hard to negotiate with the Arabs they "might conceivably launch a last-ditch Middle East war in order to cripple their Arab enemies."

## Carter On The PLO

*The following are excerpts from U.S. President Carter's Sept. 29 press conference in which he discussed the Middle East question.*

**Q.** Mr. President, there have been a lot of confusing statements from the White House...on where exactly the U.S. stands in terms of the Palestinians, and PLO participation in a Geneva Conference. Can you clarify this point?

**A.** I doubt it, but I would be glad to try. We're trying to act as an intermediary between Israel and each one of those Arab countries that border their own country. There are some differences among the Arab nations which we are trying to resolve...

At the same time we have a further complicating factor in that we are joint chairmen of the Geneva Conference, along with the Soviet Union, so in the call for the conference and in the negotiations preceding the format of the conference we have to deal with the Soviet Union as well.

So on top of all that, and perhaps preeminent in my own mind, is that we're not an idle observer or bystander; we're not just an intermediary or mediator. We have a vital national interest in the ultimate peace in the Middle East. It's obvious to me that there can be no Middle Eastern peace settlement without adequate Palestinian

representation...

We have no national position on exactly who would represent the Palestinians or exactly what form the Arab group would take in which the Palestinians would be represented.

**Q.** One moment. Does the U.S. accept the PLO as a representative of the Palestinians?

**A.** If the PLO should go ahead and say "We endorse UN Resolution 242; we don't think it adequately addresses the Palestinian issue because it only refers to refugees and we think we have a further interest than that," that would suit us okay. We would then begin to meet with and to work with the PLO.

I certainly don't think they're the exclusive representative of the Palestinians. Obviously there are mayors, for instance, and local officials in the West Bank area who represent Palestinians. They may or may not be members of the PLO... I think, by the way, that both the groups — the Arabs and the Israelis — have come a long way...

**Q.** Mr. President, what are the assurances given to the PLO in the event of accepting 242?

**A.** If they accept UN 242 and the right of Israel to exist, then we will begin discussions with the leaders of the PLO.



## Lebanon Truce Tentative

Just two days after the southern Lebanese ceasefire, there are indications of its unraveling. Pierre Gemeyal, leader of the right-wing Christian Falange, has warned that unless the 5,000 Palestinians are not immediately removed from the south, fighting will resume.

According to the terms of the truce, the Palestinians are to withdraw from the area on the border with Israel, to be replaced by the newly reconstructed 1,500-man Lebanese army. Already all but a few Israeli troops have completely withdrawn from the battle area. Observers in southern Lebanon report, however, that the scheduled deployment of the Lebanese army has not yet taken place, and as a result the Palestinians are not leaving.

Further complicating the delicate situation, the left wing of the Popular Front for the Liberation of Palestine declared from Beirut that they will not withdraw their forces from the south, leaving open the threat of continued border tension. This could easily trigger another round of fighting in the Lebanese tinderbox.

The Soviet Union, meanwhile, has harshly condemned the Israelis for threats of invading the oilfields of the Persian Gulf. The government daily, *Izvestia*, Sept. 25 specifically criticized Dayan ally General Meir Amit, who last week called for the destruction of "Arab force," referring to the oilfields. Amit and Dayan covertly set up the 1967 war and are complicit in the latest scheme, pushed by the U.S. monetarists, to crush the Organization of Petroleum Exporting Countries by attacking its heart, the Persian Gulf.

## Arafat: Overtures To Geneva

*The following interview with Yasser Arafat, chairman of the Palestine Liberation Organization, was released Sept. 24 by ABC-TV News. According to ABC, Arafat told correspondent Barbara Walters in an interview portion released Sept. 22, that the PLO would be "satisfied" with a Palestinian state on the West Bank.*

*Walters: Mr. Arafat, I would like to ask you what you think of the plan of Moshe Dayan for the West Bank of the Jordan to have a complete internal autonomy and self-government but to have its military security under Israel?*

*Arafat: Would you accept this situation for yourself?*

*Walters: I'm not in your position, Mr. Arafat.*

*Arafat: What, we are both on one team?*

*Walters: Does That mean that your answer is no?*

*Arafat: Definitely no.*

*Walters: What if the West Bank were to be demilitarized or under UN supervision. Could you accept that?*

*Arafat: No person can start his struggle for what you are asking me to accept.*

*Please, you have to remember that our people are struggling 60 years. We started our struggle from 1917. Directly after the Balfour Declaration. We have been taken out of our homeland. We are now homeless, stateless refugees.*

*Walters: Just to make things very clear, your answer is no...that in now way could you accept the plan of Moshe Dayan.*

*Arafat: For me, I can't look for Moshe Dayan's plans. I have to look for my plans. My people's plans. This is what I am interested for and this is what I am struggling for.*

*Walters: Mr. Arafat, the United States has talked about a possible Pan Arab delegation at the Geneva conference. How would you feel about such a delegation if the Palestinian representative were not an official member of the PLO?*

*Arafat: Is this an official invitation from you? If you had this official invitation, I would give you my answer.*

*Walters: Mr. Arafat, there is a movement among certain nations at the UN to ask the Security Council to pass a*

*new resolution. It would support Resolution 242, but would also support measures enabling Palestinians to exercise their national rights, stating that they are entitled to a Palestinian national homeland or entity.*

*Arafat: National homeland and entity?*

*Walters: Or entity*

*Arafat: Or entity?*

*Walters: Yes.*

*Arafat: Yes.*

*Walters: If this resolution were passed, would it be acceptable to you?*

*Arafat: First of all, we are looking for a new resolution which must have in its consideration our rights, our rights to return back to our homeland and our right to establish an independent state. If it is so, this is what we are looking for. I hope that your government, the American government will push forward in this channel.*

*Walters: Let me make sure that I understand. If this resolution came to the Security Council, a resolution which supports 242 but would also support the provisions you just talked about, a national homeland, Palestinian national rights.*

*Arafat: Homeland, independent homeland, independent state. Yes, that is what I am looking for.*

*Walters: You would support this resolution?*

*Arafat: Definitely.*

*Walters: Mr. Arafat, in accepting this possible new resolution, which would also include resolution 242 in that, the PLO would implicitly accept the existence of Israel. Now President Carter has said that he would not have dialogues with you unless the PLO found some way to accept the 242 with provisions. Does this mean now that you feel you would be able to have dialogues with the President?*

*Arafat: But you have to remember that it is very important to look for our national rights. The main item.*

*Walters: Yes, I understand that.*

*Arafat: Which has been completely ignored through this last period of years.*

**Walters:** *Well, I understand that it is very important to you. Given these circumstances do you feel then that there could be a dialogue between you and Mr. Carter?*

**Arafat:** That depends on him, not on me.

**Walters:** *Mr. Arafat, let us turn our attention to the question of this independent national homeland. If there were to be a national homeland for the Palestinians on the West Bank of the Jordan and the Gaza, would the PLO agree to its being linked to Jordan if that's what the people in the area decided?*

**Arafat:** All the Palestinians and the leadership of the PLO.

**Walters:** *Suppose they decided that they wanted to have a homeland linked to Jordan. They took a vote and they decided, would you agree to this?*

**Arafat:** I have mentioned it and it is recorded that I am ready by the name of the Palestinians to make a special link, special relation with Jordan, if they accept, but after the independence.

**Walters:** *You will allow self determination?*

**Arafat:** Yes.

**Walters:** *Could you accept an independent Palestinian state in which for example King Hussein and not you became the leader of that nation if that is what the people wanted?*

**Arafat:** King Hussein?

**Walters:** Yes.

**Arafat:** Why?

**Walters:** *Suppose in this self determining...?*

**Arafat:** Is he Palestinian? We are speaking about Palestinians. Do you accept Canada, the President of Canada to be your President?

**Walters:** *That's how you feel about King Hussein in relation to the Palestinians?*

**Arafat:** He is our neighbor and he is not Palestinian and we are speaking about Palestinians and self determination. Why are you mixing the cards?

**Walters:** *I am trying to understand. Then what kind of possible entity or homeland linked to Jordan could you foresee?*

**Arafat:** I think we can discuss it later. If we have these talks and dialogue with the Jordanians later, we can find a way and we can find not only the way, we can find even some details but first of all give me this independent state and I will solve these problems... all the small details, even with the Americans.

**Walters:** *Then let me ask you about this. Would an independent Palestinian home basically on the West Bank of the Jordan and the Gaza solve the problem once you have it, will conflict in the Middle East be basically solved?*

**Arafat:** I prefer to answer in Arabic because I think it is very important. "This will solve the principal problems of the Palestinian people and it will be able to secure a kind of settlement and security in the Middle East for a long time."

**Walters:** *Since we are speaking so frankly...*

**Arafat:** Yes?

**Walters:** *The PLO has always said that the state of Israel must be dismantled and a secular state of Arabs, Jews, Christians would take its place. What happens to this idea if the Palestinians achieve a separate national independent homeland?*

**Arafat:** Through our secular state we were trying to offer a civilized solution but your government was against it. Then we came back to our National Congress and said that America and others didn't accept this solution, so we declared that we accept an independent state in any part of Israel — in any part of Palestine which we liberate or from which the Israelis will withdraw. You see? But during this time, we were offering the civilized solution... which you don't accept. Okay.

What's the meaning to accept the United Nations resolution? What did they mean to accept our presence in the United Nations as observers. What is the meaning of all of this?

**Walters:** *I assume that it means that you...*

**Arafat:** We are taking into serious consideration the international legalities.

**Walters:** *And you are following as much as you can what the United Nations agrees to and states in its resolution?*

**Arafat:** International legality.

**Walters:** *There are many people who feel that the Palestinians have a right to their national state yet they nevertheless deplore the means to that end. Understanding that violence has been a tool towards the recognition of your rights, can you at this stage of history and with your recognition as the leader of the Palestinians give assurances that the PLO will use other means to achieve its end?*

**Arafat:** I am a freedom fighter. I am like your Washington, George Washington. I am for my people like George Washington. I am struggling for the future of my people. At least to let them have their human rights. I am against terrorism. I don't accept any way of terrorism in the past, in the present or the future.

**Walters:** *Perhaps we should understand what the definition of terrorism or violence is. When you say that you are like our George Washington, what kind of acts of revolution do you mean?*

**Arafat:** Those who have been used by George Washington to liberate the United States of America.

**Walters:** *Mr. Begin is said to deeply mistrust...*

**Arafat:** Mr. Begin...

**Walters:** *Yes. To so deeply mistrust any...*

**Arafat:** But for me he is not Mr. Begin. He is a terrorist. Begin. I can't forget his involvement with the massacres against my people.

**Walters:** *But may I not ask you a question using his name?*

**Arafat:** Yes...but give him his accurate title.

**Walters:** *O.K. I will call him Mr. Begin because that is my...*

**Arafat:** From you, that is your point of view.

**Walters:** *Mr. Begin is said to so deeply mistrust any kind of Palestinian state for he believes that its first act would be to bring in Soviet artillery and tanks which could without warning easily devastate all of Israel's major population centers. How do you answer that kind of statement on his part?*

**Arafat:** He is worried about the so-called Soviet Palestinian missiles come into a Palestinian state. But what about his missiles which are brought from America and are planted in the Canal and Golan Heights and can reach Cairo and Damascus. Before

looking for the others, he has to look for himself.

At least you know that these seven days we have been shelled through this previous seven days with heavy artilleries, with heavy rockets, Israeli American rockets and with also napalm, phantom napalm. Heavy rockets and also the heaviest artilleries in the whole area. It is artilleries 175 millimeters. It is American artilleries I am sorry to say it. Your guns, your artilleries, are shelling my people, are shelling the Lebanese, the poor Lebanese villages.

*Walters: How would you compare the fighting now to fighting in the past?*

Arafat: More serious.

*Walters: More serious?*

Arafat: It is threatening the whole peace or the whole plan of peace in the area.

*Walters: Do you think it could spread as far as Beirut again so that there would be fighting there?*

Arafat: No. It is something definitely between us and the Israeli forces. Although they have this mask of what's called isolationist forces, but actually we are facing the Israeli forces.

*Walters: Do you think it could lead to a large general war in the Middle East?*

Arafat: Maybe.

*Walters: I want to go back to the possibility of the independent state in the West Bank. It's been said that such a state could not sustain itself economically. How could this state sustain itself? It's not a very rich area there.*

Arafat: You are still worried about that for us?

*Walters: I want you to be able to answer this. It has been an argument and I wanted you to have the opportunity to answer it.*

Arafat: You have to put in your consideration that the Palestinians have the highest ratio of education in this area, including Israel, you know that? We are about, less than 4 million in population. We have 24 thousand engineers, as an example. We have now in the universities about one hundred and twelve thousand and so on to give you an idea about us. Besides if you are looking for your homeland, for your country, you haven't any choice if your homeland is poor or rich. A homeland is a homeland, to be poor, to be rich.

*Walters: Mr. Arafat, it has been rumored that you might be visiting the United States perhaps even to support the resolution that we talked of earlier. Might you be coming to this country?*

Arafat: For this purpose I haven't any plan to go there, but if you can deliver me an invitation from your government, I will accept it.

*Walters: Mr. Arafat, if this state, this independent state should come about, there are people like yourself who were born in land that is now Israel or Occupied Palestine as it is sometimes called by your people...*

Arafat: Not sometimes, every time.

*Walters: There are Palestinians in Lebanon, there are Palestinians in Syria. Do you think these people would be satisfied to move their homes to the West Bank?*

Arafat: We are not looking for the moon. We are living these realities. Definitely. Not a person can have all

his aims, but at least a part of his aims... and I am struggling to give this part of the aims of my people... at least to change this, their miserable case, to have their passport, to have their own flag and to have their own nationality.

*Walters: Mr. Arafat, would you allow Jews to settle on the West Bank?*

Arafat: Certainly. Not only they settle there, they could be members of our Cabinet.

*Walters: Thank you Mr. Arafat.*

## Guiringaud: PLO Is Crucial To Peace

*The following are portions of an address by French Foreign Minister Louis de Guiringaud to the Sept. 28 session of the United Nations General Assembly.*

We are unfortunately still far from a Mideast settlement. The desire for peace I had noted during my visits to the region several months ago has so far not been enough to commit the parties to the path of negotiation. Entrenchment of positions may compromise the efforts under way, gravely affecting the stability of the states and the very future of the peoples of the Middle East. And yet, the principles which must shape any settlement are not only known but are now accepted by the international community.

The first principle is the evacuation by Israel of the territories occupied in 1967. Peace cannot in fact be founded on conquest, on the occupation of territories or on a *fait accompli*.

The recognition of the rights of the Palestinians to a homeland is the second fundamental principle. To refuse to grant a people which is displaced or under occupation the right to a homeland where it can fully express its national identity would be to ignore the fact that nothing lasting can be founded on irredentism, which would doom to failure all attempts at a settlement.

The presence of the Palestine Liberation Organization in our meeting halls underscores the degree to which this crucial aspect of the conflict is now recognized, as does our conviction that it is essential for the Palestinians to be associated with the negotiations which will decide their fate. It is time that the Palestinian people are granted the opportunity to live in a system and under conditions of their own choosing; it is time this opportunity is included in the terms for a global solution.

I also want to repeat that recognition of the existence of all the states in the region, including Israel, within secure, recognized and guaranteed boundaries, is another mandatory requirement of any settlement. After so many cruel wars, a genuine peace, implying normal relations, has to be found for this region so that the resources and talents of all sides can finally be employed to promote development and prosperity.

## Gromyko: Geneva With Israel And PLO

*The following are portions of Soviet Foreign Minister Andrei Gromyko's address to the Sept. 27 session of the United Nations General Assembly.*

Acting in conformity with the decisions of the Twenty-fifth Congress of the CPSU our country continues actively to press for the elimination of the remaining hotbeds of war. Of course, the most dangerous of these is the one in the Middle East. Why is there no durable peace in that region? Simply because the principal causes of the conflict have not been removed. Israeli troops have not been withdrawn from the Arab lands seized in 1967. The right of the Arab people of Palestine, including its right to self-determination and the creation of a State of its own, has not been guaranteed so far. All this means that the independent existence and security of all the peoples and States of that region have not been ensured.

Serious apprehensions are aroused by the words and deeds of the leadership of Israel. They are well known. A great deal of inflammable material has been accumulated in the Middle East, and in the event of another outbreak of hostilities no one would be able to predict its outcome.

For its part the Soviet Union will go on doing all in its power to bring about such settlement in the Middle East as would establish a durable peace there without infringing on the legitimate rights and interests of any people or any State of the region.

From this high rostrum our country declares once again: we have been and remain advocates of the right cause of the Arabs whose lands have been unlawfully taken away and are still retained by the force of arms. Those lands must unconditionally be returned to the Arab peoples.

But if there is any need to reiterate once again that Israel has a right to exist as an independent and sovereign State in the Middle East, then, on behalf of the Soviet leadership I will say again that we have adhered and will continue to adhere to precisely that line. So why shouldn't Israel take advantage of the opportunity that presents itself and agree to a genuinely just settlement in the Middle East? This would, after all, be in its own national interests too.

The Soviet union is in favor of an early reconvening of the Geneva Peace Conference with the participation on an equal footing of all the parties concerned, including representatives of the Palestine Liberation Organization.

## Forlani: Israel Must Recognize PLO

*A Sept. 28 United Nations press release on that day's National Assembly Session reported the following:*

Arnaldo Forlani, Minister for Foreign Affairs of Italy, said there was urgent need to reactivate effective peace

negotiations on the Middle East within the framework of the Geneva Conference. The Arab side would have to be ready to accept the right of Israel to live in peace within secure and recognized frontiers while Israel must recognize the national rights of the Palestinian people.

## State Department Rift On PLO?

*The following are excerpts from an interview with a former State Department official revealing the division of opinion in Washington on the current Middle East situation.*

*Q:* Who in Washington could be described as pro-Palestine Liberation Organization (PLO)?

*A:* There are two major elements in Washington that are pro-PLO. The first is the foreign affairs bureaucracy, and the second is the oil industry. The oil interests have a direct interest in seeing that the appellation in the Middle East is not overturned. The State Department people — they have studied the situation as professionals for 30 years and have evolved the idea quite firmly that only Israeli-Palestinian agreement can work with the PLO.

*Q:* Whom in the State Department are you referring to? Surely, (former Secretary of State) Kissinger did not support this viewpoint.

*A:* Harold Saunders is the key man. He started out under Lyndon Johnson and is now the head of the State Department's Intelligence and Research Division. Saunders' statement to Congress a year or two ago affirming that the Palestinians are at the core of any future Middle East settlement made it very clear which way he was leaning.

I think that his coming out like that was not done without Kissinger's approval, whatever disagreements did exist. As for Kissinger himself, it is possible to be sympathetic to the aspirations of the Palestinians without being pro-PLO, and I think that what Kissinger feels, since he has never given up hope of restoring King Hussein back on the West Bank. Kissinger, you know, gave the Israelis the assurance that the U.S. would not recognize the PLO.

*Q:* What about Secretary of State Vance?

*A:* Vance is a little more flexible than the previous position. I had a feeling that this is because Kissinger was personally committed to Israel, on the PLO question in particular. I think that Saunders, Vance, and Atherton are betting that the mainstream PLO around Arafat will become more responsible and will concentrate on domestic affairs rather than subvert anybody. They think that the PLO will move toward recognition of Israel, and they are moving cautiously in that direction.

The PLO are not terrorists. It is a loose organization of many parties. They only become terrorists because they are ignored by us. If they establish a state, then they of course will get help from everyone they can — the Saudis, the U.S., the Soviets."

# Brzezinski Advises Carter To Prepare U.S. Military Move Into Persian Gulf

The National Security Council recently produced a confidential policy statement for the White House known as Presidential Memorandum 10 (PRM-10). According to the *Washington Star*, the memo contains a recommendation that the Pentagon be prepared for a possible military move into the Persian Gulf. Washington sources indicate that the memo was written by the Council's director, Zbigniew Brzezinski, and a staff member, Samuel Huntington.

A potential U.S. military move into the oil-rich Persian Gulf is not new. U.S. Energy Chief James Schlesinger first went public with the provocative plan after the 1973 Mideast war. The present resurfacing of the scheme, however, is directly associated with an international powerplay to get direct access to Persian Gulf oil and petrodollars.

It is an international investment banking group associated with Lazard Freres and its powerful "Jewish Lobby" in the United States which has most adamantly been promoting a gulf invasion scenario which uses a surrogate Israeli preemptive strike to prepare for a U.S. military occupation of the Gulf.

Both the CIA and certain Congressional circles have added to the propagandistic buildup for such a nightmare. Earlier this year, Senator Jackson (D-Wash) released a report entitled "The Geopolitics of Oil" which warned of the potential showdown between the Soviet Union and the U.S. over Gulf oil in an attempt to corner worldwide oil supplies.

More recently CIA director Stansfield Turner has authorized a report on Soviet future demands for oil which erroneously characterizes the Soviets as being in need of more imports of crude after 1980. Similarly the House International Committee released a report through the Library of Congress discussing the behavior of the Soviet Union toward the Persian Gulf as the USSR's demand exceeds its domestic oil production. In point of fact such reports are grievously in error regarding the Soviets' future oil outputs as has been pointed out by numerous honest and authoritative sources. Instead such misinformation creates the environment for an international crisis in the Mideast and the usurpation of the oilfields.

## *Militarization of the Middle East*

A military occupation of the Gulf, as a recent statement by the Soviet government daily *Pravda* pointed out, is part of a larger deployment to militarize the region from the eastern Mediterranean to the Indian Ocean. In this connection, the views of Samuel Huntington, who during President Carter's election campaign proposed that Israel join NATO, closely mirror those of Israeli Defense Minister Moshe Dayan, who has

proposed the installation of a base for the Sixth fleet at Haifa in Israel. Dayan, who is closely associated with Lazard Freres and the Jewish Lobby, works with a group of generals in Israel who have repeatedly called for an Israeli preemptive strike into the Gulf against the Saudi Arabian oilfields.

Last week, Israeli Parliament member General Meir Amit — who covertly aided Dayan in triggering the 1967 Mideast war — stated that an Israeli preemptive strike should "destroy not only the enemy Arab armies but should inflict heavy strategic damage on targets such as the Arab oilfields." The *Baltimore Sun*, Sept. 26, reports that Israeli strategists are debating the merits of a "preemptive strike" against Israel's Arab enemies as part of an overall Israeli military apparatus. Such developments come into the context of Israeli Defense Ministry plans for new "war aims" according to the *Jerusalem Post*. Highly placed sources have indicated that Israel has aimed its nuclear warheads on Saudi oilfields.

In the last month, the Soviet Union has four times warned against such deadly adventurism in the strategic Persian gulf, leaving little doubt that such a maneuver would push the hardline Soviet military command to the button. Furthermore, the Persian Gulf Foreign Minister from the eight Arab states and Iran have called a meeting during the present United Nations General Assembly to discuss Gulf security. Both Kuwait and the United Arab Emirates last week urged such a meeting to be prepared for a possible "western invasion" of the Gulf.

— Judy Wyer

*Red Star*, Sept. 25:

## 'Threats Of An Israeli General'

ROME (TASS) — Israeli Reserve General Meir Amit stated in Tel Aviv that in "a future Mideast war" Israel would have to strike against Arab oil deposits. In his words, such an operation would be necessary since the experience of previous military conflicts with the Arabs proved the "senselessness" of simple occupation of their territory....

Amit is one of the leaders of the influential Israeli party, the Democratic Movement for Change, one of its parliamentary deputies.

It is characteristic that Amit's position coincides with recent publicity given in the American press to a secret White House document on the training of U.S. land, sea and air forces "for possible actions" in the oil-producing region of the Persian Gulf.

## U.S. Think-Tanker On Israeli Strategy And PRM-10

*The following is an interview with a leading Rand Corporation-connected strategist on Arab-Israeli military capabilities:*

**Q:** Recently the former head of Israeli intelligence Meir Amit called on Israel to strike at Arab oilfields in the event of a Mideast conflict. What is the context and significance of Amit's statement?

**A:** Amit might have in mind that since the Arabs are using the oil weapon, the oil weapon should also be used against them. This is a game of threats and deterrents. Talking of aerial bombardment of the oil fields is another element of risk that the Arabs should now take into consideration. It's a battle of nerves, and, after all, the oil weapon is the most decisive weapon the Arabs have.

Amit is not the only one who talks in these terms. A few months ago, General Sharon, currently in the Cabinet as Agriculture Minister, raised this possibility.

It's a relatively logical idea in view of the Arab use of the oil weapon. It tells Carter that he can't just pressure Israel, he has to pressure the Arabs too.

**Q:** What link does this Israeli strategy have to the U.S. special PRM-10 Presidential memorandum on possible intervention in the Persian Gulf?

**A:** PRM-10 represents a tendency, a direction, an orientation in some quarters in Washington, demonstrated in a recent Brookings Institution study on the ratio of power in the eastern Mediterranean. The Brookings study, both a 1976 study and a more recent one released last week, strongly suggested a very different U.S. global naval strategy to mass more power in the Indian Ocean, in the eastern Mediterranean, and in the Persian Gulf. The study emphasized that since the ratio of U.S.-Soviet naval power in the eastern Mediterranean is not very rosy for the U.S., the U.S. should build up forces to stop the Soviets from intervening in the event of a new Mideast conflict.

Both Arabs and Israelis calculate their strategy based on this ratio. Israel has to take into account the possibilities of Soviet intervention. This possibility adds to the pressure coming from the U.S.; Kissinger used the Soviet intervention argument effectively in the October, 1973 war.

Amit et al. must evaluate the current naval ratio situation, and if Israel were to think that the danger of Soviet intervention is lower, that would change Israeli strategic considerations accordingly. If there is less chance of a Soviet intervention, the Israelis will orient more to a longer war perspective, including moves against Arab infrastructure such as oilfields. If there is greater chance of Soviet intervention, the Israelis will have a short, decisive war perspective.

In that sense, you can certainly draw a connection between the Brookings PRM-10 memorandum thinking and what Amit was getting at.

## Mexico Prepares Break With Dollar, IMF

In a break with traditional protocol, Mexico's new ambassador to France, renowned economist Horacio Flores de la Peña, took the occasion of the ceremonial presentation of his credentials to France's President Giscard d'Estaing to condemn the Bretton Woods monetary system and the International Monetary Fund for maintaining a "monetary veil" over the dis-

mando. Labra denounced the "enemies of Mexico's development," singling out the Carter Administration's "mini Marshall Plan" for special attack in proposing labor-intensive solutions to the capital-intensive requirements for Mexico's full industrial development. Both columnist Buendia and an editorial in *El Sol* gave their full support to Labra's attacks on Lucey and Carter the following day.

### MEXICO

astrous world economy. Mexico and the Third World need growth, technology, and industry, Flores de la Peña proclaimed, and Mexico "looks to France for cooperation." Giscard replied that France is committed to giving the Third World technology and that Mexico's extraordinary untapped oil reserves provide the basis for a most advantageous oil for technology exchange.

This attack on the IMF comes at a time when Mexico is moving away from the U.S. dollar and closer to European nations, such as France, which have strong currencies and are challenging dollar hegemony.

Flores de la Peña's initiatives followed a week-long campaign by a group of Mexican Congressmen against the IMF's policies toward Mexico, which Congressman-economist Armando Labra termed "an absolutely restrictive scheme for the country's economic growth...a straight-jacket that will strangle the Mexican economy." This group of Congressmen, most of whom are also progressive economists trained by Flores de la Peña, agreed in calling for "a mass movement of public opinion — in which all sectors of the population must participate in analyzing the intentions of the International Monetary Fund — in order to break those chains which, unless dissolved, would set back the objectives of the Mexican Revolution in achieving more social justice, a high rate of development and increases of the standard of living" of the population.

This assault against the IMF, which highly placed Mexican sources confirm received the "green light from the top", was signalled by the publication of the much-guarded IMF "letter of intent" signed with Mexico last September. Revealing the secret document only three days after Mexico's Independence Day celebrations, columnist Manuel Buendia, writing on Sept. 18 in the nation's second largest news daily *El Sol*, called for a "new cry of independence" by the country's nationalist forces.

Attacks this week were focused on U.S. Ambassador Patrick Lucey and Jimmy Carter himself, for being the executors of IMF policy in Mexico. Congressman Ar-

*The following are excerpts from Manuel Buendia's "Sun and Shade" column in El Sol de Mexico, Sept. 18:*

"Sun and Shade" obtained a copy of the agreement signed between Mexican authorities and the International Monetary Fund on Sept. 13, 1976....

There should be a vigorous movement of public opinion to bring the present government to *renegotiate* that agreement and make a *radical change of its position* towards the IMF.

The most important reason for this is a fact which appeared in the (President's) report of Sept. 1: *President José López Portillo does not propose a development model for Mexico like the one set in the agreement with the IMF.*

The movement of public opinion should logically support anything the President could and would want to do to *break the chains* which bind us to a program which *delays the objectives of the Revolution* and favors the designs of the most reactionary national and foreign capitalists."

#### *How to Ruin a Country*

According to news reported on Aug. 15, an agreement with the IMF has now given *brilliant results* in Peru: two ministers had to go home, the government was faced with *labor discontent* because the workers no longer would accept being subjected to wage increases of only 10 percent; public expenditures had contracted to the point of political crisis; the internal market had collapsed; and layoffs were beginning in the state enterprises and government offices.

And Peru, in the end, had to declare a *debt moratorium*, which, is and has always been the clearest confession that the treasury of the country is bankrupt.

But you don't even have to read the daily press to know the following is true in Latin America: the implementation of the economic policies of the International Monetary Fund have always *endangered the democratic life of any country*. The majority of the IMF's clients, when the democratic orientation of their economies crumbles, have had to fall into *authoritarian regimes*, or into naked *military dictatorships*.

You could say that it is historically proven that the "economic salvation" programs which the IMF imposes

have failed or are failing even in countries where they are applied with dictatorial energy, as could be the case of Chile (despite — or perhaps because — of the personal direction by Milton Friedman, Pinochet's main advisor, and ideological inspirer of the IMF, as recognized by the official journal of the IMF, vol. XIX, No. 1, March, 1977.)...

#### *The Invisible Chain around Our Neck*

Since it is impossible to see the actual text of the agreement (between Mexico and the IMF), we have been speaking of "letters of intent." In reality, there has been a series of documents, and the essence of the agreement is in two of them: a letter to Mr. Witteveen and a memo "on the economic policy of the government of Mexico."

"Sun and Shade" today publishes a table which is included in point six of the memo as a statement of "goals, projections and estimates for 1976."...The table emphasizes the intention to *reduce public investment* from 8.3 percent of GNP in 1977 to 8 percent in 1978, while at the same time *increasing private investment* from 15.7 percent to 18 percent. This is a main point, a confession of intentions. But as the reader will see in the final part of this report, this is also one of the points of greatest disagreement between that development model and the one proposed to the nation by President José López Portillo.

The figures at the top of the table on real GNP show that during the year ending September, 1977, the first year of the implementation of this economic plan for our country, the IMF, its philosophers and its followers *have already been grossly mistaken*: the GNP couldn't grow 4 percent in 1976, nor will it grow 5 percent in 1977. López Portillo stated this clearly on September first.

At the beginning of point four of the memo, a commitment is made to achieve "a progressive convergence between the nominal rate of increase of wages in Mexico and the rates in its major trading partners."

In other words, this simply means that — according to the IMF's desires — Mexican workers should limit their wage increase hopes to those percentages won by workers in the United States, whose wage structure and fringe benefits have an absolutely different historical evolution.

How could anyone accept that the struggle of the Mexican labor movement, which til now has been guided by the ideals of the Revolution of 1910 end in such a way?

#### *López Portillo Is Against It*

The development model which the IMF tried to impose on Mexico has evidently *collided* with what López proposed in his State of the Nation message.

"We want to solve the contradictions between a mode of development which is already *worn out* and the model of the country aspired to by the Mexican Revolution," said López Portillo. Previously, he had said, "We see that the contradictions it involves have virtually put an end to a pattern of growth that violated its ultimate structural taboo with the devaluation." As the exact antithesis of the philosophy of the IMF, López Portillo asserted: "The regime will not accept any growth which is based on the injustice or on the exploitation of man and his family." But if those adhering to the "IMF Model" still hold any doubts about how much it contradicts the

plan of López Portillo, they should look at his statement that "the most dynamic element of the state's role in this overall plan, that is the final objective of administrative reform is government spending. It is on the total sum, structure, distribution and financing of that spending that the pace and course of the economy as a whole will basically depend; therefore, such spending should directly correspond to the basic priorities of the nation and government."...

Perhaps because it is September, we sense a new era of independence.

## El Sol: Pressures from the IMF

*The following are excerpts from an editorial in the Mexican daily El Sol Sept. 20, entitled "Pressures from the IMF."*

"It has never been established that the IMF is the manager of any country's economy, nor that it has the authority to intervene in (any country's) internal affairs, creating a lack of confidence.

...Naturally, Mexico has chosen its own course. President López Portillo, in his first State of the Union address, designated the direction the country has to take at this stage of the Revolution as 'the updated version of (the revolutionary) program.' Therefore, the existence of the pressures (being) denounced, must be rejected as unacceptable. Mexico is in an excellent position to decide if it will accept or reject the recommendations of international institutions, but naturally (Mexico) will follow its own road to development.

## Popular Socialist Party: Mexico Must Break with Dollar

*Statement by Jorge Cruickshank Garcia, Secretary General of the Popular Socialist Party, reported Sept. 20 in El Dia:*

Mexico should unlink itself from the dollar sphere, and our country should seek other capital markets aside from those controlled by the IMF. The IMF is a pressure and destabilization organization which acts against the countries which don't submit to the policy of the U.S.

It would be dangerous for the country to submit to the dictates of the IMF because that would translate into economic retraction, unemployment, reduction in public spending and everything which would place our country in a permanent economic crisis.

The IMF is an instrument of imperialism used to fix the parity of the different currencies of different countries to the U.S. dollar, and it does so through pressure and control.

Mexico has the possibility of acting from a position of strength towards imperialism. At this moment the dollar is declining and it doesn't hold the backing it once had in precious metals. It has no backing other than that of the military strength of the U.S.



## IMF Wants Mexico On the Gangplank

*The following are excerpts from statements made by Fernando Pescador, progressive economist of the Mexican Colegio Nacional de Economistas reported in El Sol Sept. 20.*

...Mexico is presently in a position to decide if it accepts the recommendations of the IMF or rejects them because our country has oil and gas reserves which would allow it to seek financing in other capitals, in Europe for example.

...The IMF, through the World Bank, is pressuring Mexico to accept all kinds of mortgages that put our petroleum reserves in danger.

...Galopping inflation has been unleashed in all countries where these programs have been imposed, as in the case of Chile, which serves as an IMF branch office from which to organize Latin American economies.

...The IMF wants to have Mexico on the gangplank, blindfolded, with a sword to its chest...

## Mexican Congressmen Hit IMF

*The following are statements made by two Mexican Congressmen-economists during press interviews published in the daily El Sol Sept. 21.*

**Congressman Julio Zamora Bátiz:** The IMF has had great success in finishing off the economic structure of many countries. What Mr. Buendia said about Peru has been repeated in all the countries of South America, so that we cannot permit in any way to be put into the straight-jacket that the IMF is trying to impose on us...It is very important to open a debate on the IMF affair. However, the topic goes beyond the exclusive competence of the Mexican Congress so that the debate must be opened at the national level with the participation of all sectors of public opinion in order to pressure the IMF to reconsider its attitude.

**Congressman Antonio Tenorio Adame:** It is evident that within the model which the IMF is trying to impose on us there are aspects which damage national sovereignty. Hence, the agreements must be renegotiated.

## El Sol: Growth or Injustice

*The following is an editorial which appeared in the Mexican daily El Sol Sept. 21.*

No one who studies the world's economic prospects from a realistic point of view should be surprised by the demands which various groups have thrown against the IMF. Contradicting ideas is not all that is at stake. It is a matter of defending the premise of development with social justice against those who promote consumerism and utilitarianism as the final ends of productive activity.

In fact, there are much more authorized spokesmen than the fascistoid ravings of Milton Friedman and his 'Chicago School', who without advocating a planned economy (which would automatically put them 100 percent into the camp antagonistic to the IMF) have shown the dehumanization and the inequity they shelter under the illusions of the law of supply and demand and free enterprise, understood as a function of the most crude effort to capitalize.

Among these voices we can emphasize the example of John Maynard Keynes as one of the most prominent economic theoreticians of the century. The Keynesian model brought the world to Bretton Woods, from there the model which we know as developmentalism acquired momentum: growth of capital at the expense of labor, increasing impoverishment of worker groups, strengthening of large unproductive structures, charging the social cost to the poorer classes...

The model which the IMF, if allowed, simultaneously proposes and imposes, would imply starting over and would take us back to the Keynesian obscurities, sufficiently questioned by Galbraith and others. According to the Mexican economists, A. Labra, J. Puente Leyva, A. Tenorio Adame, and J. Zamora Batiz...the demands of the IMF are equivalent to a 'straight-jacket'. They warn against the risk of obstructing the attainment of social justice, the ultimate goal of the Mexican Revolution.

In broad outlines the choice is clear: the options are growth with equity or continuation of injustice. There is no room for vacillation. And even less so at this time.

# LaRouche Proposes Amendment To Panama Treaty

*The following statement was issued on Sept. 22 by Lyndon H. LaRouche Jr., U.S. Labor Party Chairman.*

In anticipation of the forthcoming testimony of Governor Ronald Reagan to the U.S. Senate on the subject of the Panama Canal treaty, I propose that the principal substantial and otherwise apparent defects in the signed draft of the treaty be remedied by means of issuance of a new policy doctrine statement, updating the Monroe Doctrine.

The following draft includes, it should be noted, a policy element recently publicly voiced by Governor Reagan, a point on which I and many other leading U.S. citizens are in essential agreement.

## USA Panama Doctrine

In 1823, at a time of grave peril to our nation, President James Monroe promulgated what has been known as the "Monroe Doctrine." This was done in the context of consultation with two former U.S. Presidents, Jefferson and Madison, and with key participation by then-Secretary of State John Quincy Adams. If the circumstances and intent of that doctrine are properly understood, it has an appropriate continuation in the United States Western Hemisphere policy at the present time, a continuation which ought to be clearly identified in connection with discussions of the signed draft treaty between the governments of the United States and Panama.

The circumstances were principally these.

Through various agents affiliated with the banking interests of London, Amsterdam and Geneva, banking interests allied with the British monarchy and with circles around Lord Shelburne and William Pitt the Younger, the United States' friends in France had been variously guillotined, otherwise dead, exiled or otherwise reduced from former positions of influence. Those British agents included Danton, Marat, Mirabeau, Necker, Tallyrand and others. With the defeat of France, the imposition of the British agent Duke of Orleans on the restored French throne, and the British establishment of its Holy Alliance order upon continental Europe, the elements of the "League of Armed Neutrality" so essential to U.S. victory in the American Revolution had been eliminated. The British had thus dared to launch war against us, provoking the War of 1812, and after the Treaty of Vienna used their global hegemony in efforts to provoke us and to subvert and crush us.

It is notable, in this connection, that London-based financial interests and their allies in the British government were responsible for development of the plantation slave system in the United States during the 1815-1860 period, and were directly responsible for promoting and indeed almost creating the U.S. Civil War. Although Great Britain formally acknowledged U.S. independence at the Treaty of Paris in 1783, the United Kingdom did not in fact recognize U.S. sovereignty in practice until

negotiations between Her Majesty's government and the administration of Abraham Lincoln in 1863.

It was under the dangerous circumstances of the 1815-1863 period, the period in which British power was predominantly committed to subverting and crushing our nation, that the administration of President Monroe steered through perilous political and military waters to the adoption of the so-called Monroe Doctrine.

Although the popular account of the Monroe Doctrine is that it was a de facto compact with Great Britain's naval power against Latin American intrusions by the Holy Alliance powers, those responsible for the Doctrine understood that the Holy Alliance powers were principally subjects of a British-controlled "concert of powers" on the European continent.

British Foreign Minister Canning had proposed to make de facto U.S.-British hegemony over the Western Hemisphere a treaty-agreement between His Majesty's government and the government of the United States. This would have been, in effect, U.S. granting to Great Britain official looting rights throughout Latin America. Thus, on the advice of Secretary of State John Quincy Adams, the United States declined the treaty offered by Canning.

However, the United States was in no position to make a direct confrontation with Great Britain. Hence, the Monroe Administration adopted the Monroe Doctrine, which had the double purpose of placating London while maintaining the principles of United States foreign policy doctrine for the time that the United States grew strong enough to enforce such a doctrine.

The principal distinction between the proposed treaty with Great Britain and the Monroe Doctrine was identified at that time by John Quincy Adams. The United States maintained the principle of unconditional sovereignty of new republics in the Western Hemisphere, whereas the British had a doctrine of "limited sovereignty," meaning British creation and destabilization of Latin American governments at its pleasure, through British influence over such clients as Simon Bolivar.

This principled difference between Britain and the United States was most clearly expressed in the Maximilian affair, in which the combined naval forces of Great Britain, France, and Spain overthrew the legitimate Benito Juarez republican government of Mexico as part of a looting effort of debt collection against the subjugated people of Mexico.

There were two elements in the influential thinking of John Quincy Adams behind the Monroe Doctrine. First, there were extensive precedents in United States foreign policy, as notably expressed in preceding treaties for the policy of absolute sovereignty of new American republics. More fundamentally, from the political movement associated with Benjamin Franklin and his collaborators leading into the American Revolution and in the establishment of the United States as a federal republic, the principal issue between the United States and His Majesty's government was American commitment to the realization of technological progress in in-

dustrial and agricultural development, in opposition to the British policy, as set forth in Adam Smith's colonialist policy in *The Wealth of Nations*, of keeping England's colonies and competitors in a condition of ruralized labor-intensive relative technological backwardness.

The foreign and domestic policy of the founders of the United States, from the roots of the American Revolution through the election of 1828, was the constitutional principle that the proper basis for government and law of a republic was the development of the wealth and culture of the people through promoting an environment of technological progress in discovery, in the expansion of industry and agriculture, and in the educational and free-press policies of the nation. The establishment of sovereign republics committed to those principles and enjoying the benefits of such principles is the purpose and essence of the establishment of the United States and its order of constitutional law.

Over the intervening decades, and most notably during the present century, a growing bulk of fraudulent reinterpretation of United States history has been popularized both inside the United States and abroad. The false report has been circulated that the English Plantations and republic of eighteenth century North Americans was principally an aggregation of rough, semi-literate frontiersmen. In fact, despite the efforts of the British government and allied financial interests to prevent the people of this nation from acquiring the capital needed for industrial development, our people were the most literate in the world, with a much higher level of popular culture than existed either in England or in France. It was that literacy and other factors of the superior popular culture of the English-speaking people of North America which made the American Revolution and establishment of the constitutional Federal republic possible, where efforts to the same effect failed in both England and France. Although the early United States lacked the capital resources of Great Britain, wherever our people's passion for science and technological progress were given outlets, our technical accomplishments, such as those of Robert Fulton, were conspicuously in advance of what was generally possible in the poorer level of popular culture then available in England.

Although our forefathers were largely of British origins, they represented in kernel the most advanced impulses from among the British people, who had founded societies on these shores to the purpose of establishing political and cultural forms not generally possible in the oppressive and politically backward England. This nation drew skilled persons from England, from France and other European nations, seeking here the possibility for the freer and more fruitful expression of their productive powers.

It was on the basis of those impulses and principles that the United States was founded and the foundations established for this nation's growth to great economic power.

In the early successes of the American republic and in the comparable failures of the French Revolution, a fundamental principle was demonstrated.

In the struggle between Federalist Thomas Paine and other friends of Benjamin Franklin, on the one side of the French Revolution, and in the associates of Robespierre on the other side, the allies of Paine sought to establish France as a republic committed to scientific and technological progress under constitutional principles

modeled on the lessons of the United States experience. The followers of Robespierre's faction, including British agents Danton and Marat, offered an opposite conception, mob democracy. It was the success of the latter faction which produced the hideous Red Terror in France, and led to the Napoleonic period through which British hegemony over Europe was established for most of the 19th century.

This demonstrated that the "American System" works, while the British system, and political forms derived from Rousseau and Bentham's "philosophical radicalism," led to chaos and dictatorship.

The principle underlying the success of the American System is that in a climate of freedom and cultural development of the individual focused upon objectives of technological progress, the individual member of society is encouraged to value himself or herself for his or her creative mental powers, his or her ability to discover, transmit, enrich, and practice new scientific and related conceptions through which man's dominion over nature is advanced. By so placing the valuation of the individual upon that creative mental power which fundamentally distinguishes man from such lower beasts as baboons, the individual member of a republic committed to technological progress develops respect for his or her own mind, and for the mental potentials of his fellow citizens.

This policy and cultural circumstance has two consequences essential for a republic. First, a climate of technologically progressive popular culture and education is the indispensable means for raising the productive powers of labor, which is in turn the fundamental human basis for enhancing the prosperity of the nation and its individual members. Second, the practical emphasis such a republic places on the individual human mind's creative potentials provides the basis for the prevalence of moral values consistent with the needs of humanity, and consistent with the quality of general electorate a republic requires.

The antitechnological progress prejudices associated with both the doctrines of Rousseau and those of Jeremy Bentham are intrinsically what we call today Malthusian or neomalthusian. In these latter anti-American conceptions the human individual is degraded politically and morally to likeness with a lower beast. He is degraded to the status of a mere biological individual, with more or less fixed potentialities and impulses attributed to him, just as the needs and behavior of lower beasts is apparently determined from generation to generation by a fixed genetic heritage. Just as the judge who sent the great Lavoisier to the Red Terror's guillotine said, "The revolution has no need of men of science," so the Malthusians and their cothinkers degrade man generally to a lower beast-likeness fit only to find his miserable peace with existing natural conditions, and to propose political utopias in which man returns to baboon-likeness in harmony with some more primitive condition of the ecology.

It was America as the symbol and reality of the principle of technological progress which made America the cynosure of oppressed Europeans fleeing from relative zero growth to the land of opportunity here. Although we have often deviated from that principle in our foreign and domestic policies, it is the perpetuation of the American System despite those deviations which has given our nation its greatness and power, a power which depends for its perpetuation upon a repudiation of both what our forefathers regarded as the British system

and of the antitechnological doctrines of philosophical radicalism traced in part to Rousseau and Jeremy Bentham.

It is therefore the historical and still imperative fundamental policy of the United States to base its domestic and foreign policy upon the principles of the American System. That is the viable continuing principle embedded in the Monroe Doctrine, and the proper basis for our policy toward Panama and other Latin American nations today.

The guiding principle at the basis of United States foreign policy is to foster sovereign republics committed to the fulfillment of the humanist principles of technological progress and the cultural development of their populations. We do not arrogate to ourselves as a nation the right to determine the internal political processes of those nations, but we do assume responsibility for the effects of our foreign policy in determining the climate in which nations pursue their internal development.

Thus, in the United States' treaty relations with Panama, it would be an abomination if such treaties promoted the circumstances under which the internal life of Panama favored atrocities of the sort symbolized by the Red Terror of Danton and Marat in 1792-1794 France. It is the vital self interest of the United States that its neighboring countries be viable republics, which those nations cannot accomplish without the circumstances favorable to technological progress in the expansion of their industry and agriculture. It is our vital interest, insofar as our means and other relevant circumstances allow, to afford to the struggling weaker republics of this hemisphere the kinds of friend in ourselves our own new republic desired during the late 18th and early 19th century.

In this connection, some critics of the treaty signed between the governments of the United States and Panama have raised the most relevant criticism that this treaty does not adequately consider Panama's need for a climate of technological progress, of fruitful capital formation in the progress of its industry and agriculture and in the corresponding advancement of the employment and cultural opportunities of its people. This criticism is a valuable one.

If we do indeed condone in Panama and other Latin American nations the conditions of raging sansculottism and the political philosophy of the culturally backward, desperate sansculottist mob, we are thus permitting the kinds of internal developments out of which the ongoing succession of social-political chaos and dictatorship must tend to prevail. In the course of later events, we might lament and denounce such political transformations of these nations, although our errors in foreign policy might have been a major contributing cause behind such unfortunate developments.

A proper United States foreign policy does not mean an unending flow of charitable donations. The entirety of modern history, in particular, demonstrates that the proper combinations of productive capital and increasing of the productive powers of labor generally means a growth in both gross and net produced wealth in industry and agriculture in excess of the growth of debt service incurred by capital formation. We can not arrogate to ourselves the prerogative of imposing such technological development policies upon sovereign nations, but we can shape our foreign policies toward nations to the effect of fostering the choice of a humanist,

technological progress policy by those nations. In point of fact, most of the nations of the world would readily cooperate with such a United States policy.

We cannot, of course, take total responsibility for affording nations the external capital they require, but we are a powerful force in world affairs to the purpose of creating a general climate favorable to a humanist policy.

Other critics of the signed draft treaty between the governments of Panama and the United States, including governments friendly to the United States in this hemisphere, have expressed emphatic concern respecting elements of the treaty which appear, in their estimation, to undermine the principle of sovereignty.

There are two things to be done in response to that criticism.

We must, firstly, emphasize the included principle of the Monroe Doctrine, that the sovereignty of the republics of this hemisphere may be breached only by act of war. We must especially emphasize that point because the British Empire and its political cothinkers down to the present day have never accepted the principle of sovereignty for nations, especially not toward the nations of the southern portion of the globe. We must also emphasize that principle of the Monroe Doctrine because some influential voices within the United States itself have lately proposed that the United States participate in adoption of a doctrine of limited sovereignty.

We must, secondly, emphasize the nature of the problem giving rise to those features of the draft treaty which are the focal point of the complaints made.

The Panama Canal Zone was established as an integral part of the procedures by which the nation of Panama was established, through United States' interests directly responsible for encouraging and generally making possible the separation of Panama from the nation of Colombia. At the outset, the nation of Panama was essentially a client state of the United States, and the Panama Canal Zone an integral arrangement for the very existence of that nation. To quote one influential United States figure, "We stole the Panama Canal fair and square."

However, history moves on. The nation of Panama, originally virtually a mere puppet state of the United States, has evolved into a nation, and with the special circumstance that the ostensible prosperity of the Canal Zone abuts directly the Central American poverty of the majority of Panamanians. With the aid of certain busy bodies from outside Panama, that contrast between the modern standards of the Canal Zone and the poverty of most Panamanians has been for over a decade the specific obsession of a political ferment centered around "New Left"-type university and other students of Panama.

In this circumstance, two interests collide.

The Panama Canal remains a vital strategic economic and military interest of the United States. It is an important element of United States internal commerce, and without it the United States would be obliged to augment its naval and related forces most considerably.

At the same time, despite the efforts of the Panamanian government of Gen. Torrijos to maintain rational and friendly relations with the United States, he came into power in the sequel to student riots which destabilized and ended the lawful former government of that nation, and presides over a much enlarged student-

led ferment of the same impulses. This unstable feature of the present internal situation in Panama, combined with a general destabilization among the countries of Central America, prompts the United States government and leading forces of the United States population to be concerned with the possibility and consequences of an overthrow of Gen. Torrijos's government by forces associated with the student "New Left."

Although we do not propose to intervene in the internal affairs of Panama, we have the right and obligation to take into account what effect internal forces such as those of the student-led ferment might have on the policies and practices of a future Panamanian government. It is our right and indeed our obligation to speak plainly on the subject of that student-centered ferment. It is essentially a sansculottist demagogues' movement in the tradition of the movements of Danton and Marat, a violent "New Left" formation of the philosophical-radical variety, of that variety which at one moment represents itself as "ultraleft" and at another proves to be a new variety of the fascist movements associated formerly with Adolf Hitler and Benito Mussolini, a movement essentially characterized by irrationalism.

If those forces were to succeed in coming into power, the identified vital strategic interests of the United States would be indeed threatened. Moreover, whereas with the case of governments with whom we have differences, but which are committed to a rational perception of vital national interests, satisfactory negotiations will usually solve problems, with a government of forces which are essentially irrational, no such avenues of negotiations exist as efficient remedies.

Consequently, the majority of United States citizens, to the extent their spokesman inform them of such facts, will not accept a simple relinquishment of the United States' rights in the Panama Canal Zone.

As long as that problem persists, the United States has no practical alternative but to establish treaty rights which establish protection of vital United States' interests in the operation of the Canal.

For related reasons, some political currents in the United States may miss the valid kernel in the objections put forth by the government of Mexico.

It could rightly be observed that the proposed treaty increases the effective sovereignty of the government of Panama in respect to the Canal Zone, as against no treaty at all. The point is nonetheless made that the treaty implicitly sets forth a doctrine of limited sovereignty, reaffirms that as an acceptable principle at this present time. Worse, that feature of the treaty is asserted at the same time that a significant number of influential voices are proposing the promulgation of a doctrine of limited sovereignty, and that the International Monetary Fund and World Bank, among others, have gone to new extremes in arrogating a principle of

external limitations on the sovereignty of debtor nations. It is not that the draft treaty lessens the sovereignty of Panama; it accomplishes the exact opposite. It is that the inclusion of specifications with the effect of limited sovereignty in a current treaty is deemed an offensive act of policy at this present time.

This is also an important point among Latin Americans because of current efforts in some influential quarters to foment what is sometimes termed a "Second War of the Pacific" among Chile, Peru, Bolivia, Ecuador and other nations, and related matters in Central America, including the threatened outbreak of a Guatemalan-based adventure against Belize. The proposal of a Bolivian outlet to the Pacific and Ecuadorian access to the headwaters of the Amazon River are connected to the cited features of the Panama treaty in not only the minds of some leading Latin Americans.

How do we, then, resolve this matter?

First, at the moment, relinquishing the vital interests of the United States in the Canal is, at best, a difficult proposition. Furthermore, as long as the threat of student-led overturns of the present government of Panama persist, going further in concessions than the treaty proposes is probably unacceptable to the relevant institutions of the United States.

However, we can significantly mitigate the difficulties involved in two ways. First, we can avow, as a ruling doctrine of United States policy, that the practical features of the current draft treaty with Panama are in no sense a precedent for a doctrine of limited sovereignty, and specifically disavow any United States support for forcible adjustment of the borders of Ecuador and Bolivia.

Second, we can respond to the viable criticisms of the treaty concerning the internal economic development of Panama. Those critics rightly point toward the fact that the present draft treaty will not work. U.S. Senate ratification of the treaty will not avoid a threatened destabilization of the present government of Panama; a general destabilization of Panama and adjoining nations of Central America is already underfoot and will continue whether or not the treaty is ratified. We must therefore supplement the treaty with measures within our proper means to aid the government of Panama in isolating and otherwise neutralizing the anti-humanist, student-led irrationalist forces in Panama. We must aid Panama in neutralizing and isolating the irrationalist forces of destabilization by arranging economic development programs of the sort which inspire and sustain that quality of humanist outlook for which the American Revolution was fought and the establishment of our federal republic and constitution was effected.

The approach to the reassertion of the essential content of the Monroe Doctrine identified here is the appropriate road toward proper relations within the Americas, including further steps toward full solution of the problems interlinked with the Panama Canal.

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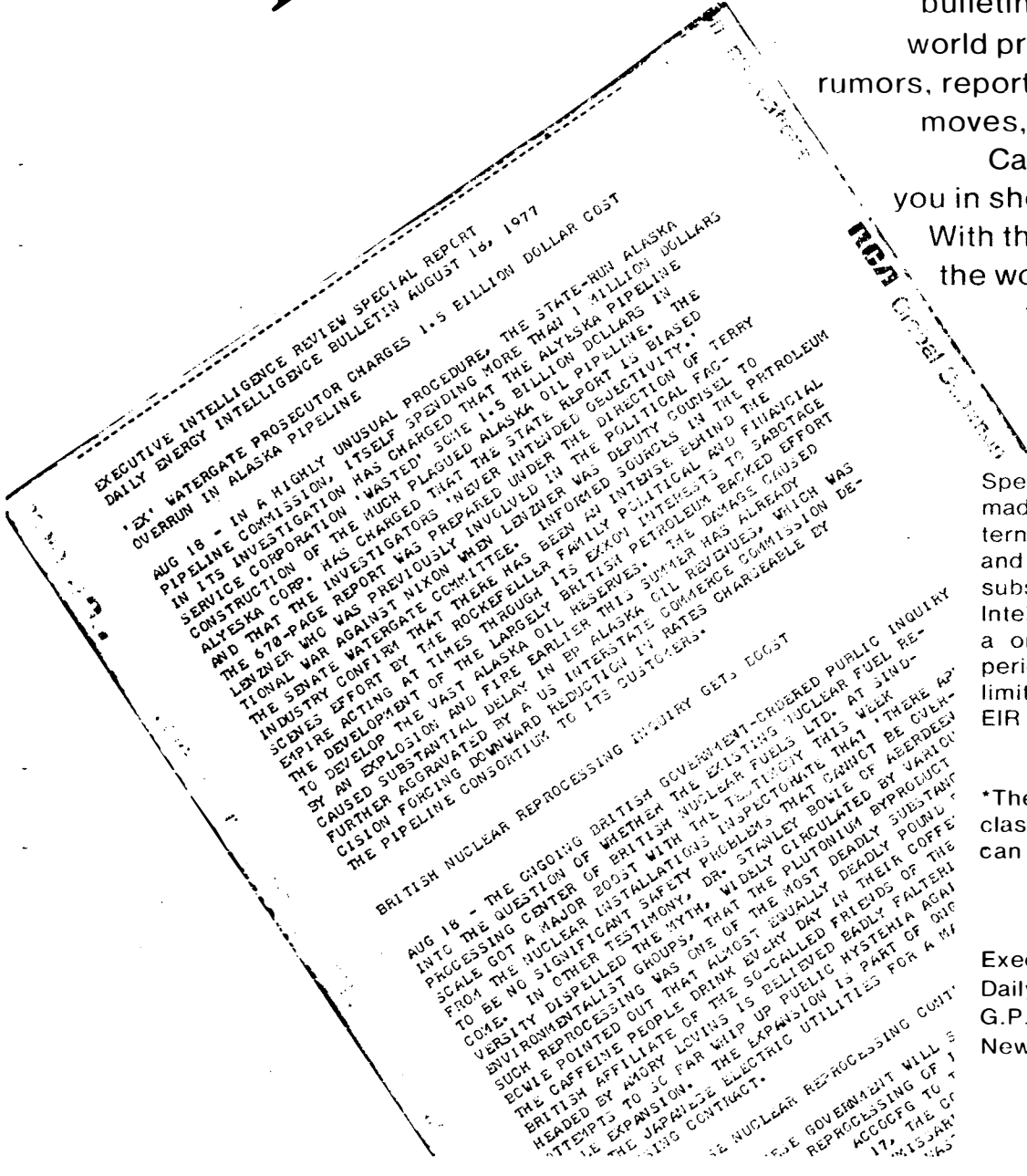
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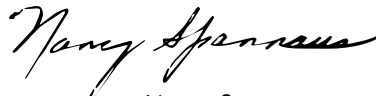


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