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EXECUTIVE INTELLIGENCE REVIEW

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IN THIS WEEK'S ISSUE —

This week saw a **baffling** series of events on the **international money markets**, as the **British pound's jihad** against the **dollar** roared into a new phase... and ran into an international **backlash**... This week's **INTERNATIONAL** section takes a long and careful look at what's happened, and what will likely happen next... at **Arthur Burn's bluff**, and the **crippling weakness behind the pound float** that looked so successful at first... at the mounting evidence of **a run on the pound**... and the **export-oriented policy** that U.S. business leaders are demanding to **guarantee the dollar's future**...

* * *

Our newly expanded **U.S. REPORT** updates the **parallel bitter fight** in Washington over U.S. **foreign policy**... with a documentary **survey** of the Administration's defense of its **Mideast peace and detente** efforts... versus **an unholy alliance** of Fabian Democrats, "Israel Lobby" hawks, investment houses betting against the dollar, and **hornswaggled Republicans**... that is trying to **wreck Geneva and SALT**... including **exclusive interviews** from **"Inside the Jewish Lobby"**... and an analysis of the significance — in both the USSR and the U.S. — of Soviet leader Brezhnev's proposed ban on nuclear blasts... In our **GOP** report, the **facts and factioneers** behind the Republicans' **"dumb-bunny" tailing** of the **Mideast war lobby**... counterposed to excerpts from **John Connally's** call to make the GOP **"the party of growth and optimism"**... Plus, a **Congress** report that examines the **debate over the Carter energy package**... and under **Energy**, the **"pronuclear" energy czar's secret maneuvers** to keep nuclear power advocates **out** of his domain... **all** in this week's **U.S. REPORT**...

* * *

We inaugurate our **LABOR REPORT** this week... with a rundown on the nation's **strike picture**... a report on the West German trade unions' upcoming **Dortmund monster demonstration for nuclear power development**... and on the scores of **U.S. unionists** who are **publicly supporting the demo** and its policy thrust... Excerpts from Teamster leader **Frank Fitzsimmons's testimony** before the **witch-hunters**... The Humphrey-Hawkins slave-jobs bill's **newest resurrection**, and the latest version of the "30-for-40" scam are both **dissected**... A feature report on the **floundering steel industry**... this week in **LABOR REPORT**...

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The **currency chaos** kicked up by the dollar-pound battle has its own story... **ECONOMICS** this week examines the **Eurodollar spree**... and finds that many countries may be using **dollar loans from U.S. banks** to speculate **against the dollar**... leaving the U.S. banks involved **"dangerously exposed"**... (see **ASIA** for a **Special Report** on the **deliberate currency wrecking** against the **Japanese economy**)... **The method and the madness** of Treasury Secretary **Blumenthal's tax proposals** are analyzed in a **Special Report** that concludes that **chaos will look good** compared to the effects of this bill, were it ever passed... and **contrasts the conservatives' approach** to the tax issue with **an effective, growth-based tax policy**...

* * *

Also in **ECONOMICS**... an **apparent backdown** by at least some forces **inside the East bloc** on the plans for a **transferable ruble**... looked to by many, East and West, as the **gold-backed alternative** to the **debt-wracked international monetary system**... Why **the t-ruble looks too risky** to some... with **our own evaluation**... and excerpts from **a little-publicized speech** on the subject by Hungarian central banker Fekete... And in this week's **SOVIET SECTOR** report, **another angle**... the East bloc's **own economic troubles**, particularly the grain shortfall... and its implications for Soviet and Comecon **economic and political policy**...

* * *

Mexico says its oil reserves are **even greater than previously believed**... making Mexico **second only to Saudi Arabia** in oil wealth... and prompting plans to use this wealth for a **crash development program** to bring Mexico up to **advanced-nation status** within 20 years... **ENERGY** describes the Mexican plans, including a presentation by the **director of the country's national oil company,** PEMEX... also features a **comparison between the fiction** being purveyed about the sabotage of the proposed Mexico-U.S. gas pipeline, **and the facts**, in a revealing **case study** of how Schlesinger and others **manipulate the press**...

* * *

The **Franco-German axis**, the **counterpole** to the City of London forces, is shaping its economic policy orientation... The **EUROPE** report this week documents **how**... presenting excerpts from **Chancellor Helmut Schmidt's speech to the London Institute for International Strategic Studies**... and a note about how the **U.S. State Department censored Schmidt's remarks** for consumption in U.S. government circles... A **Special Report** on Italy's **Montedison** chemicals giant shows how top London-linked Italian monetarist **Cuccia** turned a **thriving enterprise into a ruin**...

Latest Stage In Pound-Dollar Battle:

Central Bank Support Operation For Dollar?

Next week's meeting of the Bank for International Settlements, the central bank for central banks, in Basle, Switzerland, might be the occasion for a massive central-bank support operation for the U.S. dollar. Word of this possibility, which seemed to originate with the Japanese but more likely comes from the Federal Reserve and the West German Bundesbank, was the major factor in the dollar's recovery at the end of this week, according to foreign exchange traders at the big New York commercial banks.

In addition, some of the biggest banking and corporate muscle in the United States has decided that the only way to break the fundamental problems underlying the dollar's recent weakness is to organize a massive drive to correct the U.S. trade deficit from the export side. Apparently, this decision will be reflected in the proceedings of the National Convention on Foreign Trade in New York City Nov. 14-15.

With these and related actions, the world monetary system has eased back slightly from the brink of a catastrophe which earlier threatened to take the form of an uncontrollable run against the U.S. dollar. At deadline on Friday, Nov. 4, the foreign exchange markets were relatively quiet, and the U.S. dollar stood at about 2.26 to the deutschemark and $1.8060 to the pound sterling, not substantially different from the week's opening, and a strong recovery from the record lows registered against major currencies earlier in the week. Perhaps more significantly, key short-term interest rates also ended the week where they began, with the Federal funds rate at a shade over 6.5 percent, and the six-month Eurodollar rate steady at 7 and five-eighths. The steadying of interest rates seems to have accounted for the last-minute recovery of the New York stock exchange, which rose 7.28 on the Dow-Jones Industrial index to 809 in trading Friday, after threatening to close the week below the 800 level.

The converse of the dollar's steadying occurred in London. Sterling fell back sharply from the Wednesday, Nov. 2, high of $1.86, and massive foreign profit-taking hit the stock and bond markets. The *Financial Times* industrials were down 31 points on the week to 476; gilt-edged stock were down, on average, almost 3 points on the week; and the flash-in-the-pan British financial recovery suddenly appeared to be in short-term danger.

These events are the result of several layers of political action from New York to Tokyo, but the week's leading performers are probably Fed Chairman Arthur Bruns and his New York City banker constituents, and the Western European monetary authorities.

Burns's Bluff

Developments on the interest rate front earlier this week baffled money market participants. But now that the dust has cleared, word is out that Arthur Burns has hoisted up fighting colors. Burns let the Fed funds rate drift up to 7 percent on Monday afternoon, leading to panicky speculation that the Fed's target for the central Fed funds rate had moved as high as 6 and three-quarters. Dispelling these fears, the Fed's trading desk injected liquidity to bring rates within a shave to where they had been on Friday. Eurodollar rates, which had earlier led the domestic rates upward, followed an identical pattern, indicating that the Fed was in close control of events.

Under pressure from the Fabian gang at the Council of Economic Advisors and the Treasury, Burns had earlier avoided striking action on the money markets. But Monday's action was a direct warning that the Fed would stick to a strong dollar policy at all costs. In particular, the move was a strong signal to the Western Europeans, who had held back from heavy intervention during Monday and Tuesday's foreign exchange trading. But Burns was also sending a clear signal to the White House that he would resist efforts to unseat him as Fed Chairman when his four-year term expires on Jan. 1, 1978.

By Thursday, expectations were so strong in the foreign exchange market that the United States and West Germany would announce a joint intervention policy to prevent a further fall in the dollar, that the U.S. fund rose sharply in anticipation of the joint press conference that afternoon between U.S. Treasury Secretary W. Michael Blumenthal and Bundesbank President Otmar Emminger. When Blumenthal said that the countries' central banks would intervene to smooth out day-to-day fluctuations, but not to support the dollar's parity, the dollar immediately fell. But on Friday, word of the Bank for International Settlements meeting was a major factor in the dollar's recovery.

Sterling Floats — On Its Belly

Top Western European bankers qualified the Bank of England's decision Monday to let the pound sterling float upwards as a "disaster," which will "provoke a backlash." These predictions bore out over the week. Most press commentary ascribes Britain's sudden financial problems to the threat of major strikes by coal and electricity workers. Although the coal union's rejection of a compromise contract offer Wednesday, and the go-slow by electricity workers, represented a significant factor in the market, the story is much more interesting. Dresdner Bank foreign exchange traders report a rumor that the New York Fed itself was in the market selling pounds. Although this cannot be corroborated, there is no question that the entire New York banking community *wanted* to sell sterling, and top-level Fed officials were passing out recommendations that short positions against sterling would not be a bad idea. "A run against the pound is definitely possible," one said, "and it would be in the U.S. national interest."

Interviews with foreign exchange traders at the leading New York commercial banks show a consensus that sterling is in trouble. In retrospect, this should not be surprising. As W. German press sources (see below) explained, the Bank of England let the pound float under conditions they did not choose. The Bank's problem is that the entire market in sterling investment instruments has been swamped by the incredible $16 billion in capital inflows so far this year. The rate of sterling inflows has actually managed to exceed the Public Sector Borrowing Requirement. With reserves at $20.3 billion as of Oct. 31, Britain also had interest rates below U.S. rates, with double the rate of inflation, an unsustainable situation. Sales of British government stock could no longer stop the inflows from flooding the banking system with liquidity, and the narrowly-defined money supply rose at a 27 percent annual rate during September.

The City of London installations who planned the boom in the first place intended to move on to a major international investment program, making the pound sterling a world investment vehicle for the first time in 40 years. Under present exchange controls, resident holders of sterling may only invest in foreign securities by purchasing, at a premium of roughly 25 percent, investment dollars from a limited pool controlled by the Bank of England. In addition, such securities may only be cashed back into sterling if the seller surrenders an additional 25 percent of the sale value.

In unison, the British press argued for the lifting of these controls. But British trade unions exercised their clout inside the Labour Government and prevented it. The Trades Union Congress has argued that permitting sterling to flow out of the country would interfere with availability of investment capital for British industry. (Proponents of lifting controls, e.g. the daily *Guardian* newspaper, did not dispute this, but argued that foreign investment "at the highest possible rate of return" would be better than domestic investment).

Apart from philosophical objections, the TUC had a more down-to-earth reason for opposing the lifting of controls. A significant portion of their pension funds are invested in foreign securities bought at premium. Were the controls abolished, the re-sale value of these foreign securities would also drop by the current investment dollar premium.

This line-up of forces was consolidated at Wednesday's meeting of the National Economic Development Council, the tri-partite body of British government, unions, and labor. Representatives of the Confederation of British Industry demanded that the Government haul the sterling rate back down, fearing for the competitiveness of British exports. But the trade unions — forcing Chancellor of the Exchequer Denis Healey to support them — vetoed the lifting of controls. The CBI, which has reason to worry, probably has little reason to worry about a sterling rise in any case.

New Rules of the Game

Britain's attempt to re-emerge as a world financial power has been forgotten in the scramble for new positions, now that the rules of the game have changed. A bellwether is the Swiss banking community, most of which had followed British thinking closely until this week. (A good public indication was the performance of the Swiss Bank Corporation's Alfred Matter and Credite Suisse-White Weld's Michael von Clemm at the *Financial Times*' Bahrein Conference Oct. 21-22). According to very good European sources, Swiss banks liquidated between £250 and £300 million on Thursday, including £100m for Arab customers. A large part of these funds went into dollars and thence into gold, which rose sharply to $165.90 at the Friday London fixing. Strong Swiss profit-taking is a good sign that the smart money is playing the short side of the London market.

What follows? The French are pursuing negotiations with the Soviets which could have surpassingly important consequences for the shape of the monetary system (see *Economics*). Top West German banking sources report that they are planning to squeeze London dry, and use the outflow to fund a new Euromarket center in Luxembourg to rival London, along with a major gold market center. The Luxembourg proposal was a major ambition of the assassinated chairman of the Dresdner Bank, Juergen Ponto. A senior official of Commerzbank says that the major difference between London and Luxembourg will be tight enforcement of a "hard commodity" credit policy — trade and investment rather than speculation — through a "gentleman's agreement" of participating West German and French banks. Dresdner Bank officials say that centralizing Eurocurrency funds in Luxembourg could create up to DM 150 billion of credits to finance West German nuclear exports to developing countries.

Dollar Fundamentals

But the most important question is still to be settled, namely, the correction of the $30 billion a year U.S. trade deficit — which the Administration continues to predict will be sustained again during 1978. Leading U.S. bankers believe that this is unacceptable, and are planning a major export drive and new credit arrangements to finance it. "No matter how much central banks intervene, it will do no good unless action is taken to correct the U.S. trade deficit," commented the West German daily *Die Welt* Nov. 3.

Next week's annual convention of the National Convention on Foreign Trade will be a test of how far the banks will go. The conference, chaired by Bank of America's A.W. Clausen, will make the usual pitch for free trade and do its best to drum up the export spirit. Discussions with bankers indicate something bigger may be involved. One New York bank is circulating a type of "two-tier credit system" proposal. According to this plan, the Export-Import Bank would be given powers to discount trade credits at low interest rates. The impact of such a development would be enormous. One manufacturing industry association spokesman complained, "We export mostly on medium term, and the banks have trouble with that. It's easy to understand it from their side of the argument — who wants to extend more risk to Brazil? They need the Exim Bank to hold their hands."

At least the political possibility of a major turn towards an export orientation is in the cards. Reportedly, top business leaders have "given it to Carter with both barrels" over the state of the dollar and are demanding action. Some are optimistic that the White House can be swayed in this direction.

—David Goldman

'Luxembourg Plan Will Favor Exports'

Carlos Di Arrigunaga, Senior Vice President and Economist with Bank of America, commented on the fall of the dollar in an interview last week:

Q: How is Bank of America responding to the fall of the dollar?

A: Well, everyone takes positions to avoid risk. But as far as the value of the dollar is concerned — if you compare the growth rate in the United States and any of the other economies, the dollar is very strong. Apparently this is being offset at the moment by the balance of payments. What really has to be done about the balance of payments is to increase exports. It is critical for the dollar to stabilize in 1978. The central banks should intervene to support it.

Q: If central banks mop up the excess liquidity in the international markets, won't this pose a problem in terms of availability of liquidity, say, to refinance LDC debts?

A: Liquidity can always be made available again. The Fed can put it in as rapidly as it takes it out. But the point is, this is a temporary measure, in lieu of economic expansion abroad, which is what we need for the balance of payments to register an improvement. What the West Germans and Japanese are doing should help. The mild stimulation during 1978 and 1979 should favor our exports of plant and equipment.

Q: The West German fiscal program is not expected to do much, even by the West German government. The only serious stimulation program the Germans are talking about is the plan to centralize Eurocurrency funds in Luxembourg, and finance huge amounts of exports through the private sector.

A: The Luxembourg plan is exactly what I'm talking about. There are a large number of projects and deals in the works. The Exim Bank is also beginning to introduce certain policies that will favor exports. You see these policies cropping up across the board, like getting the Exim Bank to boost exports. The United States has the potential to increase its exports massively. I think we will see a whole range of programs to encourage exports, like the DISC program, but beyond that, there are a lot of potential markets. I see a real drive for exports, teaching businessmen how to export. If this kind of drive got underway, I think everybody will be surprised to see how fast exports take off. We can't wait for West Germany to stimulate its economy. Other countries really don't have a lot of room to maneuver. We ourselves have to initiate it.

Q: It seems the best Western European thinking is that a major increase of U.S. exports — say, nuclear plants — won't drive them out of existing markets but will help open up new markets.

A: That's absolutely right. A lot of markets can be developed, and it will only mean increased output, investment, and employment at home.

Q: Most of the New York bank economists argue that we have to cut oil imports to correct the current account deficits.

A: Energy conservation is all fine and good, but we have to do it on the export side.

West German Press Looks Grimly At Pound Sterling

In an article entitled, "The Pound Stands on a Weak Foundation," West Germany's economic daily Handelsblatt *commented Nov. 3:*

"The anti-inflationary policy (of the British government) is endangered by resistance from industry and the trade unions... Profound mistrust has emerged again (towards the pound), also from abroad."

This viewpoint was repeated in an editorial in *Handelsblatt* the same day: "The trust which is being shown towards the pound these days by the market is not justified by the facts. The market, it appears, is responding ever more sensitively. For example, whenever Blumenthal coughs, this is immediately taken as a sign for the beginning of a sickness for the dollar, and provokes a minor crisis... Banks and corporations in important industrial countries are swimming in liquidity, because alongside an expansive monetary policy, too little is being invested... (British European Economic Community Commissioner) Roy Jenkins' proposal (for a unified European currency) is useless. Such a Eurocurrency would have to immediately collapse..."

Foreign Policy Battle: Geneva, Detente At Stake

The Carter Administration spent this week reaffirming its commitment to an early Geneva peace conference based on an understanding between Israel and the Palestine Liberation Organization, despite a large and growing pressure campaign to prevent such a peace — or alternatively, a second term for Carter — being conducted under auspices of the Fabian liberal wing of the Democratic Party and the well-known "Jewish Lobby" of certain New York investment bankers.

FOREIGN POLICY

Speaking for the Administration, Zbigniew Brzezinski, the National Security Council chief, told NBC-TV's "Face the Nation" program Oct. 30 that the U.S. and the Soviet Union view the Middle East crisis as the most likely immediate cause of a third world war, and for that reason, think of a peace settlement as an essential accompaniment to a lasting SALT treaty. Then Secretary of State Cyrus Vance, interviewed by *U.S. News and World Report,* declared both a Geneva conference and a SALT treaty to be immediate Administration objectives.

Most dramatic was the statement delivered by Carter himself before a hostile Jewish audience Nov. 2. The President told the World Jewish Congress meeting that he would do everything possible to bring about a Geneva conference by the end of the year, and a settlement dealing with both Israel's need for secure borders and Palestinian concerns and rights.

The Administration, however, has a weak point in its failure to deal with the problem of James Rodney Schlesinger. Carter continues to defend Schlesinger's energy policy as if this were not inconsistent with his hopes for a Middle East peace — which it is. Schlesinger, and other British-connected elements of the Administration's Mondale branch, have based their hopes for a zero-growth energy program on the development of an "emergency" situation in the United States this winter, and the most likely pretext they could devise for oil and gas shortages and so forth would be renewed hostilities and oil embargo developments in the Middle East.

It was not accidental, in this connection, that President Gerald Ford's efforts to prevent Middle East war at one point required what has been called the "Halloween Massacre," when Schlesinger, most importantly, was tossed from office. Carter has not learned that lesson, and remains especially vulnerable to the conspiracy against his peace program on that account.

The Jewish Lobby, meanwhile, is going into a rage over Carter's adherence to the Geneva policy and related detente with the Soviet Union, and leading spokesmen for their efforts in the past week turned out to be, not coincidentally, all former close associates and allies of Mr. Schlesinger — Senators Jackson and Moynihan, former Undersecretary of State Eugene Rostow, the Jewish Lobby's *Commentary* magazine, Garment Workers Union president Sol Chaitkin. All are now situated in the so-called Coalition for a Democratic Majority, advancing "Israel's interests" in a bloody Mideast conflict.

I The Administration Reaffirms Its Commitment To Peace And SALT

Vance Defends U.S.-Soviet Accord...

We reprint here portions of an Oct. 19 U.S. News and World Report *interview with Secretary of State Cyrus Vance.*

Q: How do you explain the sudden change in relations with the Soviets in recent weeks — the signs of a warming up after months of growing acrimony?

A: The principal reason is that progress has been made in our SALT discussions. We have a whole complex of issues which are always under discussion between ourselves and the Soviet Union, but it's quite clear that, from the Soviet standpoint, the central issue is the strategic arms talks. If progress is being made in these talks, then relations between the Soviet Union and the United States will tend to be good or better. If progress is not being made, it will have an adverse effect upon the relationship.

Q: For many years Washington has worked on the assumption that the Russians were bent on exploiting the

Arab-Israeli conflict and that they should be kept on the sidelines. Why have you reversed this policy overnight by issuing a joint declaration with the Soviets on Mideast peace negotiations?
A: The Russians have a role to play in the Middle East. They are one of the two co-chairmen of the Geneva conference. It has been our view from the outset that we should seek to work with the Soviets in a constructive way to try to move toward the reconvening of the Geneva conference and to search for a just and lasting peace. Therefore, we have sought to work with them in a cooperative fashion to achieve these ends. I think we are making some progress, and I think that it will help both of us in terms of bringing about a Geneva conference and also in making progress once a Geneva conference is convened.

Q: Aren't the Russians really bent on making mischief in the Middle East rather than ending the conflict there?
A: I don't think that's true. I think that we ought to proceed on the assumption that they are willing to work in a cooperative fashion unless we find the contrary to be true...

Q: Do you think a breakdown of a Geneva conference would lead inevitably to another war?
A: If we fail to get into substantive discussions, then the drift will be toward war.

...Welcomes Soviet Nuclear Blast Ban

These excerpts come from a news conference given by Secretary of State Vance Nov. 2.

... We have not yet had time to study the full text of (Soviet President Brezhnev's) speech, but we do share his view that there should be a down-turn in the arms race.

We welcome President Brezhnev's statement on a moratorium on peaceful nuclear explosions... we have been talking about for several months on the need to include all kinds of nuclear explosions, including so-called peaceful nuclear explosions, in a comprehensive test ban... in that same speech he said — and I am quoting him — "if attempts are made to lecture each other between the United States and the Soviet Union, the result will only be a build-up of distrust and hostility."...

Secondly, you asked about the question, have we interceded with the Soviet Union with respect to individuals in the Soviet Union. The answer is: yes, we have. We have done so on a number of occasions, and we have done so recently, as well as a number of times in the past...

Let me say that we have discussed the question of the possibility of the trials with the Soviet Union. We have not, as has been suggested in stories which I have seen in the press, made any linkage between that and our discussions in SALT. But we have indicated that we view this question with great seriousness and have brought this formally to their attention...

... The key questions which remain for resolution are, as I think most of you know, the question of how the composition of the Palestinian element of a united Arab delegation would be formed. The second is the final form of the working groups which would be needed to carry out the work of the Geneva conference after the opening sessions...

... We are seeking a lasting peace. All of the leaders in the Middle East who are involved in these discussions agree that the only way to do this is to do it by seeking a comprehensive agreement or agreements.

Next, in order to get such comprehensive agreements, it is necessary to deal with three basic issues.

The nature of peace; the question of withdrawals and borders; and, thirdly, the Palestinian question.

All three of these issues have to be dealt with if one is to get a comprehensive and a lasting peace. It cannot be done if any one of those three is not dealt with...

... If we are to stop an upturn in the arms spiral, it is essential that we get a SALT agreement. I think if we can achieve the SALT agreement which we are working on now, we will do that. We will do it by the means of obtaining a reduction in the number of nuclear weapons...

Carter: Partisanship Could Imperil Mideast Peace

The following are excerpts from President Carter's speech Wednesday, Nov. 2 to the World Jewish Congress in Washington, D.C.

"... intemperance or partisanship (could imperil) the best opportunity for a permanent Middle East peace settlement in our lifetime...

"This is not a time for intemperance or partisanship. It is a time for strong and responsible leadership and a willingness to explore carefully and thoughtfully the intentions of others...

(The United States) "cannot merely be idle bystanders (in seeking peace in) this most dangerous region of the world... The three key issues are the obligations of peace, including the full normalization of political, economic and cultural relations; second, the establishment of effective security measures, coupled to Israel's withdrawal from occupied territories and agreement on final, recognized and secure borders; and, third, a resolution of the Palestinian question.

II From The Soviet Side, Brezhnev Offers Concession On Nuclear Blasts

Soviet President Leonid Brezhnev proposed a ban on all underground nuclear weapons tests and a moratorium on all underground nuclear explosions for peaceful purposes, at a special session of the Soviet Communist Party's Central Committee and Supreme Soviet Nov. 2, opening the celebrations of the 60th anniversary of the October Revolution.

The Brezhnev speech represents potential, unwarranted abandonment of the USSR's long-standing refusal to bargain away its programs for peaceful use of nuclear energy, and would, if implemented, necessarily lead to the cancellation or delay of major development projects such as the diversion of northward-flowing Siberian rivers to the south for agricultural and transport purposes.

Brezhnev clearly hopes that this move will give President Carter an additional bargaining chip to overcome vocal opposition in the U.S. to the fragile deal recently struck with Moscow on the Mideast and strategic arms limitation (SALT). The outcry of the "Israel Lobby" against Carter's Mideast peace efforts, the efforts of Senator Henry Jackson and others to block the SALT accord, and the war-cries of Paul Nitze and the Committee on the Present Danger all serve to heighten Brezhnev's anxiety on this score.

Bernard Gwertzman in the *New York Times* Nov. 2 warned that the Soviet Union must tone down its treatment of dissidents lest "anti-Soviet agitation" in the U.S. intervene to reverse all the recent progress in Soviet-American relations. On the same day, *Pravda* expressed Soviet nervousness about the effect all this will have, warning that NATO's arms buildup policy "contradicts" both the Belgrade Conference and SALT.

There are indications, however, that the Soviet leadership is far from united behind Brezhnev's current concessionary line. Gwertzman quotes an Administration source as saying that "the KGB and some in the Politburo" strongly oppose any easing of the crackdown on the dissidents, while others believe that moderation is necessary to prevent a deterioration of relations with the U.S.

III The Coalition To Wreck Geneva

Inside The Jewish Lobby

An alliance of leading American Jewish organizations, the anti-Soviet Coalition for a Democratic Majority, and key right-wing social democratic Congressmen such as Senators Moynihan and Jackson, has spent most of the past week conspiring against President Carter's attempts to get a Geneva Middle East peace conference underway during the current year.

This conspiracy has been highly vocal, and featured prominently in the *New York Times* and related Eastern Establishment media. On Oct. 30, for example, the *Times* ran an extraordinary front-page feature detailing the plans for a national assault by leading American Jews against Carter's Mideast policy. The article went so far as to suggest that Carter's "Southern Baptist" background would be used to demonstrate his intrinsic lack of concern for Israel.

Since then, the *Times* has run a full-page advertisement paid for by the blanket organization for American Jewish groups, the Conference of Presidents of Major Jewish Organizations run by ultra-Fabian Rabbi Alexander Schindler, with the provocative headline, "Will Middle East Peace be the Next Hostage to Palestine Liberation Organization Terror?" On Nov. 1, the *Times* carried a news story on a poll conducted by CDM coordinator Seymour Martin Lipset and appearing in the latest issue of the American Jewish Committee house publication, *Commentary* magazine. The poll was said to "demonstrate" that a large minority of Americans would strongly oppose Carter if he dared try to bring the PLO into peace talks.

Much of the Israel Lobby and CDM mobilization has, however, involved the private circulation of planned attacks on Geneva and supporters of an overall Mideast peace policy. With the aid of reports from investigative journalists, the *Executive Intelligence Review* has been able to piece together the following elements of the assault:

"Geneva May Never Take Place"

"It looks like we've the postponement of Geneva — maybe indefinitely. You know, Geneva may never take place." In a Nov. 1 interview, a Middle East affairs coordinator for the Anti-Defamation League insisted that the next phase of the U.S. Mideast diplomacy was up to the whims of he and his "Jewish Lobby" cohorts: "If Carter pushes too far on this question we've got a deal in the works with the Republicans that will knock this Administration out of the running for the next round of elections."

The confidence that Geneva was averted was seconded by a leading member of both the CDM and Social Democrats, U.S.A. "It looks like no Geneva this year.

Next year — who knows? That is largely dependent on some Carter concession towards the PLO — and if he did that, he could be in real trouble. We're seeing a rightward drift in the U.S., a desire for a strong policy that is working against this policy of constant concessions."

"Focus The Attack On The PLO..."

"If Israel and its supporters were smart," a pro-Israel strategist at the California-based Rand Corporation emphasized Nov. 2, "they would concentrate all their guns on the issue of the PLO as terrorists. This could rally people in a very emotional way and box the Administration in."

"... And The Russians"

"We're very concerned about this policy of bringing the Russians in," CDM coordinator Benjamin Wattenberg told a caller. "Doing this is just plain bizarre. I've shared my concern with prominent Jewish leaders. They know well what capabilities there are to deal with the Republicans on this issue, and they can really screw Carter. I myself am seeing a lot of people in Washington on this question."

An aide to Sen. Patrick Moynihan (D-N.Y.), honorary chairman of the CDM, added that the Administration's policy toward the Soviets on the Mideast and related issues was "facile babble...craziness. These guys — Brzezinski, (NSC aides) Quandt and Hunter, Gelb over at State political-militare — are part of a sort of foreign policy establishment that thinks you have to play up to the Soviet moderates. Total craziness! They don't understand a damned thing....They're catering to the PLO, appeasing the lunatics." Moynihan, he warned, would withhold support for the Administration on the Panama Canal and other issues if this "trend of appeasement" continued.

"Heads Will Roll At The Department Of Defense"

"Carter will commit political suicide if he makes any gestures towards the PLO and tries to impose a Geneva settlement on Israel," a Senate Foreign Relations Committee aide threatened Oct. 28. "He must know this, so you have to wonder, why is he pushing along this track? The reason must be the rotten core of anti-Israel bureaucrats over at State and Defense. Take this recent Cordesman report (an article in the latest issue of *Armed Forces Journal*, written by an Undersecretary of Defense in the Ford Administration, Anthony Cordesman, warning that Israel's constantly expanding military might threatens to drag the U.S. into an undesired war — ed.). Cordesman didn't write that! He got all his information from the coordinator of the Mideast Task force at Defense, Janka. We're going to call Janka onto the carpet for this — for releasing classified intelligence. In fact, we're pretty damned sick of a lot of the mentality prevailing at Defense, and I can say with confidence that heads are going to roll over at Defense."

The SFRC aide's threat followed a string of violent condemnations of Cordesman from the Anti-Defamation League, which labeled the *Armed Forces Journal* piece "anti-Israel and anti-Jewish." Reacting to a report released in the Jewish Telegraphic Agency that Cordesman is only reflecting a "prevailing sentiment" at both Defense and State, the ADL called for an official government investigation into the origins of the *Armed Forces Journal* article.

Cordesman and his Defense Department cothinkers were also bitterly attacked by the former head of Middle East intelligence for the Air Force, Joseph Churba, in an interview with the Long Island-based *Jewish Week* recently. Churba warned that if this trend of thinking merged into official Carter Administration policy, then "Jackson and Moynihan" would launch a major national public protest against the Geneva policy, forcing Carter to retreat.

Nitze And Co. Fire Torpedoes At SALT

Paul Nitze, policy chairman of the Committee on the Present Danger, released on Nov. 1 a detailed analysis of the projected SALT arms limitation agreement between the United States and the Soviet Union, in which he charged that the Soviets would gain an overwhelming nuclear advantage if the agreement were ratified.

"I believe we're locked into inferiority and don't know how to get out of it," Nitze told reporters. He focused his heaviest criticism on prospective range limits for the U.S. cruise missile and in effect accused U.S. arms negotiators of failing to obtain sufficient limitations on Soviet deployment of so-called heavy missiles and the Backfire bomber.

The *Baltimore Sun* Nov. 2 promised that "Nitze's views will carry great weight in a Senate already uneasy about the pacts." Syndicated columnists Evans and Novak, frequent conduits for CPD material whose articles during the last two weeks have been devoted to leaks about comparative U.S.-USSR military strength, on Nov. 5 flatly predicted "a SALT treaty would fail ratification in the Senate today," and claimed Secretary of State Vance had given "a performance (which) bordered on the disastrous" in testimony before the Senate Armed Services committee chaired by Henry Jackson.

The *New York Times* has also featured frequent recent leaks from "Pentagon sources," the latest of which reported Soviet production of 100 mobile missiles with a range of at least 2,400 miles which "is expected to complicate talks on limiting strategic arms."

Nitze is a former Deputy Defense Secretary under Lyndon Johnson. His background in psychological warfare goes back to the U.S. Strategic Bombing Survey which conducted saturation bombing of German and Japanese population centers during World War II. He is believed to have been responsible for statements uttered by Jimmy Carter during the 1976 presidential campaign during which Carter refused to rule out a first strike against the Soviet Union.

"Jackson Would Rather See No SALT Agreement"

The following is part of an interview with an official of the Center for Defense Information, a private think-tank which has been a leading lobbying group for a SALT treaty.

Q: To what extent has Henry Jackson organized against the SALT treaty?

A: Jackson is aiming at pushing the Administration for additional things. Jackson helped draft the March SALT proposals. There is a continued feeling in the Carter camp that Jackson must be recognized. Jackson's main concern is the cruise missile question and Jackson's staffer Richard Perle has told people that Jackson would rather see no agreement than a bad one. The White House will do all they can to satisfy Jackson, while they still think he could support an agreement, and of course, he has not yet publicly come out totally against the agreement.

Q: What do you think about the Brezhnev statement calling for a ban on nuclear testing and peaceful uses of nuclear explosions?

A: The Soviets understand that there are hawks in the U.S. And Secretary Brown has warned the Soviets that the U.S. needs progress from them, that the U.S. needs to have made clear Soviet intentions, and if they don't show restraint, it will be hard for us to do so.

Nitze Called Cold Warrior

The following are excerpts of a statement made by Carl Marcy, codirector of the American Committee on East-West Accord and an associate of Paul Warnke, head of the Arms Control and Disarmament Agency negotiating the SALT treaty.

"Paul Nitze is guilty of unwise and unauthorized release of classified information and of seeking to substitute his judgment and that of the narrow group for which he speaks for the judgment of the Secretary of State, the Defense Secretary, the national security affairs adviser, the Joint Chiefs of Staff, and the president — all of whom are involved in the current SALT negotiations. There seems to be a few old cold warriors who neither die nor fade away, but would brandish their sabers forever rather than help pave the way for a just and lasting peace, a reduction in international tensions and a lessening of the possibility of nuclear war."

'Human Rights' Revised To Wreck U.S.—Soviet Relations

In an effort to spur the Administration to revive its anti-Soviet "human rights" campaign of last spring, the *New York Times* ran a major story Nov. 2 declaring that President Carter and Secretary of State Vance have warned Soviet leaders against going ahead with the trials of Soviet dissidents.

According to the *Times,* Vance, who met with Soviet Ambassador Dobrynin Nov. 1, threatened the Soviets with imperiling U.S.-Soviet relations if they go ahead with the trials. Under pressure from the Jewish Lobby and Senators Jackson and Moynihan and their affiliates, the Administration has apparently voiced concern to the Soviets about their actions against the dissidents, but has issued no strong public attacks.

Attempting to speak for the Administration, the *Times,* quoting unnamed officials, declares that "now the two countries seem to be working in a more normal atmosphere toward a strategic arms limitation package.. in addition the two countries are discussing the reconvening of the Geneva Middle East conference...Marshall Shulman, Mr. Vance's Soviet advisor, has advocated taking steps to improve economic relations with Moscow...but all these moves could be torpedoed if trials set off the expected anti-Soviet agitation in the United States."

On Nov. 2, the press barraged Vance at a press conference, demanding, "Has the Administration suggested that going ahead with these pending trials might endanger bilateral relations?" Continually refusing to repeat the strong attacks on the Soviets voiced by the Administration last spring, Vance answered, "We have not, as has been suggested in stories which I have seen in the press, made any linkage between that and our discussions in SALT."

GOP Dumb Bunnies Join Effort To Stop Geneva

As the Jimmy Carter Administration battles with the Fabian liberal Democrats and the "Kvetch Lobby" over a Middle East peace settlement, an incongruous element has been introduced by the presence of a bunch of dumb-bunny Republican conservatives in the Fabian liberal camp, doing everything they can to prevent a Geneva convention in the interest of what they imagine to be a great opportunity to play politics at the Administration's expense — irrespective of the best interests of the nation and the world. Reportedly, Henry Kissinger has a great deal to do with this alliance between Fabian fascists and Republican opportunists.

THE G.O.P

This new working relationship was responsible for Senator Howard Baker's outlandish address to the World Jewish Congress on Nov. 1. "The U.S. is playing Russian roulette with Israel," Baker declared. "I don't want to see Israel sacrificed on the altar of American foreign policy. I'm concerned about the Soviets being brought back in. What's the advantage of it?"

Senator Lowell Weicker (R-Conn.) echoed Baker the following day, in a speech before the Women's League for Conservative Jews in New York City. Weicker accused President Carter of pursuing a policy that is pro-Arab and which will end in the destruction of Israel.

The Middle East war lobby, of course, has been playing on these dumb-bunny Republicans' backward anti-Soviet tendencies, while also telling them that the Jewish community is up in arms against Carter and will respond to Republicans who come out strongly for Israel. "I think the Republicans are talking and getting down to business," declared a Washington lobbyist for a leading Jewish organization. "If things continue as they have been, there will be more contact between Jews and the Republican Party. And if they field strong candidates, they will get even 50 percent of the Jewish vote."

The result is that numbers of Republicans have been addressing Jewish organizations and coordinating their policy statements with them. Republicans have been meeting with the Anti-Defamation League and the Republican National Committee is talking with the American Jewish Committee, according to one former Republican National Committee executive. "There will be more of these speeches made by Republicans, because the Republicans are making a concerted effort to speak before Jewish groups," declared an Anti-Defamation League official.

The Republicans are after Jewish votes, and Jewish money as well. The recent spate of Republican speeches may well explain why the money flowing into the Republican National Committee suddenly leaped to $800,000 a month from $450,000 just before the joint U.S.-Soviet statement.

The Coalition for a Democratic Majority, led by leading Democratic warhawks Senators Moynihan and Jackson, has been pretty open about prodding the Republicans into action. According to a Coalition source, there have been bipartisan meetings on the Hill to discuss opposition to the Administration. And Coalition director Ben Wattenberg is known to be talking to Republicans at the Republican-dominated American Enterprise Institute, where he is now working. "It's a real problem for Carter if the Republicans agree with our wing of the Democratic Party," chorteled a Coalition member.

Not surprisingly, those Republicans pandering to a Jewish vote are admirers of Henry Kissinger. Kissinger has been up on the Hill talking to Republicans and convincing them that the Carter policy is totally misguided,

John Connally: New Threat To Fabian Democrats

Texas Republican John Connally last week continued his high-profile campaigning for Republican candidates around the country, sounding a battle cry of "growth, optimism, and progress." His tight schedule of speaking engagements — 19 in 29 days in October — brought the 1980 Presidential aspirant before conservative Republicans, particularly in the Ronald Reagan camp, who previously were not "sold" on Connally's industrial growth thrust but now seem to be changing their minds.

The following are excerpts from a speech given by Mr. Connally in Salt Lake City before the Western Republican National Committee

The Democrats are saying no to the future of progress, the growth of this nation...no to the advanced technology which means so much to this nation and the world...we've retrenched from space exploration...The President has even abolished the Office of Science and Technology in the White House itself... They said no to economic growth...Carter calls for conservation, not greater production. He said no to the fast breeder reactor...

Agriculture is not in a recession, it's in a depression. What we as Republicans have to do is to develop a whole new marketing concept for agriculture; the world needs what we produce...They've even said no to efficient farming... The great hope for peace and prosperity around the world is the ability of American farmers to produce and feed the world...They said no to the American cattlemen as well...

There are no incentives for modernizing plants and equipment in this country. They said no to economic freedom in this country...The GOP will have to mean growth, optimism, and progress...a new spirit of cooperation and partnership between business and labor.

Fusion power: ...it is the great hope of this nation...

The American Revolution was different from any other revolution that's taken place...It was established for the first time that men had a right to make their own decisions to use the inventiveness of a creative mind.

What They Said About Connally

"All of New Mexico is sewn up for Connally. He's a real statesman. He is dedicated to real economic development and progress."

— Republican National Committeewoman from New Mexico.

"I'm looking at him (Connally) myself."

— Member, Utah State RNC, and State Steering Committee for Ronald Reagan.

"I didn't think I'd like you (Connally), but today I fell in love with you."

— Member, Utah Republican National Committee

"Connally has the ability to not only analyze the problems facing this country but the solutions. Even more important, he has the guts to draw out the creative ability of the population to solve these problems through science and technology."

— Republican Party leader, Texas

Jawboning An Energy 'Compromise'

CONGRESS REPORT

After weeks of lackluster debate on Carter's energy plan, the Senate finally passed an energy tax bill Oct. 31, substituting a $40 billion tax incentive program for the system of punitive taxes advocated by the President and already approved by the House.

Even before the vote, a House-Senate conference committee began meeting to reconcile differences between the two radically opposed versions of the energy bill, but no progress has been reported to date. Washington insiders predict a "spirit of compromise" will prevail, resulting in a counterproductive mishmash of what is already universally regarded as a legislative fiasco.

Defining the parameters of the congressional debate have been the so-called liberals demanding more taxes on industry and the conservatives insisting on more incentives for industry. The resulting jawboning has blocked the emergence of any competent energy program for the rapid utilization of existing fossil fuel resources and the development of nuclear technologies. As the debaters have more or less publicly acknowledged, such a program does not now exist in Congress and their activities are not designed to bring it into being. Instead, the antagonists have used the energy issue to score demagogic points with "the folks back home" with an eye to the 1978 elections. Such irresponsible politicking has undermined efforts by Carter and Senate Finance committee chairman Russell Long, the Senate floor manager for the bill, to strike a compromise.

Throughout the Senate's political jousting last week, Long fought to maintain and enhance his authority to negotiate an energy bill with the House conferees by horsetrading taxes and incentives. At the heart of the trade-off is the tax on crude oil which the House passed and the Senate Finance Committee rejected. Long has indicated his willingness to accept a tax if the revenues are ploughed into energy production, rather than recycled back to the consumer as rebates, as provided for by the House.

An unholy alliance of conservatives and liberals unsuccessfully joined hands to deny Long such "flexibility." Accusing Long of acting as an agent of the "greedy" oil producers, Senator Jackson, seconded by Fabian colleagues Kennedy and Humphrey, introduced an amendment designed to preclude a deal and insure that all tax revenues were rebated to the consumer; meanwhile conservative opportunists like presidential aspirant Robert Dole floated an amendment to preclude Senate consideration of any tax on crude oil.

Both amendments were defeated, as the Senate passed a hodge-podge of proposals for consideration by the conference committee. Among them was an energy trust fund to provide $400 million a year in so-called excess tax revenues from the crude oil tax for ploughback investments into alternative energy forms, conservation, and energy-efficient forms of transportation, and a tax credit for consumers who heat their homes with oil.

The highpoint of the Senate's deliberations was an exchange between Democrat Long and Republican Senators Carl Curtis and Clifford Hansen. All three polemicized against the self-defeating no-growth ideology of liberals supporting the Jackson amendment and argued for using energy tax revenues to develop the productive powers of the energy industry, creating more than one million high-technology jobs as a byproduct. Excerpts of their dialogue from the Oct. 27 Congressional Record are reprinted below.

"The Answer Is To Produce More"

Curtis: This amendment (Jackson), if adopted, would take away from the conferees the power to use the tax as a means of more production and would assure free sailing for using this tax money for any purpose under the sun that spenders could think of . . . . The philosophy represented by the pending amendment was placed before our (Finance) committee. Who supported it? It had one witness beside the Government witnesses — the Nader group.

Business opposed it. Unions opposed it. Consumers opposed it. Agriculture opposed it. They did not want this big stick, taxing authority, to come down on the shoulders of the American people and have none of that used to give us a few additional barrels of oil.

Mr. President, this other philosophy of no growth, no massive efforts to increase production, may prevail . . . .

We beg, do not take away the only vehicle the Finance Committee has, that is, of using the tax system to encourage the production of more oil for all of the people, so that they will have it, so that their jobs will be preserved, so that our transportation goes on, and so that the defense of this country cannot be challenged.

Mr. President, a short while ago I pointed out about the great need for capital if we are going to increase oil production . . . . The price paid by the consumer ought to be put to work to provide him with a new unit of energy for the one he consumed.

If the Senate adopts the philosophy of this amendment, through this amendment or any other, it will have accepted the view that we must have a no-growth policy, and it will result in a dismal picture so far as the future is concerned.

If you are short of something, the answer is to produce more. That is especially true of the very substance that runs our factories, keeps our transportation moving, and contributes to the defense and security of our country.

Hansen: A lot of people told me they could see some sense in a tax being imposed if they could be persuaded that the revenues from the tax would do something about increasing supplies. Maybe others have found something in the President's proposal (to rebate all taxes to the consumer, minus handling charges) that indicates that might be the case, but I find blessed little in my reading of it to indicate such a conclusion. What is the Senator's opinion?

Long: Mr. President, it makes me think of a situation I heard about just the other day . . . .

There was an alcoholic down in the French Quarter in New Orleans, down on his luck, who came across a penny postcard. He saw a chance to send a message, so, on the address side, he wrote "God." Then on the back side, he wrote, "Please send me $50; I am desperately in need of help."

So he sent that to the post office in New Orleans. The postmaster did not know where to send it, so he sent it to the head office here in Washington.

The man who got it at the head office did not know what to do about it, so he sent it over to the White House. Finally, it came across the President's desk, and the President said, "This poor fellow is down on his luck; he does not know where to turn to or get help. I found his card on my desk; let us help him out a little."

So the President reaches down in his pocket, finds $5 of his own money, and sends that down there.

So he sent it on back down there. About two weeks later another message reached the President's desk.

"Thanks for the donation. It helped very much. I need another $50. This time please don't send it by way of Washington. They took out 90 percent for expenses."

This is about how the average man thinks this thing is going to work, that Washington will tax him so they can give him some of his own money back . . . .

If we can be assured that by the time we get through with all this we would have rendered a major national service, that would be one thing. For example, if we can put 1.5 million people to work producing energy we should do that. That would really be something good for this country.

Hansen: We are trying to find jobs for people. We have poured literally billions of dollars into programs which have gone to cities and subdivisions of the government in the hope, I think oftentimes almost a vain hope, that it would bring people into the work force, that it would equip them with working skills so that they could get a job and go on. I must say I have been disappointed in the failure of these programs generally to achieve any notable success at all.

But here is a program that the chairman speaks about which can do something . . . . The trouble with so many of these makework programs is we turn money over to the cities and say, "Spend the money the best you can; try to find something for these poor people to do."

Long: As I recall, Nelson Rockefeller, when he had his committee on critical choices, had the group make a study to see what could be done toward making progress with the energy shortage.

They concluded that to meet this energy problem, there would have to be invested $1 trillion in about the next ten years or so. In addition to that, we were going to put about 1.5 million people to work in good jobs. Those are not makework jobs . . . . jobs that pay well . . . . That would have great multiplier effect.

For example, it was my sad lot to find that the company which had invested a lot of money in Youngstown Sheet and Tube would lose a lot of money unless it closed down the Youngstown mill . . . .

One reason the mill had to shut down was because they did not have an adequate market for their product. If we did what I think we should be doing, we would be drilling twice as many wells as we are drilling right now. We cannot do it because we do not have the rigs. Rigs require steel. Construction of rigs would put steelworkers back to work.

That, of course, means we would need twice as much pipe — not only to put it in the well, but also to pipe the oil away from where they find it into the pipelines. We would need workers to operate all that, the equipment to clear the sites and to move on location, and the geophysical equipment to help find where the best location to drill would appear to be.

Those jobs have a multiplying effect. We ought to create them. It is a lot better than those CETA make-work jobs and a lot better than leaf-raking for the country.

Think of all the fall-out jobs that come from that — manufacturing of pipe and making it into rigs and making it into the equipment. We have tremendous need of all this.

DOE Fight: Energy Czar's Covert War To Keep Nuclear Advocates Out

A number of the Carter Administration's nominees for top posts in the Department of Energy (DOE) have come under attack by environmentalists and their Senate representatives for being "too favorable to nuclear energy" and "too closely tied to the oil industry." The attacks are being orchestrated by Energy Secretary James R. Schlesinger himself, who admitted in a recent interview with the *Washington Post* that the DOE would "change dramatically" under his leadership, focusing on "solar and biomass" energy sources rather than nuclear power.

ENERGY REPORT

Schlesinger is doing everything in his power to strip the newly formed Department of Energy of any pronuclear sentiment. The national press — particularly the *Washington Post* and *New York Times* — has depicted Schlesinger as "pronuclear," concocting out of thin air a phony dichotomy between Schlesinger and his environmentalist protégés. But the bulk of the assistant secretaries nominated for the DOE are raving environmentalists, like the Ford Foundation's Alvin L. Alm, nominee for Assistant Secretary of Energy, and Schlesinger plans to scotch the chances of the few token advocates of energy development that have been nominated through intimidation and environmentalist harassment.

At Senate confirmation hearings last week, DOE nominee for Assistant Secretary for Energy Technology, Robert D. Thorne, became Schlesinger's first target of intimidation. Raked over the coals for over three hours by proenvironmentalist Senators James Abourezk (D-S.D.), Howard Metzenbaum (D-Oh.) and others, Thorne was accused of being biased in favor of nuclear energy and against soft energies like solar power. His only support came from a U.S. Labor Party representative who urged Thorne's confirmation precisely because "of his past record of supporting nuclear power development."

These same zero-growth advocates, joined by Sen. William Proxmire (D-Wis.), have urged President Carter to withdraw Lynn C. Coleman's nomination as DOE general counsel. These senators are furious with President Carter for choosing Coleman, who has been a strong advocate of increased energy production and is a member of John Connally's Houston law firm.

The *Washington Post* was particularly incensed by the Administration's DOE nominees. Putting the blame for the choices on President Carter personally, the *Post* ran a front-page article, "Old Hands Grip New Energy Dept.," featured a "leak" that the Department would be stacked with the same "folks that brought you the B-1 bomber, the breeder reactor, and John Connally."

Witch-hunt

At the Nov. 2 Senate Energy Committee's confirmation hearing, the majority of the senators present turned the hearings into a trial aimed at branding Thorne "guilty by association." His crimes? Senator Abourezk, armed with a stack of Atomic Energy Commission and Energy Research and Development Administration (ERDA) pamphlets as "evidence," tried to "prove" that Thorne had swung the outcome of a California referendum on nuclear energy. Specifically, Abourezk charged that Thorne had disseminated ERDA pamphlets in favor of nuclear energy while he was manager of ERDA's San Francisco operations office.

One observer described the hearings as reminiscent of a "medieval witch-hunt, where scientists were burned at the stake." While predicting that Thorne and Coleman — whose confirmation hearings have not yet been set — will reluctantly be confirmed, the source argued that not only the nominees, but all government scientists, will be tamed by the terror tactics employed. "The hearing was a show trial to purge all high-technology sentiment within the DOE," the source said.

Under these pressures, Thorne buckled under, ingratiating himself to the Fabian senators and the four representatives of various Ralph Nader environmentalist front groups, including Consumer Action Now and the Friends of the Earth, who testified. I am really a solar power backer, and only passed out the pro-nuclear ERDA literature as part of my job, he said.

This backpedaling was partially checked in the afternoon when U.S. Labor Party representative Laura Chasen testified at the hearings and gave Thorne "qualified support" (see excerpts below).

Chasen's attacks on Schlesinger for his "deliberate sabotage of nuclear development" prompted an angry outburst by Committee chairman Senator Henry Jackson (D-Wa.): "Mr. Schlesinger is not under discussion here." "What I am saying is far more relevant than anything else said here today," Chasen snapped back. She completed her testimony without further interruption.

— *C. Lerner*

Why the Labor Party Backs Thorne's Nomination

Laura Chasen, representing the U.S. Labor Party, presented the testimony excerpted here to hearings on Nov. 2, 1977.

The national interest of our country, and indeed the progress of the entire planet, being dependent on the rapid development of advanced nuclear technology, the U.S. Labor Party recommends confirmation of Robert D. Thorne to be Assistant Secretary of Energy Technology because of his past record of supporting nuclear power development. We caution, however, that he has recently indicated a willingness to compromise his pro-development orientation, and suggest that this Committee get a clear statement of commitment to nuclear progress — to the breeder and fusion — from Mr. Thorne before supporting his confirmation to this crucial position.

Whether or not to develop advanced energy technology is the most basic policy decision facing our government....

This is a concrete question of great immediate importance; the positive motion created by the Carter Administration in the Middle East, in improving relations with the Soviet Union, and the possibility for such positive initiatives in southern Africa and the rest of the Third World face the most serious danger from James Schlesinger's energy program and its deliberate sabotage of nuclear development. Domestically, without the promise of an expanding economy based on growing energy supplies, we can only provide an unemployed worker someone else's job — or lower the living standard and skill of the whole nation through fostering labor-intensive over high-technology jobs.

The nuclear question is key as well for economic policy. Without nuclear development, we can only fight our enormous balance of payments problem through self-destructive attempts at forced conservation austerity aimed at cutting back imports. Only with a program of government fostered high-technology exports can we move from the current recession to a period of growth and prosperity.

In fact, the gutting of the industrial base of our economy, advocated by such anti-nuclear development zero-growthers as James Schlesinger, and their sabotaging of world development, is an offense against the American Idea of Progress, and is inherently reactionary and racist.

Secretary Schlesinger has an undeserved reputation for being "pronuclear." In fact, his activity while at the AEC opened the way for environmentalist sabotage through the courts of the use of even light water reactors. Schlesinger himself is personally responsible for the recent Administration attempt (successfully countered by Congress) to kill, by funding deferral, key fusion energy research projects. And his own stated position towards nuclear power is that we must use light water reactors only because we must resort to the last resort — and the more advanced reprocessing and breeder energy sources are not even on his agenda, let alone given the priority our national interest would dictate. And if one looks at the place accorded nuclear development within the Department of Energy, one is struct by the continuing downgrading over recent years of our nuclear effort. Under Schlesinger, the position for which Robert Thorne has been nominated — the top nuclear post — is only one among fourteen fourth level positions: I am submitting an appendix to this testimony which demonstrates that any attempt to downgrade nuclear in favor of solar and other "soft" technologies would increase our energy costs about ten-fold — yet such downgrading is Schlesinger's deliberate policy, and thus it becomes vital that Assistant Secretary of Energy Technology be someone with an unwavering commitment to nuclear power....

The issue involved in the nomination proceedings before you today is thus clear-cut: will we have an Assistant Secretary of Energy Technology who expresses the belief in the necessity for scientific progress and industrial expansion that is held by the vast majority of our citizens.

Eurodollar Lending Spree Entraps U.S. Commercial Banks

Preliminary reports from Wall Street banking analysts indicate that the major U.S.-based international banks have embarked on a fourth quarter foreign lending expansion which could leave them dangerously exposed in the event of a market shakeout. As the EIR previously reported, the accumulation of excess dollars abroad in the so-called Eurodollar market has led to rampant competition among international banks during 1977, and a resultant shrinking in the margins which banks earn on Eurodollar loans. Not only are bank margins continuing to fall, analysts say, but banks are attempting to make up for their reduced earnings through an ever-increasing volume of loans.

Banking

A new OECD quarterly publication called *"Financial Market Trends"* has forecast stepped-up Euromarket lending in the fourth quarter. The OECD noted that at the beginning of October, $6.25 billion in medium-term Eurocredits were under negotiation compared to $4.5 to $5 billion in previous months. As of the end of the third quarter, the OECD estimated, publicized medium-term Eurocredits had already been expanding at a $30 billion annual rate, or 20 percent over the 1976 level.

While the OECD indicated that heavily indebted Third World and Eastern European borrowers would require major refinancing, the collapse of the U.S. dollar has added a vicious new twist to the fourth quarter scenario. Such unlikely borrowers as Malawi and Madagascar are reportedly lining up large Eurodollar credits which are then immediately converted into "hard" currencies, such as the deutschemark, Swiss franc, or yen, so as to speculate on the dollar's further decline. Paraguay, for example, recently received a $120 million loan for a "development project" probably requiring only about $10 million. The remaining funds will likely be redeposited on the Eurodollar markets where they can be easily mobilized into currency speculation.

A new feature adding to the chaos on international currency markets is the growing role of British merchant banks, acting in advisory capacity to Third World central banks. A feature in the Oct. 27 issue of the *Economist*'s "Financial Report" newsletter reveals that some of the British advisors, led by Schroeders and N.M. Rothschilds, have displaced the New York Fed and the leading New York commercial banks as placers of surplus reserve funds of the central banks of the Third World. Schroeder offers a "Reserve Asset Management Plan," Rothschilds offers Rothschilds Asset Management, and other merchant banks provide similar services.

A particularly nasty feature of the operation, according to the newsletter, is that Schroeders have pioneered "Operations Research" techniques to search for best-return possibilities on the international markets — putting at least part of central bank capital flows onto a computer loop! EIR's information is that British advice pushed a lot of central bank money out of the dollar. In addition, the "advisors" have encouraged Third World central banks to borrow all they can now and use the funds to buy deutschemarks and Swiss francs, to be repaid in depreciation dollars.

Pulling the Plug

Although the banks may be making a few "quick bucks" on such operations, what would happen if someone were to inadvertendly "pull the plug"? Conservative business opinion in the U.S., centered around Federal Reserve chairman Arthur Burns, is currently leaning toward an "icewater" solution for the dollar crisis — a sudden, chilling "bath" of high interest rates to halt the excessive money supply expansion. If this should happen, the present "excess liquidity" conditions on the Euromarket could turn into a serious money "drought", especially since U.S. corporate short-term credit needs are already beginning to rise. Bank refinancing of Third World debt might then become nearly impossible.

Business Week's lead article in its Nov. 7 issue "The Glory Days Are Over at Citicorp" (which undoubtedly evoked hearty chuckles among London merchant banking circles) gives some indication of the New York banks' dilemma: "The banks, the argument goes, are in so deep in LDC debt that there may be no way out except to lend more money to be used to repay exisiting debts. According to economists at Amex Bank Ltd., a London affiliate of American Express Co., one out of every two dollars borrowed by developing countries in the Eurodollar market in 1980 will be used to repay debt. By 1985 two out of three of those Eurodollars will go for debt."

The article also cites Morgan Guaranty estimates that non-oil producing developing countries will have to repay $24 billion in principal and interest this year, $29 billion next year, and $33 billion in 1980.

Citicorp is particularly vulnerable to LDC defaults, since, as of year end 1976, the bank held $9.1 billion in loans to LDC's — the largest exposure of any U.S. bank —

and has drawn 30 percent of its earnings from such loans. Although Citicorp officials argue somewhat plausibly that their loans are of "high quality" relative to some other banks, the risks are undeniable.

As one bank analyst remarked: "Unless world trade picks up, both in the LDC's and especially the OECD countries, the New York banks can't go anywhere. Increasing retail trade won't work. It will just mean trying to take the business away from regional banks, and the regionals are better suited to hold onto their customers."

What *Business Week* failed to mention, however, is the composition of Citibank's foreign loan portfolio. Fifty percent of all Citibank foreign loans are denominated in foreign currencies, and a much greater portion are lent to relatively viable corporate or government entities within the borrowing countries, rather than to the government or central bank of the borrowing country itself. This compares to a figure of about 20 percent for Chase Manhattan, or 40 percent for Bank of America.

Unlike Chase, Citibank has entrenched its operations within the internal economies of borrowing countries. The risk of its portfolio is therefore associated to a greater extent than other banks with the ultimate viability of LDC economies than their near-term balance of payments status. Citibank officials also assert that their lending is strictly geared towards income-earnings projects rather than general balance of payments needs. There is no way to document the assertion, but the currency-composition of its foreign portfolio suggests there is some truth to it. Speaking privately, one banking official qualified the *Business Week* report as "the kind of garbage that ought to be handed out on street corners, not printed in a respectable publication."

The French employers' association publication *Energies* went to the heart of the matter. Citing an hitherto unknown "White House study", *Energies* stated that in the event of Third World defaults a major banking crisis could hit literally "overnight", leading to a run on U.S. banks. The only solution would then lie in a new "tripolar system (in which) the Western nations define a policy of cooperation with the Third World as they recently did with the East."

Triaging the "Brazils"

So far this year, Citicorp and other New York banks have attempted to cut back on their lending to those Third World countries which already have high debt ratios. Brazil, for example, with $30 billion in foreign debt, has been told that it cannot get medium-term loans for less than 2 percent over LIBOR (the London Interbank Overnight Rate) even though India recently received a Euroloan at 1 percent. Morgan's figures show that medium-term syndications for the non-OPEC LDC's as a whole have risen only 10 percent during 1977 compared to 20 percent for the market as a whole.

Nevertheless, the squeezing out of the "Brazils" cannot go on indefinitely. Although Brazil's reserves were buoyed this year by the run-up in coffee prices, wholesale coffee prices have now collapsed. Following weeks of effort to "bull" the market by withholding coffee from the market, Brazil finally relented and sold 150,000 bags at $1.70 per pound, 45 percent off its "official" export price. Ironically, Brazil's sale came just as other coffee producers were close to agreement on Brazil's high-price strategy. According to *Business Week*, the Brazilian government's haste to sell came as "shocked" authorities discovered that the country had run a cumulative trade deficit of $50 million through August, rather than the expected $250 million surplus. Brazil must add $500 million to $600 million to its 1977 coffee exports to "avoid finishing the year with a sizeable trade deficit."

Brazil will likely require hefty refinancing by early 1978, and if the funds are not forthcoming, even "respectable" Brazil could be forced into default.

Soviets Equivocate On T-Ruble

In a speech delivered at the Oct. 16-20 Budapest "Workshop on East-West European Economic Interaction," National Bank of Hungary Deputy Chairman Janos Fekete discarded the feasibility of a gold-pegged transfer ruble system as the basis for hard-currency credit issuance. Although the declaration represents a spectacular setback from Fekete's own previous terms, it does not mean that the transfer ruble option has been dropped by the Soviet sector. On the contrary, there are signs showing that the "t-ruble" alternative is still alive east of the river Oder, and backed by banking and industrial forces in France and West Germany.

Crass Stupidity

The Fekete speech is significant for three reasons. First, Fekete had been until now a leading proponent of the transfer-ruble system, and his statements usually reflect the thinking of the dominant economic and political faction within Eastern Europe's Council for Mutual Economic Assistance (CMEA). Second, the speech was delivered to an East-West audience on a problem seldom tackled by East bloc spokesmen in official conferences. Third, the speech comes at a decisive conjuncture in the world strategic situation and was purposely intended to be published at this point; it was written on Aug. 31 and kept confidential until the Budapest conference.

On those grounds, and keeping in mind that Fekete is no freshman in international finances, his speech can only be characterized as crass stupidity concerning the objective interests of the East bloc and the world economy. Fekete's line amounts to endorsing the proposals of Italian Central Bank official and City of London agent Giovanni Magnifico, originally peddled last summer at the Siena group's meeting of economists, a monetarist swamp used for the flotation of trial balloons by such financial houses as Lazard, Lehman and Hambros.

The most vicious point in Fekete's speech is that he describes the gold-based transfer-ruble as a highly desirable basis for a new international monetary system, only to add that there is no possibility for such a new world monetary system in the near future! Having thus covered his position from the standpoint of "utopian" principles, Fekete comments à la Kissinger that "progress can only be made step by step." He then lays out "intermediate" or "transitory" proposals that are in fact the best way to ultimately kill the transfer-ruble conception.

First, he describes the transfer-ruble system as presently inadequate for the needs of East bloc trade — which it is. But he goes on to advocate an immediate type of opening which amounts to a *convertibility* of the ruble with such Western currencies as the pound and dollar. Starting from the fact that today's transfer-ruble balances held by one Comecon country cannot be transformed into goods, he proposes "a system that would make part of the t-ruble claims and debts convertible. . . . The application of such a system would entail the advantage for the creditor country that, if it cannot obtain commodities at an adequate price and quality for its claims in a predetermined time, *it would get at determined intervals convertible currency from the IBEC* (the Comecon bank) up to a certain percentage of its claims, *for which it could buy the necessary commodities anywhere,"* (emphasis added—ed.). This would mean that the presently huge t-ruble balances held by Comecon countries would be de facto convertible into Western currencies to purchase goods in the West. Moreover, any importing Comecon country unable to settle its debt to another Comecon country by above-quota deliveries to any other Comecon countries, "either for lack of adequate commodities or because no buyer can be found," would "have to pay a definite part of its deficit in convertible currency." In other words, the Comecon would be fully integrated into the Western financial crisis!

Second, Fekete advocates a "world gold-currency standard" to be reached through arrangements within "regional monetary systems" such as a dollar zone (the Americas), the Common Market and associated countries, the yen zone, the OPEC countries, the non-oil producing developing countries, and the socialist countries. This division of the world in admitted "monetary blocs" is nothing but the pluralism advocated by the City of London. As for Western Europe, it coheres perfectly with the plans pushed for by European Community Commission head Roy Jenkins, agent of the London investment houses and Fabian Society operative, who calls for an "European Monetary Unit" — or "Europa" — involving pooling a part of European gold and currency reserves under the control of London.

Fekete is therefore not only calling to dismantle Comecon, but for the British to control the European Community against the prodevelopment Franco-West German axis — and all this for no more than the proverbial thirty pieces of silver. As a trade-off, he demands more Western credit for Comecon and most favored nation treatment from the U.S. Congress. But these proposed measures to increase Comecon production and exports to the West would be of no use in a situation of general industrial and trade collapse. Since Comecon would be included, no purchases would be made!

The most alarming aspect of the Fekete speech was reported by Wall Street sources present at the meeting who declared themselves very satisfied with its results. It was supported by the three Soviet representatives, including Fomin, from the Oleg Bogomolov's Institute of the Economy of the World Socialist System.

T-Ruble Option Still Alive

Despite the *official* horrors of the Budapest meeting, there are various signs that the Soviet leadership is in fact split on the issue of the t-ruble, and that the faction for the transfer ruble is backed by banking and industrial forces in France and West Germany.

In the aftermath of the Fekete speech, the official daily of the Portuguese Communist Party (PCP) *O Diário* published a centerfold in its Oct. 28 issue advocating the t-ruble as an *immediate* alternative to the world monetary system available to any capitalist country that wishes to extricate itself from the ravages of the past. The articles stress the advantages of Portugal's integration into Comecon for large development deals as an alternative to the dictates of the International Monetary Fund and integration into a British-controlled EEC.

Observers see in the PCP reaction, the direct influence of the Soviet t-ruble faction, and indicate that the USSR representatives present at Budapest were "mere junior officials."

At the same time, representatives of a major French state-owned commercial bank told NSIPS that they were discussing with their Soviet counterparts the creation of a Franco-Soviet banking institution based on a common gold-pegged monetary unit and issuing credit for development projects in the Third World. Officials of the top French private investment bank, IndoSuez, welcomed the float of sterling and its following plunge as a major disaster for the City of London. They stressed that a Franco-Soviet monetary alternative to the present world monetary system is in the works and is definitely related to French Prime Minister Raymond Barre's recent trip to Moscow.

Observers commented that Barre is a monetary disciple of de Gaulle's economic advisor Jacques Rueff, staunchly committed to gold as the basis for a new world financial order, and that Rueff has a "number of admirers in the Soviet Union."

This convergence of Soviet hard-liners and French officials has already deeply upset the Lazard-controlled British financial press and the French Fabian press as well, which scream that the authoritarian "Stalinists" and "Gaullists" are working together again.

Not only is the electoral campaign support for science and development of the French Gaullists and Communists similar, but it has apparently extended to the Iberian peninsula. The Oct. 30 London *Sunday Times*, referring to President Eanes proindustry moves and persistent contacts with the French and West German governments, worriedly asks, "Does Lisbon need a de Gaulle?"

Fekete Explains The Basis For Expanded T-Ruble Role Then Bows To Oblomov

Excerpts from the speech delivered by National Bank of Hungary Deputy Chairman Janos Fekete, at a "Workshop on East-West European Interaction," in Budapest, Oct. 16 to 20, 1977.

We have arrived however, inevitably at the stage of development where — if we wish to continue our dynamic increase of mutual trade — we have to take another step toward a certain multilateralization in foreign trade, as well. The prevailing monetary system of the Comecon relies on the common currency, the t-ruble. The creation of the t-ruble, a firm socialist unit of account, based on gold, was intended to fulfill the functions of a key currency within the socialist world. The t-ruble fulfills every important function of money within the framework of commodity exchange agreements, although such trade is limited by obligatory quotas and is bilaterally balanced. These requirements, however, impose some limits on the t-ruble in performing its function. If, e.g. in the course of year, a country exceeds its planned deliveries and the excess is not balanced by additional imports from its trading partner, or, if for some unforeseen reason, some country cannot fulfill its planned exports, the creditor country cannot automatically use the surplus which is usually only a fraction of total trade, to make purchases in a third Comecon country.

The bilateral view of foreign trade is thus opposed to the more advanced — multilateral — system of financial settlements. This situation does not allow that an optimal level of trade, most advantageous for every member country, should develop in the mutual turnover of Comecon countries.

An important step of the Comecon countries is the elaboration of a plan of common multilateral investments during the plan-period 1976-80 . . . The present monetary system developed on the basis of mostly bilateral economic cooperation is not flexible enough to promote multilateral economic cooperation of that character, therefore a further development of the monetary system should take place for this reason. . . . This situation could be helped by the system which would make a part of claims and debts in t-rubles convertible. The application of such a system would entail for the creditor country the advantage that, if it cannot obtain for its claims commodities at an adequate price and adequate quality in a predetermined time, it would get at determined intervals convertible currency from the IBEC up to a certain percentage of its claims, for which it could buy the necessary commodities anywhere. For the debtor country this system would provide the advantage that it could buy necessary commodities from the socialist countries also in excess of the obligatory quotas and this need not be bought entirely outside the Comecon for convertible currency. The importing country could settle its debt by above-quota deliveries to any Comecon country. If it were not in a position to do so, either for lack of adequate commodities or because no buyer can be found, it would have to pay a definite part of the deficit in convertible currency. . . .

Another problem arose in the relationship between Comecon and the non-member countries. In order to have countries outside the Comecon participate in the system of the t-ruble settlements, the IBEC has worked out the proper regulations and a "special fund" has been established at the International Investment Bank (IIB). Despite the creation of the institutional and financial preconditions, neither socialist countries outside the Comecon, nor developing countries have availed themselves up to now of this facility. This is, in my opinion, a certain criticism from the side of the non-member countries on our monetary system and makes it obvious that our presently offered terms do not ensure enough mutual advantages.

It would be also a big step forward for the Comecon countries to create their own common convertible currency. The value of the socialist convertible currency should be realistically based on the world market price of gold, as a stable measure of value it could be widely used as a reserve and as international currency. The IBEC is a suitable vehicle for issuing such a currency and the countries participating in the IBEC could guarantee its convertibility into any other currency.

Partial convertibility of the t-ruble would promote expansion of the trade and accelerate the integration process with the Comecon. The common convertible currency can help to develop the trade with countries outside the Comecon, as well as relations with the international commodity and money markets.

To sum up, instead of the gold standard where each country would take care that its banknotes issued should be convertible to gold and instead of the gold-currency standard where one country undertook this obligation for the entire monetary system, I advocate a gold-world-currency standard where, under certain circumstances, all participants guarantee, through the intermediary of a jointly founded institution, the convertibility of the world currency.

Is there any real possibility for a new world monetary system? In the near future there is none. The international monetary system has always been of outstanding political importance.

Every monetary agreement reflected the real economic, political and even military power relations of the given moment. This happened in Bretton-Woods, too. Since then, however, the power relations have changed — the new system should reflect the new power relations. The earlier mighties should give up part of their power and influence in favour of the new rich, the new mighties. This is a slow process, and it cannot be expected from the governments to do so, unless a new recession, the destructive effects of which will challenge their very existence, forces them.

Even then progress can only be made step-by-step — as the first step, perhaps regional monetary systems will be formed, such as:

1) The dollar zone — North, Central and South America,
2) The Common market and the associated countries.
3) The yen zone,

4) The OPEC countries — Saudi Arabia, Kuwait, Arab Emirates, Libya, Iran and Iraq, etc.
5) The non-oil-producing development countries — India, Pakistan, etc.,
6) And, last but not least, the socialist countries.

You can raise the question: Is there any reality of common East-West monetary system? My answer is yes. Of course the Comecon countries also have to make progress in their own monetary system, e.g., they must create their own common convertible currency based on gold. Then, if in the meantime the Western world will also create an international currency based on gold — at least as 'numeraire' — the way is open for a link between the two systems, through a 'golden gate.'

There are two fashionable words in present-day social sciences: link and gap. I want to give an example of a successful link without a gap.

One of the greatest scientific sensations of the recent years was the joint Soviet-American space flight. The two spaceships were made as a result of different technological developments in two countries with different social systems, by experts of different political attitudes. However, the laws of physics, weightlessness, gravity, the objective laws of nature were the same for both of them. Both parties had to respect the severe, extremely exact rules of cosmonautics in order to bring the experiment to success. The experiment as we know, was really a full success, without subordinating any of the two nations, the two technologies to the other.

Not only the physical but also economic environment of our commodity-prone world is in many respects the same. The law of value (in Marxian terms) works even if prices are diverted from value by different principles. If we are aware of the objective laws, the linking up of the two monetary systems will become possible on the basis of full independence, equal rights and mutual interests.

We are living on the same globe. We have one world market on it, but at the same time we have two monetary systems. We have one world market, because there is no socialist wheat and capitalist coffee, there are no socialist machines and no capitalist ones. There are only good machines and bad ones. Undoubtedly, the present world economy and world market shows a duplicity as regards both their basis and appearance. The world economy is based partly on socialist, partly on capitalist social system. Both systems are developing according to their own laws, but not in isolation from each other.

There are in ideological confrontation on the one side and in rational economic cooperation on the other side. But detente means the development of relations between countries with different social systems. Therefore, I cannot imagine that monetary and credit problems could be excluded in the long run from the scope of a policy of detente. It is urgent. The risk of a new worldwide economic crisis can endanger even the promising results achieved until now in detente and the establishment of a new universal and international monetary system can help a lot to avoid it.

The Blumenthal Tax Program: Revival Of The 'British System'

The Carter Administration has once again postponed introduction of its controversial "comprehensive income-tax" proposal prepared by the office of Treasury Secretary Werner M. Blumenthal. The bill will not be introduced until the beginning of 1978 at the earliest.

According to some business-community tax specialists, the most controversial provision of the Blumenthal tax proposal — doing away with capital gains — will be scrapped.

SPECIAL REPORT

The general consensus, however, is that the Administration has enough on its hands in getting the Schlesinger energy bill through Congress. At the same time, the Administration is worried about business and popular reaction to impending massive tax increases in individual and especially employer contributions to the social security system, which is again on the verge of insolvency. To quote the Baltimore Sun *of Nov. 2 in referring to the social security bill approved the day before by the Senate Finance Committee. "The Senate panel voted to increase employer taxes more than 500 percent by 1985, scrapping the traditional parity between employee and employer contributions to the federal retirement system."*

Nevertheless, the Administration has by no means dropped the Blumenthal comprehensive tax proposal. The forces behind it are merely stalling for a move favorable moment for its introduction — as, for example, after an engineered "energy emergency" or economic collapse has created a suitable environment for austerity and the antibusiness Blumenthal bill. Therefore, the Blumenthal proposal merits careful examination as a very real threat still hanging over U.S. industry and banking — and because of its "sword of Damocles" quality, working major damage on long-term capital investment plans.

Secretary Blumenthal's tax proposal may be the worst tax regimen this country has been threatened with since the British Stamp acts. The general form of Blumenthal's program is a raid on the investment funds and earnings of U.S. industry and on the living standards of the U.S. workforce, using methods pioneered by the British Empire and, later, by the City of London's puppet, Nazi Finance Minister Hjalmar Schacht.

Unfortunately, Blumenthal's program also provides a provocation to U.S. conservatives to fall into a knee-jerk response to the tax issue, the whole tax issue, and nothing but the tax issue for the next one or two years — the time the tax debate is expected by some to drag on. If conservatives do respond in this fashion, get ready for selling apples and pencils on the corner, for there won't be much of an economy beyond that.

Blumenthal's Tax Program

The general outline of the Blumenthal tax proposal is already known through the Treasury Secretary's own speeches; through the July 1, 1977 speech on the Senate floor by Edward Kennedy; and through the publications of the Brookings Institution, which prepared it. The anticipated bill call for abolition of numerous so-called "tax expenditure" (deductions, exclusions, preferential treatments, etc.) and tax shelter items used by both corporations and individuals. Among these will be capital gains provisions; the intangible oil drilling and development cost deduction; the percentage depletion allowance for oil, gas, and other minerals; accelerated depreciation; tax deferral for foreign subsidiaries of U.S. corporations, etc. The bill will also propose to scrap personal deductions, medical expenses, the right to deduct local and state taxes paid, and the right of indebted homeowners to deduct mortgage interests. The Brookings Institution has in addition suggested that all homeowners shall pay an income tax on the "imputed rent" — the supposed rental income the homeowner receives in his capacity as "landlord" to himself (the British "ground rent").

For wage-earners and salaried workers, the Blumenthal-Brookings tax proposal calls for adding the monetary value of employee benefits received to one's present salary and taxing the sum as income, rather than merely taxing just direct wages or salary alone. This will throw many people into significantly higher tax brackets. Furthermore, under the Blumenthal-Brookings plan, transfer payments (social security, workmen's and veteran's compensation, "black lung disease" payments, and so on) will all be taxed as regular income.

Finally, to ensure that employers don't pay excessive wage increases, under a plan supported by Arthur Okun of Brookings and others, employers who give increases above a federally set ceiling will be assessed at punitive tax rates. Conversely, employers who pay low wages will be rewarded by the government with tax breaks.

Let's examine what the effects of such a program would be.

On capital formation. According to Merrill Lynch's National Market Commentator Robert J. Nurock, the impact on capital formation of the proposed elimination of capital gains treatments *alone* would be "very negative." Hit hardest, Nurock writes in the Sept. 12 and 19, 1977 issues of Merrill Lynch's house weekly, *Options Alert*, would be "capital intensive" enterprises and those which "benefit from special provisions of the present tax code."

A computed simulation done by Nurock at Merrill Lynch determined what Labor Party intelligence had already concluded, that those specific sectors that would be worst impacted if the full Blumenthal program goes through would "include most of the energy-related, metal, and mining groups ... the machinery, heavy construction, airline, rail, water transport, and basic industries ... the paper and forest products industries" and "utilities."

By way of compensation for the termination of the U.S. as an industrial power, Nurock reports that dividends under the Blumenthal plan will be excellent among "book publishers, radio-TV broadcasters, and insurance companies." Interestingly, these happen to be sectors of the U.S. economy notably still under heavy City of London control or influence.

The Schachtian tax planners are not entirely ignorant of the consequences of their proposals. One Brookings-associated "tax specialist," writing in the Institution's *Comprehensive Income Taxation* published last month, notes that even if capital gains preferences were to be *only partially* removed (the plan is actually to remove them entirely), "capital accumulation" would be "reduced," "labor productivity and real wage rates would decline," and this "would shift some of the tax burden to labor."

On labor. Added to the negative effects on labor noted above are those of a proposed government-enforced wage ceiling plan, euphemistically called the "Tax Incentive Plan" (TIP) and backed by Brookings's Arthur Okun, *Business Week*, the *Washington Post*, the *New York Times*, and so forth. According to the Oct. 3, 1977 issue of *Business Week*, "An incomes-policy variant called TIP would restrain wage gains without controls... With labor compensation accounting for 75 percent of national income, the so-called underlying inflation rate of 6 percent cannot be cracked without slowing the rate of wage gains, which have been running close to or above 8 percent a year since 1973." TIP was designed by Federal Reserve Board governor Henry C. Wallich, with Sidney Weintraub of the University of Pennsylvania, *Business Week* continues, and "in its simplest form, TIP would hit companies with a surcharge on their corporate income tax if they grant their employees wage increases in excess of some government-set standard. Similarly, by holding their average wage increases below the standard, the companies would be eligible for a tax reduction." The proposal is also backed by the Congressional Budget Office; the Joint Economic Committee of Congress; and the Keynesian panegyrist of the "Brazilian economic miracle," professed Schachtian economist Abba Lerner.

If enacted, TIP would be as harmful to *both* labor and industrial capital as Blumenthal's plans for scrapping capital gains, and the rest. As American Enterprise Institute official Marvin Kosters noted recently, government-enforced wage-limitation proposals tend to allow "low-wage industries to expand and force high-wage industries to contract." They favor labor-intensive "British System" production versus the capital-intensive "American System." And that is precisely the intended thrust of the Blumenthal-Brookings tax proposal, just as it is of Blumenthal's efforts to collapse the dollar and his colleague Schlesinger's "soft energy" program to return U.S. technology back to the 19th century.

The American Fabians

The ideology of these American representatives of the British Fabian Society is instructive. To them all investment credits, medical expenses, accelerated depreciation, and so on, are, in the linguistician's brainwashing phrase the Fabians use, "tax expenditures."

Thus, one Brookings tax planner writing in *Comprehensive Income Taxation*, the just-published work which provides the "theoretical" underpinning for the Blumenthal tax proposal, refers as follows to doing away with personal deductions for medical care, education, and mortgage interest on homes:

> Expenditures of this nature may be regarded as objectionable in principle in two ways: they are not subject to annual budgetary review, and their disguised nature may result in much higher levels than Congress would ever vote outright.

Another idiosyncratic feature of the Fabians is their strange switching around of the meaning of the two terms, "general interest" and "special interest." Thus on July 1, 1977 Senator Kennedy previewed the Blumenthal tax program to the Senate, stating, that by means of "a skilled and effective tax policy team at the Treasury under Secretary Blumenthal ... the Treasury has quickly reassumed its proper and fundamental role as a champion of the public interest and opponent of narrow, special interest tax preferences." The "narrow, special interest" Sen. Kennedy referred to was U.S. industry, the U.S. work force, homeowners, and so on, while the "public interest" meant his City of London friends, including Kennedy estate trustee André Meyer of the Lazards house.

Another curious usage of the Fabian tax planners is the Gertrude Stein utterance, "A buck is a buck is a buck," used by them to justify "comprehensive income taxation." Translated roughly, this amounts to : a buck taxed from productive industry or productive labor is as good as one taxed from the corner slumlord or pimp.

A final item of gobbledygook worth commenting on is the repeated litany that by "expanding the tax base" — i.e. the government's right to tax almost everything — significant "rate reductions" will become possible. Doubtless this will be true — for the first year, at least. But with Felix Rohatyn and his Fabian cronies in Washington running the printing presses, one can guess which way the rates will go the year after, and by how much.

Even were the present Carter cabinet an assemblage of Renaissance humanists instead of scoundrels, the "comprehensive income tax" approach would be the worst possible. All tax policies are, and must be, discriminatory. This one, however, heavily discriminates against those who should be favored and taxes lightly those that should be taxed into penury.

An income-tax approach to wage earners' incomes — or indeed any other tax on wage earners other than bona fide excise taxes or war emergency taxes — are *at best* a gross administrative waste and more commonly, a pretext for Schachtian accumulations. The point involved is a straightforward one. In a capitalist society, government expenditures properly are financed out of a portion of the society's absolute profit. But the nature of the capitalist realization process is that the social categories of wealth — total constant capital, variable capital, absolute profit, and the remainder of social surplus — appear only in fractional, distributed form as costs, including wages and earnings of enterprises or individual enterprises. Properly speaking, only profit, rent, and interest should be taxed, the presumption being that wage earners as wage earners are merely earning the historically appropriate equivalent for purchase of means of consumption to reproduce themselves and their family.

Under these circumstances, taxation of wage earners (whether by income taxation or other means) either imposes an additional tax on the employer, who must make up for the government's subtractions from his employees, or it means uncompensated looting by the government of a necessary fraction of the consumption needs of the wage earner and his family.

This is by no means to advocate scrapping the existing tax and income-tax structure, merely to squelch pretensions of the lunatic Brookings faction that their tax schemes would work under any conceivable charitable assumptions. They find the present tax structure somewhat cumbersome for anticipated looting purposes, and propose to remedy that situation. The rest of us will do well to squelch their pretensions for good.

The Conservative Approach

In contrast to the Brookings "a buck is a buck is a buck" orientation, the best of the conservatives represent a solidly pro-industrial-development thrust. Exemplary are the opening pages of the 1975 tax program of the U.S. Chamber of Commerce:

> *Capital formation.* The American economy is faced with a major capital shortage. It has been estimated that over the next decade the capital requirements of the United States will be approximately $4.5 trillion.
>
> Our total fixed investment as a share of national output was 17.5 percent during the period 1960 through 1973 — ranking us last among other major industrial nations. Since 1960, our existing base of plant and equipment has increased only about 50 percent, while the total of such assets in Japan has tripled, and almost doubled in West Germany and France....
>
> We cannot continue to ignore this capital shortage problem. It is important that our tax policy be remolded to encourage capital formation. We must apply those principles in our taxing system that promote the modernization and expansion of our productive facilities. The other highly industrialized nations understand these principles and are applying them. If we are to continue to improve our standard of living, reduce unemployment and solve our inflation problem — we must balance our tax policy in favor of capital formation....
>
> It is important that the Congress adopt a tax policy that encourages the replacement of obsolete and inefficient plant machinery and equipment so that American enterprise will outproduce its rivals, continue to provide jobs at the highest wages on earth, and maintain American leadership in the world marketplace.

This is excellent, but there is a problem. Many conservatives actually believe that a business-oriented tax reform will suffice to do the trick. This is a dangerous delusion.

The conservative argument for tax cuts favoring capital formation involves a syllogism: any tax on corporate earnings is a disincentive to investment. Therefore removing part of the tax on corporate earnings constitutes an incentive to investment. Some writers, such as Jude Wanniski of the *Wall Street Journal* and Prof. Arthur B. Laffer of the University of Southern California, have shown that there is an extremely close correlation between low rates of progressive taxation and high rates of economic growth over a broad range of historical examples.

Of course, the built-in fallacy of this neat correlation is that the credit superstructure is "neutral," which Wanniski and Laffer freely admit. On the contrary: credit is the most fundamental element of economic activity, and the least understood by business. Paper credit transactions are the present social form through which the economy makes decisions about future production. In a healthy economy, interest paid to banks and other lenders comprises a portion of the economy's total surplus product. The resources of the banking system centralize and reallocate the "free-energy" resources of the economy for future production.

As any banker will testify, credit decisions are necessarily the most *subjective* of economic activity, since they depend on assumptions about the future of the economy, the competence of the management of the borrowing company, the state of technology, as well as government taxation policy, regulation policy, and other nemeses of the *Wall Street Journal* editorial page.

It happens that the main area of credit expansion in the U.S. banking system over the last period has been the Eurodollar market, which grew tenfold to $500 billion after 1971, to rival the domestic US. banking system in size. No one argues that the Eurodollar market grew because Cayman Islands "shell" branches are less taxed than Chase Manhattan's head office. Eurodollar lending centers overwhelmingly on counter-productive forms of speculation in raw materials and Third World governments who export raw materials. The City of London vultures who are waiting to take over from the U.S. banks when this operation collapses have pointed out this weakness for years (e.g. Moses Mendelssohn in *National and Grindlay's Review*, August 1973). The rise in the Eurodollar market corresponds to the decline in U.S. capital formation (see U.S. Labor Party, "The Federal Reserve's Role in the Destruction of the U.S. Economy," May 1977).

This cancerous development has virtually wiped out the U.S. banking system as a major source of capital funds for industry. Worse, it has put a sum of dollars outside the control of the U.S. monetary authorities, leaving the dollar subject "to a really catastrophic run," as the London-based *International Currency Review* points out in its current issue. There are no delusions, at least on the level of Federal Reserve staff economists, that the current destabilization of dollar interest rates derive from any other cause than this. Most bank economists, e.g. Manufacturers Hanover's Tilford Gaines in his October 1977 newsletter, admit that this mess could crush the U.S. economy.

The purely subjective decisions of New York City and London bankers account for this development. The big U.S. lenders adopted the standpoint that also underlies the Blumenthal-Brookings package: that profit based on scarcity of raw materials and control of markets is profit just the same. When commodities prices busted in early 1975, banks belatedly discovered their error, and some are rethinking their approach. Meanwhile the credit system is so clogged with debt-obligations attached to bankrupt borrowers that the real cost of borrowing to the productive sector is enormous, crucial Third World markets are shut off due to built-up external debt positions, and corporations view investment planning through a tunnel.

Removing disincentives for investment is associated with an expanding economy, but will not launch an expanding economy. Either the private or public sector has to step in and transform credit conditions with this object in mind. For example, officials of West Germany's Dresdner Bank say that they can finance 150 billion marks of nuclear plant exports, on the Brazil model, through private sector means. Dresdner Bank's initiative includes taking control of the Eurodollar market deposit base away from London, and creating a combined Eurocurrency-lending and gold market center in Luxembourg. If the West Germans and their European collaborators persuade Arab depositors, for example, that investment in banks who finance nuclear energy is more viable than speculation in the London gilts market, they will make a major contribution to world trade. If the West Germans use the Luxembourg project to link Eurocurrency operations to hard-commodity positions in gold, they would be in a position to reform the international monetary system through the private sector.

Or, the Federal Reserve could use its emergency powers under Section 13.3 and 13.13 of the Federal Reserve Act and make direct loans to industry at low interest rates. Congress can create a National Bank along Hamiltonian lines to finance directly industrial sectors that directly contribute to the productivity of the national economy as a whole, principally energy.

Whether the government or the private sector takes the initiative to match present technological potentials to existing industrial capacity is not of much ultimate importance. If business wants to meet this objective they will fight to get the appropriate credit instruments in place — as the Dresdner Bank is now doing. Once high rates of capital formation expand the natural tax base of the Treasury, the mess in the tax system can be sorted out quickly.

Appropriate tax policies derive from credit policies that discriminate between speculative and productive investment.

That understood, the most badly needed reform in the present tax structure is the introduction of the general principle of reduced rates of taxation for productive investment and punitive rates of taxation for speculative activities. The lack of such a distinction at present creates the unwholesome situation that many of the provisions that the Chamber of Commerce is now rightly seeking also serve as loopholes for speculators.

Closely related is the question of proposed tax cuts on the order of $20 billion plus (this had been mooted by Blumenthal in an October news leak and is also favored by the Republican National Committee). Such cuts will only increase the rate of inflation *unless* accompanied by a dominant credit and tax policy that fosters the expansion of productive investment while at the same time contracting speculative swindles in slum housing, Eurodollar market raw materials swindles, and the like.

— *Richard Schulman*

Mexico To Use Oil Reserves To Become Advanced Sector Nation

Jorge Diaz Serrano head of Mexico's national oil company, PEMEX, announced on Oct. 26 that Mexico has oil reserves which may be as large as 120 billion barrels — double any previous estimates and second only to those of Saudi Arabia — and will use them for a 20-year crash development program. The declaration was made during a special, two-day session of the Mexican Congress to discuss the construction of a pipeline to export gas from Mexico's Southeast state of Chiapas to the U.S.-Mexico border city of Reynosa.

Although the hearings were called specifically to discuss the gas pipeline, Diaz Serrano used the session to outline and discuss the details of the government's energy development strategy which, he emphasized, is aimed at transforming Mexico into an advanced-sector nation. Diaz Serrano explained that the core of Mexico's oil policy will be the rapid exploitation of the huge oil and gas deposits for both increased exports and domestic consumption. He made it clear that only such a program could solve Mexico's huge unemployment problem — an indirect reminder to those U.S. groups concerned with the influx of Mexican "illegal aliens" that Mexico's oil development must not be sabotaged.

The PEMEX official explained the 20-year schedule in the context of the rapid development of nuclear power. By the mid-1990s, he said, oil will be obsolete as a fuel source and will remain only as a raw material for petrochemical processing. What would Mexico do with billions and billions of barrels of untapped oil then? He recalled for the congress a recent government study which establishes guidelines for the development of nuclear power in Mexico; a generation from now, the study concludes, nuclear power should be the dominant energy source in the country.

The director of PEMEX also attacked the limits on foreign borrowing imposed by the International Monetary Fund which create problems for the financing of PEMEX's ambitious expansion plans. Diaz Serrano sarcastically noted that the IMF, with its great concern for helping the recovery of nations in economic trouble, would certainly not want to block the development of the one industry that can lead Mexico out of underdevelopment.

The ultraleftist sectlets inside Mexico who oppose the construction of the pipeline on spurious grounds of "endangered national sovereignty" were also strongly attacked by Diaz Serrano and spokesmen for the ruling PRI party in congress.

The following are excerpts of the opening statement of PEMEX Director Jorge Diaz Serrano Oct. 26:

Oil wealth not only offers a way of resolving our current economic problems, but is the great economic axis which has been lacking since the beginning of our history, inhibiting the complete consolidation of the country. We can see in the future a new nation, not only permanently prosperous, but a rich country in which the right to work is a reality, and where wage levels permit a better style and quality of life . . . .

We must act without fear, since we will then have a negotiating capability which we do not have now. General Lazaro Cardenas (Mexican president from 1934-40—ed.) in his message to the nation (nationalizing oil reserves—ed.) on March 18, 1938, foresaw this when he told us: "The existence of the government itself would be in great danger if the state lost economic power, since it would also lose political power — resulting in chaos." . . .

The truth is that we are weak in comparison with our neighbor, and that 3,000 kilometers of border accentuate that weakness. But it is also true that our weakness is not inherent, nor does the border necessarily make us dependent. Whether we are below or whether we are on a par has depended and will depend ever more in the future only on our intelligence and will.

It should not be part of our character to wait until the cycle of history vitiates the vitality of the powerful in order for us to achieve parity with them. By no means. We should rather strengthen ourselves, with all of our many resources, and create with our labor a Mexico whose production and productivity equal present world norms. There is no better or straighter path.

The following are from the speech of Jesús Puente Leyva to the Mexican Congress Oct. 26 on behalf of the Institutional Revolutionary Party (PRI).

We are confident that the government of the Republic will effectively foresee all that is necessary so that the export of energy sources in the short term will gain greater economic and political autonomy for the country and change the modes of development and the concentration of income. The great challenge for Mexico, in this unique historical conjuncture, is to reach a new stage of economic expansion and social change, using the new resources generated by fuel export to fulfill national priorities. . . . In the next two years, at forced-march pace, our country must start broad ranging and ambitious programs, massively supported by specific projects, so that the additional foreign exchange will fortify the productive base of the country. The principal purpose will be to rehabilitate the agricultural sector, to guarantee our supply of food and raw materials, and give a healthy boost to strategic areas such as electric power, petrochemicals, steel, etc. This will ensure, at last, that the oil will be the bridge to Mexico's future.

Misinformation Campaign Hides Schlesinger Sabotage of U.S.-Mexico Energy Cooperation

Early this week U.S. ambassador to Mexico Patrick Lucey told the Mexican press that he believed U.S. steel companies, unhappy that they copped only one-sixth of the steel contracts for Mexico's gas pipeline to the U.S. border, were behind a recent Congressional resolution introduced by Adlai Stevenson (D-Ill.). The Stevenson resolution calls on the U.S. Eximbank to hold up a $590 million loan to Mexico until Mexico's asking price of $2.62 per thousand cubic feet can be driven down.

A day later Mexico's most well-known daily, *Excelsior*, informed its readers that U.S.-based oil multinationals were behind Stevenson's move. These giant multinationals, the paper suggested, wish to sabotage energy imports altogether and reap the benefits of artificially high prices in the U.S. In a follow-up editorial, the paper named the Rockefellers and related oil interests as the real culprits.

Both claims are preposterous. Top U.S. steel executives contacted by the *EIR* have emphatically stated their fear that Stevenson's resolution will lead Mexico to simply cancel the Eximbank loan — and with it the portion of pipeline contracts that they *have* won. And no one familiar with Stevenson's energy stances in Congress would believe for a moment that he is the mouthpiece for the nation's major oil companies. Senator Lloyd Bentsen (D-Texas), widely regarded as a spokesman for such multinationals, introduced a statement into the Congressional Record at the end of the week strongly condemning the Stevenson resolution.

But in Mexico the misinformation campaign has so far run unchallenged with the danger of drawing in the progressive nationalist sectors of the Mexican Congress, headed by the "economists group," among the most vociferous advocates of rapid Mexican energy development in a framework of U.S.-Mexican cooperation.

The Facts

Stevenson's office itself remains very clear on the matter. As stated to the *EIR* a week ago and reconfirmed this week, they consulted "solely with the Department of Energy" in formulating their resolution, with the aim of "giving Schlesinger more leverage" in forcing Mexico's price down to "reasonable levels." Sources in Washington involved in U.S.-Mexican relations state with dismay that their inquiries have established clearly that it is the Department of Energy which is willing to sink the Eximbank loan in a dubious tactic of strongarm pressure against Mexico. "There's no doubt about it. The Department of Energy plans to sit on the loan. The loan may not go through."

Schlesinger is exploiting a domestic U.S. energy squabble to cover for his own moves. Texas independent gas producers, beginning in August, seized on the Mexican gas price issue as a bargaining chip in their fight for deregulation of gas prices in the U.S. To dramatize the discrepancy between the Mexican price and current regulated interstate prices, they brought action before a Washington regulatory agency to stop the Mexican imports unless U.S. producers can raise prices in a like fashion. Gas pipeline companies who lost out on the original bidding for the Mexican contracts are demanding the Mexico gas deal not to go through until there is reallocation of the U.S. distribution rights.

But as a strong current within the gas industry, U.S. exporting interests, and officials who are opposed to Schlesinger within the Department of Energy are insisting, U.S.-Mexico energy cooperation and a strategy of high-technology U.S. exports, as exemplified in the gas pipeline project and the Eximbank loan, must not be held hostage to domestic in-fighting. Many knowledgeable U.S. spokesmen, including a high official of the American Association of Chemical Engineers, have gone on record as favoring Mexico's price of $2.62 per thousand cubic feet, based on the equivalent price of imported oil. But it is clear that even those who would like to see the price somewhat reduced have their best chance of success in fostering a climate of full U.S.-Mexican cooperation around rapid industrialization and energy development south of the border.

'Depression' Strikes Sweep Country

More than 100,000 workers in aerospace, the East and Gulf ports, the non-mining sectors have been forced into desperation strikes to protect their eroding standard of living. At this moment the conduct of these strikes reported below indicates that they will only lead to a further deterioration of the U.S. economy and to terrorism masqueraded as labor violence.

LABOR NEWS

The root of the "depression" strike wave is the reversion of both union and industry representatives to a "dog-eat-dog" psychology in the face of collapsing economic conditions. One industry spokesman involved in the strike situation in the aerospace industry seethed: "We are in the trenches now; this is old fashioned class warfare like in the 1930s. What we gain, we are going to take from the union." A union spokesman responded in kind, "We are going to have to knock heads with them (management) and see who comes out on top. . . . If the pie shrinks then we want our fair share. . . ."

The pie is shrinking — as devastating profit reports from leading industries make clear. To avert stalemated contract negotiations, wage settlements must be negotiated from the context of a program of expansion of the economy through capital-intensive, high-technology nuclear energy and agricultural programs. That standpoint defines the minimal competence required to avoid the emerging climate of confrontation, with its correlative demoralization of broad layers of the population. A confrontation atmosphere can easily be used as the cover for a whole range of terrorist activity, branded as "labor violence." "Countermeasures" launched in that violence-charged context would strike a devastating blow to the emerging labor-industry alliance for economic growth in the United States.

A "labor-violence" terrorist scenario may not be far away with the dockworker and aerospace strikes taking the lead. For example, circles in the Schlesinger Energy Department are also gloating that "a violence capability" has been built into the anticipated miners' strike by years of Institute for Policy Studies-wrecking operations against that union. "Crisis managers" on Schlesinger's staff are in fact anticipating "terrorism" on the part of such Institute elements, including the possible blowing up of rail lines. Such episodes would provide the ideal pretext for the institution of Secretary Schlesinger's plan for an energy dictatorship, the Winter Emergency Energy Program, WEEP.

Aerospace

More than 40,000 members of the International Assn. of Machinists (IAM) have been on strike against Boeing and Lockheed, the nation's two largest aerospace producers for more than a month. Negotiations are reported to be hopelessly deadlocked, with Boeing, the industry's acknowledged pacesetter, according to one informed source, looking to crush the union. If the strike continues, sources close to the United Autoworkers (UAW) report that the union will pull out 60,000 members at other aerospace companies whose contracts have already expired. No one expects a UAW contract settlement unless Boeing and Lockheed settle.

One source close to Boeing reported that the company is prepared to sit back, and use its cash reserves to wear down the union: "They'll wait until hell freezes over if need," the source said. The Boeing workforce, centered in the Seattle-Portland area, is beginning to hurt; strike benefits amount to less than $50 a week, and there are reports of skilled workers seeking jobs as "apple pickers to tide them over."

The strike is now producing the first small wave of "ripple-back" layoffs in the nationwide complex of industries that feed the aerospace sector. Analysts familiar with the near bankrupt status of many of these feeder plants report that such areas as Boston's Route 28 complex can ill afford a prolonged aerospace shutdown. "If they close down," said one analyst referring to the feeder plants, "many will likely not reopen."

"You are playing a dangerous game here," said one analyst. "The outcome of the strike the way it is going will be a further ratchet down of aerospace — more layoffs, more bankruptcies, and God knows what else."

Here are comments of IAM officials involved in the strike:

IAM official in Seattle (Boeing):

. . . All talks broke off last Thursday and none are scheduled. . . . Boeing has been trying to force people back to work by reminding them that as of tonight it will no longer make their medical benefit payments. Workers were advised of this by a letter sent by Boeing on Oct. 18. We've checked with the insurance company, and they report receiving over 90 percent of payments, so apparently the workers are paying for themselves and not backing down.

. . . Boeing has been putting out erroneous information claiming that the only issue is the union shop. This is absolutely untrue, and we have asked them to debate us on television to clear up the situation and they have refused this offer.

. . . Regardless of what Boeing says the only offer on wages we have seen is for a 3 percent increase across the board for each of the three years of the contract. This translates to as little as $.05 per hour for the lowest grade workers and $.43 per hour for the highest grade. On top of this, they're seeking the right to downgrade workers unilaterally.

. . . The IAM accepted a strike vote at McDonnell Douglas by over 90 percent and are currently working on a day to day basis.

Banking Economist Labor-Industry Confrontation on Agenda

The following is excerpted from the Oct. 25 issue of White Weld Economic Services Newsletter. *The report's author A. Gary Schilling is regarded as the most widely respected investment bank economist and his newsletter has an audience of major corporate and financial leaders. The thinking in the paragraphs below could therefore be accurately described as reflective of the incompetent outlook now rampant on labor questions among these layers.*

All this suggests that U.S. industry is being forced to reexamine its attitude towards inflation and its ability to pass on cost increases. Already we see such a shift in the closing of some old steel-making facilities, and the recent emphasis of new capital spending on modernization and labor-saving equipment as opposed to the building of new facilities.

Labor, of course, is the biggest single cost item for most industries, and one that is yet to be addressed in a significant way. American industry may be reaching the point, however, where major labor confrontations are likely. The steel industry, for example, may now be at the stage where loss of revenues and profits resulting from a strike over wage increases is no worse a prospect than similar losses associated with high wage settelments that cannot be passed on in price increases, or, if they are, lead to import surges and lower revenues and earnings. The current labor dispute with the iron miners may not be a good test case, but the outcome will be interesting to watch in this regard.

Plant closings, labor disruptions, and foreign trade battles are not pleasant events. They probably are, however, a necessary part of the transition from an atmosphere of accelerating prices to one of disinflation. Just when everyone thoroughly understands how to play the inflation game, the rules get changed.

IAM official in California (Lockheed):

... The good reputation that Lockheed had built up through the years is being destroyed. By stopping medical and other benefit payments they are taking this out on the children.

... Talks are continuing under the auspices of a federal mediator but only on minor issues. There are no talks going on concerning wages, seniority, and transfers, and none are scheduled.

... Lockheed wants to lift the seniority requirement needed to bump newer employeees from 6 to 15 years and wants complete control over transfers.

... They're offering 3.5 percent in the first year and 3 percent in each of the next two. On top of that, they want the first 2 percent of our COL to go to pay fringe benefits. What fringe benefits? We're being asked to pay our own first year's pay of our COL.

... Look, Lockheed called all the union delegates together last June and told us they would not plead poverty in these negotiations as in fact the company's financial position is improving.

Dockworkers

More than 50,000 dockworkers are in the second month of their strike against containerized shipping on the East and Gulf Coasts. Negotiations were described by one participant as confused beyond belief. While various East Coast press continue to report almost daily that some break in the strike may be near — possibly a New York area settlement — no one is venturing a guess when the entire mess might be settled.

At the root of the strike is the collapse of world trade. The dockworkers are asking for a guarantee to pay laid off workers, and the shippers are saying that they can't afford it. Although the press claims that unemployment due to containerization is the "crucial problem," industry observers report that it is no longer modernization that is claiming workers' jobs: "There are just a hell of lot less ships coming in. . . . I don't know what the figure is but we are talking about there being less ship traffic." Shippers have reportedly told the union, the International Longshoremans Assn., that it should expect new layoffs regardless of the strike's final outcome.

Export and import-oriented industries in the U.S., Europe, South America, and Japan have suffered major losses due to undelivered goods and cancelled contracts; layoffs are now beginning to occur in industries dependent on container traffic with some instances of short shifting reported.

Puerto Rico has been hardest hit by the strike. The island's unemployment figure could balloon to 328,000, equal to 33 percent, if the strike continues. Sixty firms, employing 6.2 percent of all manufacturing workers, have already shut down and according to a poll taken by Puerto Rico's economic development agency, Gomento, if the strike goes for six weeks, another 67,000 manufacturing jobs will be lost. For each manufacturing job lost, it is estimated that one other job in the island economy is also lost.

Informed observers warn that this could be "a make-or-break-it week" — if there is no significant motion toward a settlement, the ILA may decide to "shut down the whole damn coast!"

Iron Ore

Eighteen thousand iron ore workers organized by the United Steelworkers (USW) have entered the fourth month of their strike, and sources close to the negotiations report that the companies "have no interest in reaching a settlement. . . . The union may be willing to give up an arm and a leg, but they (management) seem to want both arms, both legs, and several teeth."

Industry analysts report that it is an "open secret" that there will be a major rationalization of U.S. iron ore production regardless of what settlement is reached because "everyone knows that the problem is not the iron ore workers' demands but collapse of the demand for steel. . . . If you produce less steel, you don't need that much iron ore, so you don't need iron ore workers."

The workforce, mostly centered in Minnesota, is said to be extremely demoralized. With the steel companies, who own most of the iron ore mines, drawing down their ore reserves at a slower than expected pace, one industry spokesman ranted, "We can sit back and starve them (the workers) out. . . ."

Mineworkers

Negotiators for the United Mineworkers Union (UMW) walked out of talks with coalmine operators last week, making a national strike all but certain. One source cautioned that even if a contract is reached before the Dec. 6 strike deadline, the coal operators have "no faith in the ability of the UMW leadership to sell a contract" to the rank and file.

W. German Unions And Industrialists Unite For Dortmund Nuclear Rally

On Nov. 10, a 70,000 person rally for nuclear energy will take place in Dortmund, West Germany, sponsored by the West German Trade Union Federation (DGB), which represents 8 million West German unionized workers.

As the list of supporters grows the rally has gained the support of West German politicians and industrialists who agree with the unions that the rally is the only public answer to riots by environmentalists at West German and French nuclear power plants earlier this year. Most of the union backing for the rally comes from the huge 2 million member Metal Workers Union (IGM), the Chemical Workers Union (IGC), the Mine and Energy Trade Union (IGBE) which organizes both coal miners and the machinists who manufacture power generating equipment, and the Public Employees Union (OTV) which organizes the employees of municipal power plants. *The chairmen of these unions will all speak at Dortmund.*

The rally is definitive proof of the emerging labor-industry alliance for nuclear power that is shaping West German politics. Both conservative industrialists in the Christian Democratic Union (CDU) and the working-class membership of the Social Democratic Party (SPD) realize that the European environmentalists' demands for zero energy growth and labor-intensive jobs give them a common enemy, who is out to destroy both highly skilled jobs and advanced industry.

More than 100 American and Canadian union leaders, businessmen, and industrialists have sent support telegrams to the rally's organizers. Most of the telegrams have come from three key unions — the Teamsters, the United Steel workers of America, and the Building Trades, whose membership has purchased over 46,000 copies of the U.S. Labor Party special report, *The Plot to Destory the Teamsters — Who's Behind It — How to Stop It,* and 40,000 copies of USLP briefs on the expansion of nuclear power and revitalization of the steel industry.

The original organizers of the rally, the Joint Factory Council of the United Electricity Works, Westphalia (VEW), the largest West German utility, recognized the role of the Teamsters in bolstering support for the rally by sending a telegram to International Brotherhood of Teamsters President Frank Fitzsimmons, Oct. 31, aksing him to endorse the rally.

Bonn Set A Precedent

Planning for the Dortmund rally began shortly after a successful September rally for nuclear energy in Bonn drew 15,000 people instead of the expected 7,000.

The Bonn rally was organized by the factory councils of Interatom, the leading West German nuclear fuel cycle company, and Kraft Werke Union (KWU) the major West German reactor manufacturer. It was the joint factory council of VEW that started the ball rolling for the Dortmund rally. During a council debate over the rally, support telegrams from American steel workers in Pittsburgh and Ohio won the argument for the rally organizers.

As support for the rally grew, the DGB endorsed it and began telegramming every factory council in northern West Germany about it. The main KWU factory, organized by the Mine and Energy Trade Union, soon realized that so many of its workers and their families were attending the rally that it rented two trains to avoid creating a traffic jam on the highway to Dortmund.

The European Labor Party (EAP) intensified rally support by contacting over 300 large factory councils in the last month. In most cases, these councils were in factories 200 to 300 miles from Dortmund, and had not been notified by the DGB yet. The EAP has also been using the endorsement of the rally by two members of the Republican National Committee to convince conservative Christian Democrats, who support Chancellor Schmidt's nuclear energy program, that they must support the rally too.

North American Labor And Industry Leaders Endorse Dortmund Rally

The mass demonstration in support of nuclear energy scheduled for Nov. 10 in Dortmund West Germany continues to draw endorsements from the North American labor movement. Telegrams and support messages from North America have flooded the West German unions. The names of the most recent signers are included below. These recent signers are added to the list of 31 signers published in last week's EIR.

Michael Snyder, Joint Council member,
International Brotherhood of Teamsters, Local 25
Ed Dennis, Business Agent,
International Brotherhood of Teamsters, Local 81, Portland, Ore.
Joe Edgar, International Council Chairman,
International Brotherhood of Teamsters, Local 81, Portland, Ore.
Steve Missonak, Secretary Treasurer,
International Brotherhood of Teamsters, Local 250, Pittsburgh
Corrine Zengar, Executive Board Member, International Brotherhood of Electrical Workers, Local 2313, Rockland, Mass.
Robert T. Leonard, Secretary-Treasurer,
United Steelworkers of America, Local 12003
Joe Ward, Chairman Grievance Committee,
United Steelworkers of America, Local 1245
Charles Paluska, Business Agent,
Western Michigan Building Trades Council
Al Josephs, President,
Utah Building Trades Council
Bob Dilger, President,
Washington Building Trades Council
Kenneth Uzzo, Executive Board Member,
Laborers Local 721, Brockton, Mass.
Russ Bassett, President,
Northern Indiana Building Trades Council
Paul Melody, President,
Utility Workers, Local 2639
Marchie La Grasta, President,
Central Labor Council, Brockton, Mass.
R.C. Stackey, former President,
Glassblowers, Local 169, Milford, Mass.
Joseph Carvalho, Jr., President,
Transport Workers of America, Local 469
Richard Meyer, President, International Association of Machinists, Local 264
Walter Brawer, trustee,
International Association of Machinists, Local 1836
Rudi Cumming, Vice President of International Mailers Union, Tenn.

CANADA

Maurice Poulist, Chairman,
Plumbers 144, Quebec
Lawrence Smith, President, Oil, Chemical, and Atomic Workers, Local 9696, British Columbia
John Nimme, President, Oil, Chemical, and Atomic Workers, Local 9682, British Columbia
John Macken, Delegate, Oil, Chemical, and Atomic Workers, Local 9697
John Liefersins, Secretary-Treasurer, Civil Service Workers, Local 275, British Columbia

NON-UNION

Joseph Gallioto, Concerned
Citizens for the Breeder Reactor
David Nudd, Vice-President,
Gateway Foods, Wisc.
Dr. Schrum, former Chairman,
British Columbia Hydro
Charles Borders, senior Vice-President,
Indiana Power and Light Co.
Joanne Grey, Republican National Committee, Colorado
Francis Shipman, Republican National Committee, New Mexico
Robert E. Pegg, Chamber of Commerce,
Simi Valley, Calif.
Col. Thomas McCrary, Chairman, National Coalition of Independents on Issues
Edith Holm, Republican National Committee, Alaska
Clifford Grub, Repbulican National Committee, Alaska

Fitzsimmons' Testimony Answers Senate Subcommittee

Frank Fitzsimmons voluntarily appeared before the Senate Permanent Subcommittee on Investigations Nov. 2 as Senators Charles Percy (R-Ill.) and Sam Nunn (D-Ga.) questioned him. Nunn, in particular, tried to dredge up Fitzsimmons's alleged connections to the Mafia figure and former investment consultant to the Teamsters Central States Pension Funds Alan Dorfmann to substantiate charges of misuse of funds. Excerpts from the questioning appear below.

Nunn: Did you know that Dorfmann was convicted of a criminal act? Why did you not sever Dorfmann's ties from Central States Health and Welfare when he was convicted regarding the pension fund? Does Alan Dorfmann have to be satisfied? Does Dorfmann dictate terms to the Health and Welfare Fund?
Fitzsimmons: We removed Dorfmann from his consulting job with the pension fund but not from his claims processing contract with Health and Welfare. Why? Because I don't think he's guilty, he was convicted by a paid government professional witness. It was a trumped up charge and I don't think he is guilty. Nonetheless I had to remove him from the pension fund.

Nunn: So, Mr. Fitzsimmons, you're saying that if a child molester abuses one of your children, it's O.K. to let him take your other child out, as long as he stays away from the first one?
Fitzsimmons: I'm saying that if a horse bites one person, that doesn't mean he will bite every person he comes across.

Nunn: Mr. Fitzsimmons, Mr. Shannon, and Mr. Herren (Shannon's assistant), were here two days ago and said that "we have been subservient to the activities of Mr. Dorfmann." What do you say to that?
Fitzsimmons: I don't know what they are talking about.

Nunn: For example, Mr. Kliendienst tells Mr. Hauser that he had better go visit Mr. Dorfmann and cut him in on the claims processing part of the contract, if Hauser wants the business.
Fitzsimmons: I don't care if he sent Jesus Christ to see Dorfmann.

Nunn: I don't think that happened.
Fitzsimmons: I want to make it perfectly clear, no one has authority or power over Central States Health and Welfare except the Teamsters.

Nunn: I'm glad to hear you say that, because that's the way it should be, but I am disturbed nonetheless. Until today, testimony presented has been replete with testimony that Mr. Dorfmann holds the key to the Central States Health and Welfare Fund. The power of Mr. Dorfmann has been documented for many years. I am going to read from the hearings of the labor rackets committee in 1959 and I am going to quote from staff counsel Robert Kennedy: "There is a strange and peculiar relationship between Alan Dorfmann and Jimmy Hoffa. Dorfmann must be satisfied, if any company is to keep Central States' business."

Not much has changed since Kennedy made that statement in 1959. Twenty years ago Mr. Dorfmann was up here taking the Fifth Amendment. Yesterday Mr. Dorfmann was up here taking the Fifth. Only an alert aggressive membership in labor unions will be able to safeguard the safety of their pension fund and health and welfare funds. Hasn't Mr. Shannon presented to you 18 reasons why he thinks you should get rid of Dorfmann?
Fitzsimmons: No, never in a board meeting to the trustees.

Nunn: Hasn't Mr. Shannon told you that he has tried to get records from Mr. Dorfmann to validate claims, which Mr. Dorfmann has refused to give him?
Fitzsimmons: No he has not. If he had I would have insured that the trustees did what was necessary to get the documents. And let me say this, if Dan Shannon has evidence of false claims being filed against our fund and has not done anything about it, then he shouldn't be director of the fund.

Nunn: Aren't you saying that if Shannon can't catch Dorfmann, he should be fired? Even if he knows that Dorfmann is cheating you? But just can't catch him.
Fitzsimmons: No, I'm saying if he has evidence, and hasn't done anything about it, then he shouldn't be director of the fund.

* * *

The following is a portion of the testimony of Dan Shannon, Director of the Central States Pension Fund, under questioning from San Nunn. Shannon's testimony gave rise to Nunn's accusation that the Central States Pension Fund was controlled by Alan Dorfmann:

Nunn: Why did the trustees like Dorfmann? Why did they extend the contract?
Shannon: I don't know because we went into executive session and I was asked to leave the meeting.

Nunn: I have here a copy of a letter signed by Mr. Presser and Mr. Sheets (a pension fund trustee), telling Mr. Dorfmann that "pursuant to the resolution adopted by the trustees," your contract has been extended for 10 years. Was a resolution adopted and did Mr. Presser and Mr. Sheets have the authority to unilaterally extend the contract?
Shannon: No to both.

Humphrey-Hawkins Just Around The Corner?

A White House press aide said this week that the Carter Administration was "very close" to giving its endorsement to a reworked Humphrey-Hawkins "Full Employment and Balanced Growth Act." How Close? "Very close," the aide replied, "no more than 10 days or two weeks away."

ENEMIES OF LABOR

Reminded that the White House had made similar announcements since the beginning of September and had yet to endorse the bill, she replied, "Well, this time we mean it."

An aide to the bill's cosponser Rep. Augustus Hawkins (D-Calif.) confirmed the White House's optimism. The aide reported that almost all points had been settled after weeks of meetings between aides to Hawkins, Sen. Humphrey, and White House negotiators Stuart Eizenstat, Council of Economics Advisors head Charles Schultz, and Labor Secretary Ray Marshall.

In the past two years, numerous attempts by the AFL-CIO to produce mass support for the Humphrey-Hawkins bill have fallen flat, prompting Congress to shelve the proposal. Now compromises are underway so that the Fabian-led forces can gain some leverage, the aide reported. "It's likely to be Hubert's last fling, and he wants to go out a winner," said one source.

"If we need to do it with mirrors, we'll do it," Hawkins's office said. The staffer even went so far as to suggest that "everything really depends on how fast the economy goes to hell... if it sinks fast, then we'll be able to roll over our opposition in Congress."

Capitol Hill sources currently estimate that it would take a full economic collapse to create the climate to pass Humphrey-Hawkins.

Conyers Pondering Shorter Work Week Legislation

An aide to Rep. John Conyers (D-Mich.) admitted this week that their office had drafted legislation to "shorten the work week" by reducing overtime, though they had made no decision on whether to push it.

The bill, still in draft form, has five basic provisions, according to a Conyers spokesman:

1) It would amend legislation to raise overtime pay from one-and-one-half-times normal pay to double; this is intended to encourage employers to eliminate overtime.

2) It would similarly amend legislation reducing the "standard workweek" from its present 40 hours to 37.5 hours in two years and 35 hours in four years.

3) It would require written consent by an employee for overtime in any given week. "Some bugs in this section must still be worked out," the aide reported. Trade unions would have little involvement. "It would be up to the individual employee..." The aide said it was decided to handle the filing this way since "so many places are non-union."

4) The bill would not affect existing collective bargaining agreements for two years; after that, agreements would have to conform to the specifications of the legislation.

5) The Secretary of Labor would be empowered to waive the "written consent" provisions in time of emergency, "like a war."

Share the Misery

The bill has its roots in various "share the misery" schemes concocted during the 1930s depression and revived principally by the United Autoworkers during the mass layoffs in the auto industry in 1974-75. The UAW passed numerous resolutions supporting the concept of a shorter work week to extend employment.

A competent analysis of employment problems in the U.S. recognizes that their solution must start with major expansion of productive employment based upon a program of high-technology agriculture and nuclear energy development. The shorter work week scheme, as Conyers' aides admitted, would not expand the number of employed persons. "That's one of the things that are troubling us," the aide said. "I'm not convinced that it would put any more people to work. What's worse, we can't really legislate wage rates, so I'm sure it will amount to large drops in income and living standards for many workers...."

The Conyers spokesman also admitted that the "written consent" section would wreak havoc with the economy and production schedules, and actually reduce employment.

You Have To Be Kidding

Conyers's office stated that the bill at the present time has almost no support from the labor movement. Doug Fraser (UAW president) and William Winpisinger (IAM head) "have given verbal commitments, but nothing else," the aide said. He also identified the major backer of the bill as the Communist Party's "Trade Unionists for Action and Democracy " (TUAD), which some estimate to have a miniscule membership. TUAD sponsored a meeting in Detroit last week to discuss the idea organized by a local UAW official, but the meeting endorsed no specific legislation.

"We're going to watch and wait," said Conyers' office. "If a major mobilization develops around the bill as the economy grows worse, I'm sure that John Conyers will come out swinging on its behalf...we're counting on TUAD and the unions...."

Globe Democrat.

Short Work Week No Solution

The conservative Midwestern daily, the St. Louis Globe-Democrat, *editorially scored the shorter work week proposal Oct. 27 in the editorial reprinted below.*

Get Back to Basics

The collective wisdom of the labor leaders in Detroit who called for a shorter work week as a solution to unemployment could be put on the head of a pin.

Seldom have so many strained to hard to come up with so little.

This is the same nonsense that President Franklin D. Roosevelt came up with in 1933. Forty-four years later it makes no more sense than it did then....

There are three essential ingredients in a healthy economy. One is the availability of an ample supply of capital. (...It takes $40,000 in capital to create just one job.) Second is an adequate supply of labor. Third is a government that will promote the effective use of both capital and labor. (Emphasis in original.)

The problem in this country is that it has only one of the three — an adequate supply of labor. Real profits, from which capital comes, have been about cut in half in the last 10 years. The government is a thorn in the side of both labor and capital investment because it inflates the economy to pay for its huge deficits, imposes costly, time-wasting regulations and levies income tax rates that are much too high.

What is needed is enough pressure to force the federal government to change its economy-killing policies.

This is why labor and management should join forces because their interests are identical. Separately they probably don't have enough muscle to bring about a change. (Together) they could help increase employment as well as improve business....

Fight Emerging Over U.S. Steel Policy: The Good, The Bad, And The Stupid

SPECIAL REPORT

As the crisis of the world steel industry deepens, two distinct approaches to the crisis have emerged. Some forces here and abroad recognize that the solution to the steel industry's problems lies in the very opposite direction of protectionism: in the rapid industrialization of the Third World, which will require massive inputs of advanced sector capital goods. The other side, typified by the United States Steel Corporation, is calling for retrenchment: rationalization of existing capacity to prepare for a period of slow or negative growth combined with protectionist measures.

Expressing the progrowth viewpoint, Hans Birnbaum, chairman of Salzgitter AG, the state-owned West German steel complex, outlined a real recovery program for West German industry at a business conference in Baden-Baden, West Germany last week. According to a report in the *Frankfurter Allgemeine Zeitung* Nov. 1, Birnbaum called for a five-point approach: 1) development of new markets, especially in the Third World; 2) meeting the Japanese challenge — which is not underpriced exports but high levels of productivity; 3) export of high-technology products produced by West Germany's highly skilled engineers and advanced research and development sector; 4) continuous modernization of West German industry; and 5) constant upgrading of the skills of workers and managers.

This approach has been echoed in recent weeks on this side of the Atlantic by former Texas Governor John Connally, who called for a high-technology export orientation for U.S. industry and agriculture at a meeting of the Republican National Committee in Salt Lake City at the end of October.

Steel Communities Coalition

On the steel issue proper, a spokesman for the Steel Communities Coalition told a reporter recently: "Any orientation to solving the steel crisis eventually must come from an increase in the world market for U.S. exports."

The Steel Communities Coalition held its first working meeting on Oct. 25 in Pittsburgh where it began formulating a policy for halting the collapse of the industry. William Sullivan, who is the staff director of the Niles, Ohio-based coalition, made clear the group's orientation: "If the Administration continues to look at this as an industry problem instead of a national one, there can be no solution. This country must either develop a national goal to have a competitive, clean and independent steel industry or suffer the consequences of wasting one of our greatest resources, the steel communities which have made this country strong."

Fordham University's Father William Hogan, one of the nation's leading steel economists, and his staff in the Industrial Economics school at Fordham are formulating a program for modernizing the steel industry in Ohio's Mahoning Valley, the cradle of U.S. steel production and one of the areas hardest hit by layoffs in recent months. Father Hogan's program will include the construction of a giant new coking oven which would be utilized jointly by the steel companies operating in the valley. Father Hogan sees the program as part of the effort to meet increased demand for steel in the future. However, to date the Coalition has not put sufficient emphasis on the need for expansion of the industry or the question of new markets, thus leaving the door open for the rationalizers. One spokesman for the Coalition said recently that the group is considering a $2 billion program of bridge building as the answer to faltering demand for steel.

On the financing side, some members of the Coalition have proposed the idea of a "steel bank" which would funnel $800 to $900 million in direct, low-interest loans to the steel industry for modernization. This is far short of the actual capital requirements for rebuilding the steel industry — the $50 billion specified in the U.S. Labor Party's steel program — but a step in the right direction.

U.S. Steel Corp. True to its Traditions

A spokesman for the Coalition also charged that the giant U.S. Steel Corporation is a major obstacle to the formulation of a positive national policy. The corporation is contentedly sitting back and waiting for the smaller companies to go bankrupt, so that it can move in and "gobble" up their markets.

Two spokesmen for the board of directors of U.S. Steel told U.S. Labor Party representatives at a meeting in Pittsburgh on Nov. 1 that the nation's largest steel producer is opposed to the development of external markets for U.S. capital goods, the export of U.S. nuclear technology, and "government intervention" to provide low-interest credits to the nation's steel industry. "That's what got us into trouble in the first place," they claimed.

U.S. Steel has a long-tradition of opposition to progrowth policies, as the company which led the way in trustifying the U.S. economy and subverting the country's traditions of technological growth in the first years of the twentieth century. In the fall of 1975, when R. Heath Larry, former vice chairman of the company, was approached on the U.S. Labor Party's International Development Bank proposal, he said that the company had no interest in producing more steel for world development. "We're in this for the paper," Larry said. "You can't eat steel." Since J.P. Morgan took over the company in the early twentieth century, the corporation has been run by a bunch of bankers who make steel as a sideline. According to the corporation spokesmen in Pittsburgh, the company's response to the present steel industry crisis is to diversify out of making steel. U.S. Steel is putting all new investment in areas like real estate, coal, and petrochemicals.

U.S. Steel, along with Bethlehem, has led the way in depression planning in recent months by closing down high-cost, marginal facilities in an effort to improve profitability over the medium term. Bethlehem's decision over the summer to reduce operations at its Johnstown, Pa., and Lackawanna, N.Y., plants, laying off 7,300 workers, showed up in its third quarter profit figures. The write off resulted in a $477 million loss — the worst quarterly loss in U.S. corporate history. Lewis Foy, Bethlehem's chairman, commented that as a result of reduced operations the company will be "leaner but stronger" in the future.

Mr. Foy, like the board of U.S. Steel, has mistaken the accounting notion of paper profits for a notion of real profitability. The latter would be generated by the type of combination described by Salzgitter's Birnbaum: expanded markets, modernization and introduction of new technologies, and the constant upgrading of labor power. This approach would result in lower production costs all around, and the generation of absolute surplus for reinvestment in productivity-increasing technologies. The U.S. Steel-Bethlehem view is presented in extreme form in the new Council on Wage and Price Stability report on the steel industry. The report, which had visible input from the Council's new head, former Brookings economist Barry Bosworth, analyzes the industry purely in terms of prices and wages, and comes to the conclusion that the construction of new "greenfield" plants would do nothing to alleviate the U.S. industry's cost disadvantage versus Japan's modern industry.

Franco-German Counterterror Focuses On British

Three weeks have passed since the West German government, with the backing of the French and East bloc government, carried out the successful commando raid at Mogadishu, Somalia, freeing 85 hostages and killing or capturing the four Baader-Meinhof-associated "Palestinian" terrorists. That bold maneuver initiated a broad French-West German collaborative counterterror offensive now taking on the character of an open and explicit fight against the City of London.

At the policy-making level, the fight is openly expressed in the struggle for industrial growth credit policies oriented to nuclear energy development and capital formation. On this level the governments of Chancellor Schmidt and President Giscard d'Estaing have taken dead aim at the hyperinflationary austerity policies of British Chancellor of the Exchequer Denis Healey, Roy Jenkins, and the rest of the City of London crew.

On the level of the terrorist "war of nerves," leading press agencies in the BRD and France are openly directing their exposures to the British intelligence control points and at the Fabian-oriented private intelligence apparatus associated with London's Tavistock Institute, the Frankfurt School, and "philosophers of nihilism" as Jean-Paul Sartre, Herbert Marcuse, and Michel Foucault.

Underlying this campaign of public exposure and education, the West German government, in particular, has regrouped its federal law enforcement and intelligence structure to institutionalize the counterterror drive. The formation of a second special antiterror commando unit was announced this week within West Germany's border police (Bundesgrenzschuts), while the federal investigation service, the Bundeskriminalamt (BKA) has established a separate "Terror Search" unit to conduct special field investigation in conjunction with a research and evaluations unit.

In the face of this escalating counterterror effort, the British and British-allied terrorist controllers and supporters have been forced into a retreat-regroupment mode which has two main characteristics: 1) nominal denunciations" of Baader-Meinhof terrorist atrocities in an effort to separate the Fabian supporters from the isolated terrorists, thereby salvaging elements of the political command structure; 2) maintaining selective terrorist operations, including a recent series of professional assassinations against Italian and West German intelligence service officials, to create the climate for a new round of terrorist violence.

As long as the media exposure of the networks, methodology, and political motivation for terrorism in the City of London's drive to impose a new neo-Malthusian British Empire continues, the preconditions will be laid for putting a permanent end to the effective use of "irregular warfare." The accompanying grid of recent press coverage, and interviews with British-connected "terrorist handlers," makes this point clear.

Daily News:

Frankfurt School Created Baader-Meinhof

A feature article, "Terrorism's Alive, Well, Living in Bonn," by United Nations correspondent Russ Braley, appeared in the Oct. 23 edition of the New York Daily News. *Although it does not draw the full implications of its own facts, it represents the first sophisticated picture of the creation of a synthetic terrorist organization by intelligence-linked agencies ever to be presented to an American readership in any major U.S. publication apart from NSIPS's* Executive Intelligence Review *and* New Solidarity.

The Frankfurt University's Institute for Social Research, discussed in the article, has been the major European center for the institutionalization of "New Left" ideology since the 1930s, when it was established by operatives associated with the Tavistock Institute in England. "Left" movements created by the Frankfurt Institute have been used by the British for "deception" and penetration operations against the Soviet Union and East bloc nations, for political "destabilizations," and for conduiting terrorists.

The Daily News *article is excerpted below.*

West German terrorism is institutionalized, with ready recruits in the radicalized university system, financing from an international terrorist network, and moral support from intellectuals such as French philosopher Jean-Paul Sartre and author Heinrich Böll...

Many believe it began at Frankfurt University's Institute for Social Research. Founding Prof. Max Horkheimer, fleeing Hitler in 1933, moved from the Institute to New York. The late Prof. Theodor Adorno, who taught at New York universities, took it back to Frankfurt after the war, still fighting the dead Hitler through the 1950s and 1960.

Adorno, with Prof. Jürgen Habermas, developed a new communism (long before Eurocommunism) called "the third way," going back to some Communist basics "before the Stalinist aberration." Adorno's colleague left behind in the U.S., Prof. Herbert Marcuse, became a guru to the American student revolt of the 1960s. Among foreigners who went to Frankfurt to audit Adorno's classes were Angela Davis and Yassir Arafat...

Besides the Frankfurt Institute and the Berlin Wall, another element helped create the Red Army Faction. Before the killing began, *Der Spiegel* magazine made popular heroes of the 1960s radicals, including "charismatic" Red Rudi Dutschke, Attorney Horst Mahler, and "Commune clown" Fritz Teufel...

When Mahler joined the revolution, he set a pattern for "red attorney collectives." The lawyers do not attempt to defend clients; rather, they act as courriers attempting to smuggle weapons, drugs and messages...

West Germany now is in the throes of an intensive manhunt for the killers of Schleyer, but the terrorists are in some degrees protected by fear of "McCarthyism" or fascist police methods. Already the Left is charging that the "witch hunt" has begun.

Die Welt:

Baader-Meinhof Links Extend To Paris, London

The leading West German conservative daily Die Welt *reported Oct. 24 on the international contacts of the Baader-Meinhof gang. Excerpts of that article by Werner Kahl appear below.*

With her contacts to El Fatah, the Red Brigades, the Red Aid, Amsterdam, and to Swiss anarchists (Tessin) as well as to the illegal KPD (the Maoist Communist Party of Germany) apparatus in East Berlin, Ulrike Meinhof prepared for this consequence, so that there would be new, inconceivable possibilities for armed struggle from operation bases in foreign countries...

In 1970 Jan-Carl Raspe, who committed suicide in Stammheim prison, travelled as a courier to Paris and London for 'business transactions'... What has remained unknown to the public are the contact trips that the "2nd of June Movement" made from Berlin to Holland, Belgium, and Great Britain in 1973 and 1974. Reiner Hochstein, a former physics student in Bonn, who recently signed a confession in prison, travelled from Hamburg to Birmingham to see the British group "Red and Black Outlook." He was accompanied by Andreas Vogel, who is in prison charged with assassinating Günther von Drenckmann, the president of the West Berlin State Court, and of participating in the kidnapping of West Berlin Christian Democratic Union Chairman Peter Lorenz.

French Weekly:

Terrorists Aided By Infiltrators In EEC, Finance Ministries

The French magazine Vendredi Samedi Dimanche *(VSD) published a ground-breaking article Oct. 28 by Philippe Bernet, entitled "The French Networks of International Terrorism." Most of Bernet's material is drawn from official French Interior Ministry reports.*

According to reports to be found on the desk of the Interior Minister, the Finance administration is not the only one to be spied on. In the aftermath of May '68, after the great romantic blaze that led to nothing, the ultraleftists launched a vast plan to infiltrate the ministries and key sectors of the French economy...

The police department itself was infiltrated. In the spring of 1968, hundreds of long-haired "contractual agents" were recruited by the Renseignements Généraux (the political intelligence division of the French police —ed.). All of them were given police cards... (and many) laid their hands on sensitive documents which they supplied to their friends...

The (terrorist) militants are recruited as early as high school into the Red Circles Front, through the influence of young Marxist teachers... These self-styled Red Moles carry out their activities in post offices (the mail of leading personalities is monitored and sometimes stolen), and in the telecommunications system (the revolutionary cells there have their own bugging program).

The notorious Prison Inmates Action Committees and related Associations for the Defense of the Rights of Inmates (a creation of terrorist controller Michel Foucault —ed.) not only introduce revolutionary propaganda in jails and penitentiaries but also have the opportunity of selecting there a few hardened men...

Those committees and related groups represent a recruiting pool for clandestine networks. Seasoned terrorist cadres select the most intrepid subjects among them who are then integrated into the "International Brigades" carrying out assassinations against foreign diplomats in Paris... Or they join the "hard" environmentalists of the COPEAU group which has been bombing nuclear plants, nuclear-related corporations, etc. ... (*VSD* author Bernet goes on to indicate that the leadership of the COPEAU includes terrorist experts from the now-dissolved Gauche Prolétarienne, a Maoist "Proletkult" terrorist group active after 1968 —ed.)

Within the "International Committee for the Defense of Political Prisoners in Western Europe" (which was set up for the sole purpose of giving support to the West German terrorists), a rift has widened between a coterie of ultraleftist lawyers, physicians and teachers, and the revolutionary militants. The former would like to limit their activities to humanist-sounding and other political declarations, whereas the latter have transformed the Committee into a truly clandestine network, with its bogus "letter boxes," secret codes, covers, safehouses, and its monitoring of police radiocommunications. These are not young intellectuals playing at resistance, but hardened individuals who have established links with the Baader-Meinhof gang (the wife of West German lawyer Haag, the "brain" behind terrorism, served as a liaison agent with the French group), with the Palestinians of the PFLP (they were in permanent contact with Mahmoud Saleh who was executed by the Israeli secret service in Paris last January).

But this pro-Baader Committee which is now fighting for Klaus Croissant and has infiltrated international organizations like the OECD (a high-level British official attached to the European Economic Community and linked to French revolutionaries, gave them a top-secret European Commission document on the repression of terrorism), has other ramifications: with anarchist networks in Switzerland, with the Armed Proletarian Nuclei in Italy, with the IRA in Ireland, etc...

Even more discreet, deep and undiscernable are the links of the French pro-Baader Committee with the NAPAP (Armed Nuclei for Popular Autonomy), the toughest French terrorist group... the "Clockwork Orange" of terrorism. Their militants, like the murderers of Attorney General Buback, Dresdner Bank President Jürgen Ponto, business leader Hanns-Martin Schleyer, are part of the new wave of terrorism. The French police are aware of this and are tracking the NAPAP members and the French Andreas Baader, Christian Harbulot...

(A new wave of bombings in Britany raises the nagging question of who is behind the resurgence of separatist, regionalist movements in France and elsewhere. Says Philippe Bernet:)

Until a few years ago the Bretons, Occitans, Basques and Corsicans were part of a traditionalist right wing. Most of the separatists from Britany were taking their orders from one of their leaders who sided with the Nazis during World War II and took refuge in Ireland. Then the ultraleftists infiltrated the Front for the Liberation of Britany (FLB) which started a fight for a "free, socialist state of Britany." (Since that time) commandos of separatists have been bombing all buildings that are a symbol of French authority... With growing concern NATO specialists see the same form of ultraleftist terrorism plaguing Corsica...

EXCLUSIVE

H.H.A. Cooper:

Terrorism To Escalate, U.S. Prime Target

The following comes from an Oct. 21 interview with Professor H.H.A. "Tony" Cooper of the American University Institute for Advanced Studies in Justice. In an interview published in Executive Intelligence Review *last March, Professor Cooper, a British subject who authored that month's Law Enforcement Assistance Administration report on terrorism, predicted a wave of "Puerto Rican" bombings which subsequently occurred under the auspices of the FALN bombers of New York and Chicago. The reader will note that Cooper characterizes France, West Germany, and the Soviet Union — three nations now working together to combat terrorism — as adversaries over the terrorism issue.*

Q: What do you see as the future of terrorism after the successful West German commando raid at Mogadishu?
A: I think escalation is inevitable.... This is a continuing struggle.

Q: So you don't see a decline?
A: No, on the contrary, they have been stimulated to greater activity. Terrorism is a struggle for power. The struggle is never given up until one side or the other has lost, and nobody is going to recognize such a loss.... It's certainly not a foreseeable event.

Q: There are certain forces in West Germany who view the terrorists as having sustained a tremendous defeat and on the verge of extinction.
A: I wouldn't subscribe to that view. I certainly don't think they're anywhere close to extinction. The West German government is not capable of reaching any of these people, as it recognizes indeed by the appeal that it has made for cooperation internationally. The problem is, of course, that they are being harbored by other countries.... the only way that terrorism is possible is by safe havens being made available to them by unfriendly (to West Germany) or unwitting neighbors.... These endeavors have been planned outside of Germany, maybe in France and Belgium, and executed from those neighboring territories with impunity. So, I would think that the Germans were very optimistic indeed to imagine that they had made very much impact on the actual core structure of these groups.

One of the problems that I foresee is a propaganda problem. Propaganda is always important in war, of course. If, for example, there now becomes a mass sympathy, and there are signs of this in Europe, with the terrorist movement, this will hamper the work of the police and will increase their difficulties in breaking these organizations.

Q: Do you see any escalation in the U.S:?
A: I think ultimately this will have to happen. We are the prime target; this behavior is very contagious. People will do what seems to work and if terrorism seems to work, they will repeat it wherever it is geographically and politically possible.

Q: The Soviets are accusing the Chinese of being behind the terrorism. What do you think that is about?
A: I think this is the pot calling the kettle black. In my view, the Soviet Union, particularly through its satraps in East Germany, Czechoslovakia, and Cuba, have long been producing surrogate terrorism and training people for years in the Patrice Lumumba University, for example, in Moscow for just this sort of work. To suggest that the Chinese are doing the same is sheer impertinence. They probably are, but as I was saying, this is the pot calling the kettle black.

Q: Do you think that terrorists have any capability for dealing with these counterterror operations?
A: Defensive capability, no. But one has to plan one's operations. For example, an offensive operation such as (Mogadishu) would have been impossible in Washington, D.C. in the Hanafi situation. The building simply couldn't have been stormed. If the terrorists take a building such as that, they may die in the attempt, but they'll kill an awful lot of people in the attempt to dislodge them. This is just bad strategy; they were not farsighted. I had confidently expected an assault, of course, but I would have calculated that we would have lost at least 30 passengers and 10 members of the assault team. I was amazed that we were so lucky in the event.

'Everyone Wants To Make Terrorism Look Like A Conspiracy'

The interview excerpted below is the second Executive Intelligence Review *interview with J. Bowyer Bell in the last two weeks. In the first interview, Bell predicted Baader-Meinhof (Red Army Faction (RAF)) revenge in Europe "within two weeks" of the successful release of a hijacked Lufthansa jet in Mogadishu, Somalia. Since that time, the RAF bombed a West German Federal Court building in Bavaria.*

Bell is the current Director of Columbia University's Institute on War and Peace in New York City and is a member of the British round-table group, the International Institute for Strategic Studies (IISS). The following interview occurred on Oct. 28.

Q: Did you read a feature article in the New York *Daily News* (Oct. 23) by Russ Braley? (see excerpts above)
A: Everyone wants to make it look like a conspiracy so they don't have to face terrorism. It is here to stay.... The biggest fans for the conspiracy theory come from the East bloc, you know.

Q: Which countries?
A: Well, the Yugoslavs are big on this. I would also include the Soviets and the Poles. The East bloc generally. The idea is if you can pin terrorism on one or two individuals etc. you can solve the problem. They delude themselves that way.

Q: An Associated Press wire identified the names of the hijackers of the Lufthansa airliner and associated them with Wadi Haddad.
A: You haven't gotten anywhere until you understand Middle East terrorism. You know, a couple of Arabs get together in a bar, start a new terrorist organization, carry out a hijacking, and then split into different organizations. Each time, they change their names.

Q: You mean, it's just a small group of individuals?
A: Yes, that's it. Often, they only know each other, if that.

Q: The AP wire made the distinction between Haddad and Dr. George Habbash. What is the difference?
A: The difference is funding. Haddad is funded by Iraq.

Q: Who does Habbash get money from?
A: Anybody he can. Mostly the Syrians.

Q: The AP wire reported that the leader of the Lufthansa Airliner hijacking was a London-trained aviation engineer.
A: (angrily) How are we to know what he was? He could be anything! He may have gone to some London high school for twenty minutes!

Soviet Harvest 20 Million Tons Short

In a Nov. 2 speech to the Soviet Communist Party Central Committee and Supreme Soviet, USSR President Leonid Brezhnev announced that the country's grain harvest this year will total 194 million metric tons. Although not a failure on the scale of the 1972 and 1975 harvests, this shortfall of approximately 20 million tons below the plan target occasioned a round of speculation in the U.S. as to Soviet food difficulties and probable large-scale grain purchases.

Media such as NBC's morning news show quickly used Brezhnev's report to plant the idea of Soviet purchases driving the price of grain up in the U.S., and with it U.S. retail food prices. U.S. Department of Agriculture officials, however, emphasized that the U.S. has sufficient grain to sell to the Soviets without squeezing the domestic supply. And market sources, according to the *Wall Street Journal*, observed that if the Soviets were planning purchases of grain exceeding the amount they have already ordered, they would hardly have invited a price rise by announcing the shortfall.

The USSR harvest plan targets are figured as an average for five-year plan periods, since weather patterns contribute to wide fluctuation in yields and gross harvest tonnage from year to year. In 1976, for instance, a record harvest of 224 million tons surpassed the 1976-80 plan target of 215-220 million tons per year.

Until Brezhnev's announcement, USDA estimates of the 1977 crop had been in the range of 215 million tons, because of early reports of an exceptionally good harvest in the Ukraine and southern Russia regions. According to Soviet weather summaries, it was problems in the Central Asian republic of Kazakhstan that cut into the total. Here, in the cornfields first opened up by Nikita Khrushchev over two decades ago, an early-season dry spell was compounded by heavy rains during the harvesting weeks. This combination led to low yields and to wet corn spoiling in the fields.

The gap below plan fulfillment is not so large as to create an immediate crisis in Soviet domestic food supplies. It could, however, marginally cut into what the USSR has available to export to Eastern Europe where Poland has the greatest need.

SOVIET GRAIN PRODUCTION, 1971-1977

	Grain Harvested (million metric tons)
9th 5-year-plan (Avg., 1971-1975)	181.5
1971	181.2
1972	168.2
1973	222.5
1974	195.7
1975	140.1
10th 5-year-plan (Target avg., 1976-1980)	215-220
1976	224
1977 (USSR estimate, Nov. 2, 1977)	194

Sources: Ekonomicheskaya Gazeta; TASS. Nov. 2. 1977

Poland Seeks To Buy Western Grain

U.S. Secretary of Commerce Juanita Kreps will visit Poland in the coming weeks, shortly before President Carter is due to stop there during his planned December international trip. Last week, Kreps hosted Polish Foreign Trade Minister Jerzy Olszewski in Washington. Their talks, which will continue in Warsaw, reportedly concern Poland's bid to purchase as much as six million metric tons of grain from the United States.

Poland's projected purchase from the U.S. equals the total volume of its hard currency grain imports last year, a consequence of severe floods in August which caused the fourth consecutive bad season for Polish agriculture. In addition, the Soviet Union's announced shortfall may make it impossible for the USSR to cover Poland's grain shortage to the extent either of the two countries expected.

Addressing the Sejm (Polish parliament) Oct. 27, Prime Minister Piotr Jaroszewicz confirmed that the recent 9th Plenum of the ruling Polish United Workers Party (PUWP) Central Committee, called to discuss the party's program for "economic maneuvering," was devoted to ratifying austerity measures.

The *Washington Post* and other western press have been gloating over Poland's economic crisis and have raised the prospect that Poland will have difficulties in financing the U.S. grain deal. One-half the amount could be handled through the Commodity Credit Corporation, the *Post* notes, but the remainder is problematic due to present credit ceilings on U.S. trade with Eastern Europe.

Polish Prime Minister Jaroszewicz: Shortages And Discipline

The following is excerpted from the speech of Polish Prime Minister Pietr Jaroszewicz to the Sejm (parliament) Oct. 27. The translation is by the Foreign Broadcast Information Service.

The supply of meat continues to remain below demand. Despite an appreciable decline in the size of livestock and purchases for slaughter thanks to the import of 130,000 tons of meat and lard, we will supply the market with 3,000 tons more meat and lard in the first 10 months of this year than during the corresponding period last year... The implementation of this important target depends on the full realization of deliveries contracted by farmers for the fourth quarter...

The principle linking wages with the actual contribution of work should be strictly observed, as should the deepening of the discipline involved in nonpersonal fund management as well as the remunerations and rewards fund...

Financial discipline also means the discipline of production costs. The government will increase its control over the setting of prices by enterprises, economic organizations, amalgamations, and cooperatives. The government will resolutely oppose any attempt they make to profit from price increases that are not in agreement with the regulations in force... The sanctions for transgressing the regulations in force in this area will be tightened... We will increase the powers of the State Pricing Commission to both set and control prices.

* *

The party daily Trybuna Ludu *summarized the food situation on Oct. 21:*

Positive effects of actions... to correct the situation in agriculture and livestock raising have been observed... A certain indication of this is the 3.4 percent higher procurement of meat in the third quarter this year as compared with the third quarter of last year. It is difficult for this to be felt on the market, especially since last year's procurement was very low, but it is worth noting this fact as a herald of the beginning of the improvement of the situation. We have come out of the impasse as regards the procurement of meat and eggs, while possible shortfalls of these products on the market should be regarded as the result of organizational shortcomings in the trade-producer sector...

There is need for greater attention and resolute action by the leaderships of industry and foreign trade regarding our exports and foreign trade balance. Improvement here is negligible compared with last year, while the export plan for the current year remains underfulfilled.

Vicious Cycle In Polish Trade Revealed

While the Polish press reports that export targets, the basis for raising revenues to pay Poland's foreign debt, are not being met, the curtailment of industrial investment — in order to concentrate on the export industries and food sectors — is backfiring against Poland's modernization of its Baltic shipping facilities. Reporting on delays in seaport construction at Gdansk, Polish Radio reported Oct. 25:

"The potential of the ports lags behind the requirements of our foreign trade. It is true that a container terminal in Gdynia and the third ore base in the Northern Port are under construction, but the decision on the elimination of investments has somewhat delayed the work."

Economic Program Of French-German Alliance Takes Shape

Whereas the emergence of an alliance between France and West Germany in mid-October was largely around the issues of fighting terrorism and expanding nuclear energy production, in the past week the alliance has begun to discuss long-range economic policy. The principles of the joint policy were set forth in statements by West German Chancellor Helmut Schmidt and his close allies in industry; at the same time, France continued its practical efforts to exert a benign influence in the Mediterranean area and to improve its relations with the East bloc.

The fact that Chancellor Schmidt delivered his plea for a growth-oriented economic policy to the London-based International Institute for Strategic Studies is ironic. Schmidt's rise as a political figure was largely made possible through the influence of this organization, of which he is still an Associate Member. Last week, however, he returned to lay out a policy diametrically opposed to the destructive policies of reflation and industrial decay which its British directors are now recommending.

Saltzgitter Head: "Compete" By Upgrading Workforce

Hans Birnbaum, Chairman of the West German steel firm Saltzgitter AG, presented in an address to business leaders of the Baden-Baden region a five-point program for orienting the West German economy to a push for industrialization in the underdeveloped countries. Stressing the need for upgrading the skill levels of the workforce, Mr. Birnbaum said that the structural changes incurred by Third World industrialization are "logical and are not the cause for the present economic crisis." The five points are:

(1) It is necessary to orient toward the opening of new markets for exports, which include, above all, the Third World and the oil-producing countries;

(2) The "Japanese challenge" — i.e., the challenge represented by Japan's successful efforts under adverse world market conditions — should not be taken up in the sense of imposing further restrictions on trade, but rather in the sense of competing to produce the highest quality products;

(3) The development of a new export concept, whose cornerstone is the ability to remain competitive through constant upgrading of the qualification of high-technology engineers. This new concept "will make necessary an even more extensive financial involvement in countries abroad;"

(4) Constant modernization of the West German economy, including the development of the necessary new infrastructure and of new technologies like the pipeline transportation of coal and iron ore;

(5) Higher qualifications of the work force are essential, as well as an upgrading of management abilities. The workforce must be able to react more quickly and flexibly to structural changes, and must posssess the latest technological information.

Birnbaum, whose firm is wholly owned by the West German Federal government, is known to be a close advisor to Chancellor Schmidt. Salzgitter's business is primarily oriented to markets within the Socialist countries and with such developing countries as Brazil.

West German Industrialist Calls For Investment Drive

Only a serious drive for capital investment in West German industry can close the country's chronic employment gap, according to Otto Wolff von Amerongen,

A New "Super North-South Conference"?

Industrial development of the Third World will be a central topic at a new "Super North-South Conference," according to the Paris daily *Le Figaro.* France and Tunisia, it reports, are using their excellent mutual relations as a basis for bringing European industrialized countries together with the Third World, especially those Arab countries not rich in oil reserves. Although no formal proposals for such a conference have been made yet, its tentative agenda would include questions of both economic and political cooperation. This would make it a useful extension of discussions of the Mediterranean question at the ongoing European Security and Cooperation Conference in Belgrade.

France's Prime Minister Raymond Barre, the probable source of this initiative, is also continuing his series of modest but significant breakthroughs in relations with the Soviet Union and Eastern Europe. At the conclusion of his recent visit to Hungary, Barre announced his intention to double the volume of trade between the two countries within a short period. "We must shake our trade out of hibernation," he commented on the signing of contracts for a number of heavy industrial plants to be erected in Hungary.

the influential leader of the German Association of Chambers of Commerce. "Innovations, research, and realization of production palettes are gaining more significance in corporations' activities," he said in a television interview this week, "but dropping profits are not motivating corporations to undertake risky investments."

The most crucial aspect of any solution to this problem, Wolff said, is "more growth along with stability — and therefore also more employment in the medium term." This is a full reversal of his statement one month ago that West Germany was "overindustrialized" and needed to cut back on all forms of technological growth.

Wolff also called for the reconvening of the "Concerted Action" council of labor, industry, and government representatives in order to realize these goals. This council has not met for two years because of the inability of labor and industry to find common ground.

Schmidt: 'We Need Nuclear Energy Despite Carter's Reservations'

Helmut Schmidt, Federal Chancellor of West Germany, outlined the fundamental features of his government's economic policies in an Oct. 28 address to the London International Institute for Strategic Studies. Excerpts are reprinted below:

I would like at this juncture to dwell on three tasks which the West will have to resolve in the economic sector, also for the sake of its common security.

The first task is constructing and safeguarding a liberal, flexible and hence working world economic system.... The recession has become a great threat to our world economic system because the tendency to try to solve the problems by means of protectionist measures has increased. We must ward off this threat with a united effort.... In practice, nations have lost their autonomy of economic policy. Any attempt to make room for a return to national measures would be disastrous. The only way out is through closer economic cooperation.

The Western democracies are about to embark on this road. Since the recession, we have successfully intensified our efforts to coordinate economic policy. We have agreed to pursue growth and full employment without repeating the old inflationary mistakes.

Let me make this point clear: There are no economic panaceas which can be recommended to or prescribed by governments by majority decisions, as it were....

The Western countries depend on massive imports from the Third World. This means that there are two sources of danger as regards our raw materials supplies. These supplies can be endangered, for one thing, by the outbreak of war or civil war in Third World regions, and, for another, by insufficient production due to insufficient investment....

To avert the dangers arising out of Third World instability, the West has to pursue a policy aimed at the peaceful solution of conflicts and a peaceful conciliation of interests.... Raw material investment in developing countries is no longer financed and undertaken the way it used to be. In the mining sector in particular, exploration and prospecting in the Third World have largely come to a standstill. There can be no doubt about the long-term consequences of this.... In other words, the said danger to our raw material supplies does not affect us today, but it is today that we must act to avert it.

The indispensable cooperation between industrial and developing countries in the opening up of raw material resources must be restored and intensified. The job cannot be done without increasing private direct investments of the industrialized countries of the world. For a stable and close cooperation between industrialized and developing countries I consider it necessary and justified that guarantees of those private investments should be given by the host countries....

More than half of the Western world's energy

FBIS Caught In Distortion Of Schmidt's IISS Speech

The Foreign Broadcast Information Service (FBIS) of the U.S. Department of Commerce, which is the United States government's major public record of foreign government and foreign press statements, seriously distorted West German Chancellor Helmut Schmidt's Oct. 28 address to the London International Institute for Strategic Studies. The FBIS account of Chancellor Schmidt's speech, which they claim was based on the English text distributed by the Bonn Federal Press Office, omitted Chancellor Schmidt's endorsement of nuclear energy and his criticism of President Carter's antinuclear outlook.

According to FBIS, Schmidt said: ".... oil supplies may not suffice to cover requirements already in the 1980s. And I am afraid this fundamental fact won't even be changed to any large extent by the new oil wells you (Britain —ed.) have discovered under the sea. The main conclusion of this is that the wasteful use of energy of which we have made a habit must stop."

On Nov. 1, the West German daily *Kieler Nachrichten* reported Schmidt as saying: "We are facing an oil shortage in the 1980s. No North Sea oil can prevent that. We need nuclear energy... even though President Carter has his own reservations in respect to the non-proliferation aspects."

requirements is at present being met by oil.... We need nuclear energy ... even though President Carter has his own reservations in respect to non-proliferation....

The third major task of Western security policy in economic terms is to establish balanced and stable economic relations with the state trading countries of the East. Since 1970 East-West trade has practically quadrupled.... This strong intensification of trade and cooperation is the result of political detente and also of the economic interests of both sides. The economies of the communists have reached a stage of development where they also depend more and more on increases in productivity for their growth. That is why the East has a strong and lasting interest in importing Western technology....

Who, then, derives the greater benefit from East-West trade? There are critics in the West who say that the West, by its exports of technology, indirectly helps the Soviet military build-up. Critical voices in the East will probably object to helping the West preserve jobs as supporting the capitalist system. I believe that these conflicting arguments in themselves indicate that East-West trade benefits both sides. And so, after all, it should be and must be. If the Western countries act jointly, the development of trade relations and of industrial cooperation with the East can, I am convinced, be essential for both our own economic security and the safeguarding of peace.

How Cuccia Destroyed Montedison

The name Enrico Cuccia is not known at all outside of Italy, unlike for example, the famous Agnelli brothers of FIAT or Mr. Olivetti. Yet, in Italy, Cuccia is known to be at the pinnacle of economic power, the chief among what Italians term the "razza padrona," the race of bosses. Cuccia's power is located, in part, in his directorship of

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Mediobanca. This gives him a degree of control over the entire Italian banking system, since Mediobanca is an interbank lending institution upon which all other Italian institutions of credit depend for investment banking functions.

The deeper reality of the matter, however, is that Cuccia, through Mediobanca, exercises power over the Italian economy on behalf of those London-centered financiers whose chief political connections are to the British crown and its independent intelligence services and financial capabilities. These are the real resources at Cuccia's disposal.

In this connection, Cuccia's Mediobanca was in fact specifically created for him by André Meyer, the principal in the international investment group called Lazard Brothers in London, Lazard Freres in New York, LF, Inc. in Paris—but in Rome, Mediobanca. Meyer's Lazard faction is chief among the monetarist forces of London actually dominant in Italy. And Cuccia, the financial and black operations power behind the well known Agnellis and others, is Meyer's flunky — Her Majesty's Italian Viceroy.

At present, because of Meyer's Cuccia, Italy's giant petrochemical-based conglomerate, Montedison, which controls key sectors of Italian heavy industry including steel, is on the verge of bankruptcy. How this came to be exemplifies Cuccia's character.

Montedison's is not a story of "mismanagement," but mismanagement for a purpose, deliberate mismanagement as a powerplay by London through Cuccia, and Cuccia's mask for this purpose, Eugenio Cefis, to achieve an unchallengeable position in Italy's chemical industry and on that basis, the critical state-owned Italian industrial sectors.

Montedison's central corporate position in Italy's private sector also makes this a story of how the basic industrial strength of the Italian economy has been significantly weakened. Cuccia has damaged Montedison, and through it, is damaging several state-owned sectors.

In Montedison's case, Cuccia has launched crippling attacks against the concern's "competitors" while pyramiding the concern's debt-service. Funds allocable for maintenance of infrastructure, modernization of productive plant, and research and development have been diverted into the apparently speculative but actually political purchase of equity in other concerns and sectors, including such transparent investments for power as newspapers and magazines. Similar monetarist policy interest has come to be exerted by Cuccia on state-owned concerns in several industrial sectors through the incestuous ties Cuccia has developed between these and Montedison.

The outcome is that since 1971, Montedison's short term debts have doubled from 928 billion lire to a total in 1976 of 1900 billion lire. The total number of employees has dropped from 174,000 in 1971 to 145,000 at the end of 1976. Various profitable sectors have been sold to pay off back debts. Cuccia's latest scheme is the so-called "pax chimica," a bailout plan that gives Montedison and the rest of the chemical sector some ready cash, but primarily gives Cuccia the means to consolidate his control over the entire sector.

Montedison's History

It is useful to look at the history of Montedison to see just how the typical operation of Meyer's Cuccia is run.

Montedison was founded in the spring of 1966 in a merger of the Montecatini and Edison companies. Montecatini was a chemicals company founded in 1888 as a Tuscan mining concern and expanded into chemicals, textiles and pharmaceuticals after World

War I. Edison, as the name implies, was an electrical power company founded in 1884, which by 1960 supplied about 20 percent of Italy's electrical power needs. In 1963, Italy nationalized the electrical power industry, and Edison recieved a large indemnity which it hoped to invest in some other industry. Montecatini had infrastructure, but little liquidity. Edison's president, Giorgio Valerio, spearheaded the operations to buy up Montecatini under the aegis of Enrico Cuccia.

Negotiations were begun to merge the two operations in 1964, under the green light from the Italian government. By January of 1966, Valerio had formed a cartel comprising 14 percent of the stock, representing 86 percent of the small shareholders, sufficient for partial control. The cartel included such important industries as Agnelli's FIAT (auto); Pirelli (tires); the Cuccia-controlled private investment corporation, Bastogi; and Cuccia's Mediobanca.

Valerio, Cuccia's first president of Montedison, went on an equity-purchase spending spree, buying up often failing companies, many not in the petrochemical sector. Montedison's investment policy ceased to include upgrading of infrastructure at its many small plants, and was noted as well for low wages and bad working conditions. Montedison's growth rate for 1966-68 was 7.9 percent — for comparison, Austria's average was 11.5 percent, Japan's 12.8 percent.

In 1968, Valerio was forced to resign, watergated by a political corruption scandal involving the use of "fondi neri" — slush funds for political payoffs. Cuccia's objective was to install Eugenio Cefis. Cefis had been the head of the state oil sector, ENI, soon to become part of Montedison. Cefis' takeover of Montedison was justified as corporate peacemaking, signalling an end to attempts by Montedison to steal ENI's oil exploration rights in Libya, and its stalling of exploration rights to be granted off the Adriatic coast.

During the period from 1968-70, Cefis busied himself buying up supporters in the Christian Democracy, the neo-fascist MSI party, and several newspapers, such as the right-wing *Il Resto del Carlino*, *Il Telegrapho*, and *Il Messaggero*. He also installed a hand-picked substitute to head up ENI, and keep it under his control so he could move over to Montedison.

Cuccia lined up support from FIAT, Pirelli and the Bank of Italy, to acquire 20 percent of the stock, using ENI and IRI monies.

This was enough to give Cefis and Cuccia complete control over Montedison's Board of Directors, with almost half of the solid block of stock held by ENI and IRI. After various caretaker administrations, Cefis was finally appointed Cuccia's president of Montedison in 1970.

The takeover created a flap in financial circles, but the government remained silent, except for Giulio Andreotti. In testimony before the Industiral Commission of the Chamber of Deputies, the future premier argued that if public money (ENI's) was to be spent to acquire equity in existing companies, why not create new ones, and new employment opportunities as well?

By controlling a substancial part of the press, Cefis was able to effectively silence his most principled opposition, including that of the Socialist Party (PSI) leader Giacomo Mancini. Mancini's opposition to Cefis was based on the incestuous ties that had developed between ENI, a part of the public sector, and Montedison, a part of the private sector. Cefis, however, had bought up a scandal sheet, *Il Candido*, whose editor, Pisanò, was in the fascist MSI; *Il Candido* suddenly began publishing slanders against Mancini. Cefis also used such dirty tricks as phone tapping and spying, to discredit his opposition.

By any standards, Montedison engaged in shady financial dealings, with one prime example being a typical Lazard "Big Mac" type of scheme that used pension funds held by the Bank of Italy to prevent a U.S.-based Italian banker from buying up the controlling interest in Bastogi (private investment) in 1971. Cefis has

Montedison Balance Sheet 1971-76
(in billions of lire)

	Total Production	Short-Term Debt	Medium/Long-Term Debt	Service Charges	Losses (+ or —)	Employees*
1971	2,017	928	863	115	—271	
1972	2,100	991	867	120	—455	174,197
1973	2,590	889	935	132	+ 33	170,508
1974	4,029	1,066	1,067	194	+123	155,362
1975	3,535	1,480	1,295	267	—163	149,164
1976	4,815	1,902	1,199	397	—172	144,545

*at year end
Source: *La Repubblica*

also been accused of using ENI and IRI credits to finance Montedison investments, of price control violations in the textile sector, and of substantially overlapping ENI and Montedison oil concessions in the Adriatic Sea and the Po Valley.

Montedison's Operations

If Montedison under Valerio suffered from underinvestment, under Cefis it has undergone systematic dismantling. When Cefis took over in 1971, Montedison's losses were $465 million. Cefis sold off 300 subsidiaries for $565 million, curtailing the fiber and fertilizer sectors, and coupled this with an investment program into Northern Europe and the U.S., which was a failure. With the "oil crisis" in 1973-74, that resulted in the European Economic Community's declarations of "overcapacity" in fiber and fertilizer, two of Montedison's biggest sellers, Montedison's debt burden began to skyrocket.

In 1975, Cuccia's Cefis began to borrow short-term — sometimes as short as 24 hours — at rates of 20 percent interest. Polypropylene plants from Spain, the U.S., and Belgium were scrapped. Research and development funds were cut heavily; Montedison, which had invented polypropylene in 1971, has received no new patents for industrial processes since then. Currently, its debt-to-equity ratio is 80 percent, as compared with the average U.S. corporate ratio of 37 percent, or the West German ratio of 51 percent.

At the end of 1976, Montedison's losses stood at 60 billion lire, with 1,900 billion lire total debt, 900 of that short term; in July of 1977, the interest *alone* amounted to 1 billion lire per day. Beginning in early 1977, negotiations were underway to sell some of the "family jewels" to raise capital. The "jewels" included the profitable Banco Lariano, the La Standa retail chain, and parts of the pharmaceutical sector, Farmitalia and Carlo Erba, along with several insurance enterprises. The total netted was about 400 billion lire.

But selling off profitable enterprises has not been sufficient. Beginning in 1975, when Montedison's financial troubles began to peak, Cuccia capped this operation by advancing a scheme for obtaining state capital at very little cost to himself. It was entitled, appropriately enough, the "Cuccia plan."

Cuccia and Cefis were working towards a state bailout of Montedison. Politically, this has had a lot of leverage, because the loss of 150,000 jobs in a country in deep financial trouble, and with powerful trade unions, especially the largest union, the Italian Communist Party linked CGIL, could easily provoke a political upheaval.

First, Cuccia's bank began buying up private stocks in Montedison, despite the fact that Mediobanca is nominally a public bank; the small shareholders remained loyal to Cefis and his promises of dividends in the future. Cefis made a proposal to issue 45 million shares to be held by a consortium of public and private banks, the stock to be bought up by small shareholders. In addition, all public holdings (ENI and IRI) would be consolidated under one entity. Cuccia proposed to graft the bailout onto the industrial reconversion law being debated before the Parliament in late 1976. He proposed that the State should bail out worthy companies which had previously received state monies. Montedison stood to gain up to 2,000 billion lire, for an investment of 600 billion; small, private stockholders would underwrite the capital increase, with loans guaranteed by the State, which would also pay the low interest rates to make the plan more palatable to the bankers.

However, the scheme did not pass Parliament as Cuccia had envisioned, but in a weakened version that had ENI and IRI kicking in 150 billion lire, and the State guaranteeing 6 percent of the 14 percent interest rate charged.

Part of Cuccia's failure was a result of opposition from the Andreotti wing of the Christian Democrats, and from the Communist Party of Italy, which insisted that any bailout be only a first step towards nationalization of Montedison — and its removal from Cuccia's direct control.

The first four months of 1977 were financially disastrous for Montedison. The textile sector (Montefibre) and the fertilizer sectors were named as most in need of restructuring in a government-issued report. Cefis resigned as president in April, having failed to arrange for the financing of Cuccia's Montedison operations. Meanwhile Cuccia brought SIR, the second largest chemical company in Italy, into the fold.

With Cefis sent off to Zurich to manage the Montedison International Holding Co., the battle over Cefis' successor has raged for three months. Cuccia has tried to have his and Lazard Freres' personal choice installed as president, but a definite compromise in favor of Prime Minister Andreotti's choice is the probable outcome.

Over the 1977 summer, financial pressure increased, with Montefibre bearing the brunt. Over 6000 jobs are threatened by Montefibre plant closings; EEC support has been withdrawn, and the unions have struck.

Cuccia, has made another largely successful attempt to not only get a bailout, but to consolidate his control over the entire chemical sector, with the recently passed "pax chimica." In recent weeks, the Montedison Board of Directors had announced its inability to pay salaries past the end of November; its only hope would be to use previously negotiated loans destined for capital investment to pay salaries instead. Two plans were floated, the "Carli plan" and the "Baffi plan," to turn industrial debt into equity for a banking consortium. The chief difference between the two plans is that the Baffi plan has Mediobanca as the centerpiece of the consortium.

In opposition to the schemes, Industries Minister Donat-Cattin had called for a partial debt moratorium for the chemical sector. But Cuccia has made it threateningly clear that if Montedison collapses, the entire Italian economy will quickly follow suit. Cuccia got his "pax chimica," cash for rollovers, and tightened control over SIR. And another damaging feature of the deal is that the Liquigas chemical company of Cuccia opponent Raffaele Ursini has been forced to bear the brunt of the chemical sector's debt-burden, and is itself very close to bankruptcy.

Liquigas, thanks to Cuccia, has had to borrow money at short-term, high interest rates because its planned building of plants to produce bioprotein (a cattle feed) has been stalled for months. It has had a supply contract with the Soviet Union that it has therefore been unable to fulfill, leaving it with a severe income shortfall.

This operation, to destroy the productive capability of Liquigas, however, has not yet succeeded, partly because the Soviet Union has just offered to buy the bioprotein plants directly. This would be a direct blow against Cuccia's empire.

— *Margaret Bardwell*

SOURCES: Giuseppe Turani, Montedison, il grande saccheggio, Mondadori, 1977; Angiolo Silvio Ori, L'affare Montedison Settedidenari, 1974; Ori, I faroni di Milano, Settedidenari, 1971.

Blumenthal Demands Humphrey-Hawkins For Italy — Or Else

Italy must set up labor-intensive pilot projects as model for all OECD countries to solve unemployment or it may find U.S. investments cut to a trickle. This was the threat issued Nov. 2 to the Italian population by U.S. Treasury Secretary Werner Blumenthal, who has been in Italy since Oct. 22.

After a week spent in a flurry of meetings with the Italian cabinet members and Prime Minister Andreotti, Blumenthal issued his ultimatum on Rome television. Interviewed by a colleague from the London Institute of Strategic Studies (IISS), member Arrigo Levi, the editor of the Turin daily *La Stampa*, the U.S. Treasury Secretary called for increased taxation to raise 2 trillion lire for "make work" projects for unemployed youth.

In a Rome press conference Oct. 31, according to *Il Tempo*, Blumenthal made the point clear: "We are happy for the positive situation shown in the Italian balance of payments, but this doesn't mean that massive investments can immediately flow into Italy. Slashing of public expenses must occur first."

The embryonic Italian-U.S. collaboration for development, particularly of Italy's southern Mezzogiorno, is already endangered. The sale of a massive bankrupt Italian construction firm, Condotte d'Aqua, to U.S. industrialists allied to former Texas governor John Connally has been sabotaged — threatening insolvency to one of the leading Italian banks, Banco di Roma, as well as thousands of jobs lost.

Israeli Austerity Crisis Paves Way For Yadin-Dayan Takeover

The sweeping austerity measures announced in Israel this week and described by the *Jerusalem Post* as a "bombshell" have opened up a domestic political crisis that may pave the way for a takeover of the Israeli government by Deputy Prime Minister Yigal Yadin and Foreign Minister Moshe Dayan.

ISRAEL

The centerpiece of the new measures, which were announced by Finance Minister Simcha Erlich, was a decision to remove controls on Israeli currency and exchange rates. The move sent the Israeli pound plummeting at the opening of trade on Oct. 31 from a little over 10 Israeli pounds to the dollar to more than 15 — an astounding 45 percent devaluation. Export incentives and price subsidies on many consumer goods were also removed, an act that is expected to send prices upward by 15 percent or more, following an earlier decision last week to raise fuel prices.

The Israeli action followed by one day a visit to Israel by Secretary of the Treasury Blumenthal. In Washington, Treasury spokesmen denies any connection between the Blumenthal visit and the Israeli action, although Blumenthal endorsed the measures in a public announcement. It was widely acknowledged that Milton Friedman, the architect of draconian austerity policy for countries such as fascist Chile and Argentina, was the inspiration behind the Erlich decision. In an interview in the *Jerusalem Post*, Friedman hailed the Israeli move as "one of the greatest things that has happened to Israel since it was founded," and added that he had been "recommending this kind of program for many years."

The Yadin Connection

The storm of protest against the austerity measures, led by the Labour-Party controlled Histradut trade-union confederation, may have been able to topple the Begin government had it not been for the entry into the governing Likud coalition by General Yigal Yadin's fascist Democratic Movement for Change (DMC). Yadin assumed the post of deputy prime minister.

"It was a deal," said a Pentagon analyst in Washington. "The deal was that Yadin would come into the government to deal with domestic affairs and the economy, and stay away from foreign policy." The 15 votes of the DMC brought the government majority to 77 out of 120 Parliament seats, ensuring that any vote of no confidence could not oust Begin.

The architect of Yadin's entry into the Israeli government apparently was Foreign Minister Dayan, who, according to the *Jerusalem Post*, "encouraged" Yadin to join the regime. The *Post* reported that Dayan "would support Yadin for prime minister were Menachem Begin forced for health reasons to relinquish the office," and added that Dayan and Ezer Weizman, the defense minister, would rule Israel under Yadin. Yadin "would readily involve the two more seasoned men — Dayan and Weizman — in all major decision-making," concluded the *Post*.

The triumvirate of generals — Dayan, Weizman, and Yadin — backed by General Sharon, the agriculture minister, is now in place to prepare Israel for the coming political-military confrontation that is expected.

Israel Will Take Atomic Energy Help Where It Can Get It

The president of the Israel Society for the Atomic Sciences, Professor Shimon Yiftach, said that Israel should consider proceeding with the construction of a nuclear power plant utilizing the country's own resources, and get the "outside help it needs wherever it can find it." Yiftach's remarks were made at a day-long symposium on the future of nuclear energy production in Israel held at Tel Aviv's Weizmann Institute Oct. 28.

At the meeting, sponsored by Israel's Atomic Energy Commission, Yiftach said that the Carter policy statement made last April concerning controls on nuclear energy development "had blurred the position of American help in building a nuclear power plant in Israel."

Israel, according to Yiftach, can either wait for the U.S. position to be clarified, and then agree to the terms outlined by the U.S., or look for help elsewhere. If Israel can't get help for nuclear energy development from countries such as West Germany, France, Canada, or Japan, Yiftach proposed that Israel take the initiative as Spain, Italy, and Argentina have done. The professor concluded, "If we need help we could apply to the latter countries... since they apparently do not see eye-to-eye with America."

Strike Wave of Protest

The newly announced austerity regime sparked a wave of protest strikes and demonstrations by trade unions, led by Histradut. But it was clear from the very start that the Histadrut would put up merely token opposition, aimed more at gaining political advantage against the Likud for the opposition Labour Alignment. The Histadrut Secretary General Yeruham Meshel said that the strikes and protests must "be organized with the workers, to give them a feeling that they are doing this, and not carrying out orders from above." Meshel, a close friend of AFL-CIO Treasurer Lane Kirkland, called a one-hour strike, or in some cases a one-day strike, but in thoroughly uncoordinated fashion.

According to reports from Israel, many workers refused to join in the strikes and demonstrations because they sensed a strictly "political" motivation by the Histadrut, which is run by the Alignment.

Prime Minister Begin, who called on Israel to tighten its belt even further by appealing demagogically to the "common sense and national feeling" of Israelis, said that Israel must go through the crisis because of Israel's "big debts" to the West. Begin predicted that by 1980 Israel would have to pay over $3 billion annually in debt service, by far the highest per capita in the world.

A cartoon in the *Jerusalem Post* summed up the outlook for Israelis: One man said to another that the measures will help the Israeli economy "in the long run." The second man asks, "And in the short run?" The answer: "We starve."

Syria & PLO Square Off Against Egypt

In the days leading up to the Nov. 12 Arab Foreign Minister's summit in Tunis, a fight has broken out in the Arab leadership over what the unified Arab position will be towards the proposed reconvening of the Geneva Mideast peace conference. The debate pivots on the thorny problem of Palestinian representation at the conference.

The battle is, in essence, between Egypt and Syria. According to European diplomatic sources, U.S. Secretary of State Cyrus Vance recently informed Israeli Ambassador Simcha Dinitz that both Egypt and Jordan favored the controversial U.S.-Israeli working paper, the terms of which deny the Palestinians a role at Geneva.

Informed sources indicate that both Sadat and Jordanian King Hussein are inclined to return to Kissinger's step-by-step diplomacy for the Middle East. Sadat this week told the *Manchester Guardian*, "I prefer not to go to Geneva if the conference is not adequately prepared for. I don't want it to last for 25 years like SALT." The *Guardian* futhermore notes that twice over the last week Sadat has openly stated his willingness to scrap his support for Geneva.

With full support from the Soviet Union, Syria, and the PLO, meanwhile, are trying to force an Arab concensus endorsing Geneva with a formula which will define the shape of Palestinian representation. In this context, Zuhair Mohsin, the Chief of a Syrian-controlled Palestinian commando group, indirectly slammed Sadat this week and was quoted in the London *Financial Times*: "Arabs must stop giving free-of-charge concessions, gambling only on U.S. intentions."

Also this week, the Arab League approved a PLO proposal for a Foreign Ministers' meeting of the Arab confrontation states — Egypt, Syria, Jordan, and the PLO — to work out a formula to propose to the Tunis summit. PLO Foreign Minister Farouk Kaddoumi asked for an "Arab working paper" to clarify the Arab stance toward Geneva. But the equivocation on the part of Egypt and Jordan has seriously complicated the issue.

Though not a confrontation state, Saudi Arabia, with its powerful financial influence in the Arab world, will probably resolve the differences between Egypt and Syria. Following Saudi Foreign Minister Saud-al-Faisal's return from Washington last week, he acknowledged the Soviet Union's role in the Middle East peacemaking process, stating that the U.S. "does not hold 99 percent of the cards in the Middle East." This is a direct attack on Sadat, who so often has stated that 99 percent of the cards are held by Washington. Saud's statement is the first public recognition by the Saudis of the Soviet role in the region.

Shortly after Saud's return to Riyadh, Sadat suddenly made a trip to Romania to confer with president Nicholas Ceacescu on the Soviet influence in the Mideast as well as strained Soviet-Egyptian relations. As well, Ceaucescu delivered a message from Israeli Prime Minister Menahem Begin (who had been in Romania two months before) to Sadat.

While in Washington, Prince Saud repeatedly made it clear that Riyadh's supports the PLO in its efforts to gain international recognition and eventual statehood. With such a commitment from the Saudis — who pay a sizable chunk of Egypt's bills — Sadat may have no choice but to heed his Arab brothers, Syria and the PLO.

IMF Foments Gov't Crisis in Turkey

Members of his own Justice Party are leading a campaign to force Turkish Prime Minister Süleyman Demirel to resign.

Demirel's resignation would probably mean the formation of a new coalition government composed of the conservative Justice Party and the social-democratic Republican People's Party led by Bülent Ecevit — the ideal vehicle for the International Monetary Fund (IMF) to overcome Turkish resistance to its austerity package.

TURKEY

An IMF delegation is currently in Turkey to force through Round Two of its austerity proposals; the first phase was implemented in September but was deemed totally inadequate by the IMF. Among the IMF's demands are a 10-20 percent devaluation (on top of the 10 percent devaluation in September), wage and price controls, a drastic cutback in commodity and capital goods imports, and restrictions in public spending. The Fund is also demanding that Turkey scale down its yet-to-be-drawn-up Fifth Five Year Plan and reduce its planned 8 percent annual growth rate to 5 percent.

Fearful that such a package would spark riots like those that engulfed Egypt last January. Demirel has balked. Although he reportedly "agrees in principle" with the IMF, the Prime Minister is all too aware that his weak three-party coalition government would not survive should he endorse the IMF.

Last week, just as the IMF delegation was preparing to bring up the issue of wage-price ceilings, the Turkish government announced additional payments to all government employees. According to the Turkish daily *Cumhuriyet*, the government action enraged the delegation and may lead to a long overdue rupture in relations with the IMF.

"A Very Crucial Month"

"The month of November is very crucial indeed as far as Turkey's credit situation is concerned," stated a high-level economist at the United Nations. This month and next, $1.2 billion in short-term, high interest convertible Turkish lira loans falls due. Turkish foreign reserves are well below the $500 million mark, making it next to impossible for the Turks to pay up. Faced with long delays in repayments by Ankara since last spring, New York and Western European banks have been reluctantly rolling over their loans, fearful that if they attempt to pull out of Turkey, a domino-like banking collapse would ensue. Now, the banks are counting on the IMF to get Turkey to accept austerity as the prerequisite for further roll-overs.

Exacerbating the situation is Turkey's soaring deficit, up 47 percent over last year. In the first nine months of this year, import expenditures were four times higher than export earnings. As a result, the IMF is demanding that virtually all imports be stopped, and exports be stepped up. With imports severely limited since September, when Phase One of the IMF's program was imposed, Turkey's industrial production "is on the verge of grinding to a halt," stated the UN economist. "So far, Turkey has managed to avoid a massive breakdown in production by using up their stocks," he noted, "but now the stockpiles are gone." An official at Morgan Guaranty said simply: "A lot of Turkish industry will collapse."

On Oct. 25, Turkey's Energy Minister Kamran Inan — a staunch supporter of the no-energy policies of the U.S. Energy Secretary James Schlesinger — announced that production at the giant Soviet-built aluminium plant in Seydisehir had been cut in half due to electricity cutbacks. According to the West German paper *Die Welt*, the cutbacks have "paralyzed" Turkey. At the same time, the head of the Istanbul Chamber of Industry closed down his factory near Istanbul because of lack of steel. The steel had been supplied by the Eregli Steel Complex, which was shut down a month and a half ago after British creditors put a hold on the plant's bank accounts in England!

Demirel To Resign?

At least 60 Members of Parliament from Demirel's Justice Party are pressuring him to step down on the grounds that his coalition is weak and unable to take the "necessary measures to stabilize the economy," a euphemism for carrying out the IMF's austerity program. Many of the 60, who are threatening to leave the party, are linked to the old Democratic Party that ruled Turkey from 1950-1960 and brought the country to the edge of bankruptcy as a result of their commitment to IMF policy. Backed by pro-austerity Turkish businessmen and industrialists, the renegades — like the IMF — are known to favor the formation of a grand coalition of Turkey's two major parties. Unlike the present government, which is hampered by the Justice Party's two extremist coalition partners, it is expected that a grand coalition would be strong enough to enforce austerity as well as to make territorial concessions on Cyprus.

The latter is of particular concern to the Carter Administration, which has grown increasingly nervous about Turkey's economic "drift" toward the Soviet Union and the East Bloc following the U.S. cutoff of aid to Turkey following the Turkish invasion of Cyprus in 1974. Since 1975, the Soviets have massively upped their development credit to Turkey and have encouraged the Turks to sign a joint political communiqué resembling a nonaggression pact. A meeting between Demirel and Soviet President Kosygin on the Turkish-Soviet border was slated for later this month, ostensibly for this purpose. Last week, Demirel canceled the meeting after the U.S. reportedly informed the Turkish Prime Minister of its displeasure.

So far, Demirel has given little indication that he will resign. A long-time powerbroker in Turkish politics who knows that his chances for becoming Prime Minister in any other government are nil (the Prime Minister in a grand coalition would be an independent), Demirel is instinctively clinging to power.

Should a grand coalition be formed, it is still far from likely that the IMF will succeed in having its program implemented without the country erupting. Over the past several months, the left wing of the Republican People's Party, the labor movement, as well as the development-oriented traditionalist layers of the People's party, have grown increasingly restive and unwilling to tolerate the pseudo-progressive rhetoric of People's Party leader Ecevit. Should Ecevit enter the government and cooperate — as he has indicated he will — with the IMF and the Justice Party to implement the now-stalled IMF package, he will be totally discredited and the People's Party will fracture altogether, clearing the way for the consolidation of a powerful pro-development force in the country.

Following the elections in Turkey last summer, Kemal Turkler, leader of the pro-Soviet labor confederation DISK, issued a call for the formation of a national Democratic Front of all progressive parties. The offer was spurned by Ecevit, who proceeded to activate his operatives in DISK to force a leadership crisis in the confederation that would topple Turkler. Despite an intense factional fight that plunged DISK into turmoil, Turkler was able to regain control, with increased leverage in the labor movement and the People's Party that poses a formidable obstacle to IMF designs.

— *Nancy Parsons*

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Morgan Guaranty: "The IMF Is Having Trouble"

The following are excerpts from an interview with an official at Morgan Guaranty.

Q: Why did the IMF delegation visiting Turkey extend its stay there for another two weeks?
A: They're having difficulties. I understand, getting their policy implemented. It doesn't mean that they won't reach an agreement though. The Turkish government agrees with the IMF. The question is whether the government can implement the recommendations.

Q: What is the IMF demanding?
A: First, another devaluation. In my mind, the Turks should have devalued all at once, not in stages. After the first devaluation, informed people knew that more devaluations were to come. But the man in the street has had enough. The first he accepted. But another? It's going to be tough. Other than devaluation, the IMF wants to freeze wages, put a ceiling on prices. That's also a tough one to pull off politically....

Clearly, the Turks don't have enough money to run their country, or enough to run it in the style that they would like. Turkey has the highest growth rate in the world. They've got to pare it down, and they don't particularly like that....

The IMF wants Turkey to cut its capital goods imports. Businessmen don't like this — a lot of Turkish industry will collapse. But that's what's got to happen if you're going to cut the growth rate.

The reason the IMF is taking it slow is that they're concerned by rioting. They don't want Turkey to turn into another Egypt.

"The IMF Is Naive"

The following comments were made by a specialist in Turkish politics at a major U.S. university.

There is certainly reasonable pressure on Demeril to resign. Personally, I doubt that he will resign or that a grand coalition will be formed. The IMF is sort of naive in thinking that they can pull off such a thing, just as they are naive in thinking that they can get their austerity policy accepted as is by the Turks... The problem that the IMF refuses to take into account is that the basic psychology of Turkey is still oriented toward development, toward borrowing money and investing it in ambitious development projects. The resistance to the IMF is strong in Turkey.

Currency Chaos Is Hurting Japan — Deliberately

Using their control over world petrodollar flows, a group of London and New York investment banks were able to force the Japanese yen up 7 percent last month, to a record level of 247 yen to the dollar. The October rise was almost as much as the 11 percent increase over the previous nine months. During the same period, the U.S. Treasury Department — deeply involved in currency operations against the U.S. dollar by the same banking firms — rebuffed all attempts at compromise by Japanese steelmakers and approved an antidumping suit against them; U.S. steel firms had reportedly been incited to launch such suits by the Administration's own trade negotiator, Robert Strauss.

JAPAN ECONOMIC SURVEY

Japanese bankers say that the combination of U.S. protectionism and the outrageous rise of the yen will almost certainly throw the export-dependent Japanese economy into deep recession. In recent interviews several banking spokesmen pointed out that because of the previous appreciation of the yen, Japan's production had been flat since January. (see *Graph 1*) They are even more frightened that a general collapse of the dollar may lead to an international monetary crisis and global depression.

In contrast to earlier pressures on Japan, this time, the investment houses behind the yen rush admit, there are no immediate *economic* objectives involved in their sledge-hammer tactics.

The assault was begun following the utter failure suffered by these London and Wall Street bankers at the International Monetary Fund meeting last month. Prior to that meeting, officials from the powerful London-linked Lazard Freres investment house, Chase Manhattan Bank, and the allied Brookings Institution think tank uniformly urged a "soft" posture toward Japan. While demanding reflation from Europe, they insisted that Japan had done as much as it could regarding reflation and its payments surplus, and that the burden would have to be shifted to other countries.

In an interview this week a top official at an investment bank closely tied to Lazard Freres explained what happened to this "soft" approach. "From an economic standpoint it doesn't really matter if the yen is at 260 or 240 (yen to the dollar), or whether the reflation program is $7.5 billion or $10 billion," he said. "It may make a difference to Japan's internal economy, but not to world recovery. You must understand that U.S. Treasury Secretary Blumenthal's motivation is not economic but political."

"The Japanese and the Europeans resisted the reflation line that (British Chancellor of the Exchequer) Healey and Blumenthal were pushing at the IMF meeting" he continued. "Now, Japan has to be made to surrender to the yen appreciation, to show that resistance is impossible. Plus, Japan will then have no choice but to ally with the U.S. to push reflation on all the other countries."

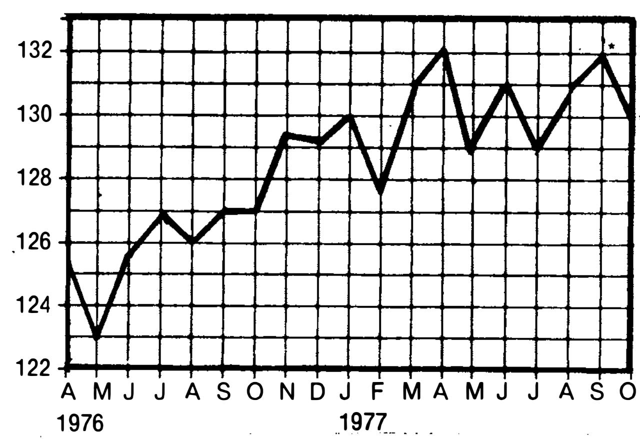
This banker indicated that the U.S. Treasury Department's decision on steel dumping was part of the same policy, and added that he didn't expect the Healey-Blumenthal economic reflation program to succeed globally for two or three years. Thus, as the foregoing indicated, these investment houses are, for the present, simply "destabilizing" Japan's economy to put its political leadership off blance, isolate Japan internationally, and forestall the coalescence of any coherent opposition.

Graph 1

Japan's Industrial Production Index

(1970=100)

(seasonally adjusted)



Note: *September & October are MITI Estimates
Source: Japanese Ministry of International Trade & Industry

A Failure of Will

This strategy has been largely successful in Japan, at least so far, in contrast to the same London-Lazard grouping's failure to cow West Germany and France. At each point that the Bank of Japan wanted to resist the yen appreciation, Premier Takeo Fukuda and his supporters advocated capitulation, mainly out of fear that resistance would provoke even harsher measures against the Japanese economy. At times Fukuda has even gone so far as to indicate in public that a yen appreciation might have beneficial effects against inflation. The press has repeatedly blasted Fukuda for such statements, since they only spur the yen's rise.

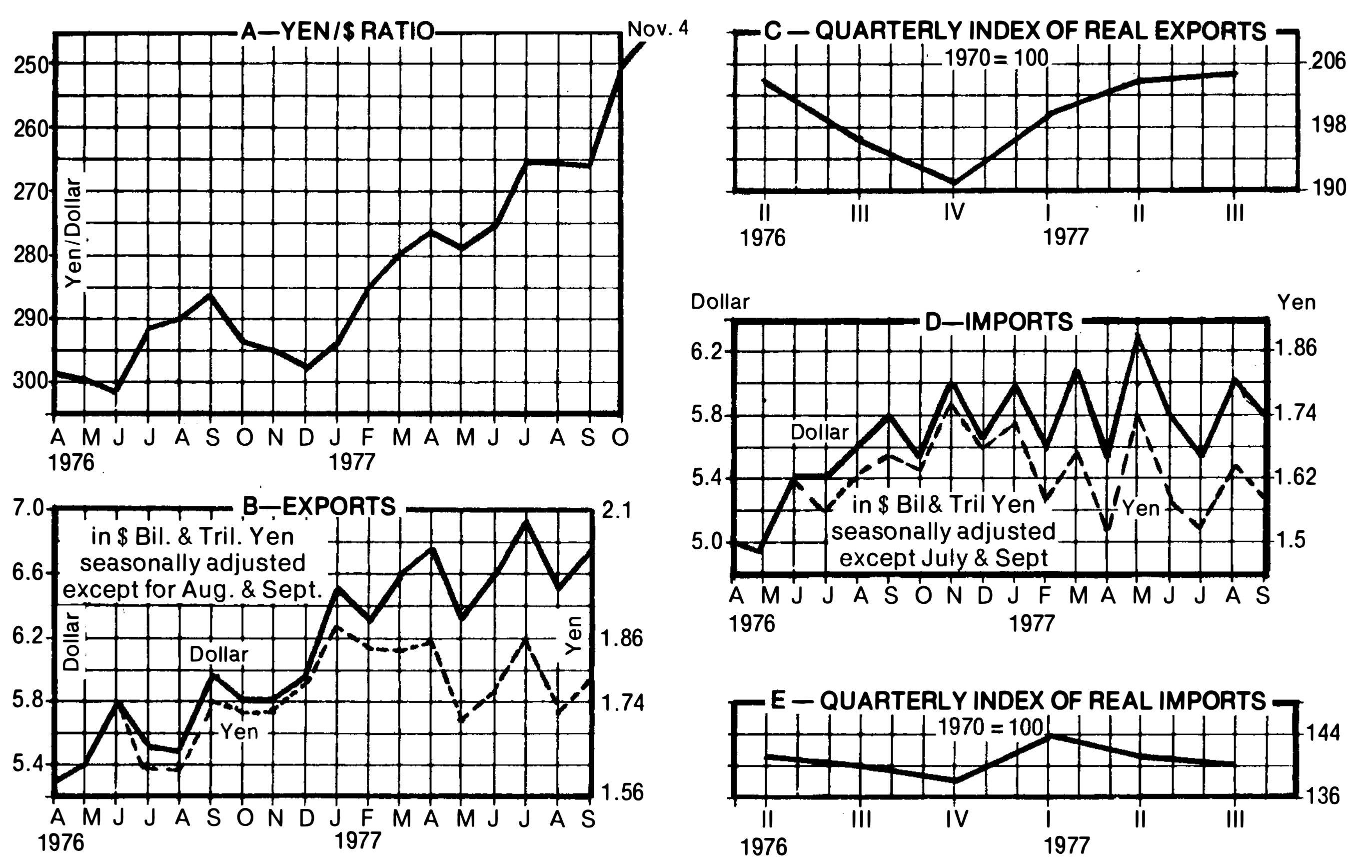
Moreover, the Bank of Japan's attempts at resistance have been hamstrung by a futile Maginot Line approach. It has tried to stop the rise through intervention at successively higher target rates. At each barrier the investment bankers' group has broken through with daily currency flows up to $750 million.

So far, most Japanese business has concentrated not on resistance, but on adjustment. Business leaders have already raised the call for an early repetition of the $7.5 billion stimulation program announced in September, whose effects have already been negated by the yen rise, as well as bailouts of injured industries.

Despite the current atmosphere of paralysis, Japan's businessmen know they will have to act; they cannot remain passive and let the economy be destroyed. The most advanced thinking among these circles is expressed by the "resource faction," whose views were recently expressed in a speech given by Liberal Democratic Party leader Yasuhiro Nakasone, a rumored candidate for Foreign Minister in a likely upcoming cabinet reshuffle. Nakasone deplored the current "drifting" of Japan's foreign policy, and proposed that Japan act to secure close ties to OPEC and to transform Southeast Asia into a region of "peace and prosperity" through international cooperation on development programs. Several days later, at a meeting with Australian businessmen, Tokyu Corporation chairman Noboro Gotoh, a Nakasone supporter, proposed the creation of an Asian Common Market, focused on the industrialization of the region and with Japan and Australia as its nuclei.

The key to Japan's future is whether the "resource faction" can link the broad center of Japanese business to its development program. The center group has no substantive objections to the program. In fact, two months ago an organization of the center group, Keizai Doyukai — the Japanese affiliate of the U.S. Committee for Economic Development — proposed a multibillion-dollar joint OPEC-Japan development fund for Southeast Asia. But as a Brookings Institution economist pointed out, Japanese business will never invest heavily in such a venture unless there is assurance of a stable world recovery to provide the markets for the products of such enterprises and to insure against default by the developing countries.

Graph 2
Japan's Trade Indicators



Source: Japanese Ministry of International Trade and Industry

At the present time, the Brookings economist underlined, Japan's private foreign investment is stagnating even through Japan is loaded with excess dollars, precisely because business is afraid to invest. Many firms are even abandoning existing ventures, with the wholesale flight from Brazil as only the most dramatic case. The program of Nakasone and Keizai Doyukai cannot succeed unless Japan obtains cooperation in the U.S. and Europe to secure genuine world recovery. Yet it was exactly on this point that Nakasone was most vague in his speech.

With the notable exception of its recent energy deals with the Soviet Union, Japan has failed to obtain significant allies for defense against the reflation forces, let alone for positive action, either in Europe or among circles in the U.S. opposed to the "Tory" policies of Blumenthal and his allies. As a result, business in Japan has remained in a paralysis of fear.

The investment house executive cited above commented, "Sure, they'll try to resist and gain allies, but they won't have time to do anything before the effects of the yen rise set in." For the present, Japan has been successfully kept off blance. This could change very quickly once business in and out of Japan realizes that something must be done, but for the moment Japan has been effectively isolated.

Time Running Out

Japanese business is increasingly aware that it has little time left to avert disaster. For months Japan has been perched on the brink of all-out recession. Estimated production levels for October are no higher than those of last January. This predicament is the result of the 11 percent appreciation of the yen from January through September. Exports, the lifeblood of the economy, have been stagnant in dollar terms at the $6.7 billion level since March. In yen terms — the terms that determine the financial viability of the export firms — exports have fallen. In real terms — the terms that determine exports' ability to stimulate the rest of the economy — exports in September were no higher than in March of 1976! (See *Graph 2 B* and *C*)

Since growth in exports has been Japan's sole source of production increases and financial stability since the 1974-75 recession, the collapse of exports was enough to threaten serious new economic troubles. Even before the October yen appreciation the export picture was getting worse. September contracts for trading firms which sell 60 percent of Japan's exports were down 5 percent from year-before figures in dollar terms. The new appreciation will sharply cut Japan's real exports, and a major bank reports that every export industry except auto will have to sell at a loss if the yen remains above 250. As a result, the illiquid corporations in Japan will be forced to institute cost-cutting measures such as capital investment cuts and inventory liquidation, undercutting the whole economy.

The Lazard-linked investment house official said he understood Japan's predicament perfectly. "The yen appreciation will throw them into recession, unless they launch an absolutely massive reflation program, perhaps two or three times the $7.5 billion they announced in September. They won't have any choice." This would mean "intolerable inflation," he said, and therefore the Japanese could have "no choice but to ally with the U.S. and force everyone else to reflate also. That is the only way they could avoid chaos." Recovery is still years away, he added, "and I must emphasize again that the motivation behind Blumenthal's actions is political, not economic."

Turning reality on its head, most newspaper reports have ignored the grim implications of Japan's production figures and instead emphasized the monumental Japanese trade surplus. This record surplus — it could reach $17 billion this year — is due not to exports, but to the steady fall in imports. (*Graph 2 D* and *E*). And imports, in turn, fell because of the stagnation in production — caused by the flatness of exports. In other words, Japan has such a large trade surplus because its exports are too low!

Friends and Enemies

Japan's future depends on whether it can secure international allies. Naturally, there is no real support in Japan for the immediate London-led campaign against the Japanese economy, but the same London and New York bankers do have powerful friends who support their long-range orientation: low growth and austerity. This attitude is exemplified by the Industrial Planning Council, headed by a long-time Fukuda ally, Takeshi Sakurada. In his capacity as head of the Employer's Federation, Sakurada warned that the yen appreciation was an even worse shock than was the 1973-74 oil crisis. Therefore, many firms would have to refuse wage increases this year, he predicted, and others would have to actually reduce wages. At stake is an immediate 10 percent cut in real wages.

Sakurada's group has strong influence over Fukuda, but Fukuda's own credibility is weak. Known as the "economic wizard" when he took office last December, he is now derided as the "god of poverty." It is expected that Fukuda will soon be forced to reshuffle his cabinet and bring his political opponents into powerful posts.

The opposite pole to the group represented by Sakurada is marked by Japan's recent breakthroughs in energy cooperation with the USSR. Japan will sell the Soviet Union four atomic power plants as part of a deal to be finalized Nov. 15 between the two countries, according to the Tokyo daily Mainichi, and the agreement includes a call for close collaboration on fusion power research. There is speculation that the deal will also clear the way for the Soviets to assist in enriching Japan's depleted nuclear fuels, an operation hitherto monopolized by the U.S.

The atomic energy agreement follows the announcement two weeks ago of a major oil strike off the Soviet Sakhalin islands, believed to be the largest single oil field in all of Asia. Its development could lead to a new source of fuel supplies for Japan, which is now virtually dependent on U.S.-controlled flows of Mideast oil. Involved in negotiations on developing the field are Japanese firms which figure as part of the "resource faction"; the United States' Gulf Oil is also a participant.

The rest of the international picture, however, remains dismal. The Bank of Japan had looked to West Germany and Switzerland for cooperation, and had leaked to the press that it had agreements for coordination among the central banks of the three countries against currency speculation. But approximately 10 days ago, reports appeared that the West Germans and Swiss had reneged on their agreement, and now it appears that West German and Swiss banks are among the biggest buyers of yen.

Many of the private banks in Japan hoped for political support from those American bankers who opposed the Blumentahl "toilet paper dollar" crowd in favor of Arthur Burns' attempts to defend the dollar, including the Rockefeller and Harriman interests as well as institutions like Citibank and Bank of America. But at least one Harriman spokesman, Robert Roosa of Brown Bros., Harriman's investment bank, indicated in an interview this week that the Harriman-Rockefeller interests have little positive to say beyond a narrow interest in defense of the dollar and sentiments against protectionism.

Others in Japan looked to the Southwest-based industrialist forces in this country led by men like John Connally and former deputy Defense Secretary William Clements. But although Connally and Clements themselves have consistently attacked protectionism and dollar depreciation, a sampling of Texas bankers and businessmen — Connally's base — interviewed by this reporter revealed that they had been suckered into at least lukewarm support of Blumenthal's protectionist line. A Texas-Japan meeting last month in Tokyo failed to reach any significant breakthroughs in cooperation.

Both the Harriman-Rockefeller types and U.S. industrialists will find very soon that they must shift into a far more active posture if they are not to follow Japan into London-engineered economic chaos. As of this writing, they have not yet done so.

—Richard Katz

China's Teng Seeks World 'United Front' Against Soviets

Teng Hsiao-ping, deputy premier of China and third-ranking member of the Peking Communist hierachy, took China's long-standing vendetta against the Soviet Union to a new level of intensity last week in an interview with Claude Roussel, chairman and managing director of the French wire service, Agence France-Presse. During the Oct. 21 interview, Teng broke all precedent with a call for a *worldwide* united front against the Soviet Union using economic warfare to destroy the Soviet economy, and attacked those nations which sell technology or food to the Soviets for "appeasement." (A transcript of portions of the interview which discuss the Soviets and other foreign policy issues appear below.)

CHINA

China has stepped up its diplomatic organizing for this "anti-Soviet" united front, as reflected by the spate of foreign dignitaries invited to Peking in the last two weeks. The list is headed by Paul T.K. Lin, professor at the center for East Asian Studies at McGill University in Toronto, Canada. Lin was once a secretary to Chou En-Lai and is a key private liaison between China, western Maoist groups, and western pro-China lobbies who have been using China as a bludgeon against the Soviets. Mr. Lin met Teng on Oct. 15. The day before, politburo member Chi Teng-kuei met with Evelyn de Rothschild, who is chairman of the board of the British magazine, *The Economist* and an important link to the City of London financial circles working with the likes of Mr. Lin to use China for their own purposes.

Other visitors during the last two weeks of October included General Stig Synnergren, Supreme Commander of the Swedish Armed Forces; Edward Heath, former Prime Minister of Britain; William Scranton, former U.S. ambassador to the UN; Brian Talboys, New Zealand's Minister of Foreign Affairs and Deputy Prime Minister; a delegation from the National Committee on U.S.-China relations, and several prominent private citizens and members of parliament from Australia and Britain. The Chinese aim in these visits is to drum up support for Teng's "united front." China was apparently successful with West Germany's Manfred Wörner, a Christian Socialist parliamentarian who returned from a visit in September sounding much like Teng himself. In a recent speech, "Manchurian candidate" Wörner recited, "We must cease pursuing the policy of bowing step by step to the big powers under the illusion that this will be conducive to transformation and peace. We must stop following the policy of promoting the buildup of Soviet power through financial technological assistance."

* * *

The French wire service, Agence France-Presse, recently released an interview with China's Deputy Premier Teng Hsiao-ping. Here, excerpts from the Oct. 21 interview.

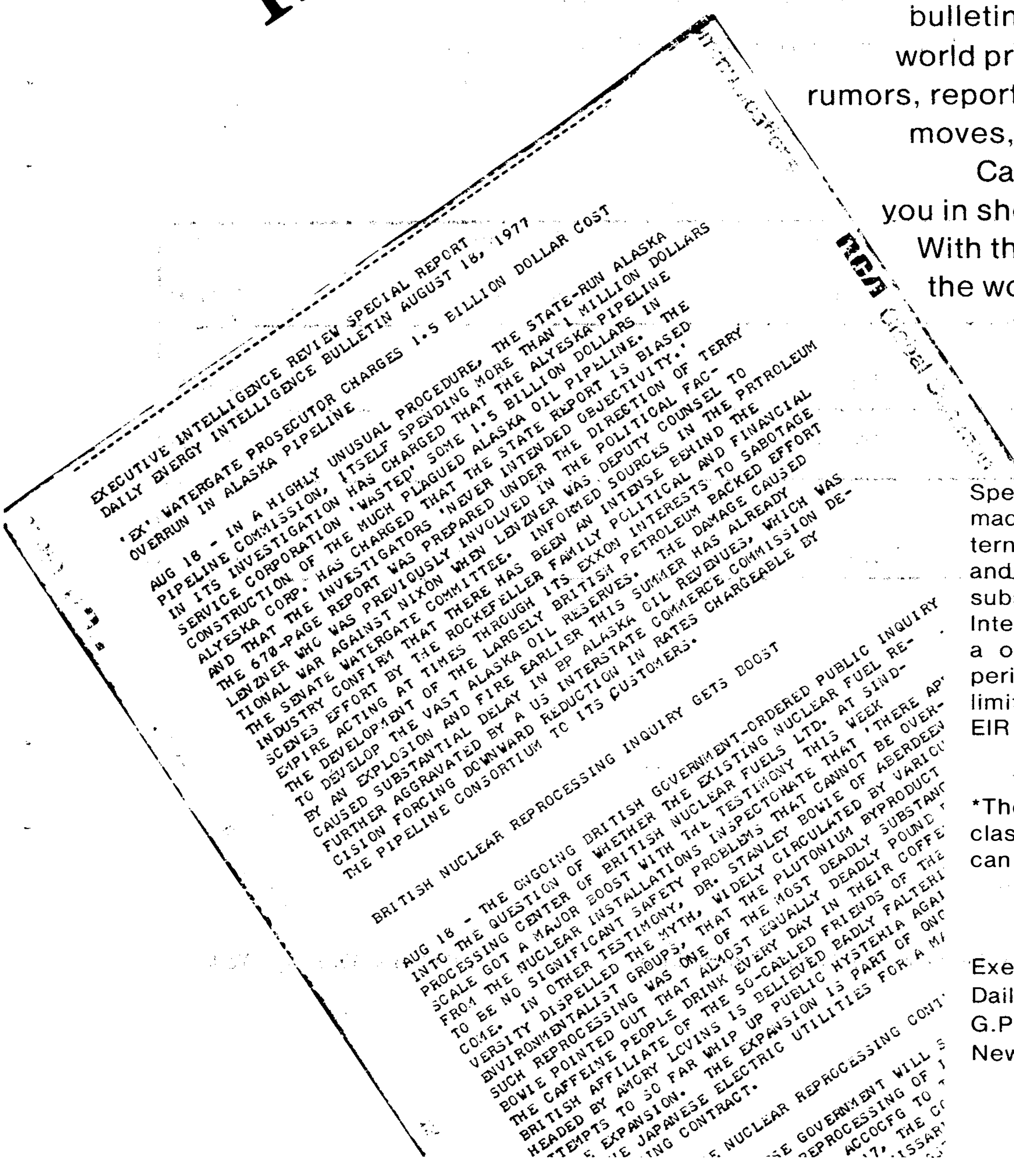
On world struggle against the Soviets: The global war plan cooked up by the Soviet Union must be destroyed. I hope that this effort will be made by the whole world — the Third World, the Second World and even including the First World, the United States. This is one of the ways to delay an inevitable world war. The war is inevitable because of Soviet-American rivalry although the principal danger is from the Soviet Union because of its social imperialist character... This does not mean that world war will break out in three to five years time... Preparedness is necessary both militarily and ideologically. It the Soviets know that everybody is prepared for war, they will be careful... There are weaknesses in the Soviet global strategic plan since its bases are not consolidated in the Middle East, Africa, especially Somalia, in Latin America and the Indian Ocean. The Soviet Union believes it has a lead in strategic and conventional armaments but it is weak on the agricultural and industrial fronts, and this is a mortal weakness for declaring war. (The United States is making a mistake in) shipping wheat to the Soviet Union to feed its population and build up reserves and for the supply of technology to the Russians by the United States and Japan... We must fight against the policy of appeasement with the Soviet Union not only politically but also economically. What is regrettable is that people are aware of the policy of appeasement in the political field but not yet in the economic field... (Concerning the agreement with the Soviets on river navigation of last month) it will play only a small role in the improvement of Sino-Soviet relations. The frontier negotiations undertaken 8 years ago, have produced no results.

On the "Eurocommunist" parties: (China does not want the coming to power or even participation in government of the French, Italian and Spanish Communist parties.) We do not consider these parties Marxist-Leninist parties... (China) appreciates the independence they have shown vis-a-vis the Soviet Union. But we must wait and see whether the reality confirms the truth. Attention should be paid to the fact that if those people come to power, their arrival will benefit the policy of appeasement of the Soviet Union. It is not so much their coming to power but their participation in power that will be a way of showing their political desire. There are historical examples. For example in France (at the time of liberation in 1945), Maurice Thorez was French deputy prime minister and other members of the government, including the air minister were communists. At that time France was at war with Algeria and you know who ordered the air force to bomb Algeria. Is that what is called a Marxist? Is that a Communist? What's more, is that what is called a Eurocommunist? That is why one shouldn't make a big deal out of this problem. But maybe this difference in views stems from the geographical distance between France and China. We are waiting to see.

On other foreign policy questions: (On possible mediation by China to resolve the serious border problem between Cambodia and Vietnam) The problem will be resolved by themselves. What we want is for them to carry out good negotiations. We ourselves do not judge what is just or erroneous. (On aid to the two countries) We spent much more money during the Vietnam war, we came up with far greater amounts than those from the USSR. In Cambodia we did not give much aid. (China's aid to Cambodia totalled only 20 percent of that given to Vietnam). China will continue its aid to Vietnam. Cambodia is applying a very firm policy of self-reliance and is not requesting too much assistance. (On Albania) This criticism (Albania's criticism of China's 'three worlds' theory) is of no importance to us. As far as we're concerned, we will continue Chairman Mao's policy of foreign affairs and notably the three world theory which will in the future be the base of our foreign policy. As for the people who don't want to accept this theory, that's their business. The most fanatical opponent of the three worlds theory is the Soviet Union. It was I who put forward this three worlds theory for the first time at the United Nations in (April) 1974, the first person to start applauding was your former foreign minister, Mr. Michel Jobert.

EIR Daily Energy Intelligence Bulletin

The Executive Intelligence Review is pleased to introduce its new Daily Energy Intelligence Bulletin. Produced by the same EIR staff that puts together the news and analysis which has made the EIR Weekly unique in its field, the bulletin will provide the subscriber with all the news in the energy field. The bulletin includes the latest news, world press briefs, short features, rumors, reports on the ecologist's latest moves, and the energy lineup on Capitol Hill — all provided to you in short form, five days a week. With this service you will have all the world's energy news at your fingertips on a daily basis.


EXECUTIVE INTELLIGENCE REVIEW SPECIAL REPORT
DAILY ENERGY INTELLIGENCE BULLETIN AUGUST 18, 1977

'EX' WATERGATE PROSECUTOR CHARGES 1.5 BILLION DOLLAR COST OVERRUN IN ALASKA PIPELINE

AUG 18 - IN A HIGHLY UNUSUAL PROCEDURE, THE STATE-RUN ALASKA PIPELINE COMMISSION, ITSELF SPENDING MORE THAN 1 MILLION DOLLARS IN ITS INVESTIGATION, HAS CHARGED THAT THE ALYESKA PIPELINE SERVICE CORPORATION 'WASTED' SOME 1.5 BILLION DOLLARS IN CONSTRUCTION OF THE MUCH PLAGUED ALASKA OIL PIPELINE. THE ALYESKA CORP. HAS CHARGED THAT THE STATE REPORT IS BIASED AND THAT THE INVESTIGATORS 'NEVER INTENDED OBJECTIVITY.' THE 670-PAGE REPORT WAS PREPARED UNDER THE DIRECTION OF TERRY LENZNER WHO WAS PREVIOUSLY INVOLVED IN THE POLITICAL FAC- TIONAL WAR AGAINST NIXON WHEN LENZNER WAS DEPUTY COUNSEL TO THE SENATE WATERGATE COMMITTEE. INFORMED SOURCES IN THE PRTROLEUM INDUSTRY CONFIRM THAT THERE HAS BEEN AN INTENSE BEHIND THE SCENES EFFORT BY THE ROCKEFELLER FAMILY POLITICAL AND FINANCIAL EMPIRE ACTING AT TIMES THROUGH ITS EXXON INTERESTS TO SABOTAGE THE DEVELOPMENT OF THE LARGELY BRITISH PETROLEUM BACKED EFFORT TO DEVELOP THE VAST ALASKA OIL RESERVES. THE DAMAGE CAUSED BY AN EXPLOSION AND FIRE EARLIER THIS SUMMER HAS ALREADY CAUSED SUBSTANTIAL DELAY IN BP ALASKA OIL REVENUES, WHICH WAS FURTHER AGGRAVATED BY A US INTERSTATE COMMERCE COMMISSION DE- CISION FORCING DOWNWARD REDUCTION IN RATES CHARGEABLE BY THE PIPELINE CONSORTIUM TO ITS CUSTOMERS.

BRITISH NUCLEAR REPROCESSING INQUIRY GETS BOOST

AUG 18 - THE ONGOING BRITISH GOVERNMENT-ORDERED PUBLIC INQUIRY INTO THE QUESTION OF WHETHER THE EXISTING NUCLEAR FUEL RE- PROCESSING CENTER OF BRITISH NUCLEAR FUELS LTD. AT SIND- SCALE GOT A MAJOR BOOST WITH THE TESTIMONY THIS WEEK FROM THE NUCLEAR INSTALLATIONS INSPECTORATE THAT 'THERE AP TO BE NO SIGNIFICANT SAFETY PROBLEMS THAT CANNOT BE OVER- COME.' IN OTHER TESTIMONY, DR. STANLEY BOWIE OF ABERDEEN VERSITY DISPELLED THE MYTH, WIDELY CIRCULATED BY VARIOU ENVIRONMENTALIST GROUPS, THAT THE PLUTONIUM BYPRODUCT SUCH REPROCESSING WAS ONE OF THE MOST DEADLY SUBSTANC BOWIE POINTED OUT THAT ALMOST EQUALLY DEADLY POUND THE CAFFEINE PEOPLE DRINK EVERY DAY IN THEIR COFFE BRITISH AFFILIATE OF THE SO-CALLED FRIENDS OF THE HEADED BY AMORY LOVINS IS BELIEVED BADLY FALTERI TEMPTS TO SO FAR WHIP UP PUBLIC HYSTERIA AGAI EXPANSION. THE EXPANSION IS PART OF ONC JAPANESE ELECTRIC UTILITIES FOR A M ING CONTRACT.

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