
EXECUTIVE INTELLIGENCE REVIEW

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EXECUTIVE INTELLIGENCE REVIEW

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TABLE OF CONTENTS

INTERNATIONAL

- 1 **Europe Acts To Stabilize Dollar**
- 2 — Reactions To Dollar Collapse
- 4 **EEC 'Gaullist' Axis Blocks Jenkins's Proposals**

U.S. REPORT

- 1 **Foreign Policy: Renegade Officials Go For New Cold War**
- 2 **Congressional, Industrial Support For Capital Formation**
- 2 — Sen. Schmitt Denounces Administration's 'Technological Imperialism'
- 4 **Administration: Division Over 'Urban Policy'**
- 5 — *Washington Post* On HUD-OMB Budget Split
- 6 **Kissinger Forces Reporter's Ouster**

ECONOMICS

- 1 **Steel: U.S. Administration Revives New Deal Economics**
- 3 — U.S. Steel Corp.: We Make Profits Not Steel
- 4 **Business Outlook: Nonproductive Gov't Spending Compounds U.S. Economy's Ills**
- 5 **Agriculture: American Farm Bureau Raises Technology, Export Banners**
- 6 — Pressure Builds To Expand Agricultural Exports
- 8 **Japan: No Surrender To Strauss**

ENERGY

- 1 **Gas Companies Balk At Attack On Mexico Deal**
- 2 — *Wall Street Journal* And Schlesinger Vs. Reality
- 3 **Open Letter To Congress On 'The Nuclear Anti-Proliferation Act'**
- 6 **Coal Conversion Bill: Expensive, Wasteful Hoax**

LABOR

- 1 **Labor News: Meany And The American Federation Of Layoffs**
- 2 — Meany Couples Export Curbs To Protectionism Demands
- 2 — Resolution Before AFL-CIO Bars Collaboration With Labor Party
- 3 **Enemies Of Labor: Terrorist Lawyers Front For Teamster Dissidents**
- 4 — TDU Offers Teamsters 'United Front' Vs. USLP
- 5 **Special Report: Miners, Owners Walk Into Strike Trap**
- 6 — Report From The W. Va. Coalfields
- 7 **Recommended Law Firm Be Disqualified In UAW Suit**
- 8 **IBEW Backs Nuclear Energy**

SOVIET SECTOR

- 1 **LaRouche: The Crisis Of The Soviet 5-Yr. Plan**

MIDDLE EAST

- 1 **The Middle East On The Eve Of Cairo**
- 3 — Sadat: I Don't Want A Separate Peace
- 4 — Washington Observers On The Mideast.
- 5 **Israel: Dayan Has Begin's Ear**
- 7 **Is A Palestine Gov't In Exile The Next Break For Peace?**

ASIA

- 1 **Thailand, Vietnam Normalize Relations**

AFRICA

- 1 **Smith 'Concedes' While Bombing Mozambique**

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IN THIS WEEK'S ISSUE —

What the United States is so far **failing to do for itself**, key European forces are doing **aggressively — defending the dollar from British-led attack**... The **INTERNATIONAL** report this week tells why **Western Europe has mobilized** to defend the U.S. currency **“until we go bust”**... and why the Europeans are looking for openings to **intervene into U.S. politics** to undercut the **City of London’s “fifth column” allies**, Schlesinger and Blumenthal... Included: the details of the **West German central bank’s dollar-support operations**... an **extensive survey of European opinion**, on and off the record, on the United States government’s **“malign neglect” of the dollar** and what must be done... and a report on how the **battle against the British** is shaping up **inside the European Economic Community** as well...

* * *

The **political** — not just monetary — significance of the dollar collapse comes to the fore in the **world’s second crisis center: the Middle East**... for the destruction of the dollar is inextricably linked with the London-centered strategy of a **major oil price rise** and the **Nazification of the U.S. and Western European economies**... As the Mideast region

remains perilously poised between Geneva and a U.S.-Soviet showdown... **between lasting peace and, possibly, World War III**... a cabal of British-led forces is doing its utmost to ensure that the second course is taken... In our **MIDEAST** section, an analysis of **both sides of this critical branch-point**... and of the peace and war factions in the region and internationally... Coverage includes extensive excerpts from **Egyptian President Sadat’s important interview** in a West German newsweekly... a report on the **Soviets’ foolish attacks on Mideast peace moves**... and a documentary section on the significance of new discussion of a **possible Palestinian government in exile**...

* * *

Reflecting the deliberate turn toward a face-off between the U.S. and the USSR... a **new wave of cold-warism** among “Tory” American political and financial circles... The **U.S. REPORT** has the story from several angles... including **new attempts to wreck SALT**... and undercut the Administration’s Mideast peace commitment... But sane American business and political leaders are active too... in moving ahead on organizing for

INTER-NATIONAL
U.S. REPORT
ECONOMICS
ENERGY
LABOR
SOVIET SECTOR
EUROPE
MIDDLE EAST
AFRICA
ASIA

a **technology and export-based U.S. economic policy** that counters the "British colonial" tack of Schlesinger's energy sabotage and its foreign policy correlates... We present comments from **the head of the U.S. Export-Import Bank** on Schlesinger's disastrous "nonproliferation" stance on nuclear power... and excerpts from **New Mexico Senator Schmitt's** speech warning that **failure to develop nuclear technology** will leave the U.S. "hanging in the wind"...

* * *

The **SOVIET SECTOR** this week presents an in-depth examination of the **deep-seated problems** that stand behind **the Soviet Union's current policy**, in the **Mideast** and the rest of the world as well as at home... "**The Crisis of the Soviet Five-Year Plan**" by U.S. Labor Party chairman **Lyndon H. LaRouche**... Going back to Marx and Lenin, LaRouche traces the errors of Soviet ideology that have led to the present **plunge toward disaster**... including the ubiquitous penetration of **Anglo-American intelligence influence** into the **highest levels of Soviet leadership**... and predicts

what will drive home the proper strategic lessons to the USSR's leaders...

* * *

Also in this issue: a detailed report on the **Administration's new steel program**, and **what it will do** to the remains of the U.S. steel industry, in **ECONOMICS**... Schlesinger's **WEEP** policy for no energy and no growth **runs into trouble with U.S. gas companies** and their **Mexican allies**, in **ENERGY**... and in the same section, an **authoritative indictment of the proposed Nuclear Nonproliferation Act** from the director of the Fusion Energy Foundation...

* * *

Also in this issue, first reports on how the American Federation of Labor is fast turning itself into the **American Federation of Layoffs** and Meany's "program" alá Humphrey-Hawkins and James Schlesinger is a **slap in the face** to real commitments of the majority of the country's trade unionists.

Europe Acts To Stabilize Dollar

The dollar closed last week marginally below the previous week's level at about DM 2.19 to the dollar, a dramatic recovery from the mid-week fall to a low of 2.15 to the dollar. However, the fact that the dollar survived the week without a further major catastrophe is due to what can only be described as a total mobilization for the dollar's defense by Western Europe, in collaboration with business and political circles in the United States. From a series of public and private statements by government and business officials in Western Europe, there is a broad consensus there—and in many places in the United States—that the fall in the dollar's value on the foreign exchange markets had to be halted at all costs.

FOREIGN EXCHANGE

This is not simply a monetary issue. As the Western Europeans are well aware, the dollar collapse is precipitated by the City of London, with fifth column support action from its allies in the United States government: Secretary of the Treasury W. Michael Blumenthal and Energy Secretary James R. Schlesinger—with the aim of breaking the world economy and running the remains along the model given by another British fifth columnist: Nazi finance minister Hjalmar Schacht. The British heralded their attack against the dollar Dec. 4 in an article in the London *Sunday Times* entitled "Mighty Dollar Heads for Fall." The *Times* blames the expected dollar crisis on the tremendous U.S. trade deficit and U.S. commentators predicting a \$20 billion tax cut. And as the dollar plunged throughout the week, the British press applauded.

But the British plan has so far been thwarted by two key events. One was the fierce upgrading of West German Bundesbank intervention efforts on the foreign exchange markets, which penalized speculators even at the expense of short-term market stability. More important was the perception, rubbed into the market by a series of public statements, that under no costs would the Europeans permit the dollar to be destroyed. Behind these statements (see below) is the strategic estimate that the main short-term source of dollar weakness came from the City of London, which encouraged the fall of the dollar to suit its own ends.

On Friday, Dec. 9, wire services carried a leak that the finance ministers of the United States, West Germany, Britain, France, and Japan had met in secret in London on Dec. 3 to discuss the decline of the dollar. Details of

the meeting have not yet been disclosed. However, banking sources with direct knowledge of these events report that the meeting probably marked the end of Michael Blumenthal's and James Schlesinger's careers in government. "Pressure on the Carter Administration from the Europeans is so strong that it doesn't look like Schlesinger and Blumenthal can last," said one former Ford Administration official, now in private finance. "Don't quote me, but it's not going to be long before they're out." Well-informed Western European sources also cite a perceived change in attitude by the Carter Administration.

To a greater extent, this pressure has been mediated through former Ford-Nixon Administration officials with close contacts in Western Europe, including former Treasury Secretaries John Connally and William E. Simon, according to European banking and industry sources. Reportedly, Simon is working with the U.S.-European Joint Businessmen's Council to put together lobbying pressure on the Administration.

At the moment, the attitude of the Administration is difficult to gauge. Official and off-the-record statements by the Administration's spokesmen do not indicate a change in policy, with one or two key exceptions, including remarks by Eximbank president John Moore in Chicago Dec. 8 critical of the Carter Administration's policy on nuclear exports. The *Washington Post's* economics editor Hobart Rowan printed an interview Dec. 9 with Undersecretary of Treasury Anthony Solomon stating the Administration's position. Solomon claimed that the Administration was not concerned about the weakness of the dollar. He pointed to the continued large capital account surplus of the United States—failing to mention that more than half of that surplus reflects the purchases of U.S. Treasury securities by the Western European and Japanese central banks, in consequence of their intervening in the market to buy dollars that private sector dollar-holders sold off. An unnamed Federal official was quoted on newswires Dec. 9 saying that the U.S. will not intervene to support the dollar, adding that the reasons for the dollar's weakness were fear of the OPEC meeting and Congress's failure to pass the Administration's energy legislation—which most Europeans would laugh at. Federal Reserve officials who personally support a strong intervention policy are "pretty hopeless," according to one source, that the Treasury will permit further intervention.

However, the matter appears to be out of the hands of the Administration. In the United States, there has been a frantic round of meetings including senior officials of large commercial banks, the New York Federal Reserve, and selected politicians over emergency

strategy to deal with the crisis. "Forget about yesterday's crisis, or tomorrow's crisis," said one participant in these meetings. "Look at the situation in broad perspective. The exchange rates problem has been finessed for the past 30 years, first by Bretton Woods, by forcing everyone to accept a dollar peg, and then by so-called floating rates. There is no way we can go back to any of this."

Gold on the Horizon

One of the factors making American leaders jump is the not-so-covert European threat of a return to a gold reserve basis of some kind if the dollar should continue to fall. In a press statement Dec. 4, Swiss National Bank President Fritz Leutwiler made public a proposal that he has circulated in private for some time, i.e., for the U.S. to sell gold reserves to Western European central banks in order to obtain the wherewithal for intervention on the foreign exchange markets. Although the U.S. is not likely to accept the proposal—as Leutwiler has informed his friends—the impact of the statement lies in the first—since-1971 reference to the use of gold for central bank transfers by a leading central banker.

It is highly significant that the *Wall Street Journal* editorialized favorably on the Leutwiler statement in a Dec. 9 editorial entitled, "Malign Neglect."

U.S. policymaking circles are broadly aware that they Western Europeans mean business on the subject of gold. The National Security Council is currently preparing an assessment of the Leutwiler statement. Virtually the only section of the U.S. financial community that presents a different evaluation is the British-connected investment banks. One top investment banker protested, "I just had dinner with Gordon Richardson (Bank of England president—ed.), and he assured me that (a European return to gold) will never happen."

At the moment, the Western European orientation is to intervene in the U.S. political situation and use their own resources to stabilize the dollar for as long as possible, recognizing, as Bundesbank President Otmar Emminger said in a press conference Dec. 8, "We alone cannot resist the pressures on the dollar coming from all over the world." According to West German official sources, the Bundesbank and Bank of Japan are negotiating to create a facility "to support the dollar until we both go bust."

Bundesbank Aid to Dollar

Officially, the Bundesbank intervened with \$2.4 billion during the month of November alone, all of which represents an equivalent increase in West German money supply. In effect, the Western Europeans are temporarily putting aside their own economic stabilization efforts on behalf of the dollar. They are counting on a change in Washington, knowing they will not be able to sustain these levels of intervention.

Possibly an even greater sacrifice is the form that West German intervention has taken. After the dollar fell through the "psychological barrier" of DM 2.20 to the dollar on Monday and Tuesday, falling by a solid percentage point on each day, the Bundesbank stopped attempting to smooth out market fluctuations, and instead intervened with the objective of burning the

speculators. Instead of buying dollars at the morning fixing on the Frankfurt market, permitting speculators to get a good price for their dumped dollars, and then letting the dollar rate drift down later in the day, the Bundesbank permitted the market to fluctuate wildly on Wednesday and Thursday. The dollar swung within a band of DM 2.15 to DM 2.18 to the dollar, according to Frankfurt market participants, as the Bundesbank let the rate fall quickly, and then intervened to turn the rate around, catching some of the dollar-sellers with a loss. By Friday, the market had quieted, leaving the Bundesbank temporarily in possession of the field. Central banks generally avoid doing this—although central bankers enjoy it immensely—because the wide swings in currency rates are potentially disruptive of trade.

But the intervention policy cannot hold for long, unless some fundamental redirection of U.S. policy to stimulate American exports is introduced. A growing section of American business is lobbying for an expanded role for the Eximbank, including utilization of the Eximbank's dormant commercial banking powers. Surface impressions to the contrary, most of the Western Europeans are sympathetic to this type of approach. In interviews with *EIR*, West German bankers, academics, and trade association specialists expressed support for a strong U.S. export profile, viewing the health of the dollar and the U.S. economy as more important than short-term considerations of market share.

How Europe Reacted To The Dollar Collapse

Swiss National Bank President Fritz Leutwiler, in a press statement Dec. 5:

You can no longer say that what the United States is doing is benign neglect for the dollar. It is now malign neglect on the part of the United States. The United States has good reason to worry about its currency. If the dollar continues to go down, it will incite the oil producers to raise their prices. There is a risk of less economic growth in countries like West Germany and Switzerland.

Where should the United States get the foreign exchange with which to intervene? There are large and unutilized swap nets that should be used to support the dollar. The U.S. and European central banks could share the gains and losses of intervention. If the U.S. wishes to intervene to support the dollar without borrowing, it can obtain Swiss francs and Deutschemarks by selling gold.

Dr. Otmar Emminger, President of the Deutsche Bundesbank, in a press statement in Frankfurt, Dec. 8:

The present dollar-mark rate is totally out of line with reality... the Bundesbank will intervene not only to smooth out the day-to-day fluctuations, but will intervene to control the fall of the dollar.

West German Federal Chancellory spokesman Armin Grünewald, in a press statement Dec. 8:

It is the responsibility of the United States to intervene to support the dollar.

West German Federal Chancellor Helmut Schmidt, at the Dec. 5 summit of European Community leaders (as reported by wire services):

We should beware of anyone who comes along with a panacea for the economic situation, for instance, printing money. Printing money will not work either here or in the United States... Europe has been financing the U.S. oil deficit by intervening on the foreign exchange market.

Helmut Geiger, President of the West German Savings Banks Association, in Die Welt Dec. 8:

We cannot permit the European snake to fall apart... the pressure on the dollar has reached intolerable levels. It is the responsibility of the United States to solve the problem.

Otto Wolf von Amerongen, President of the West German Conference of Trade and Commerce (DIHT):

Everyone, not only the countries who trade with the United States, is affected by the fall of the dollar. There are people in the United States who want to support the dollar. We in Europe should give them all the encouragement we can.

(A source close to Mr. von Amerongen added: Schmidt and Giscard are doing something about the dollar mess. They are old hands at this game. It seems that Mr. Carter has learned his lesson. I hope that 'Blumie' at the Treasury has learned his lesson, too. The only problem is that the British are old hands at this, too. They would do everything to the Western world for their own benefit. They do not care at all about the Western world.)

Deutsche Bank Board of Directors member Thierbach,

in a statement broadcast over West German radio stations on Dec. 6:

The dollar is certainly undervalued. Certain Mideast countries have overdone their mistrust of the dollar... It would be completely wrong to draw a parallel between the current situation and the end of the 1920s, when the world entered a depression... West German exports might suffer due to the appreciation of the deutsche-mark, but they are not going to collapse. That is ruled out.

Le Monde columnist Paul Fabra, in Le Monde Dec. 8:

The persistent weakness of the dollar has turned into a crisis. There is no way to isolate the United States from the World economy. The American non-policy is paving the way for a new world recession... Blumenthal has violated the solemn commitments of the United States... the reason for the collapse of the dollar is not the growth of oil imports, nor the rise in money supply, as usually presented. The fundamental problem is that the Federal Reserve has accepted a policy of domestic deflation, as witnessed by the huge budget deficit during the third quarter...

If the decline of the dollar continues, it will make inevitable a new recession in the countries that are supposed to lead the world economy.

Italian Communist Party daily L'Unita, Dec. 8:

All the European countries are agreed on the need to support the dollar, except for the British, who believe that they will benefit from the dollar's decline.

West German Finance Minister Hans Apel, in a press statement Dec. 7:

The Federal government views favorably the efforts of the Bundesbank to support the dollar... according to the definition of the (1975) Rambouillet agreement, the flows out of the dollar are erratic and speculative. Therefore the Federal Reserve has the obligation to take action.

EEC 'Gaullist' Axis Blocks Jenkins's Proposals

Under the leadership of West German Chancellor Helmut Schmidt, the Dec. 5-6 summit of the European Economic Community (EEC) heads of state in Brussels delivered a resounding defeat to former British Minister and current EEC Commissioner Roy Jenkins's plan to relaunch a European Monetary Union. Although "taking note" of the Jenkins Commission's plans for long-term economic and monetary union, the combined forces of West Germany, France, and Italy pointedly refused to accept any concrete plans for the creation of a monetary union, calling on their finance and economic ministers to discuss details "at a later date."

The *Frankfurter Rundschau* proclaimed the meeting "a first-class funeral," commenting that "never before has the European Monetary Union been given such a blow... the Willy Brandt and Pompidou 1971 plans for such a union are as far from realization as the unification of Germany."

Against strong opposition from the British, the West Germans succeeded in pushing through the new EEC budget, which calls for almost doubling the British contribution, while restraining British and Irish demands for large increases in the Regional Fund (money earmarked for various regional development and rationalization projects in industry). Schmidt warned that under no circumstances would the Regional Fund be used for refinancing of existing debt, but only for new investment.

Schmidt Gets Last Say On EEC Finances

On the eve of the EEC summit, the behind-the-scenes fight between West Germany and France on one side and Britain on the other broke into the open with German Finance Minister Hans Apel's Dec. 2 *Handelsblatt* interview. The *Financial Times* of Dec. 3 splashed the story across its front page, noting Apel's attack on Britain for

being "ready to take all it can from the EEC, but do little in return to meet its partners half way." Apel made clear his government's opposition to a monetary union, suggesting that Jenkins's proposal must be "either an intentional or unintentional mistake." The *Financial Times* noted that Schmidt was known to be "privately" blaming the British for blocking a constructive approach to the budget and Regional Fund.

In the end, the Ministers agreed to implement the new EEC unit of account (the previous one was still based on a 1971 dollar parity), which significantly undervalues the German mark but overvalued the pound. As a result, Britain's contribution to the EEC budget will increase from £700 million in 1977 to £1.18 billion for 1978. At the same time, the West Germans blocked the call of the

European Commission and European Parliament for a £488 million increase in the Regional Fund, allotting only £377 million for 1978 — an amount which does not even account for European inflation rates over the past year.

Schmidt further secured a major compromise on the so-called "Ortoli facility," proposed by European Commission Vice-President Ortoli to supplement the capabilities of the European Investment Bank to augment its "insufficient" funds for regional and social projects. While accepting the Commission's ability to raise £650 million on international capital markets, Schmidt demanded that the final say rest with the national finance ministers, rather than the supranational EEC Commission.

Financial Times:
German Tempers Flare
Over British EEC Maneuvers

The Dec. 3 Financial Times of London carried front-page coverage of West German Finance Minister Hans Apel's interview in the business daily Handelsblatt, under the headline "German Anger at Britain's EEC Policies," excerpts of which follow:

Three days before the European summit meeting in Brussels, long-simmering anger in the West German Cabinet over Britain's EEC policies has found at least partial public expression.

Herr Hans Apel, West Germany's Finance Minister, described it as odd behaviour to urge ever greater transfer of resources in the Community while declaring one's own national resources untouchable,... leaving no doubt that he had Britain in mind...

Herr Apel made his comments in a newspaper article in which he also repeated his reservations on the European Commission's plan for progress towards economic and monetary union...

His remarks reflect what one government source describes as feelings of disappointment and dissatisfaction in the Cabinet which have been steadily increasing to anger.

The overall criticism is that Britain is ready to take all it can from the EEC, but do little in return to meet its partners half way...

Renegade U.S. Officials Go For New Cold War

Even though White House spokesman Jody Powell and State Department sources continue to reaffirm an American commitment to a Middle East peace settlement, such leading Administration figures as Energy Secretary James Schlesinger and Defense Secretary Harold Brown have publicly declared their intent to create a climate of international hostility and cold war.

Working with leading British and New York financial circles, these Administration renegades and their collaborators Senator Henry Jackson (D-Wash.) and former Secretary of State Henry Kissinger are determined to undermine international economic cooperation so as to implement their own economic policies, exemplified by Schlesinger's Winter Energy Emergency Plan and the Administration's steel aid program.

Brown-Jackson Parrot British Sabotage of SALT

These sabotage efforts have focused on derailing Middle East peace initiatives and blocking a SALT agreement.

At the current NATO Ministers meeting in Brussels, U.S. Defense Secretary Harold Brown followed the lead of British Minister Mulley in supporting the production of weapons for NATO, which the Soviets have indicated could be used as trade-offs in reaching a new SALT accord. Brown echoed the British Minister's support for the cruise missile, which has been the key stumbling block in reaching a SALT agreement.

In a warmongering statement to the press, Brown justified greater spending on NATO arms, warning that the Warsaw Pact military buildup has continued steadily for 15 years and shows no signs of slackening. Brown singled out the prospect of continued use of the cruise missile and the equally sensitive neutron bomb, stating:

"We would intend to preserve, both during the protocol period and for a period thereafter, sufficient range to reach targets in the Soviet Union against which we need to be able to retaliate in order to assure our deterrent capability."

While the NATO Ministers were meeting, the *London Daily Telegraph* hailed cold warrior Senator Henry Jackson (D-Wash) for his part in preventing the conclusion of a SALT agreement earlier this fall. (See below.)

Jackson's associates also succeeded this week in maneuvering Adam Yarmolinsky, one of former Defense Secretary and now World Bank President Robert McNamara's "whiz kids" in the Pentagon, into position as Counselor to the Arms Control and Disarmament Agency (ACDA), the agency responsible for negotiating an arms accord.

While Jackson and Brown heated up an aversive climate around the SALT negotiations, other Administration officials have made open attacks on the Soviet Union and Cuba. U.N. Ambassador Andrew Young accused the Soviet Union and Cuba three times in the past several days of "contributing to the escalation of death and destruction" in Africa. Last week Young was saying that Cuban involvement in Africa was not a major problem.

British Puff Jackson's SALT Sabotage

The Dec. 5 issue of the London Daily Telegraph hailed Senator Henry Jackson's successful sabotage of a new SALT agreement earlier this fall under the headline, "How the West Was Saved From Presidential Optimism," excerpts of which follow.

It is now evident that this autumn President Carter and his liberal advisers, who had beavered their way into ascendancy in the Arms Control and Defence Departments, came within an ace of a disastrous eight-year nuclear weapons agreement with the Russians. . . .

Credit for bringing the President up sharply on the brink goes to a fellow Democrat, Senator Jackson, chairman of the Senate Armed Forces sub-committee. He has been a determined critic of SALT I and wields a Senate resolution requiring that any new agreement with the Russians must not put America in a position of inferiority. . . .

Mr. Carter was warned by Senator Jackson — whose sub-committee he had been forced reluctantly to keep informed at fortnightly intervals during the later stages of the negotiations, by when most of the damage had been done — that such a treaty would be unlikely to get the necessary Senate ratification. This view was confirmed by the majority leader. Now the final agreement is not expected until the spring, and it will have to be a much better one if it is to avoid the fiasco of rejection. . . .

President Carter, for all his talents, has not yet the feel for world strategy. Nor has he so far displayed the sophistication needed to match the Russian team, in which the marshals always play a large part and margin of safety.

Thanks to Senator Jackson, he now has more time to think, to weigh advice, and, where necessary, to be his own man — for all our sakes.

The Young statements were coupled with National Security Council Advisor Zbigniew Brzezinski's and President Carter's slap at the Cubans. Both men advised a congressional group preparing a visit to Cuba to threaten President Castro that unless he removes all Cuban advisors from Africa, the U.S. would not normalize relations with Cuba. The Congressmen reported this week that Castro has soundly rejected their threats.

Schlesinger-Kissinger Seek Mideast Crisis

Energy Secretary Schlesinger followed up these tantrums this week, stating that if necessary to ram through his energy program, he would prefer continuing Middle East crises. In a speech before the Conference Board on Dec. 7 — the anniversary of Pearl Harbor — Schlesinger warned that the Middle East situation was explosive and that the U.S. could not continue to rely on that area for its oil. Therefore, the population should

submit voluntarily to his energy program. If not, Schlesinger warned, "the social and political foundations of the U.S. will be shaken in such a way that we haven't seen since the 1930's." The U.S. is facing the same crisis as in 1972, Schlesinger declared, raising the nightmare of another oil embargo.

Former Secretary of State Henry Kissinger has also been working overtime to ensure that the Middle East peace initiatives launched by the U.S.-Soviet Accord and the Sadat-Begin discussions do not succeed. Kissinger has made numerous public statements calling for a separate agreement between Israel and Egypt and no Geneva conference, meeting with Administration officials, including Secretary Vance on Dec. 2, to that end. Last week two leading Italian papers condemned Kissinger for his policies, warning that they will lead to war. Perhaps as recompense for his efforts on their behalf, Kissinger is reported by the Dec. 8 *New York Post* to be slated for a job as international troubleshooter for the merging investment houses of Lehman Brothers and Kuhn Loeb.

Congressional, Industrial Support For Capital Formation Grows

Former Treasury Secretary William Simon's call for a broad-based political mobilization urging a high-technology jobs and export policy for the U.S., issued at the Nov. 29 conference on "Capital Formation for Exports" in Chicago, has elicited a significant, positive response from industrialists and their representatives in government.

On Dec. 7, the Chicago Tribune, speaking for that city's growth-oriented industrial-agricultural community, favorably covered Simon's speech, highlighting his proposal for the creation of 18 million capital-intensive jobs.

The following day, the Chicago International Trade Club (often referred to as the "Central Committee" of the Midwest business sector) sponsored a follow-up conference keyed by John Moore, head of the U.S. Export-Import Bank.

Nonproliferation Is Ruining Trade

A U.S. Labor Party representative was invited to the Trade Club conference because of the interest that Chicago and other industrial centers are showing in the party's proposal for transforming the Eximbank into a vehicle for underwriting a tremendous expansion in U.S. exports. In response to a question from the Labor Party representative, Exim head Moore bitterly assailed the Carter Administration's nonproliferation policies.

"It's not just the four nuclear plants that Iran has ordered from France," Moore said. "They have also bought four plants from West Germany. By statute, we are prohibited from financing breeder and reprocessing facilities. But there is no doubt that because of our policy we are losing all nuclear plant projects. There's no doubt

that the U.S. has lost business in this field where we used to be preeminent. It's a very grave issue. It's sad to think how much we have lost already and it's sad there is also no doubt that this is because of President Carter's position." Moore recommended increasing the Eximbank's lending capacity — "\$30-40 billion more a year in sales should be our goal" — acknowledging that this would help to stabilize the dollar and balance the trade deficit.

A similar conference will be held in Georgia on Dec. 9. There, top-level representatives of southeastern and foreign businesses will gather to hear, among other speakers, Assistant Secretary of Commerce for International Business Frank Weil. A close ally of Moore as well as an outspoken opponent of Treasury Secretary Werner Blumenthal's dollar-wrecking policies, Weil is also expected to promote a beefed-up Eximbank and increased capital investment as the keys to reverting the dollar's decline.

New Mexico Senator Denounces Administration's 'Technological Imperialism'

This push for reorienting U.S. economic policy into a capital-intensive, export-oriented mode received important input two weeks ago from Senator Harrison Schmitt in a speech to the American Nuclear Society's winter meeting in San Francisco. A foremost congressional proponent of nuclear fission and fusion power development, the New Mexico Republican scored the Carter Administration's nonproliferation stance as "technological

imperialism," and warned the assembled scientists that they had better begin educating the population on the potential of nuclear energy, or else the U.S. "may...be left hanging in the wind." Here are excerpts from Schmitt's speech.

I would like to make five major points today. First the energy crisis is a crisis of energy supply which will be alleviated only by meeting specific, time-phased goals for energy production.

Second, the Administration's energy plans, unfortunately supported by the House of Representatives, are a disaster of taxes, regulations, bad coordination and incorrect assumption; in short, not an energy policy at all.

Third, the administration's nuclear proliferation policy is blatant technological imperialism through which we would not only deny the developing world the benefits of nuclear energy, but we are saying we will not participate in defining the rules of the international game.

Fourth, the long-pole in the nuclear tent is waste disposal, for which we do not yet have a policy that is either technically or politically acceptable.

And fifth, the nuclear engineering and science community, although a major hope for our future, has done a lousy job of technical and social education within the body politic with the result that your political friends are being left hanging in the wind.

Goals for Energy Production

Our long term response to the energy challenge should be to harness the sun, nuclear fusion and hydrogen as a portable fuel by the early part of the next century. As we enter the 21st century, these energy sources should be supported by an economically viable technology which can gradually establish stability within the economy and the environment and which can again make us an energy exporting nation.

Harnessing the sun may ultimately require both terrestrial and space-based electrical power facilities and broad use of "energy crops" to generate special solid, liquid and gaseous chemicals.

Harnessing nuclear fusion, the joining of atoms, as a source of electrical power requires intensive and coordinated finement research paths until the best route is clearly defined. Then, the focus can be on developing commercial systems.

Harnessing hydrogen as an abundant, portable fuel for transportation and pipelines can be accomplished rapidly once the economical decomposition of water is possible. With this accomplished, hydrogen-based energy conversion systems can be developed...

As one works with and listens to the young engineers and scientists of today, it is the harnessing of solar, fusion and hydrogen energy that sparks the greatest motivation and imagination. It is the same look in the eye and drive in the work we saw in my generation of engineers and scientists as we became a space-faring people, and in previous generations as we probed the potential of the atom. We must always be alert to what

excites the young and be guided by their enthusiasm.

Our second major response to the energy challenge must be to buy time until we tap future inexhaustible energy sources. Major advancements of technology are necessary to put into place high efficiency, low pollution energy systems so that oil, gas, coal, uranium, thorium and solar, thermal and geothermal sources can be used with maximum efficiency during at least the next 50 years...

For these responses to be successful, there must also be monetary and fiscal policies that encourage the free enterprise system, including consumer, worker, researcher and investor, to take the initiative in meeting the energy challenge.

The Administration's Energy Plans

...The administration's plans are...based on grossly incorrect assumptions as to our energy resource base and our future economic growth.

There is the assumption of a very small domestic resource base of oil and natural gas, the production of which is insensitive to price. This is nonsense...

There is the assumption of a very large domestic resource base of uranium of 3.7 million tons of U(3)O(8). This is also nonsense...

There is the assumption that the growth rate of our GNP can be maintained at an average of 5.2 percent at the same time conservation is driving the growth rate of our energy consumption down to 2 percent. This is again nonsense. Since World War II, the growth of our GNP and our energy consumption have been directly coupled at an average of about 3.5 percent. We have maintained employment and total productivity at the same time we decreased individual labor only by increasing our use of energy. To alter drastically this relationship over a short time can only aggravate unemployment and increase the threat of economic recessions.

Nuclear Proliferation Treaty

The attempts to cancel the development of breeder reactors, the restrictions on the export of nuclear technology and fuels, and general policy statements have resulted in an administration policy of technological imperialism. We would attempt to deny the developing world the benefits of the technology we already enjoy. We would do this at a time when the rapid movement of that world into the economic twentieth century offers the only major hope for a stable world in the future...

Nuclear Education

Nuclear power generation is part of our present energy economy. Properly developed in balance with the environment, it can be a major part of our future energy economy. There are those among you who would say we have no alternative but the broad and accelerated use of nuclear power.

At the present time, however, I hope you are wrong about having no alternatives. I feel this way because at the present low level of perceptions within your community, of this low level of public understanding, I am

afraid that the use of nuclear power will stagnate, if it hasn't already.

...Good public education efforts and political awareness could have prevented this problem which now threatens the viability of our total national nuclear program.

Unless the total nuclear science, engineering and

governmental community gets its education and political act together, and does so in reasonable and honest ways, your political friends are going to gradually disappear. We are fighting an uphill battle against the legacy of 30 years of secrecy, myth, misunderstanding and fear. In the final analysis, if we don't win this battle, we may be the country that is left hanging in the wind.

Administration Divided Over Hyperinflationary 'Urban Policy'

Even while the Carter Administration's "comprehensive energy plan" is stalled in a Congressional conference committee, a team of Carter cabinet renegades led by Vice-President Mondale is preparing the national stage for another battle: The Administration's proposed "national urban policy." The Mondale plan for the nation's cities — a hyperinflationary scheme full of slave-labor provisions and measures that would militarize the U.S. economy completely complements Energy Secretary Schlesinger's WEEP program.

Mondale and his prime collaborators, Secretary of Housing and Urban Development Pat Harris and Labor Secretary Ray Marshall, have been touring the country ostensibly to discuss the contents of a 154-page draft of their inter-cabinet Urban and Regional Policy Group report. The plan, which some economists say could cost over \$32 billion, calls for massive spending in older cities for the "rehabilitation" of decrepit housing through various forms of "sweat equity" and other labor-intensive methods, and restructuring the nation's banking system.

The plan also complements the Administration's welfare-workfare package (H.R. 9030) and a jobs program still being debated to fill out the Humphrey-Hawkins bill.

Although the urban policy drive is barely off the ground, a split among Administration officials has already emerged. The *Washington Post* reported Dec. 3 a dispute between Acting OMB Director James McIntyre and Harris over her proposed HUD budget for \$54 billion in 1979. According to the *Post*, at a Nov. 18 meeting between Carter and the two department heads, Harris was told to cut her budget projection to \$30 billion. Indications are that the debate which eventually led to the resignation of former OMB Director Bert Lance — one between "fiscal conservatives" and outright hyperinflationists — has surfaced once again within the Administration in this context. Harris is distributing the draft proposal among labor, civil rights groups, and local politicians in an effort to gain support and force Carter's hand in favor of her program.

Additional evidence of dissension in the cabinet's ranks was seen at this week's League of Cities conference in

San Francisco, where the "urban policy" plan was backed up by a RAND study urging the triage of "wasteful" suburbs in an effort to "revive" older, "distressed cities." Also circulated at the meeting was a report prepared by the Commerce Department and presented by Assistant Secretary Anne Wexler, which was critical of HUD's proposal.

Mondale, Marshall, and Labor

While Harris has personally been the butt of attacks from within the Administration, the Vice-President has been moving ahead the campaign, particularly targeting the labor movement. Mondale, whose top White House collaborator — Stu Eisenstat, Bruce Carp, and Orrin Cramer — worked as Harris' liaison in preparing the "urban policy" statement, spoke on the subject before the national AFSCME convention. Mondale is the keynote speaker at this week's AFL-CIO convention in Los Angeles, where he is slated to receive their "Murray-Green Award". Ray Marshall, also scheduled to speak in Los Angeles along with Harris and Energy Secretary Schlesinger, has become a featured columnist in the pages of the AFL-CIO newspaper, pushing the Mondale-Harris hyperinflationary program.

While Mondale is busy stumping the country, he gives full credit to Carter for enabling him to do so, even if it means making Carter look bad. At Mondale's weekly briefing to the nation's editors, he lauded the President for allowing him, as Vice-President, to lead the chorus of "dissent" within the Administration.

Overall, the urban policy debate may seriously stall Carter in his goal of initiating legislation in early January, following his expected urban message. Not helping his situation is the newly released Congressional Budget Office report on "Five-Year Budget Projects: FY 1979-83," presented by former Brookings Institution staffer Alice Rivlin at Congressional subcommittee hearing. The report uses a 4.5 percent unemployment target as the basis for its projections, completely bypassing Carter's promise to the Black Congressional Caucus and other Humphrey-Hawkins supporters of a 4.0 percent target. This could significantly tie up both the urban policy and the related jobs and welfare legislation, already behind schedule in committee hearings.

Washington Post Frets Over HUD-OMB Budget Split

The following are excerpts from an article appearing in the Washington Post Dec. 3, entitled "Harris Pressed in HUD-OMB Budget Dispute."

The Department of Housing and Urban Development is embroiled in a bitter dispute with White House budget cutters that will affect billions of dollars of future financial aid to home owners and renters in major U.S. cities...

The crucial flaw in Harris' suggestions, according to sources outside HUD, was a failure to comprehend the essential fiscal conservatism of OMB and the President. Harris and her activist deputies — such as Geno Baroni, Robert C. Embry and Jay Janis — believe that housing in the cities "is all we're supposed to be doing..." said one administration official.

Administration sources familiar with the situation see the possibility that some of the threatened programs could be partially salvaged through a process of arguing "politics and economics" over the coming weeks. Harris is reportedly gearing up to do just that...

Harris, however, operates at an increasing disadvantage in the budgetary contest... Her combative personal style has turned White House staff members into critics... and her relations with the President himself are not warm...

One negotiating wedge she does possess is the threat of resignation from the cabinet. She has reportedly told deputies she might have to use that threat to wake up the White House to the depth of her commitment to housing.

Harris: "Urbank" Is The Solution

The following excerpts are from a speech given by Secretary of HUD Patricia Harris before the National Democratic Forum conference in New York Nov. 18.

... For the first time in our nation's history, central cities are losing population.

Rather dramatic job shifts have accompanied these... changes... an increasing number of jobs in metropolitan areas have located outside central cities boundaries...

It is also clear that there are no quick and easy solutions, and that hard-core unemployment is a structural problem which cannot be adequately addressed by... policies which focus on full employment alone...

The Federal Government, by focusing its housing, community development, public works and transportation programs on economically distressed cities can set an example for the private sector to follow.

But setting aside an example is not enough.

Productive long-term jobs are not cheap... This means that an average of \$4 billion must be invested to create 100,000 new jobs... Expenditures of this magnitude cannot be made through existing Federal agencies nor can they be financed by economically distressed cities...

Urbank

... What is needed is an influx of risk capital to distressed urban areas. Although it has been called at times a "slogan in search of a program," the concept of "Urbank" may provide a real answer to the private risk capital puzzle...

Urbank would be an institution designed to make critical choices. It would determine what the most promising opportunities for job development and tax-base building are...

Its activities would necessarily go beyond the range of current public and private economic initiatives. If Urbank did only those things that were otherwise feasible, if it did not take risks, it would add nothing to the urban scene...

The Administration has begun to develop a system of assessing the urban impact of all Federal activities that may... affect cities... This effort is designed to:

- 1) Build urban impact analysis into budget review process of individual agencies and the Office of Management and Budget (OMB).
- 2) Make urban impact a key criterion in all fund regulations, including Federal specifications of State plans.

National Urban Policy: Synonym For Anti-Growth Policy

Below are excerpts from HUD's summary of the Housing and Community Development Act of 1977, which was signed into law by President Carter on Oct. 12, 1977. In it all reference to previous commitments to the concept of urban growth and development are taken out, and substituted by the term "urban policy".

The Statement of Purpose of the 1970 Act is amended to refer to the development of a "national urban policy" (referred to in previous law as "urban growth policy"), and to include among the purposes of the Act the conservation of energy sources and the support of development to assure good housing...

Findings: Congressional findings contained in the 1970 Act are amended to emphasize changes in patterns of urban settlement and in population distribution, and in economic bases of urban areas — rather than urban growth — as the principal source of urban problems. Energy is specified as one of the natural resources adversely affected by these pattern changes.

Kissinger Forces Reporter's Ouster

Ernest Volkman, a reporter for *Long Island Newsday*, was effectively forced out of his job this week in retaliation for publication of an article exposing Henry Kissinger as the man who ordered and directed repeated assassination attempts against Jamaican Prime Minister Michael Manley during 1974-75. The article, "Murder As Usual," which appeared in the December issue of *Penthouse* magazine, was the first mass-media circulation of information originally published in this newspaper detailing the Kissinger-National Security Council plot to destabilize prodevelopment governments in the Caribbean.

Immediately following the article's appearance, an embattled Henry Kissinger — already the target of attacks from intelligence agency traditionalists — issued a routine denial through the CIA. Then, Kissinger ordered the law firm of Arnold and Porter to send a telegram, signed by former Secretary of State William P. Rodgers, to *Penthouse* publisher Bob Guccione, threatening the magazine with legal action. Kissinger loyalists within the Central Intelligence Agency have reportedly applied pressure to suspected "leakers," while reserving space for them on the list of CIA senior officials slated for CIA Director Stansfield Turner's in-progress "house-cleaning."

Pressure was also put on *Newsday* from Kissinger connected elements in its ownership, the Times-Mirror Co., to squeeze Volkman and the articles coauthor John Cummings, also at *Newsday*. Sources close to the newspaper report that Kissinger contacted his close friend, Dr. Franklin Murphy, Chairman of Times-Mirror Co. and former head of the now-defunct Foreign Intelligence Advisory Board, to complain about the article. Following this, during the week after the offending article appeared, Otis Chandler, owner of Times-Mirror Co. and publisher of the *Los Angeles Times*, arrived in *Newsday's* Garden City office and ordered the ax sharpened.

Volkman — a 13-year veteran at *Newsday* who as a

national reporter with a wide bailiwick, broke such stories as the CIA's intervention in Angola and ERDA's attempted cover-up of the Rudakov revelations — was ushered into the office of *Newsday* Executive Editor Antony Insolia and told that he was being "reassigned" to the Long Island aerospace beat, effectively an adjunct to Grumman Aircraft Public Relations. Said a reporter at *Newsday*, "The transfer stuff was all pro forma . . . he was fired. If you want to call this a case of a newspaper bending to pressure, go ahead, because that's exactly what it is."

Insolia denied that the transfer was punitive, as was charged by the pressmen's union, but was quick to acknowledge that "we decided to place him under closer supervision because we have no confidence in his ability to represent the newspaper or to work on his own." He also claimed sole responsibility for the decision to transfer Volkman and denied any intervention by Times-Mirror or *Newsday's* publisher, former State Department Africa expert William Attwood. Volkman, however, reported that Insolia told him that the decision to transfer was not his. Insolia denied this.

Insolia confirmed that the *Penthouse* article played a role in the decision to transfer Volkman, but only because its publication violated *Newsday* freelancing rules. The pressmen's union contests this, and Volkman notes that *Newsday* Suffolk Editor Robert Green had already turned down a requested authorization for the investigation which led to the story, submitted by *Penthouse* co-author John Cummings.

Subsequently, a scheduled appearance by Volkman and Cummings on ABC's Good Morning America was cancelled at the last minute, and a taping done by WPIX has never been aired, according to *More* magazine.

Volkman denies having definite proof that Kissinger brought about his ouster, but commented, "It looks like a duck, it waddles like a duck, and it quacks like a duck. . ."

CORRECTION

In the issue of *Executive Intelligence Review* No. 48, we inadvertently omitted the name of Prof. Behram Kursunoglu, of the University of Miami's Center for Theoretical Studies, from the list of signatories of the final statement of the Conference on an Acceptable Nuclear Future.

Prof. Kursunoglu was not only a signatory, but a leading organizer of the nuclear conference and a draftee of the final statement, one of the most important expressions for development from the scientific community in recent years. We regret this error.

Administration Steel Plan: Disastrous Revival Of New Deal Economics

General Characteristics

The Carter Administration is lining up support for its "Comprehensive Program for the Steel Industry" on the grounds that it is a program for increasing employment and promoting modernization, to "enable the industry to compete fairly." Analysis of the package, however, shows conclusively that the stated objectives are a sham. Many seasoned industry analysts are calling the program "too little too late," but it is actually a lot worse. The program represents a major precedent for the revival of New Deal economics in the U.S.: government intervention to enforce the "orderly" shrinkage of the industry, relocate workers to "more viable" endeavors, and bail out bankrupt financial paper.

STEEL

The unquestioned assumption which underlies the program is that there is "substantial excess capacity in the world steel industry." The program does not address the problem of reviving demand for steel, even though everyone involved in the industry knows that "cyclicality of demand" is the single most devastating problem facing the industry.

Taking a cue from the incompetent economics of the Council on Wage and Price Stability report on the steel industry, released in October, the Administration program rules out the construction of fully-integrated, greenfield plants (entirely new plants) as "simply not economic at today's capital costs." Additionally, the program cites a study by the Federal Trade Commission which claims that "the U.S. industry has not been remiss in adopting new techniques" of steelmaking.

In other words, the package rejects the very solutions that would actually increase the number of high-skilled jobs in steel and its feeder industries and make the industry competitive with Japan's giant steel complexes—the base-line of efficient steel production.

The Administration's "aid" package, moreover, represents a dangerous "foot in the door" for the implementation of British welfare state, "1984-type" economics. The "trigger price" system, designed to push back foreign imports, is an opening step in the world cartelization policy enunciated by Nathaniel Samuels of the New York banking house Kuhn Loeb in the pages of the *New York Times* last fall. This strategy involves the "soft cop" alternative to protectionism: agreements among the industrial countries on limiting exports and,

by implication, on coordinating production levels and shutting down capacity. Special Trade Negotiator Robert Strauss and other members of the Administration have spent the last several months trying to arm-twist the Japanese into "voluntarily" limiting their exports of steel to the U.S. The "trigger" price system represents the enforcement mechanism for such "voluntary" agreements.

In setting the trigger price periodically, the Treasury will in effect be regulating domestic steel prices, as the steel companies have begun to realize. Any company selling steel products significantly in excess of the trigger price will lose business to lower-priced foreign imports.

The loan guarantee program included in the package principally represents a bail out for financial institutions with loans outstanding to near bankrupt steel companies. The amount of funds that will be made available—under existing programs in the Commerce Department—is "peanuts". The loan guarantee program puts the government in the position of ruling whether a modernization program is "viable" before releasing funds. Wheeling-Pittsburgh, which began seeking loan guarantees prior to the formulation of the Administration program, presented a "modernization" plan under which almost half of the funds will go for meeting Pennsylvania state environmental standards.

The Administration program is "ready to go" without any legislation. The program "requires no specific legislative measures and can be implemented quickly." The Treasury's authority to impose the trigger price mechanism "exists under the Antidumping Act of 1921 although it has been used in recent years."

The trigger price mechanism can be instituted within approximately 60 days—by next February.

The Steel Program: Inevitable Shrinkage

Here are excerpts from the program with commentary.

Trigger Price System

We recommend that the Department of the Treasury in administering the Antidumping Act, set up a system of trigger prices, based on full costs of production including appropriate capital charges of steel mill products by the most efficient foreign steel producers (currently the Japanese steel industry), which would be used as a basis for monitoring imports into the United States and for initiating accelerated antidumping investigations with respect to imports priced below the trigger prices.

The Administration has assured the United Steelworkers and the industry that the trigger price

system will increase industry earnings by \$900 million a year and reemploy between 18,000 and 25,000 currently laid-off steel workers. By the USW's own count, 60,000 jobs have been lost since the government's aid program to import-impacted areas was instituted under the Trade Act of 1974. The Administration steel program accepts as inevitable a shrunken industry.

Modernization

The trigger price antidumping system should deter unfair import competition, and thus result in an increase in domestic steel production and industry earnings. The steel industry will also benefit from the passage of the Administration's general tax package which we are now considering. The general tax package will probably include a number of measures which, on balance, will stimulate investment and increase cash flow in the steel as well as other industries ...

In addition to these general tax measures, the Task Force recommends that the Treasury Department investigate the feasibility of reducing the guideline life for depreciation of new steel industry machinery from 18 years to 15 years ...

In an effort to prevent the closing of facilities that could prove viable and the substantial economic dislocation these closings would cause, the Task Force recommends that additional funds be made available for the current and future budget of the Economic Development Administration of the Department of Commerce for industrial loan guarantees and to continue to provide further appropriations for this loan guarantee funds in the next few years.

Based on a projection of a gradual pick up in capital spending over the next several years, industry analysts such as Ray Hughes at Blyth Eastman Dillon estimate that to avoid a severe capacity shortage in the early 1980s, the industry must spend on the average of \$5.9 billion a year to replace old capacity and add on an additional 30 million tons.

A program which would rebuild the industry to meet orders from a growing nuclear energy industry and Third World industrialization would cost approximately \$50 billion over a five year period. Even against the measure of the Wall Street estimate, the Administration's plan isn't "peanuts."

The loan guarantee program as a "bail out": A number of analysts have pointed out, privately, that the loan guarantee program is, in effect, a bail out for financial institutions with loans outstanding to near-bankrupt companies. As long as market uncertainty

exists—and the Administration plan doesn't even address this problem—none of the smaller companies which the loan guarantees are designed for, will take on more debt. They are already too overleveraged. However, a number, such as Wheeling-Pittsburgh, are already in technical default on loans or notes. Their bankers will say to them, "Unless you take advantage of the loan guarantees, we will call in your loans." The federally backed loan guarantee will allow the company to stay open to repay its creditors—a bail-out along the lines of British "nationalized" industry.

This is not to agree with the free enterprisers that "government intervention" is a bad word. U.S. Steel President David Roderick criticized the loan guarantees after the steel program's release as a "total mistake," explaining that he would "accept certain companies' ... failing as the price of keeping the steel industry in the private sector." In contrast to this "survival of the fittest" approach, the U.S. Labor Party has released a series of proposals for government intervention to foster investment by private industry. These involve making available low interest loans for investment in high technology production and ensuring growing markets for industry and agriculture by striking up treaty agreements with other sectors of the world economy to foster global industrialization.

In addition to the loan guarantees, the program recommends such gimmicks as community and-or worker takeovers of bankrupt plants—where the communities and steel workers assume the job of paying off the creditors; use of abandoned steel facilities for other purposes, such as gasification processes; and pooling of resources by companies—joint ventures—for spending on research and development—such as research on energy conservation and pollution abatement.

Pollution Control

The current financial plight of the industry should not deter us in seeking a cleaner environment. We do not recommend a relaxation of our basic environmental goals. We also recommend against differential or more lenient treatment in the regulation against or enforcement of the steel industry.

In short, there will be no changes in the current harassment of industry by EPA. This ensures that increasing amounts of capital will be absorbed by non-productive costs of pollution control—funds which could be going to modernization and the construction of new nonpolluting plants.

—Lydia Dittler

U.S. Steel Corp.: We Make Profits, Not Steel

Prompted by the statement of a U.S. Steel spokesman that the business of the nation's largest steelmaker is "to make profits, not steel," Criton Zoakos, the U.S. Labor Party's Director of Intelligence, challenged Edgar Speer, U.S. Steel chairman, to a debate Dec. 5.

"Andrew Carnegie would turn over in his grave if he heard that," Zoakos said in making his challenge.

The comments in question were made at the emergency steel conference convened by Pennsylvania's Governor Milton Shapp in Pittsburgh last month.

The U.S. Steel spokesman outlined his perception of the industry's problems and his proposed solutions at a panel on capital formation:

"Unprofitability of steel production... the solution is to diversify, to get out of steel and into raw materials.

"Foreign imports... the solution is to strictly enforce antidumping laws and to change laws to make trade more fair.

"Cost-price problems — it costs too much money to produce steel and our prices are too low... the solution is to allow the price of steel to be greatly increased."

When a question came up about the possibility of modernizing and expanding the U.S. steel industry following the "Japanese model" — through low-interest government loans — the spokesman replied: "Let me make it perfectly clear. We do not want government subsidies. We do not want low-interest credit. Period."

True To Its Tradition

The policy put bluntly by the U.S. Steel spokesman in Pittsburgh, though startling, is perfectly consistent with the policy U.S. Steel has followed from its establishment in 1901. Practically from its inception, U.S. Steel's top officers have acted like bankers who make steel as a side line, not industrialists. Their primary interest has always been fast profits, not the expansion and technological improvement of the company's steelmaking operations.

Around the time Edgar Speer became U.S. Steel chairman in March 1973 he told *Fortune* magazine: "We could conceivably get to the point where steel would be a minor instead of a major segment of our business." He told *Forbes*: "I'll tell you what excites me. Raw materials. It's been the most successful diversification move in the past and offers the greatest single opportunity for the future."

At this point U.S. Steel's stock was selling for 32 — less than half of its book value — down sharply from 108 in 1959. No steel company was doing well at the time, but U.S. Steel's steel-making operations were more unprofitable than most, because of its older than average plant and equipment. As a solution to the corporation's financial troubles, the directors were not thinking about ways to modernize the corporation's steel-making facilities, but about getting out of steel. In fact, they were considering recruiting a chief executive officer to replace retiring Robert Blough from outside the corporation and outside the steel industry. They decided

instead on Speer, who had been with the company for 34 years. Speer's attraction for raw materials must have impressed them.

"People don't recognize it," Speer told *Forbes*, "but we're one of the biggest independent mining companies in the world. We don't mine just for our own use: Of all mining ventures, 40 percent is for sales to others. By 1975-76 that will be 60 percent.

"In this country, where we mine 16 million tons of coal annually, we are either opening or have under construction 10 million tons of new capacity. About 8 million tons will be for outside sale. This is what's really exciting to me. We project that the requirements for minerals and fuels between now and the turn of the century will grow 300 percent."

U.S. Steel's plans to increase coal production immediately were disturbed by the 1974 recession and its aftermath; U.S. Steel coal production has hovered around the 16 million ton level since 1973. However, coal still figures large in U.S. Steel's plans for the future. The corporation owns or leases properties with an estimated 2.7 billion net tons of bituminous coal reserves — a major position. This explains why Edgar Speer was one of the first industry executives to praise President Carter's energy package, with its emphasis on conversion to coal.

And U.S. Steel's coal reserves are only one facet of its position in raw materials. The corporation has major positions in iron ore and other minerals, as well. In 1976 U.S. Steel formed its raw materials operations into a new line of business — "resource development." This business includes both domestic and foreign concerns, wholly or partially owned, and represented 17 percent of U.S. Steel's before-tax income in 1976.

When Edgar Speer became chairman in 1973, 20 percent of U.S. Steel's sales were from non-steel businesses. At that time he had intentions to expand the proportion considerably, and plow 20 percent of capital expenditures into non-steel areas in the future. According to U.S. Steel's 1976 annual report, about 29 percent of its \$8.7 billion sales were from non-steel areas. Judging from the recent statements of U.S. Steel spokesmen, that proportion is going to continue to grow.

Accountants Run The Show

While some other steel companies, as exemplified by Inland Steel, were trying to improve their profitability by modernizing, U.S. Steel was digging itself into the area of raw materials, real estate, and related speculative areas. What was the basis of this policy difference? U.S. Steel's projected greenfield plant in Conneaut, Ohio, is the exception that proves the rule. The Conneaut plant was conceived as part of the rationalization of U.S. Steel's steelmaking operations — as replacement for vintage 1900 plants, not added capacity. At present the plans to break ground in January 1978 are off and the project has been all but suspended.

In general, however, new investment in plant modernization and expansion was shunned on the basis

of purely accounting considerations. The accountant's mentality that prevails at U.S. Steel dictated that new investments would have to yield a high enough return to maintain the going rate of return on *total* investment — including past investment on now obsolete capacity and non-productive investment on antipollution equipment. On the heels of such considerations, U.S. Steel, with its enormous asset base, led the way in getting out of steel production and getting into "high profit" areas like natural resource development and real estate.

U.S. Steel's outlook is exemplified by its attitude to the Jordan process — an ironmaking process, where the substitution of a blast of pure oxygen to a coke oven doubles iron output and yields a usable, nonpolluting top gas. Robert Jordan, in fact, was employed by U.S. Steel as a chemist when he developed the process in 1966. Jordan unsuccessfully tried to sell U.S. Steel on the idea of adopting the process he had discovered, with its obvious advantages of doubling productivity. When the division chief who had been Jordan's supervisor at U.S. Steel was questioned in 1976 about why U.S. Steel never even tried out the process, he indicated that "Jordan was a bit ahead of his time as far as U.S. Steel was concerned." He admitted that Jordan's concept was "technologically feasible and, in fact, could be converted without too much trouble or great expense... (but) with the relatively fixed rates of steel production, the concept is not economical."

Morgan: U.S. Steel's Banker

To fully understand U.S. Steel's zero-growth outlook, one must recognize the close relationship which has continued uninterrupted since 1901 between U.S. Steel and J.P. Morgan. In the early years of this century the Rothschild-linked House of Morgan imported the "British System" into U.S. industry in trustifying the steel industry, the pacesetter industry in the economy.

Over the last decade Morgan Guaranty Trust has taken the lead in funneling capital out of the productive economy into the "high profit" area of international loans: the Eurodollar market. It is no wonder that for the last decade U.S. Steel has looked forward to a future of stagnant steel consumption.

The story of J.P. Morgan's takeover of the Carnegie Steel Co. in 1901 is a story in itself. The continuing close relationship is exemplified by the double interlock between U.S. Steel and the bank: David Roderick, U.S. Steel's president, sits on the International Council of Morgan Guaranty; John M. Meyer, Jr. chairman of the Directors Advisory Council of Morgan, sits on the executive, finance, and audit committees of the steel company. U.S. Steel's lawyer is White and Case, the old Morgan law firm. Its stock registrars are Morgan and Mellon Bank. In 1975 Morgan held 3.35 percent of U.S. Steel's stock in its trust department, a major holding of such a large firm. Other British input into U.S. Steel is its directorate interlock with Inco, Ltd., the Rothschild-controlled Canadian nickel company. Henry S. Wingate, former chairman and chief executive officer of Inco, sits on both U.S. Steel's executive and finance committees.

The Morgan-British input also shows up significantly in Bethlehem Steel, the country's second largest producer, which is second only to U.S. Steel in pursuing a zero-growth policy. Lewis Foy, Bethlehem's chairman, is also a director of J.P. Morgan. Ellmore Patterson, chairman of Morgan, sits on Bethlehem's board of directors. Morgan is one of Bethlehem's stock registrars. In March of this year Bethlehem signed a credit arrangement to borrow up to \$300 million from a syndicate headed by Morgan. Foy is also a director of Brinco, Ltd., another Canadian mining firm with major Rothschild input.

—Lydia Dittler

Nonproductive Gov't Spending Compounds U.S. Economy's Ills

Strong indicators of U.S. industrial stagnation and collapse have prompted the Carter Administration, along with Federal Reserve Board chairman Arthur Burns, to accelerate a policy of using large doses of federal government spending as a temporary cure to prop up the U.S. economy.

BUSINESS OUTLOOK

This short-term method of stimulating demand by shoveling money into the economy is intended to give the White House chimera of "economic recovery" an additional few months' lease on life by keeping the bottom from falling out on the official GNP figures. Already in the third quarter figures for 1977, "more than half of the increase in real GNP stemmed from a step-up in government spending," Morgan Guaranty Trust's newsletter

reports. The spending increases were in the areas of defense, CETA jobs, and agricultural price supports.

Whatever its very short-term effects, Carter's huge package of nonproductive government spending will generate a hyperinflation by late winter that will blow the dollar to bits and close down world industrial capacity.

Without considering solutions of increased production and world trade, industrialists are faced with the short-term choice of bailing out the economy by any means necessary or suffering an immediate and total collapse. In an atmosphere of hyped up federal spending, inflation, and quick-fix tax cuts, it is likely that corporations will go for price increases.

The noted chief economist for Fidelity Bank, Lacey Hunt, summarized the situation confronting the depression-squeezed corporations in the *Wall Street Journal* Dec. 2: "companies will have a hard time getting price relief to cover higher costs. But they'll

press for it. If they don't get it, they'll have slimmer profit margins, and they'll tend to cut employment."

Some measure of the squeeze can be seen in the Wholesale Price Index. The index jumped at a 10 percent per annum rate in October, partly because of the rise in farm prices, but mostly because financially battered corporations had to raise prices to get cash in fast. In addition to price relief, two deep-seated economic problems are placing acute pressure on corporations to demand a quick government-spending cash fix.

First, in the first quarter of this year, the monthly rate of increase in retail sales averaged close to 2.0 percent, but fell to a 1.0 percent rate of monthly increase in the second quarter and to a 0.8 percent rate of increase in the third quarter. This fall-off occurred despite record levels of credit borrowing by consumers to be able to purchase retail goods.

At the same time that retail sales growth sharply lost steam, inventories were accumulating in the third quarter at a near record rate of nearly \$23 billion per annum. Unless consumers can find the means to make additional large retail purchases, industry and retail stores will be forced to liquidate the dangerously high inventory holdings, creating an even more dismal drop in production levels.

Second, corporate cash positions have sharply deteriorated. During the second half of 1976 and early 1977, corporations were very liquid, so much so that they were lending each other huge amounts of funds (called commercial paper). However, during the first half of this year, corporate cash reserves dropped \$10 billion, while corporate debt built up by \$20 billion. This dropped the cash-to-debt ratio from 34.4 percent at the beginning of the year to 27.6 percent by midyear, a staggering 20 percent decline in the ratio.

Compounding these problems, corporations reported that in the third quarter, profits fell by 3 percent. When corrected for inflation, inventory build-up, and the like, the decrease is by more than 10 percent — a sizable chunk off corporate cash flow.

The U.S. industrial outlook is further mired by the Commerce Department's report of an incredible two-year stagnation in capital spending for the plant and equipment actually used in production, and by the announcement last week that the U.S. trade deficit in October was \$3.1 billion, bringing the 10-month trade deficit, including costs for freight and insurance, to an unprecedented \$30.6 billion.

The deficit is expected to rise in the fourth quarter of this year and the first quarter of next year at an annual rate of \$88 billion per year. This huge increase could make the deficit of fiscal year 1978 (October 1977-October 1978) one of the highest ever, according to noted economist David Jones of the brokerage house Aubrey, Lanston.

With Fed chairman Burns's complicity, the growth of the money stock is already at very sizable proportions. The basic money supply, M1, has been increasing at a 9 percent rate since April. At the same time, the monetary base, which forms the major part of new banking reserves, has been shooting up at an 11.4 percent rate for the last two months.

It is ironic that despite its requests for suicidal bailouts, business understands the inflationary implications.

The *Wall Street Journal* wrote in a front-page article Dec. 2: "... inflation is becoming a nagging worry to a growing number of (business) analysts, who see even the possibility of double-digit inflation in the coming year. Or even worse, recession."

American Farm Bureau Raises Technology, Export Banners

The leadership of the world's largest organization of agricultural producers, the American Farm Bureau Federation, is rallying for high-technology farm production and exports, against the squawks of "40 acres and a mule" environmentalists — including those in the U.S. government. At the same time, the Farm Bureau leaders are seeking to cool out the confrontationalist national farm strike set for Dec. 14.

AGRICULTURE

"The challenge to American farmers is ... can we produce and distribute enough food to promote international political tranquility... I believe that food can be the foundation of peace." This was the theme set by the national vice-president of the Farm Bureau, Robert

Delano, in his address last week to the state convention of the Virginia Farm Bureau which he heads.

U. S. farm export prospects are dim, despite Soviet grain purchases, because international monetary chaos has shut off export markets. But fully three times America's current 1 billion bushel wheat surplus could be marketed immediately in the developing sector, if proper financing were available. American farm debt, incurred mostly for necessary technology capitalization, has doubled since 1970 to \$102 billion.

Expanding food exports to the developing nations is expected to be a chief agenda item at all state Farm Bureau conventions, now underway across the country in preparation for January's national Farm Bureau convention in Houston where delegates representing the Farm Bureau's 6 million farm families will convene.

The organization is also taking on the environmentalists by slating resolutions favoring nuclear power development on its state and national-level agendas.

'Human Beings Are A Resource, Too'

The president of the National Farm Bureau, Allen Grant, began his opening address to the organization's Virginia state convention with praise for Plato's conception of the human mind, as a lead-in to a well-aimed attack on environmentalism.

"Human beings are a natural resource, too," said Grant. "People themselves, the right to labor, to own and use property, must not be jeopardized by an imbalance of environmental emphasis. Wildlife, soil, water, forest, grasslands, minerals have meaning only in terms of human relationships to them.

"If this were not so, the logical conclusion is that mankind should return the planet to the way it was when humans first appeared, and then quietly choose self-extinction to leave the earth in a pristine, useless state forevermore."

Grant singled out for special attack the Carter Administration cuts on water projects. Grant called for more extensive water development programs, and blasted the National Environmental Protection Act, and the process of "environmental impact studies" as tools of special interest groups inimical to the nation. He committed the farm community "to get this entire process repealed."

"We have trouble understanding the politician who trades on the false idea that man must never disturb his environment for economic purposes," Grant said. "We cannot understand the narrow-mindedness of the environmentalist purist who seems to think that evolution can be frozen, that no species or creature, animal or plant, must ever be endangered no matter how many billions in economic loss may be suffered by people."

Denounce Farm Strike

Farm Bureau leaders are actively opposed to the Dec. 14 farmer strike, known as the American Agriculture Movement or the 100 Percent Parity. The chief organizers of this operation are coordinating with the National Farmers Union and the National Farm Organization to convince farmers in a desperate cash position to strike, hold their supplies off the market, refuse to buy from suppliers and plow under. The operatives who pushed the Independent Truckers strike in 1974 are now coordinating with the farm strike in order

to ensure maximum media attention and dislocation.

At a press conference in Virginia, Grant emphasized his sympathy with the plight of farmers, but termed the strike as "not the effective means to change the situation." Speaking at the Maryland Farm Bureau convention, the Maryland Secretary of Agriculture Young D. Hance emphasized that consumers were on the farmers' side in the struggle for "fair prices," and cautioned the farmers against making "reckless decisions" to get involved with the strike operation and offending "the consumer who uses our products."

Pressure Builds To Expand Agriculture Exports, Repeal Jackson-Vanik

The Carter Administration, roundly criticized by farmers and leading policy makers for failing to push agricultural exports, is developing a new, intermediate credit program geared to expanding agricultural exports. Simultaneously, momentum is building in Congress to overturn the Jackson-Vanik Amendment which severely limits trade with East bloc nations.

Leading American political figures are joining the American Farm Bureau in stressing the importance of exports. Former Treasury Secretary John Connally is touring the nation promoting a "labor-industry alliance," heavily oriented toward an export program; "American agriculture can feed the world," Connally stated recently. Former Undersecretary of Agriculture Richard Bell, currently vice-president of Riceland Foods, recently told a House Agriculture subcommittee that the U.S. needs to "develop a policy framework for the development of export markets in the developing

world" as well as "Communist countries." (Bell's speech is excerpted below).

Responding to this pressure, the Carter Administration has told the U.S. Department of Agriculture (USDA) to review its entire export policy. According to an official in the USDA's Office of the General Sales Manager, President Carter would like to greatly increase U.S. credits available for agricultural trade. While the program is still on the drawing board, USDA officials will likely recommend a new intermediate credit program that would extend agricultural credit to foreign nations at rates lower than the prevailing commercial interest rates. The program — which one official said might provide at least a couple of billion dollars in credit — would bridge the gap between the present one- to three-year Commodity Credit Corporation Sales Program and the 20- to 40-year loans under Title I of P.L. 480, the Food for Peace program. The Administration

may also propose an increase in funding for both the CCC and the P.L. 480 program (see Kelly M. Harrison's speech below).

A spokesman for the House Agriculture Committee said the Committee expected to hold hearings on the Administration's proposal in January. Rep. Robert Bauman (R-Md), a key House Republican leader, and Sen. Jesse Helms (R-N.C.) have already introduced a resolution to the House and Senate respectively requesting the Administration to develop an export-oriented program.

On the other hand, the Carter Administration is saying that the problem is "overproduction," and using the pretext of "human rights" to hold up Food for Peace grain shipments. Senator Hubert Humphrey (D-Minn.) has introduced legislation which ties farm exports to the development of an international grain reserve, a policy promoted by the investment bank community which hopes to maintain control over food supplies for its own political advantage.

The supporters of increased farm exports in the Administration and Congress view Eastern Europe and China as key markets. But the Soviet Union, with its huge import needs, has been cut out from access to U.S. credits for agricultural purchase because of the Jackson-Vanik Amendment, which blocks the granting of most-favored-nation status to the USSR because of alleged violations of human rights. Administration officials around Secretary of State Cyrus Vance and a broad coalition of Congressional factions (Senators Helms and Humphrey included) have been actively pushing for a repeal of Jackson-Vanik.

While the Soviet Union may purchase as much as 15 million tons of grain from the U.S. in 1978, the amount of purchases could at least double if more credits were available. The market potential in the developing sector is even greater. The problem is not lack of need but lack of credit. The Third World situation is complicated by the fact that those countries not only need cheap credits — about the two percent rate of the P.L. 480 program — but most need a debt moratorium before they can purchase any additional exports. At this point, the Administration's proposal neglects these hard economic facts.

The U.S.'s agricultural export policy is further complicated because the Administration is talking out of both sides of its mouth on the subject. Earlier last month, President Carter announced a new feedgrains set-aside program which could reduce acreage planted by 10 percent, thereby limiting the amount of feed-grains available for exports. According to the Nov. 21 *Feedstuffs*, President Carter made the decision reluctantly and on the advice of his consumer-oriented Agriculture Secretary, Bob Bergland. While a bad precedent, the program is highly complex and according to *Feedstuffs*, "won't make all that much difference." President Carter has also left himself an option to reverse his decision in the spring if Soviet purchases are large.

At the same time, P.L. 480 agreements have not been made, pending a State Department review of each purchasing country concerning human rights violations. As a result, P.L. 480 client nations — generally the poorest nations — are not receiving food shipments.

While some progress was made this week with 11 nations approved, the Agriculture Department is up in arms, saying it doesn't think the State Department is doing anybody anywhere any good.

— Carol Lerner

USDA to Initiate New Intermediate Credit Program

Kelly M. Harrison, Assistant Administrator for Foreign Market Development of the U.S. Department of Agriculture, outlined the USDA's proposals for expanding agricultural exports through the creation of a new intermediate credit program in a speech Sept. 21, 1977. His remarks, made before the North Carolina State Agricultural Policy Conference in Raleigh, N.C. included the following:

We (the USDA) will act vigorously to expand U.S. agricultural exports, on which our farmers depend for 20 percent of their net income. We will act responsibly to provide technical and food assistance to developing countries to help bring them into the mainstream of life on this planet. Through participation in international forums, we will press to liberalize trade and to increase cooperation between all nations to enhance food security for the world. We believe those international policy objectives are consistent with world realities and complement one another.

In market development, we have undertaken a system of integrated export market program planning....

A credit program is being formulated now to bridge the gap between the present one-to-three year CCC Export Credit Sales Program and the 20-to-40 year loans extended under Title I of P.L. 480. This program is designed not only to be another export market tool to compete in world markets, but to meet the particular intent of some nations to move from concessional purchases to a commercial basis for eligible and available U.S. farm products....

We Need An Export Development Policy Now...

The following are excerpts from recent testimony of Richard E. Bell before the House subcommittee on oilseeds and rice and livestock and grains. Bell, the Deputy Assistant Secretary of Agriculture for International Affairs and Commodity Programs in the Nixon-Ford Administration and now vice-president of Riceland Foods in Stuttgart, Arkansas, focused on the urgency of a deliberate developing-sector oriented farm export policy.

If we are going to continue the momentum of U.S. agricultural exports of the past five years, there are several actions that need to be taken:

First of all, we should emphasize our advantages as a supplier to the world market.

We should complete the policy framework we began several years ago regarding sales of U.S. farm products to Communist countries.

We should provide most-favored-nation tariff treatment on industrial products from the USSR since no country can continue to buy if it cannot sell.

We need to provide short-term government credit to the Peoples' Republic of China for the purchases of U.S. farm products.

We need to emerge from the multilateral trade negotiations with improved access to markets in Western Europe and Japan.

We need to develop a policy framework for the development of export markets in the developing world.

Perhaps this last point is the most important of all. It means the development of a realistic alternative to the UNCTAD program, which, in reality, is a non-starter as far as trade expansion is concerned. It is a political policy, not an economic policy....

Our greatest potential for increasing U.S. agricultural exports lies in the developing countries.... The 1980s will need to be a period when we concentrate our efforts in the developing countries. We need to begin *now*, which means developing a policy framework by which the trade can be developed....

Japanese Cabinet Announces It Will Not Surrender To Strauss

The new Japanese cabinet has made it clear that it will not surrender to the demands of U.S. Trade Negotiator Robert Strauss.

JAPAN

On Dec. 6, Strauss predicted that Japan would announce "substantial concessions" on trade and monetary questions, and that nothing less would be acceptable. But two days later Nobuhiko Ushiba, Japan's new Minister for External Economic Affairs who will visit Strauss this week, told the *Wall Street Journal* "I don't know how to satisfy him (Strauss—ed.) but I expect it will be rather difficult. I'm not going to try and solve everything. I'm trying to come to a better understanding with American authorities ... but I don't expect a total solution."

Ushiba said Japan would unilaterally lower tariffs on a broad range of products such as smoked herring, and promised that Japan's trade surplus would be reduced "substantially" in the fiscal year beginning April 1. The Minister then proceeded to reject every other major stipulation made by Strauss.

Replying to the proposition that Japan set a date for going into current account deficit, he said, "No country in the world can commit itself to going into deficit." As for Strauss's insistence that Japan drastically increase imports of manufactured goods, remarking, "You must know that manufactured goods are bought by Japanese private persons. How can we force Japanese consumers to buy when there isn't any demand?" On the question of deflation, Ushiba said Japan was in no position to take "drastic measures to stimulate" the economy. Ushiba added that he was surprised that U.S.-Japan relations had deteriorated "so much, so fast" in the past year.

On Dec. 7, the Japanese cabinet leaked an unofficial list of the proposals Ushiba will make to Strauss this week, mainly promises of tariff cuts that have little

economic significance laced with vaguely worded promises of "orderly" exports and increases in import financing by the government. The *New York Times* remarked that these are hardly the drastic or basic changes that Strauss demanded, and added that the U.S. Administration still insists that Japan commit itself to running a current account deficit.

Some U.S. business circles recognize that it is impossible to force through Strauss's ultimatums, though from varying viewpoints. Brookings Institution staffer Robert Solomon criticized the Administration's heavy-handed dealing with Japan, but then pressed for Japan to institute a massive reflation program, an idea Ushiba has already rejected. The *Wall Street Journal* advises Mr. Strauss to take the same approach once suggested for Vietnam—declare victory and get out—a suggestion that Strauss accept Japan's tariff reduction proposals as sufficient.

Britain On Japan's 'Intolerable Affront'

The British continue to take the lead in pushing protectionist measures. Japan's *Asahi Evening News* noted that at the recent International Monetary Fund meeting Blumenthal had pledged to the Japanese not to make a protectionist speech, but abandoned the pledge once Britain's Finance Minister Denis Healey started attacking Japan. At the latest EEC meeting, Prime Minister James Callaghan expressed doubts that Japan had gone far enough to reduce its trade surplus. At a talk before the New York City Economic Club, British Ambassador Peter Jay labelled Japan's trade surplus an "intolerable affront," and demanded remedies through "either exchange rates or other less visible barriers." He threatened "action against Japanese exports" if such measures were not taken.

Gas Companies Balk At Schlesinger's WEEP Attack On Mexico Deal

Six U.S. natural gas companies negotiating purchases of natural gas from Mexico have fired off telegrams to Energy Secretary Schlesinger and Secretary of State Vance, telling them in angry terms to stop interfering in their private talks with Mexico's state oil company Pemex.

Schlesinger's activities, totally outside his authority, could wreck deals with Mexico which would supply U.S. consumers with 1 billion cubic feet of natural gas per day (cfd) by 1979 and more than 2 billion cfd by 1981 — 4 percent of U.S. gas consumption.

The six gas companies and Pemex are on the verge of signing contracts that would bring in this amount of gas at a price pegged to the energy supply equivalent of number 2 fuel oil brought into New York harbor, \$2.60 per thousand cubic feet at current prices. Schlesinger is demanding a \$2.16 level, on the flimsiest of pretexts (see section below).

The step-up in Schlesinger's attempts to disrupt the Mexican gas negotiations occurred as his Energy Department finally released its Winter Energy Emergency Plan (WEEP). The WEEP scenario calls for the strict rationalization of U.S. industry under conditions of energy shortage during the 1977-78 winter. Schlesinger's activities against Mexico, his crusade against nuclear energy development, and his inflammatory statements about U.S. military contingency plans to move into Mideast oil fields, all indicate that he is doing his best to create the shortages himself. The legislation creating the Energy Department grants virtual wartime powers to the Department's secretary in times of "energy emergency."

Schlesinger's heavy-handed interference has been carried out with full knowledge that the Mexican price is not negotiable. Last week, President Lopez Portillo made the most recent of emphatic Mexican statements on this point. An official at the Mexican embassy in Washington commented soon after that any back-down by Mexico on the price, even if the government was disposed to do so, was "politically impossible" due to the pressure of popular nationalist feeling.

The Events

The rapid-fire events of the past two weeks can be reconstructed as follows:

Thanksgiving Week — Schlesinger sent his newly appointed Assistant Secretary for International Affairs, Walt McDonald, to Mexico to step into the ongoing gas negotiations. Since by law the Energy Department is only empowered to review energy import contracts after

they are signed, Schlesinger arranged for State Department representatives to be included in the delegation.

Walt McDonald, an economist for the CIA before being hired away by Schlesinger, is the author of the notorious "Stansfield Turner report" on international energy prospects cited by President Carter when he presented Schlesinger's energy program in April. The report incredibly asserts that the Soviet Union will turn from being a net petroleum exporter to a large-scale petroleum importer in the early 1980s.

When the lead negotiator for the gas companies, Tenneco's Jack Ray, found out about the McDonald delegation, he immediately sent telegrams of protest to both Schlesinger and Vance. Ray made it clear that the negotiations were a private company-to-company affair, and that until contracts were delivered to the Energy Department, the government had no role in the negotiations.

The Assistant Secretary for Economic and Business Affairs in the State Department is now drafting a response to the gas companies' telegram. Indicating which department continues to actually run the interference, Department of Energy spokesman Donald Creed informed this publication Dec. 7 what the contents of the reply would be: "The U.S. government is not involved in the negotiations, but the U.S. government has the right to deal with the Mexican government on a wide range of energy matters."

Late in the Week of Nov. 28 — the State Department summoned representatives of the gas companies to Washington. According to reports, a high-level State Department official informed the companies that State would not "dictate" the contract — and then proceeded to do exactly that. State stipulated a price of \$2.16 per thousand cubic feet. When the companies protested, the official commented threateningly: "Why do you want to sign a contract which the government is going to reject?", suggesting that the action of Schlesinger's Federal Energy Regulatory Commission (FERC) has been determined long before that Commission holds any hearings or prepares an import authorization study.

When the companies insisted they would not break their understandings with Mexico, the State Department offered a fall-back option: that the companies "drag their feet," that is, bargain in bad faith — until the current negotiating deadline of Dec. 31 expires.

Schlesinger or the Department of State then conducted the key points of this session to the *Wall Street Journal* in a planted story which appeared Dec. 5 (see below).

Also the week of Nov. 28 — Simultaneous with the State Department Session, the office of Vice President Mondale announced that the Vice President would visit

Mexico Jan. 20-21, and that energy would be one of the main topics of discussion. Observers immediately recognized that if Schlesinger's attempts to force a breakdown in negotiations before the end of the year succeed then Mondale, who has worked closely with Schlesinger to push Schlesinger's energy program through Congress, would become the U.S.'s "negotiator plenipotentiary" upon his arrival in Mexico in January.

What Now?

Schlesinger, who had hoped to run his wrecking operation under wraps, is now mercilessly exposed. A release from New Solidarity International Press Service picked up by the Mexican business daily *Novedades* broke the story Dec. 3. On Dec. 7 Mexico's most widely-read newspaper, *Excelsior*, ran a banner front page story, stating the same: that the Department of Energy and the State Department have exerted "open and intense" pressure on the U.S. gas companies to reject the conditions set by Pemex for the gas sale. The same day the story was carried in the daily *Uno Mas Uno*.

If there was even the remotest chance that Mexico would step back from its gas price before, there is none now.

There is every indication Schlesinger will continue his sabotage efforts. However if the negotiations between the gas companies and Pemex can be maintained on course, Mondale will arrive in Mexico with the entire issue a matter of Department of Energy regulatory decision in Washington. At that point, it will still be possible for Schlesinger to stop the deal: but only with the onus for wrecking U.S.-Mexico energy cooperation, for shooting down \$600 million in Eximbank-financed U.S. exports connected to the gas deal, and for arbitrarily depriving the U.S. of vital gas supplies, resting on his shoulders alone.

The Wall St. Journal And Schlesinger Vs. Reality

The terms of the heavy-handed intervention of the State Department into the Mexican gas negotiations, on behalf of Schlesinger and in coordination with Vice-President Mondale's office, have only been released publicly in the form of a Wall Street Journal article December 5th which was planted by friendly State Department sources. The article is entitled "U.S. Plan to Import Mexican Natural Gas is Snagged on Controversy Over Price." Sections of it are reproduced below, with accompanying comment and correction.

Wall Street Journal: The U.S. doesn't want to pay Mexico more for natural gas than it pays Canada. The U.S. imports nearly three billion cubic feet a day from Canada at \$2.16 a thousand cubic feet. U.S. officials suggest that \$2.16 also would be a fair price for Mexican gas.

Why is a 1977 price for Canadian gas, a price which is repegged periodically by the Canadian National Energy

Board and has been steadily rising in recent years a "fair price" for Mexican gas to be delivered in 1979 or 1980? In fact, since April 1977, the Canadian National Energy Board has adopted a pricing policy for Canadian gas, based on equivalent energy cost of crude oil imports at Montreal harbor which is substantially identical to Mexico's! Further, the U.S. has had to pay for the State's side links to connect the Canadian gas to U.S. distribution networks. The Mexican gas, fed into the existing national grid radiating out from Texas, will require no such cost. If there can be such a thing as "fair pricing", the Mexican formula of linking imported gas to the cost of equivalent energy supplies of number 2 fuel oil delivered in New Harbor would seem reasonable.

Wall Street Journal: Carter Administration officials don't have the authority to force American companies and Pemex to sign a contract for a lower price than \$2.60. But, because any gas-import agreement must be approved by U.S. regulatory authorities, it's unlikely that the U.S. companies would agree to a price that the government opposed."

The first part of this statement is indeed true. The second part is total fabrication. The gas companies are determined to wrap up negotiations with Mexico on a mutually satisfactory basis before Dec. 31. They have angrily indicated they will not be the fall guys for Schlesinger and if their position should change, it would mean some extraordinary blackmail had been brought to bear by Schlesinger in terms of decisions on domestic matters affecting the gas companies in question.

Wall Street Journal: To increase pressure on administration officials and the U.S. companies to hold down the price of the Mexican gas, Sen. Adlai Stevenson (D.-Ill.) introduced a resolution to hold up an Export-Import Bank loan to Mexico until the Department of Energy reviews the price of the Mexican gas.

What is not said: It is widely agreed that Mexico stands in an excellent position to go elsewhere to obtain the almost \$600 million in financing and imports involved. At the same time it has made it clear it will not budge from its stated pricing mechanism for gas. The result is that Stevenson and Schlesinger, who is widely known to have advised Stevenson on the move, are recklessly risking the Exim loan in a game of financial warfare — vigorously denounced by Mexican President Lopez Portillo (see below) — which only the U.S. can lose. And this at a time when the U.S.'s trade deficit makes the expansion of exports a top priority.

Wall Street Journal: The stakes obviously are high. U.S. gas consumers would pay Mexico about \$1.9 billion a year for the gas if it were priced at \$2.60 a thousand cubic feet, or less than \$1.6 billion if it were priced at \$2.16, a difference of some \$300 million.

Accountants' idiocy! In order to "save" U.S. consumers somewhat under 1% of their gas bill, Schlesinger and the State Department are ready to jeopardize not only a desperately needed 4 percent of current U.S. consumption, but much more importantly, the entire climate of U.S.-Mexico energy cooperation which can lead to enormous benefits for both countries as Mexico's Middle East-sized oil and gas reserves are developed.

This climate is rapidly souring under the impact of Schlesinger's tactics. Further, the \$300 million per year in alleged "savings" to the U.S. must be compared to what \$300 million will be able to do to help the Mexican economy recover from its worst depression since the 1930s. The Carter Administration otherwise laments the influx of unemployed workers from Mexico and piously proclaims that the solution is to strengthen the Mexican economy.

Wall Street Journal: According to Mexican sources, the U.S. gas companies last week offered to sign the final contract with Pemex at the lesser price of \$2.16.

The gas companies made no such offer. A false report to this effect, filed from the Washington office of Mexico's major daily, Excelsior, was picked up by AP in Mexico and exported back to the United States. It is incredible that a week later the Wall Street Journal would retail the same falsehood — setting the gas companies up as the fall guy for the Schlesinger maneuvers — when the slightest checking with the gas companies themselves would have corrected the information.

Wall Street Journal: ...Observers have suggested that there was some bluffing going on in the setting of the deadline by the Mexican government. They say Mexico sorely needs the cash it would receive from the sale of gas to the U.S. and that selling the fuel to other countries would mean lengthy delays because the gas would have to be liquified.

This is one of the most dangerous and irresponsible of the views conducted through the article. No one outside Schlesinger circles believes for a minute that Mexico is "bluffing." It has already amply and publicly discussed alternate uses of its natural gas, not in the expensive LNG program cited in the article, but channeled into domestic industry converted from oil use. This would free additional amounts of oil for export. Under this plan Mexico will build the gas pipeline from its southeastern

producing fields as far as the northern city of Monterrey. From there it can later build an extension to the border to take advantage of the U.S. market if the price is right. In the meantime it can afford to wait for the U.S. population to muzzle Schlesinger.

Wall Street Journal: In Mexico last week, (Nov. 30 —ed.) President Jose Lopez Portillo declared...: "We aren't going to lower our price." ... Even so, President Lopez Portillo appeared to be trying to soften the controversy...He said he didn't believe rumors of a 'blockage' of the proposed Export-Import Bank loan to Mexico if Pemex is unwilling to lower its export sales price. "I know President Carter, and, therefore, I'm sure that this hasn't happened, and that it won't happen," he said.

"Soften the controversy"? Lopez, after diplomatically refusing to name the names of the U.S. figures behind the stalled Eximbank loan, made the issue brutally clear: "We are not going to lower the just price we have set for our gas on account of financing problems. We are not going to lower it. The situation is simply that the deal goes through or it doesn't...." He expressed disbelief that the U.S. would ever allow its "financing systems" to "be placed at the service of unjust trade policies (or) to force down raw material prices." And in his last comment, he put the issue squarely to Carter: "...I am certain this hasn't happened, and I'm absolutely certain that it will not happen."

Wall Street Journal: Six U.S. gas transmission companies...have proposed buying as much as two billion cubic feet of natural gas a day from Mexico...The U.S. government is as eager as the gas transmission companies to see such volumes of the fuel brought into the country to supplement dwindling domestic supplies.'

Schlesinger's actions speak for themselves.

An Open Letter To Congress On 'The Nuclear Anti-Proliferation Act Of 1977'

The following statement was prepared by Dr. Morris Levitt, the director of the Fusion Energy Foundation, for congressional endorsement prior to the vote on Senate Bill 897, which proposes the banning of nuclear technology proliferation.

Before the Congress acts on S. 897 or related measures, it must reconsider one basic question: What's wrong with nuclear proliferation? The answer is as simple as that to the question of what the emperor is wearing: "Nothing!"

The chief fallacy underlying the bill as drafted by the Carter Administration and members of the Senate Foreign Relations Committee — and the problem with Congress's deliberations so far — is that nuclear power is axiomatically assumed to be "dirty," never to be virgin again. Like the neighborhood spinster's obsession with social disease, everything must be done to contain its spread.

Many Congressmen know better. Yet the antiproliferation bill passed unanimously in the House Foreign Affairs and the Senate Foreign Relations Committees. How did that happen? Many Congressmen simply swallowed the line that, if you want to be on record against the dangerous spread of the "The Bomb," you must be for the bill, a straightforward Mom-and-apple pie proposition. However, that is neither the intent nor the function of the bill, which must be compared with the real issues of nuclear proliferation.

Nuclear Power: Key To Our Future

At the present juncture in world history, nuclear power is one of the most valuable weapons we have for world peace and development. As the Fusion Energy Foundation stressed in its policy statement, "Nuclear Power:

Core of U.S. and World Energy Policy," which has circulated throughout America and Congress since October, the export of nuclear technology is exactly the medicine required to break the deepening world monetary and economic crises.

A strong dollar and a healthy world economy can be achieved only by simultaneously building up the basic productive capacities of the advanced sector and the markets represented by an economically developing Third World. Nuclear power exports meet that need by generating the demand for basic industry products like steel and from the payback of industrialization in the developing sector based on nuclear-powered electrification.

Could it be any clearer that the threat of nuclear war is to be located precisely in the failure to proliferate *civilian* nuclear power and concomitant industrial and agricultural development?

The problem is not simply that Congress failed to challenge adequately the wholly specious arguments about proliferation, or the spectacle of President Carter and Energy Secretary Schlesinger turning down a \$25-billion nuclear deal offered by the Shah of Iran at a time when U.S. nuclear, steel, and other basic industries and exports are collapsing. It has been made amply clear in testimony on S. 897 that the substitution of unilateral and arbitrary procedures for orderly nuclear technology transfer will completely undermine both U.S. nuclear export prospects and existing international nuclear materials safeguard. Moreover, recently reported experiments at the Los Alamos and Oak Ridge Laboratories have demonstrated that any nation with a modest technological and industrial base can acquire nuclear weapons-grade material of varying quality cheaper and more quickly with small clandestine facilities than through policed commercial reactors, — if they are driven to do so.

Any representative panel of competent scientists could have informed Congress that civilian reactors do not produce weapons-grade material (since the byproducts are diluted by plutonium 240). Even Ugandan President Idi Amin does not have the in-depth specialized scientific and technical expertise required to make bombs from highly enriched material. Leading Third World countries that *could* develop such capabilities would use specially designed, small weapons-grade breeders and not big, expensive commercial reactors to produce bomb material. In short, it's relatively easy to acquire various grades of weapons material, and very difficult to produce bombs and delivery systems.

While the spread of civilian reactors does contribute to the development of overall nuclear capabilities — including potential military applications — in countries that do not now have such capabilities, its main function is to make peaceful nuclear development dominant over the presently hegemonic military aspect.

Proliferation has always been a "Catch 22" game in which various antidevelopment U.S. and British factions have said to the world: "Accept all our conditions for inspection and control, and maybe we'll let you have a little nuclear energy. Oh, you won't... then you must just want to make bombs, so you can't have any nuclear technology."

The issue is even more fundamental. S. 897 must be

defeated so as to open the way for a vast "Atoms for Peace" program, which, like its historical predecessor, comprehends the continuous line of integrated development of the two basic nuclear technologies, fission and fusion. Humanity was justified to be excited in the 1950s by the prospects of transcending its reliance on the chemical energy of fossil combustion to the more concentrated and intense forms of energy unleashed by nuclear reactions. That rekindled expectation must now become reality through a vast international program to disseminate existing forms of nuclear energy technology and to develop the most advanced scientific conceptions into practical technologies.

We have reached the breakeven point in every mainline of research on fusion; leaders of the U.S. and Soviet programs agree that a prototype reactor can be built by 1990. We have achieved the basic scientific conditions required for the fusion-fission hybrid breeder reactor, which would make nuclear power far cheaper than any other large-scale energy source in the same time frame. If this potentiality is realized, the world will have all the reasonably priced energy it requires for peaceful development, as well as the promise of an entirely new raw materials base for the next century represented in the fusion torch.

This is the prospect Congress will destroy if it capitulates to the linguistic "proliferation" fraud cooked up by the computers at the Rand and Mitre Corporations and the austerity and hyperinflation pseudo-economists of the Brookings Institution, and spread by incompetent Malthusians like Barry Commoner, "soft" Amory Lovins, Ralph Nader, and their mindless zero-growth followers.

Look around. Isn't every pusher of "anti-proliferation" in Congress also doing everything possible to replace U.S. industry, technology, and skilled labor with primitive labor-intensive schemes under conditions of a permanently collapsed dollar? If Congress votes for "antiproliferation," it is voting for the deindustrialization of the U.S. and against the prospects for peace, national security, and economic development.

The world did not buy the Baruch Plan for U.S. control and retardation of nuclear power 30 years ago, and it surely isn't buying the retreat of that policy today. In the Mideast, in southern Africa, on the Indian subcontinent, and in Latin America, leading nations are demanding nuclear power not only for themselves but for their neighbors, even if they have been bitter antagonists in the past. The U.S. should lead this effort and not permit again the frustration of these positive goals.

If we are to have a future, we are going to need a new Secretary of Energy committed to the American System of technological progress, a new energy policy and energy bill based on the most efficient extraction and combustion of fossil and nuclear fuels, a massive nuclear export program financed through the Export-Import Bank by soaking up the unproductive tens of billions of dollars in liquidity in the Eurodollar and petrodollar markets, and an Apollo-style crash fusion program in conjunction with the Soviet Union, Japan, and Western Europe. Therefore, all prohibitions recently placed by Congress on ExIm Bank operations in the nuclear export field should be rescinded in favor of standard inter-

national agreements.

These proposals are all eminently possible in the next session of Congress. The Administration is under tremendous pressure to resolve the disparity between its rational foreign policy (barring its attempts to halt technological progress via SALT instead of promoting increased collaboration in research areas like fusion) and its unworkable anti-industrial domestic and energy policy. The national political climate is being defined by the building momentum for progrowth labor-industry alliances in the U.S. and in Western Europe, exemplified by the 50,000-strong demonstration in favor of nuclear power by trade unionists in Dortmund, West Germany Nov. 11.

For that to remain an open option however, appropriate political steps must be taken *now* to make sure that S. 897 never leaves Congress in anything like its present form.

Why "Anti"-Proliferation Cannot Work

The following documentation demonstrates that in order to establish reliable international safeguards against belligerent uses of nuclear technology, opponents of nuclear "proliferation" must in fact endorse expanded trade in nuclear technology for industrial purposes. Section 1 summarizes the basic procedures and the outstanding record of compliance to the International Atomic Energy Agency's (IAEA) Nonproliferation Treaty. Section 2 takes the example of the West German-Brazilian agreement for nuclear plant construction to show that long-term technology transfer arrangements with nonsignatory nations to the Nonproliferation Treaty can serve as the basis for even stronger safeguards than those outlined by the IAEA. Section 3 debunks the myths surrounding India's 1974 peaceful nuclear explosion, which is the most frequently cited "proof" of the need for antiproliferation bills such as S. 897.

The IAEA's Track Record

In June 1968 the U.N. General Assembly endorsed the full text of the Treaty on the Nonproliferation of Nuclear Weapons (NPT), the main provisions of which are as follows:

- I. States possessing nuclear weapons will neither transfer nuclear weapons or nuclear explosive devices to any other states nor will it give control of such weapons or devices to any other state. In addition, nuclear weapon-possessing states will not help any non-nuclear state acquire a nuclear explosive capacity in any way.
- II. Non-nuclear weapon states will neither seek to acquire such weapons or devices, nor will they seek or receive assistance to this end.
- III. Verification of these obligations is ensured by the application of international safeguards under agreements to be concluded with the IAEA.
- IV. The rights of non-nuclear weapon states to undertake research, production, and exploitation of nuclear energy for peaceful purposes, and to receive

assistance to those ends is reaffirmed.

V. The benefits of peaceful nuclear explosions should be made available to all parties in accordance with appropriate international agreements.

VI. The undertaking that nuclear weapons states will pursue further negotiations in good faith.

Once a nation has signed and ratified the Non-proliferation Treaty, it is required to negotiate a safeguards agreement with the IAEA, which outlines safeguards within its territory. Detailed procedures are agreed upon in subsequent arrangements to which "facility attachments" for each nuclear plant are appended. These attachments describe all aspects of the plant, such as design, location flow of nuclear material, the location of equipment used in the production and processing of that material, and contain requirements regarding reports, stocktaking, verification procedures, etc.

IAEA safeguards are implemented in a manner designed to *avoid* hampering the economic and technological developments of a signatory state or international cooperation in the field of peaceful nuclear activities, including international exchange of nuclear material. They seek to *avoid* undue interference in the state's peaceful nuclear activities, and, in particular, in the operation of its facilities. Finally, the safeguards are consistent with prudent management practices required for the economic and safe conduct of nuclear activities.

While the IAEA limits its control measures to a strict minimum, it can detect the diversion of nuclear material to bomb-making within a relatively short time and thereby discourage it. "The IAEA safeguards' system is rather a warning system than a policeman."

According to the latest available IAEA information, 100 states are now signatories of the Treaty on the Nonproliferation of Nuclear Weapons; 51 of these have also concluded safeguard agreements. Of these, seven (Belgium, Denmark, West Germany, Ireland, Italy, Luxembourg, and the Netherlands) have concluded the safeguards arrangements jointly with the IAEA and EURATOM. Although Treaty on the Nonproliferation of Nuclear Weapons safeguard agreements with Japan, Switzerland, Taiwan, and Venezuela are not yet in force, all nuclear activities in these states are currently operating under the safeguards of other agreements. The latest IAEA *Bulletin* reports that: "According to the best information officially available to the Agency (IAEA), there are only five states in the world besides the nuclear-weapon states that have significant nuclear activities, which are not subject to Agency safeguards, namely Egypt, India, Israel, South Africa, and Spain."

Brazil-West German Nuclear Accord Sets Tone For International Safeguard Requirements

Following the recent conclusion of agreements between West Germany and Brazil for the transfer of nuclear technology to that South American nation, the two countries have agreed to a framework of international safeguards that far exceeds the

requirements demanded by the International Atomic Energy Agency (IAEA). The safeguards, which are used to detect any diversion of nuclear equipment or material for weapons production, cover not only the life of the technology transfer agreement itself, but also the useful life of all installations constructed under the terms of the agreement and the application of German technical "know-how" to any other facilities built in Brazil.

These "know-how" agreements, applied for the first time between a signatory nation (West Germany) and a nonsignatory nation (Brazil) to the Nonproliferation Treaty, are becoming that standard model for all nuclear technology sales, following decision reached by the so-called London Group of countries in possession of nuclear technology.

Furthermore, although Brazil is not currently a signatory to the Treaty on the Nonproliferation of Nuclear Weapons, the accord with West Germany makes the entire agreement contingent upon negotiation of a safeguard agreement with the IAEA, "assuring that these nuclear materials, equipment and installations as well as the special fertile and fissionable materials produced in them, processed or used, and the respective technological information, are not used for nuclear weapons or other nuclear explosives."

Indian PNE Model For Expanding Food Production

On May 18, 1974, in the western state of Rajasthan, India carried out a 10-15 kiloton underground peaceful nuclear explosion (PNE).

The Indian government and its Atomic Energy Commission (AEC) justified the underground explosion,

citing agreements within the IAEA which permit peaceful nuclear explosions for research and industrial purposes. The AEC reported that it was testing the effects of using the PNE for civil engineering purposes, to study radioactivity, the fracturing effect on rocks, and the ground motion caused by such explosions. Before and after 1974, India has repeatedly pledged it will never utilize the nuclear option for any military purposes.

Despite the Canadian government's subsequent suspension of nuclear supplies to India, charges that India had violated bilateral agreements by diverting nuclear fuels supplied by the Canada government for the 1974 Pokharan experiment, are baseless. India never signed the NPT and is not bound by its agreements, having opposed it as "discriminatory" and controlled by a few "have" nations.

AEC Chairman Homi Sethna stated that the plutonium used in Pokharan was produced at the Trombay reprocessing plant (completed in 1965). The Canadian claim that the CIRUS experimental reactor, the result of an Indo-Canadian collaborative effort completed in 1960, was the base for the Pokharan experiment has not been verified. India's policy in these collaborative efforts has consistently been one of wholly indigenous development. Within five years of their completion, the Trombay plant was a national effort and collaborative ventures with Canada have been administered fully by Indians.

The Indian PNE effort originated in imaginative ideas developed in the U.S. in the 1950s and named "Operation Plowshare." The application of PNE, or the Plowshare model, to the Ganges and Brahmaputra regions, and the Rajasthan desert was based on studies conducted jointly by the U.S. AEC and the Indian Bhabha Atomic Research Center, as the basis for tripling food production through adequate irrigation and water storage.

Coal Conversion Bill: An Expensive, Wasteful Hoax

The Joint House-Senate Energy Conference Committee is currently in the process of thrashing out the final version of the Carter Administration's National Energy Act of 1977, and the conferees have divided the bill into five provisions. The first provision to be agreed on by the joint conference was the coal conversion portion, analyzed in this report. As a growing number of industry and trade-union representatives as well as Congressmen, have remarked, the Carter energy bill is more correctly labeled a tax bill, which will in effect force a shutdown of industry across the nation if its full provisions are instituted. The implementation of the coal conversion section is at this point dependent on passage of an overall bill, and passage of such a bill itself is still somewhat doubtful, at least before the 1978 election year. But the coal provisions provide a chilling example of the impact such a bill will have on already depressed U.S. industry.

Under unanimous attack by the utilities, industry, the National Coal Association and consumers, coal conversion would not save energy. Even in its most benign form, the coal conversion program will divert billions of

dollars out of capital investment and industrial modernization; pour more billions in to pollution control equipment; cut the productive capacity of those who agree to convert by 50 percent, raise energy costs substantially; waste irreplaceable resources in coal-handling and other equipment. The measure would also put unreasonable strains on both the coal producing industry and the transport system.

The original Carter proposal was a ban on the burning of natural gas in all new utility facilities by 1990 with the authority to ban both oil and gas use in future facilities. The measure would impose a punitive tax on utilities and industries that continue to burn oil and gas in their currently operating plants if they did not convert to coal within ten years. The tax schedule included a \$ 1.10 per thousand cubic feet (Mcf) of natural gas, \$3 per barrel on oil for industry, and \$1.50 per barrel for utilities.

The House of Representatives basically concurred with the Carter tax schedule but added considerable exceptions to the facilities forced to convert. The Senate then added provisions which exempted 90 percent of

facilities originally targeted. At the same time, the tax of the companies "best able" to convert was doubled. The Conference Committee "compromise" retained the more punitive Senate version of the tax schedule, while leaving the guidelines for exemptions vague; one provision states that the environmental and financial impact of burning coal rather than cleaner oil or gas must be considered.

After the 1973 arab oil embargo, the Federal Energy Administration (FEA) began studying the possibility of conversion and issuing suggestions where it could take place. However, *not one* of the companies issued a voluntary conversion order obeyed it.

Undaunted, the FEA released compulsory conversion orders to 24 existing industrial plant sites in 17 states on May 9, noting that they had already initiated similar actions against 105 existing electrical power plants at 50 sites. The coal conversion provisions in the proposed National Energy Act are sufficiently vague, ensuring their enforcement will have to be decided in court. While the Executive and the Department of Energy, will continue to exercise the power of ordering conversion.

Cost of Conversion

Considering only the conversion orders that the FEA has already issued for industry the cost is over \$225 billion. With the conservatively estimated cost of only industry conversion of \$277 million, each of the 19 targeted companies could incur \$40-50 million per year increase in operating expenses. Administration energy officials have conceded that the cost of conversion could increase industrial prices by 1.5 to 2 percent which would be passed on to consumers.

The conversion cost for existing utility facilities and the construction increases for 143 planned power plants that come under current guidelines for conversion could be another \$50 billion, according to the Edison Electric Institute. EEI adds that this cost will also be passed on to the consumer, making the entire program "financially disastrous."

Along with the increased cost to the utilities and consumers, Carl Bagge, president of the National Coal Association has pointed out that the switchover plans for present plants would "divert manpower and capital from new, larger and more efficient plants ... designed to burn coal." The NCA has continuously suggested that instead of conversion, a program of phasing out and replacing older facilities that burn oil and gas could be aided with the same \$50 billion, under a vigorous coal and nuclear development program.

Industries such as steel that are already financially reeling under increased costs mandated by equipment to minimize pollution from coal-burning, cannot even imagine using even more coal at increased pollution-control cost. In May the *Wall Street Journal* surveyed 50 companies to try to understand their hesitancy to support aspects of the Carter energy program. Of the companies checked in New England, none have any plans to convert to coal. "The costs are prohibitive," remarked the vice-president of Norton Company. Even in Pittsburgh, near large coal supplies, Westinghouse has been cutting back on coal use in recent years to meet air pollution standards.

The proposed cost to industry and the power producers is so unrealistic that bans and prohibition orders could very likely lead to the shut-down of small or marginal industries. If oil and gas use is not prohibited, the conversion program will translate to a tax on energy for producers, and an inflationary rise in services and products for consumers.

The Cost in Energy

In the estimation of engineering experts, however, the conversion program *will not save any energy*. The utility industry estimates that pollution control devices which are currently unnecessary with clean-burning oil and gas could add an additional 10 percent to the cost of a new power plant. In addition, if the cost of reduced energy productivity resulting from unproductive pollution control technology, plus the cost in energy to produce the scrubbers and other paraphernalia were added to the energy balance of conversion, there is virtually no savings!

By substituting coal, therefore, the cost of electricity is increased, whereas the supposed motivation was to replace expensive, (supposedly scarce) oil and gas with "cheaper" coal.

New Production Costs

Ernest S. Robson, vice president for energy and materials management at Monsanto Company has said that most boilers burning natural gas can't be converted to coal use, since a plant would have to install "unloading, conveying, storage, ash-handling and air-cleaning equipment." He estimates that the cost of a coal-burning system would be four times that of an equivalent gas-burning boiler.

Testimony submitted by the American Iron and Steel Institute before the Subcommittee on Energy and Power of the Senate Committee on Interstate and Foreign Commerce on May 25 asserted that, "...retrofitting present gas or oil-fired boilers to use coal is at best inefficient, due to the small combustion space and lack of ash hopper and soot blowers in these units. Furthermore, it is probably impossible to convert present gas and oil-fired boilers to coal without a loss in capacity of about 50 percent so these conversions would also require new boiler installations just to maintain present capabilities." In other words, if steel companies were to go along with conversion through rebuilding existing boilers they would eliminate half of their capacity!

A statement by the American Boiler Manufacturers Association, submitted to the subcommittee on May 27, made the case even stronger. "If the unit was not initially designed for future coal-firing, gas-to-coal or oil-to-coal conversion, conversion of an industrial or utility boiler is virtually impossible and totally impracticable, both as relates to economic feasibility and boiler capacity, which can be reduced as much as 60 percent. All design parameters are *radically different*: a coal furnace is usually twice as large..., extensive and expensive pollution control equipment, coal pile area, etc. *This situation really means boiler replacement.*"

They conclude that even if the steel and other industries could afford to replace their boilers, the boiler manufacturers could not produce at that rate! Moreover, many industrial and utility facilities that have never burned coal have no access to rail lines, meaning coal would have to be delivered by truck, the entire program becomes one so physically and economically costly as to

wreck industry.

Even the National Coal Association, which one would assume would be thrilled with this new-found importance for coal, has attacked the proposed bill as having devastating economic consequences, and completely unrealistic goals for the coal industry itself.

— *Marsha Freeman*

George Meany And The American Federation Of Layoffs

With his keynote address — excerpts of which are reprinted here — to the biennial AFL-CIO Convention in Los Angeles Dec. 8, AFL President George Meany has fulfilled the fondest expectations of the extreme “left”-liberal wing of the Democratic Party, associated with City of London intimate Vice-President Walter Mondale.

LABOR NEWS

Meany's speech emphasized protectionist trade wars (including an end to the export of technology), labor-intensive Humphrey-Hawkins public works jobs, and a demand for an end to tax credits for industries which invest abroad. An outstanding omission in the speech, which has deeply disappointed AFL-CIO rank and file and local trade-union officials, was his failure to give even a nod to nuclear energy development and industrial development generally.

The zero-growth, antitechnology tenor of the convention represents no substantive change in the longstanding policy commitments of the aging Meany and Secretary-Treasurer Lane Kirkland. Although trade-union locals, particularly among the Building Trades, looked to this labor convention to launch a fight for industrial growth and nuclear development, Meany and Kirkland had signaled their intention to go instead with hyperinflation and Humphrey-Hawkins.

Meany's 12-page preconference report emphasized those programs, as did the outcome of the recent conference of the Building Trades themselves, which ended Dec. 2 in Los Angeles with an extremely weak resolution endorsing, not fission development overall, but solely the Clinch River breeder reactor program. At the time Building Trades President Robert Georgine, under Meany's thumb, announced he would exclude from his speech “important topics . . . like energy and the no-growth cult.”

The speakers' roster underscores the policy line of the Convention, filled as it is with addresses by Energy Secretary Schlesinger — who simply lied to the audience Dec. 9 when he announced he was pronuclear and progrowth, Mondale, HUD Secretary Pat Harris, Labor Secretary Marshall, Fabian Senator Daniel Moynihan (D-N.Y.), and Urban League head Vernon Jordan. A morbid sort of comic relief is to be provided on the

provocative “human rights” question by the so-called Soviet dissident Vladimir Bukovsky, and by California's Governor and solar power crank Jerry Brown.

Another potentially dangerous theme of the convention is Lane Kirkland's twin pet projects of labor law reform and Southern organizing campaigns. This thrust threatens to provoke a spurious and unnecessary confrontation between labor and management over the right to organize versus the right to work. That confrontation is rounded out by the activities of the right-to-work fanatics in the National Association of Manufacturers. NAM President and rabid anti-trade-union ideologue R. Heath Larry is barnstorming across the Midwest giving speeches on “How to keep your factory, shop or store free of unions.” Larry has lately recruited United Auto Workers President Doug Fraser to participate with him in Mutt-and-Jeff debates over labor's right to organize, and is now urging “austerity” against industry and labor alike.

The U.S. Labor Party has issued a statement on the significance of the convention which reads in part: “To the extent he pursues these policies, Meany does not speak for American labor. What he proposes would turn the AFL into the American Federation of Layoffs.

“The manipulated confrontation between labor and industry, into which the likes of Meany and Larry are leading the country, is a direct counter-organizing deployment to the efforts of the USLP and industrial spokesmen like Bill Simon to forge a labor-industrial alliance based on expanding industrial and nuclear energy development. R. Heath Larry's anti-unionism no more represents the interests of industry than Meany does those of labor. In fact, in an expanding economy it is in the vital interests of industry as well as labor that the working class be organized in trade unions.”

The official AFL-CIO response to Labor Party organizing was the passage Dec. 9 of a resolution slandering the Labor Party and warning trade unionists to stay away from that organization (see below).

The general response of unionists, especially in the Building Trades and International Brotherhood of Teamsters, has been that George Meany has no business dictating to them, on the basis of his obvious slanders of the USLP, whether or not they can work — as they have — with the Labor Party.

Teamsters leaders are reportedly considering a public statement dissociating themselves from the AFL resolution, which they interpret as an attack on the IBT for its relations with the Labor Party.

Meany Couples Export Curbs To Demand For Protectionism

Eighty-three-year-old AFL-CIO President George Meany is not only seeking stepped-up protectionist measures by the U.S., but now wants curbs on high-technology American exports as well, claiming such measures are the key to "full employment." This was Meany's message to the opening session of the labor federation's 12th biennial convention Dec. 8 in Los Angeles.

Excerpts from Meany's remarks follow:

... When we in the labor movement speak about human rights our definition extends way beyond the First Amendment rights of free speech, free press, and the freedom to worship. We believe in the human right to a job for all workers able and seeking work with decent pay and working conditions. That is why the greatest commitment that this nation can make towards human rights at home is full employment... To us unemployment is not only a waste — it is a denial of human rights...

... Foreign trade is the guerrilla warfare of economics and right now the United States is being ambushed. One

by one our manufacturing industries are being picked off and now the target is the steel industry. What is most galling is that the imported steel is cheaper not because United States wage rates are so much higher but because foreign countries subsidize their steel industries so they can undercut United States companies. Of course, when the United States steel industry is destroyed, the United States would become dependent on foreign sources and, without a steel industry of our own, the foreign countries could charge whatever they want.

... In an era of closed economic and multilateral corporations who operate like Barbary Pirates the United States sticks stubbornly to old policies that are no longer appropriate... When a United States firm sells its latest technologies to a foreign country... they are exporting jobs that technology could produce right here at home... Imports must be regulated. Antidumping laws must be swiftly enforced. Tax breaks that encourage United States firms to go abroad must be cancelled. The United States must make it clear to every other nation of the world: the use of tariff or non-tariff barriers to bar United States products will result in swift retaliatory by this government.

... Free trade is a joke and a myth. And a Government trade policy predicated on old ideas of free trade is worse than a joke — it is a prescription for disaster. The answer is fair trade, do unto others as they do to us — barrier for barrier — closed door for closed door.

Resolution Before AFL-CIO Bars Collaboration With Labor Party

Resolution Number 104 before the national AFL-CIO Convention which began in Los Angeles Dec. 8, seeks to bar collaboration between all AFL-CIO locals and affiliates and the U.S. Labor Party. The text of the resolution, submitted by delegate John J. Driscoll of the Connecticut State Labor Council and titled "Unmasking the U.S. Labor Party," reads as follows:

Whereas a group calling itself the U.S. Labor Party continues to masquerade in the guise of a political party which has some connection with organized labor. This organization is not recognized by any legitimate American union and has no connection with any real labor leaders in this country. Some union members have been deceived by the title assumed by this group and

have permitted its agents to address meetings of union members. The latest ploy of this group is to tell building trades union leaders that it is strongly in favor of nuclear power, and parades as "the only political party in favor of constructing nuclear power stations." The advocacy of nuclear power is a non-partisan issue and has the support of leaders in both major parties as well as the AFL-CIO;

and Whereas the national leaders of the so-called Labor Party have been identified as a small group of extremists one of whose stated aims is the overthrow of the present leadership of American unions on the basis of some pseudo-Marxist aim. This group seems to have plenty of money to spend although the sources of its funds are not known.

Therefore be it resolved that this Convention of the National AFL-CIO go on record as advising all of its affiliates to have nothing to do with the so-called U.S. Labor Party. And be it further resolved that the national AFL-CIO maintain a continuous monitoring of the activities of this group and expose its findings to all affiliates at appropriate intervals.

Terrorist Lawyers Fronting For Teamster Dissidents

Spokesmen for the Teamsters for a Democratic Union (TDU) here report that the National Lawyers Guild (NLG), a key component of the terrorist support network in the United States, is coordinating a legal deployment on behalf of TDU candidates for local Teamster office across the country. The well-funded operation consisting of more than 75 attorneys banded together in "Lawyers for the TDU" with back-up from NLG-member law students, is reportedly "ready to go with major election fraud cases to tie the Teamsters in knots." One source a NLG member, boasted that the lawyers are already coordinating with allies in the Labor Department.

ENEMIES OF LABOR

The NLG, which has organized defense for almost every countergang and environmental saboteur deployed by the Institute for Policy Studies, Ralph Nader, and similar "controller" operations in the international terrorist network, was said by the member "to have a vital stake" in labor "rank-and-file" reform movements like the TDU and its parallel organization, the FBI-Ralph Nader hybrid PROD.

"We are becoming the legal spokesman for these rank and file dissidents," said an NLG member. "We are their protectors...."

NLG's Goals

The goal of these legal terrorists is to synthesize "labor leaders" who can then be merged with Nader, Barry Commoner, and similar radical environmentalists to form the core of an American fascist movement: the so-called rank-and-file election campaigns are intended by legal and extralegal means to subvert any proprogress tendencies in the labor movement.

The fascist NLG, who passed a resolution to support the TDU "by every means possible" at their most recent convention, is following the script used by IPS and Joe Rauh, Jr. in directing the "rank-and-file" insurgency that has worked the United Mineworkers union and the campaign of Ed "the Fed" Sadlowski to take over the United Steelworkers. In fact, this newspaper has learned that Joe Rauh has decided to let the NLG and its "left-wing lawyers" handle the TDU operation, while he, Rauh, is running the PROD operation with Ralph Nader.

The fascist movement in embryo gathered in Chicago last weekend for two conferences. At the national planning meeting of the IPS-created Mobilization for Survival, an umbrella "action-oriented" environmentalist grouping, 300-400 hippies heard IPS's Richard Barnett and nuclear terrorist Sam Lovejoy lay out next year's antinuclear strategy. Across town, Ed

Sadlowski, Barry Commoner and others gathered to discuss a "strategy for a New America," at a conference sponsored by the counterculture rag *In These Times*. Observers at both events noted that many participants had apparently shuttled from one meeting to the other; in both cases, individuals active in the TDU-PROD conspiracy were present.

Pretty Boy Pete

It was not known whether Pete Camarata, the TDU-PROD member running for Vice-President in Teamster Local 299 here, found time to attend the conference; sources close to Camarata, who is also a member of the International Socialist sectlet, report that he is a "big supporter of environmental activism."

The controllers of TDU-PROD chose Camarata to be built into the "Teamster's Sadlowski" — the linchpin around which they will try to synthesize a national "rank and file" movement. While TDU sources report that they expect to "come close" in several local elections and that the NLG "will harass the hell out of the union to help us," it is Camarata's race that they want bad.

TDU spokesmen are pleased that their "friends in the press" are "coming through with great stories on Pete." The *Detroit News*, which has been carrying favorable articles on the TDU for months now, this week went as far to call him the "heir to (slain Teamster leader) Jimmy Hoffa" and lied that if "Hoffa were alive today he would be in the TDU...."

"If Pete wins," said the NLG member, "It will be the biggest thing to hit the reform movement since (the emergence of) Sadlowski and (UMW President Arnold) Miller...."

TDU Spokesman:

We Have Top-Flight Lawyers

The following is excerpted from an interview with a spokesman for the Teamsters for a Democratic Union (TDU) in Detroit. The spokesman is a member of the campaign staff of Pete Camarata, TDU candidate for vice-president of Local 299.

Q: We have heard that as many as 70 percent of the ballots mailed out have already been returned to the union office. Is that possible?

A: I honestly don't think so. I know for certain that there are quite a few ballots that haven't been sent in yet. Most of the men haven't made up their minds yet.

Q: What is your assessment of the chances of your slate winning?

A: By far our best chance lies with Pete Camarata. He is the best known of the slate and has been getting a lot of attention. We are also confident that Dennis Wade and Walter Ruff will win as trustees.

Q: Are you worried about fraud?

A: Oh, yes. But we have a number of top-flight lawyers working for us and we have already won some concessions from the union. For instance, we are allowed one observer at the counting procedure, plus we have worked out whereby the post office will hold all the ballots and then release them at one time. Little things like that but they indicate some improvement.

Q: Well, what about what happened at Local 237 last

week with Holmes?

A: There is no doubt that the TDU slate either tied Holmes or defeated him. They had massive fraud and we intend to go to court to overturn the results. This week Bob Janeida (TDU candidate who lost his election to Holmes by 400 votes) will be going to court saying he was defrauded...

Q: Has the news media been interested in this campaign?

A: Oh, very much so. Last weekend a *New York Times* reporter spent the whole weekend with us and the *Detroit News* has been giving us very good coverage. We expect to have a lot of TV coverage over the next few weeks as the election comes to the end.

TDU Offers Teamsters 'United Front' Vs. Labor Party

The following is the lead article of the November issue of Convoy, the national newspaper of the Teamsters for a Democratic Union. Sources close to the TDU report that the membership of the organization is consternated by the fact that prior to the article's appearance, the TDU leadership had made no response to the charges in the U.S. Labor Party brief, "The Plot to Destroy the Teamsters" and feared that the circulation of the brief by Teamsters and others was destroying their ability to organize; so far neither the TDU nor PROD, the Ralph Nader-FBI-controlled countergang in the Teamsters, has responded to the substance of the charges in the brief.

A spokesman for the Labor Party in New York this week termed the TDU offer to the Teamster national leadership of a "united front" against the Party "incredible."

Frank E. Fitzsimmons, General President
International Brotherhood of Teamsters

Dear Brother Fitzsimmons,

It has come to our attention that a number of officers within our union are involved in distributing the literature of the "U.S. Labor Party" and specifically its publication "The Plot to Destroy the Teamsters."

The "U.S. Labor Party" has nothing in common with the labor movement and it is not a political party. It is a group of thugs and liars who are known for anti-labor actions such as breaking up union meetings, attacking union members, trying to stop duly authorized strikes of various unions and other such activities.

This is not only the opinion of TDU, but also of the officers of many major unions, including the United Auto Workers and United Steel Workers. The Steelworkers' *Steel Labor* of June, 1975 describes them as "the makings of a fascist movement." The publication, "The Plot to Destroy the Teamsters" is a perfect example of the "Big Lie" technique. This publication claims that the Rocke-

feller family is leading a "plot" that includes President Carter, Ralph Nader, the FBI, the CIA, as well as the AFL-CIO and Teamster rank and file organizations. This bizarre claim is liberally sprinkled with incredible slanders.

Copy of letter to: General Teamsters, Warehouse and Dairy Employees Union Local No. 126 Fond Du Lac, Wisconsin

Dear Sir and Brother,

Enclosed, please find a report put together by the U.S. Labor Party in regard to the Teamsters Union.

Please read this report, because it has some very interesting information contained in it.

If, after reading this report, you have comments to make, please feel free to write to the undersigned giving your views.

Fraternally yours,
Donald F. Wetzel
Secretary-Treasurer
Teamsters Local 126

The disturbing part of this story is that the "U.S. Labor Party" claims in their October 25, 1977 publication that some 60,000 copies of their "Plot to Destroy the Teamsters" booklets have been sold to Teamster locals or affiliates. Evidence obtained by this office substantiates that in some cases Teamster officers are indeed distributing it and even using union funds. Enclosed is a copy of a letter, mailed to a number of members of Local 126 in Fond Du Lac, Wisconsin by Secretary-Treasurer Donald Wetzel. Evidence is that union funds paid for this anti-labor hate literature and its mailing. Further evidence exists that the officers of Local 641, Jersey City, New Jersey, allowed the "U.S. Labor Party" to display their materials at a local union meeting.

While we often disagree with the policies of the current leadership of the IBT, we feel we should be able to agree that the organization calling itself the "U.S. Labor Party" and its literature should not be promoted by any union officer or subsidized by any union treasury.

We urge you to inform all Teamster officers about this organization and its literature. We call on you to urge all officers and affiliates that are distributing this material to stop doing so. We further ask that you inform us of the

relationship of the International Union to the "U.S. Labor Party" or its literature, past or present. Any association whatsoever is to the discredit of the International, as is any failure to inform all affiliates about this organization.

Sincerely,
Ken Paff
National Secretary, TDU

Miners, Owners Walk Into Strike Trap

More than 150,000 members of the United Mineworkers union (UMW) struck this week when their contract with the Bituminous Coal Operators Association expired.

terrorist violence and sabotage, portrayed as "strike support" activity by any one of the several IPS-controlled countergangs.

SPECIAL REPORT

Factors Leading to Chaos

National media are deliberately trying to manipulate the situation to give Schlesinger the "trigger" he needs for an energy dictatorship.

Within hours, the Wall Street-controlled media carried reports of scattered violence between union and non-union miners in Utah and in Ohio. While the incidents are relatively minor at this time, they portend worse things to come. Highly reliable sources in the U.S. intelligence community indicate that terrorist networks, under the overall control of the Institute for Policy Studies, are "ready and in place" in the UMW and in various mining regions, especially in the West, in West Virginia and in Kentucky. Such networks masquerading as angry rank-and-file miners are prepared to commit acts of sabotage against nonunion mines and against railroads that transport nonunion coal. If these "low-intensity operations" achieve their intended effect, then energy czar James Schlesinger will be provided with the excuse he needs to activate "crisis management" energy distribution plans, developed by planning task forces under the rubric of the Energy Department's so-called Winter Energy Emergency Plan (WEEP).

The East Coast press, aside from focusing on the whatever violence can be instigated, have repeatedly attempted to portray the UMW as "weak" and unable to withstand a long strike; both the *New York Times* and *Washington Post* have carried editorials which argue that it is primarily the UMW that will suffer in the strike. Such editorials encourage a "hard line" against the union from the neanderthals who make up the BCOA. To the extent that the BCOA people think that they can get away with destroying or severely weakening the already weak union, one knowledgeable source said this week, "They will go in for the kill . . . they will make no compromise and take a long strike..." Our sources also report that the lies put out by the aforementioned newspapers and similar media, to the effect that "the miners' strike will have almost no effect on the economy," are creating a climate that will inhibit intervention into the situation to cool things off by saner industrialist and banking factions.

The UMW and the coal operators are manipulated pawns in this overall gameplan; the optimal situation — from Schlesinger's standpoint — is to "keep the pot boiling" for as long as possible — i.e., have a nice long strike, which leaves open the maximum number of possibilities.

If the strike goes beyond a month, the UMW has announced that all benefits to pensioners and health and welfare payments will be cut off due to depletion of funds; the UMW has no strike fund. This will feed the demoralization in the UMW rank and file, and give IPS operatives additional openings to foment violence. Despite this, stupid spokesmen for the BCOA continue to talk about "lasting the UMW out."

At this point, most observers estimate the length of the strike as likely to be anywhere from three to six months. UMW President Arnold Miller said hours after the strike began that he expected to be out for six months. If any of these estimates prove correct, the strike would completely deplete reported stockpiles of coal amassed by both industry and power utilities, forcing massive layoffs and economic dislocation. The activation of Schlesinger's coal-field terrorists could speed up this chaos, as could a colder-than-expected winter. Already there are reports of "roving pickets" that have shut down some nonunion mines in four states.

The Miller UMW leadership, synthesized by IPS and now weakened by its operations, is the perfect counterpoint to the stupid BCOA. Miller has adopted the demands of IPS-inspired wildcatters for "decentralization" through the local right to strike: a leader in the UMW opposed to Miller termed this act "suicide for the union" and a "capitulation to the disruptors and their chaos."

Spokesmen for Midwest utilities expressed fear this week that their stockpiles might become the target of

The BCOA has indicated that they will never give in to the demand. And Miller has created a situation in which attempts to bring back a contract with the "local right to strike" will allow the "wildcatters" to cry "sell out" and steal what remains of the union out from under him.

U.S. Labor Party:

Report From W. Virginia Coalfields

James Gelvin, the Western Pennsylvania tour coordinator for the U.S. Labor Party, spent two days in Charleston, West Virginia last week, consulting with press, trade union, industry, and government representatives on the national implications of the United Mine Workers (UMW) strike. Reproduced here are excerpts of an interview with Gelvin on the results of that trip.

Q: What was the purpose of your visit?

A: We went to West Virginia primarily to probe reactions to the miners' strike, and especially to meet with the press. In the course of our two days there, we had 15 interviews, including one 45-minute radio broadcast and one newspaper and two television interviews. We also met with the state head of the AFL-CIO, representatives of the Teamsters and Building Trades union, the city Chamber of Commerce and State Chamber of Commerce, the Association of Manufacturers, and with the office of the President of the Senate of the West Virginia legislature.

Q: What was the population's reaction to the strike?

A: They are scared, very scared. We were told that in Districts 17 and 1 of the UMW — the districts most infested with the provocateur Miners' Right to Strike group — the workers are expecting bloodshed. It was clear that in Charleston, where District 17 is based, the people are armed to the teeth. People in the streets were trying to make "light" of the situation — like one woman who joked, "I should drop dead between now and Tuesday (Dec. 6) before the benefits expire."

The most telling reaction, however, was a deep suspicion of outsiders. It is common knowledge throughout the area that the force behind the miners' strike is the Revolutionary Union and October League abomination, the Miners' Right to Strike group. The suspicion of "outside" interference is rampant. In fact while we were meeting with the State Chamber of Commerce, they were calling our Pittsburgh office to make sure that James Gelvin really was a member of the U.S. Labor Party.

Q: What are the other unions doing around the strike?

A: There were two characteristic responses exemplified by the State AFL-CIO representative and the Building Trades people. The AFL-CIO leader was acutely aware of the operation to destroy the UMW through strikes like this one, readily agreeing that the same networks that destroyed the Autoworkers and that are trying to destroy the Teamsters are at work on the miners — people like Joe Rauh, and the Rogovin, Stern, and Huge crew. However, he emphasized that as far as the rest of West Virginia labor is concerned (and there is a very strong union base there in the Building Trades, steel, oil and chemical workers) the UMW phenomenon does not pose

much of a problem. If anything, it is looked at as a renegade union that needs to be quarantined to keep the internal rot from spreading to other unions. But what particularly stood out in the AFL-CIO leader's remarks was his receptivity to the national implications of the strike and what can and should be done about it. In particular, he was very open and favorable to our nuclear energy development program, saying he would raise it with others at the upcoming national conference.

The opposite reaction stems from the vicious manipulation of the backward "mountain" ideology prevalent within the UMW rank and file. The profiled response is very localist, to the point that Building Trades reps denied the need for nuclear energy because West Virginia is a coal state. We were told point blank by the same reps that yes, the miners' strike is being precipitated by the Miners' Right to Strike; yes, the strike will destroy the union. But the miners are gutsy fighters. Gutsy fighters in the style of the Hatfields vs. the McCoys, where no one remembers why there is a feud. In fact, there is an almost religious regard for picket lines; five guys can bring out an entire district, even though it is obvious that those five guys are being deployed by the RU or OL right off the University of West Virginia campus at Morgantown.

Q: What about the industrialists you met with?

A: They were very receptive to our programmatic materials, but they feel very isolated in a somewhat similar way to that reflected with the Building Trades people. For example, some of the members of the Manufacturers Association had sent several telegrams to Congress supporting a broad-based energy policy, including nuclear energy development. But when push comes to shove, or when it comes to West Virginia, their reaction was "the legislature would kill us if we pushed nuclear energy" because this is a coal state.

As far as the Bituminous Coal Operators Association is concerned, it seems there is a faction fight taking place there. On the other hand, there is a group committed to waiting out the UMW, sitting back on their stockpiles of coal until the union collapses and then negotiating district by district. On the other hand, there is a group looking for another way out of the situation, and finding that in part by reading our material.

Q: How was the press coverage of your trip?

A: On the whole, the press representatives were far and away the most cosmopolitan of the people we spoke to. They had a very sharp sense of how the strike had been set up, how it fit in with Energy Secretary Schlesinger's winter energy emergency (WEEP) scenario, and what would be needed to solve the strike in a positive way. On the WEEP question, in particular, the AP bureau ran a wire based on an interview with us after okaying it with their Washington office; similarly the *Daily Mail* ran a

straight column on what the economic consequences of the strike would be. Generally speaking, the press carried our analysis of the WEEP question as the most obvious answer to why the strike is taking place at this point.

But I think two examples will give you the best sense of how the press handled our interviews. In a broadcast interview with TV station WSAZ, the interviewer was quizzing us on the RU and OL links to the Miners Right to Strike crew. He first asked if the Labor Party was communist, and when we explained the humanist tradition our organization represented, he asked the obvious question, well, aren't the RU and OL communist organizations? His jaw dropped as we proceeded to explain that in fact these groups were Maoist advocates of pick and shovel technology, while the U.S. coal industry could stand to learn some lessons from the advanced long-wall mining methods and MHD experimental technology work now taking place in the Soviet Union.

The other example is our 45-minute radio interview on one of the Charleston stations. The interviewer prefaced his questions to us on energy policy by noting that the Charleston mayor is an advocate of solar energy, while

Governor Jay Rockefeller is pushing coal and gas development. What we did was to outline a \$100-billion energy development policy, which would take the fullest advantage of West Virginia's coal resources through the introduction of advanced mining techniques such as MHD and advanced steelmaking processes, such as the Jordan process. But most important of all, we stressed over and over again that what is happening to the UMW and to West Virginia is not unique.

To make matters worse — if it is indeed possible to do that — Miller is now reportedly being “led around by the nose” by so-called labor economist and top labor counter-insurgency agent Stanley Ruttenberg and “lawyer” Harry Hugo, of the law firm that handles IPS, Rogovia, Hugo and Stern. Both these individuals are playing a major role in the negotiations — thereby all but insuring that in the words of one observer, “without the direct intervention of God Himself,” no real progress will be made.

It appears therefore that the 20-year project of IPS and its controllers to destroy the United Mineworkers union of John L. Lewis is in the final stages. Said one union leader, “If we can't turn the current situation around, I give the UMW six months to live...”

Recommended Law Firm Be Disqualified In UAW Suit

NEW YORK, Dec. 5 — Federal Magistrate Kent Sinclair has recommended to Federal Judge Lawrence Pierce that the law firm of Cowan, Liebowitz and Latman, plus the United Auto Worker's former General Counsel, Steven Schlossberg, be disqualified from further participation in the union's \$60 million lawsuit against the National Caucus of Labor Committees, Counsel for the NCLC was notified today. The suit is now pending before Judge Pierce in New York's Southern District Federal Court.

Magistrate Sinclair's “Report and Recommendation” responds to a motion by NCLC attorneys that the law firm and Schlossberg be disqualified in the case. The motion also sought to disqualify FBI informant Gregory Rose's testimony as a witness for the UAW, while seeking dismissal of the entire lawsuit. The motion was made following the revelations that Rose was to appear as a key witness for the UAW in the case.

Rose is a former member of the NCLC who was expelled from the organization. According to FBI documents subsequently released to the NCLC, Rose was an FBI informant while a member from May 1975. While Rose was a member of the NCLC, he was directly involved in strategy discussions with the organization's counsel for the UAW suit, and served as a liaison between the security and legal staffs on the case. It has also been alleged that Rose stole work product from one of the NCLC's attorneys.

The NCLC also put into evidence before Magistrate

Sinclair numerous documents released to the organization under the Freedom of Information Act, showing that Steven Schlossberg, while UAW counsel sought to use Rose's tainted “information” about the organization. In 1975 Schlossberg visited Attorney General Edward Levi with wild allegations about purported plots by the NCLC to assassinate Leonard Woodcock and Nelson Rockefeller. Schlossberg's visits with Levi followed attempts to enlist previous Attorney Generals, the FBI, and the Department of Labor in prosecutions of the NCLC parallel to the UAW's efforts in its southern district action.

“Integrity of the Bar”

Magistrate Sinclair relies on two recent second circuit decisions, *Hull v. Celanese* and *The Fund of Funds, LTD v. Arthur Anderson and Co.*, aimed at “preserving the integrity of the bar before the public,” in his conclusions that “there is no principled distinction to be drawn between the duties of a lawyer concerning withdrawal based on whether the source of his adversary's confidences is a client, or as here, a witness....” “Here there is a dispute between Rose's affidavit's claim that no privileged communication ever passed in his presence during his tenure at the NCLC and the defendant's affidavits which suggest that on many occasions such communications were had in Mr. Rose's presence...The facts here show at present only the more limited instance of a former assistant in the employer's own legal endeavors, indeed involving in some respects the very

same litigation pending at the time of his former employment... thus defendant's motion to disqualify counsel and their respective firms should be granted."

The UAW's attorneys will have 10 days to file objections to Magistrate Sinclair's ruling at which time Judge Pierce will make a final determination. The

Magistrate reported to Judge Pierce that he saw no need to hold an evidentiary hearing on the matter or any need to bar Rose's testimony as a witness at trial.

— Barbara Boyd

IBEW Backs Nuclear Energy

The December issue of the IBEW Journal, the official publication of the International Brotherhood of Electrical Workers, carried a strong endorsement of nuclear power. Following are excerpts from the article, entitled "Are Nuclear Power Plants Needed? Yes!"

Summer is that time of the year when lighthearted activity prevails. Perhaps this is due to the rapid rise of temperature and humidity which grips much of the nation, thus giving pause to weighty matters. This past summer some lighter fare was provided by those who demonstrate against nuclear power.

Nationwide protests which took months of advance planning by obstructionists were scheduled for the 32nd anniversary of Hiroshima. These proved not to be explosive events (as were Hiroshima and Nagasaki) but more of a fizzle.

At Browns Ferry, obstructionists were outnumbered by reporters 10 to 1 (2 obstructionists-20 reporters). At Diablo Canyon, Captain Plutonium II swam ashore to take over the facility! He was merely arrested for trespassing...

All summer activities was not as frivolous and the atom was hard at work doing what it does best, making electricity...

The atom has proved itself during the extreme weather conditions that have prevailed in the past year and for this very reason the obstructionists are experiencing less and less success with their reasoning tactics that nuclear power is unsafe. The facts tell another story.

Until recently the struggle against nuclear power was

centered in the United States. However, obstructionists have now moved operations north of the border in an attempt to stop Canadian nuclear power development. An obstructionist is an obstructionist regardless of citizenship. His goals are the same: stop industry, achieve zero growth, and increase unemployment...

Tactics are the same on both sides of the border; they use emotion, not logic. Labor must be convinced to commit suicide. What the obstructionists don't realize is that the hard hats belonging to IBEW members do not cover soft heads. For IBEW goals to be achieved, there must be growth. Fuzzy thinking obstructionists are not going to convince us otherwise. Unemployment rates in both nations are too high. *No growth means no jobs...*

During October, 1977 the Saskatchewan Federation of Labor held a special convention concerning uranium mining, Saskatchewan's organized labor pointed the way... Resolutions were then presented to the convention on the issue. In Canada as in the United States there are obstructionists in labor. (Leading opponents of nuclear energy in Canada in particular are the United Auto Workers and the Canadian Union of Public Employees—ed.) Obstructionist labor delegates proposed a (uranium) mining moratorium. After much debate, it was defeated by a vote of the convention...

The IBEW continues to support the expansion of the nuclear industry as a means of solving the world energy crisis. It is the IBEW's opinion that nuclear power is safe, reliable, environmentally acceptable, and the most economical way to meet the electrical needs of our two nations.

The Crisis Of The Soviet Five-Year Plan

The following critical analysis was issued Nov. 30 by Lyndon H. LaRouche, Jr., chairman of the U.S. Labor Party.

At this moment, the balance of visible current Soviet leadership efforts towards implementing the new Five-Year Plan adds up to a display of appalling incompetence. Despite some evidence of sharp criticism and counterpressure from Soviet and Eastern European "traditionalists", for the moment the Soviet leadership majority is plunging down a road leading toward potential economic disaster, incidentally violating every hard lesson learned during 60 years of preceding Soviet history.

Although the blunders being committed are best appraised in economic terms of reference, the origin of the mess is political, and the most immediate consequence of the deteriorating Soviet economic policy seems outside of the Council for Mutual Economic Assistance (CMEA) sector itself is a pattern of increasing the panicky flip-flops in Soviet foreign policy posture. It should be emphasized, the misconceived present Soviet economic policy will not last. The disastrous effects of the current Five-Year Plan effort on both Soviet and CMEA domestic and foreign relations will become a major and growing issue within the CMEA sector very soon. At some future point, relatively soon on the historical scale of development, "heads will roll" because of the mess now being created. The sort of crisis this portends is not the sort of development which should make the Soviet Union's neighbors particularly comfortable in their beds.

... For the moment the Soviet leadership majority is plunging down a road leading toward... disaster,... violating every hard lesson learned during 60 years of preceding Soviet history.

There are four basic points to be understood. In part, the present Soviet disorientation is rooted in traditional errors of Leninist analysis concerning both economic theory and the interconnection between Soviet internal economy and economic pulsations in the capitalist sector. Secondly, overlapping the effects of that cited shortcoming, excepting the special case of Poland, all of the chief economic problems of the CMEA sector today are variously direct and indirect consequences of the ongoing, now approximately ten year-old crisis of the Bretton Woods system. Thirdly, these two problems are monstrously aggravated by a massive, British-oriented internal subversion within the Soviet leadership, influencing a Soviet regression toward the worst methodological features of the old Bukharinist policy of the mid-1920s. Finally, under the heading of British and

related subversive influences in the Kremlin, a section of the Soviet leadership has, in effect, rejected Karl Marx for Böhm-Bawerk and related products of the Vienna positivist school, all in the name of "systems analysis."

We shall now treat those four points seriatim, thus laying the basis for the concluding characterization in which all four points are brought into conjunction for assessing their combined import.

First, The Significance Of Marx's Errors

As we have developed the case elsewhere, the case of Karl Marx as a political economist is a contradictory one. His essential and essentially correct method is that summarized in his 1845 "Theses on Feuerbach," and the first section, "Feuerbach," of *The German Ideology*. Insofar as Marx's analysis of political economy represents an application of that method, his analysis of the real (*non-monetary*) side of capitalist production, distribution and accumulation are both an advance of knowledge within the European Neoplatonic scientific tradition, and essentially correct. However, because Marx falsified history to the purpose of justifying the "English model" of capitalist development, his analysis of the monetary side of capitalist political economy is incompetent, and the political conclusions derived from that falsified historical picture are largely in error.

In consequence of that contradictoriness of Marx's theoretical outline, we have the following result of direct bearing on problems of "orthodox Leninist analysis."

Marx's historical appreciation of the importance of industrial capitalist development is broadly correct. He locates the industrial capitalist policy of technological progress as both a material and moral necessity for human existence. Without the technological progress achieved through capitalism, the material preconditions for continued existence of the human species could not have been realized. The interconnection between capitalist progress, urban-centered development and the fostering of scientific knowledge was *morally essential to lift man out of the bestialized conditions of "the idiocy of rural life."* On this basis, *Marx was procapitalist on all issues of current political issues up through 1871.*

Marx is also correct in locating formally the inner boundaries of capitalist development in the private property form of ownership of the basic means of production and distribution. The *heteronomic* (or, "anarchist") impulses intrinsic to the private ownership of the socialized means of production and distribution is, in fact, the limit of capitalism's self-development and the constant source of its vulnerability to various political, economic, and related disorders.

However, Marx grossly misjudged the lawful historical viability of 19th century *industrial* capitalism, and, for related reasons, defined the transition from

... The interconnection between capitalist progress, urban-centered development and the fostering of scientific knowledge was morally essential to lift man out of the bestialized conditions of the "idiocy of rural life."... Marx was procapitalist on all issues of current political issues up through 1871.

capitalism to socialism generally in terms which apply in fact only to exceptional cases. As we have developed this point in *The Case of Walter Lippmann*, the 1917 Russian October Revolution is almost an ideal example of the sort of exceptional case to which Marx's version of the transition properly applies.

The vicious error involved in Marx's misjudgment of the future potential viability of capitalist development is exemplified by Marx's dispute with the American economist Henry E. Carey during the 1850s and 1860s. Although Carey's 1873 text is philosophically unfortunate, his earlier economic writings are correct vis a vis Marx, on all those issues which Marx identifies as lying between them. Marx refused to accept the fact that the English model of early 19th century capitalism was a savagely deformed version of capitalist development. Since Marx refused to face the fact of the 3,000 year-old reality of the struggle between monetarism and humanism, he refused to consider the potential viability of industrial capitalism modeled on what Carey and others called "the American System."

With Lenin, the problem becomes worse. Although Lenin was a Chernyshevskiiian, dedicated to Russian technological progress, his systematic understanding of political-economic theory was profoundly flawed. In particular, his understanding fell way below that of Karl Marx — as a comparison of Rosa Luxembourg's *Industrial Development of Poland* with Lenin's bureaucratically turgid *The Capitalist Development of Russia* illustrates. The founding congresses of the Communist International adopted the doctrine of the "epoch of imperialist decay," ruling out of consideration the possibility of durable Soviet strategic alliances with viable forms of advanced industrial capitalism. To official Leninist doctrine, the distinction between historically progressive and regressive forms of advanced capitalist states no longer existed in the post-1917 20th century.

Despite the Leninist doctrine, in life, the Soviet Union did move sometimes in the direction of a better strategic policy. Notable was the Rapallo agreement, and also the impulses imbedded in Stalin's negotiations with von Seeckt, and Stalin's thrust toward detente with the United States vis a vis the enemy, Britain. These exceptions have been more thrusts and gestures, rather than a conscious correction of a mistaken doctrine. To the present day, the Soviet "orthodox Leninists" conceive of the self-doom of the decayed capitalist system as the essential strategic commitment of Soviet policy.

The corresponding points of Soviet doctrine are well-known, but inadequately understood.

On the condition that the OECD nations brush aside the heritage of British monetarism in favor of the kind of industrial capitalism exemplified by the "American System" in matters of global strategy, the CMEA nations and the OECD nations have a fundamental common political-economic interest. Under the circumstance that the so-called developing sector is undergoing general, technologically vectored expansion of its industrial and agricultural production, for the visible future the relatively advanced nations can more or less perpetually sustain a net, longterm balance of trade surplus without economic contradictions or conflicts in vital interests among any of the nations involved in that trade and investment. Large export surpluses of the advanced capitalist nations are the most desirable economic circumstance for the CMEA nations and China. This is so, since expansion within the OECD nations and joint CMEA-OECD development contributions to the "developing nations" means growing trade levels between the CMEA and OECD nations, trade levels to the greatest mutual advantage.

Nonetheless, Lenin's *Imperialism* says erroneously, this is not possible. The Soviet doctrine concerning "imperialist development" says this is impossible.

For related reasons, even the best Soviet leaders failed to grasp the crucial strategic implications of the 1967-1977 breakdown of the Bretton Woods system. For this reason the Soviets have made only short-term, abortive contributions toward the establishment of a new world monetary system, of the type represented by the International Development Bank (IDB) proposal. Although some Soviet and other CMEA countries' representatives have grasped the importance of the IDB, at least in crucial aspects, not enough of them have understood that well enough to tilt the balance of Soviet policy into fruitful directions.

Fluctuations in Soviet policy concerning a convertible CMEA transfer-ruble are a centerpiece for this point. There are two Soviet T-ruble proposals. The first dovetails with the IDB proposal. This is the proposal for convertible T-ruble balances to be used in three-way trade among the CMEA, OECD and developing nations on a gold-reserve basis. The gold-reserve feature of this first approach is realized when the OECD nations adopt a gold-reserve monetary system (with gold probably valued in the order of between \$250 and \$300 an ounce, once production reaches the level corresponding to monetary requirements). The second T-ruble proposal is properly termed the "British formula", under whose terms CMEA foreign debts prop up the inflated balances held through the City of London market.

The Soviets have not grasped the point that during the post-1972 period, especially from 1975 to date, it was essential that the Soviets put the ruble in the balance of world affairs to facilitate a drastic reorganization of the foreign indebtedness of developing nations along lines specified in the IDB proposal. Clearly, the Soviet leadership did not think the strategic implications through.

We are in no way exaggerating in stating that Soviet leaders did not think the strategic realities of the current monetary crisis through. Although this problem is by no means peculiar to the CMEA countries' leaders, Soviet representatives have a damnable propensity for the worst sort of what is otherwise known as German

Gründlichkeit, sometimes to the point of shaming a Basel shopkeeper. They fall prey to dividing the world into unrelated bits and pieces, and then intensively examining each piece "thoroughly" in total isolation from the strategic reality as a whole.

Another example of the same sort of defect is the worst sort of German academics whose lectures are based on written-out flashcards and whose scholarship often focuses with obsessive narrowness on a fragment of a mere sentence. (I was appalled on one occasion to witness such a German academic displaying his flashcards on a screen, with aid of a balopticon, and simply reading from his own flashcards!)

The Soviets should have posed the strategic problem as follows:

(a) The capitalist monetary crisis spiral is plunging toward a depression, a depression which is being postponed by means which transform an ordinary depression into a hyperinflationary explosion of a Weimar type on a global scale;

(b) Only a romantic fool imagines that this will lead to socialist transformations in a significant number of OECD nations;

(c) Therefore, the depression will produce some sort of capitalist transformation in the OECD nations;

(d) Without Soviet intervention, what sort of transformation is most probable and what are the implications of those tendencies for the Soviets' strategic security situation? If the British proposals win out — e.g., the Witteveen, MacNamara, and other "zero growth" models — the entire OECD sector and most of the developing nations will go fascist with a vengeance.

(e) What alternatives to zero-growth, Schachtian policies exists for the capitalist sector?

(f) Which are viable?

(g) How does Soviet policy enhance the selection?

In 1975 and 1976 it should have been clear to the Soviets that Henry Kissinger's policies represented a commitment to the neo-Schachtian, fascist alternative. It should also have been clear that drastic, IDB-oriented reorganization of the capitalist monetary system was indispensable as the only model of an alternative to a fascist world order. Unfortunately, in order to placate "realist" Henry Kissinger, the Soviets — on balance — chose the course that fostered fascist development in the OECD countries, and a hideous configuration in the "developing sector."

The Soviets were not ignorant of these strategic realities. Yet, on balance they wilfully adopted a course which they were informed was absolute folly, the course promoting a war danger. The course leading fatally toward general war they called the "path of detenté." What monstrous folly!

What stuck in the gullet of the best of them was the ideological bogeyman to which we have referred. *The Soviet leadership could not bring itself to adopt a policy whose characteristic feature was tilting the balance in world affairs to bring about a general capitalist economic recovery.* The idea of "saving the capitalist system" is the relevant ideological block among some of the best of them.

The "Arbatovians" are most keenly conscious of this. Their attacks on the Labor Committees as such were complemented by attacks on Henry Carey, on Academician V. I. Vernadsky, and on other topics whose

The Soviet leadership could not bring itself to adopt a policy whose characteristic feature was tilting the balance in world affairs to bring about a general capitalist economic recovery.

only significance was their prominence in Labor Committee literature then being studied by Soviet and other CMEA countries' officialdom. The Arbatovians and their London and London-allied foreign masters were in serious fear that the Labor Committees would win the Soviets to the policy of "saving the capitalist system."

How The Depression Affects The Soviet Economy

From the beginning of its existence, the internal Soviet economy has been inevitably most significantly affected for the worse by ebbs in the economy of the capitalist sector. Although there were several important considerations behind the Soviet "scissors crisis" in the middle 1920s, the breaking point was typified by the mid-1920s' agricultural crisis in the U.S. which meant a softening of the world markets' demand for — and prices for — Soviet grain exports. During the 1928-1934 period, the collapse of the capitalist sector had savage consequences for those aspects of the Soviet economy which depended directly and indirectly on conditions of world trade.

Since the slowing of the industrial growth of the internal USA economy in the 1957-61 recession and the development of the present monetary crisis during the middle 1960s, Soviet and CMEA countries' internal economic growth rates have been inevitably adversely affected by a softening of the world market.

The case of Poland should be put to one side for this purpose. Especially following the 1956 crisis, Poland has pursued a disastrous social and economic policy in agriculture. As noted in other reports on this subject, Poland's agriculture is virtually precapitalist, chaotic, and miserably low in productivity. This is a source of perpetual and worsening difficulties in national consumption levels, overall productivity of the Polish economy, and in the political and social byproducts of these wretched arrangements. This Polish problem, and the Polish foreign debt, represent the worst internal ulcer of the CMEA as a whole.

Putting this Polish problem to one side, the kind of discussion of the CMEA nations' foreign debt seen from the *pen of Brainard* is essentially nonsensical. The limitations of the CMEA countries' ability to pay for high-technology capital goods imports is the limitation on the demand for CMEA countries' exports through which exports those nations may earn the foreign currency balances to meet debt payments. The principal utility of Soviet full export potential is for Third World development. If the CMEA countries' export potential is used in partnership with the OECD countries' export potential for Third World agricultural and industrial development, this combination produces substantial CMEA export earnings *apart from Soviet primary commodity exports.*

In short, looking at the bottom line, the problem of the CMEA foreign debt balances is entirely the inability of the creditor nations to accept payment. This problem is complicated by the success of Soviet technological programs. That success involves a much-expanded division of labor with respect to the number and kind of industries the CMEA economies now require. This capital cannot be sliced like sausage — since each kind of capital investment requires finite total minimal investment, without respect to the fact that only a portion of the created capacity is immediately required.

A rational, balanced development of the CMEA economies requires economic cooperation with OECD nations in developing the world division of high-technology labor. Without this cooperation, the capital formulas produce proliferating “bottlenecks” in the CMEA economy as a whole — too much of this capacity against a lack of another essential element of the overall process-sheet of finished production. The correlating result of such existing and potential bottlenecks is a slackening of the overall economic growth rate in the CMEA economies. This slackening does not occur because the Soviets are not generating sufficient capital for a higher rate of growth, but because growth cannot be managed as one slices sausage.

In its less contemptible features, the current Soviet Five-Year Plan is an adaptation to the problems caused by the current depression in the capitalist sector. The current Five-Year Plan projects current such trends forward, and proposes to adapt to those conditions rather than attempting to change them.

What must be changed? The developing sector must be opened up for massive, high-technology export from the OECD nations — thus creating a favorable economic circumstance for CMEA world trade, and substantially higher CMEA growth rates. Fifty percent growth in Soviet output in the five-year period would be quite reasonable under those circumstances.

This requires a drastic reorganization of Third World external debt, and the establishment of the new, gold-based international monetary system modeled on the IDB proposals. That course of remedial action means a general capitalist economic recovery, a solution to the problems of the Soviet Five-Year Plan, a conversion of CMEA external debts into a premium monetary holding and not unimportantly, an elimination of the otherwise certain emergence of the thrust toward general thermonuclear war.

But, this is not perceived by the current Soviet majority, which is cuddling and cozying with its British advisors, and generally making an unwholesome mess of Soviet foreign policy in most parts of the world.

‘The Kim Philby Syndrome’

The late J. Edgar Hoover was obviously right as far as he went in his 1950 judgement of “Kim” Philby as the “third man” in the Burgess-Mclean affair. Hoover was also on sound ground in distrusting Oxford University’s MI-6 as an unwholesome lot. However, Hoover’s assesment was inadequate. Philby is to the present day no “bolshhevik,” but still an MI-6 top agent. The case of agents Mclean and Philby is not merely exemplary of

the problem under consideration. Mclean, still a British MI-6 agent, performed a vital role in developing the nest of British intelligence-influenced networks in Soviet political intelligence, and Philby is at the present time a key British Secret Intelligence Service operative in an important position within the KGB. Beginning with the death of Stalin, British intelligence built up a major penetration of the Soviet leadership, a penetration which was qualitatively augmented beginning in approximately 1963.

How do we know this to be true? Our strongest case, of the two immediately under consideration, is that of Philby. McClean’s role in Moscow provides conclusive proof of his character. In the case of the miserable Burgess, we have no evidence which could not have an alternative explanation, so we leave that particular case open.

On Philby we have three sets of evidence. The first is of the sort that enables one to recognize a skunk without securing his birth certificate. Second is a profile of Philby and his father’s history, together with their interconnections. The third is the role Philby performs within the KGB at this time.

On both Mclean and Philby, it is clear that J. Edgar Hoover was convinced by evidence in part that was intended to convince the Soviet KGB. One does not “launder” a British MI-6 operative into the highly suspicious Soviet KGB and related intelligence circles without developing a convincing dossier of the sort required to peddle a double agent to such circles at that level. The British SIS investment in Philby was obviously enormous, but no lesser investment would have succeeded. Putting oneself for a moment into the shoes of Lord Mountbatten and similar sorts, one would have to concede to those British gentleman that their investment has been, altogether, a most prudent expenditure.

The investment British SIS made in Philby is an interesting subject in itself. Philby’s history begins with an SIS lift penetration project—in which the late Huge Gaitskell was prominently involved back during the period immediately following Hitler’s accession to the Chancellorship. This was the SIS’s “Vienna left cover” caper, an operation which recruited a substantial number of persons who are key British operatives to the present day. Hence, Philby’s Soviet-published autobiographical account of his conversion to communism during that period is most interesting.

Also relevant is the fact that Philby’s father was an active SIS agent, and that “Kim” was raised under the “Umpah” old-boy household circumstances of the sort which British SIS considers the most valuable for developing a double-agent from adolescence or young manhood. We have studied British intelligence modus operandi on this point in some depth, involving scores of case histories of key operatives who have come into important positions under cover. “Breeding” is very important for SIS, a proclivity for sodomy not withstanding.

Having established his “Vienna conversion” to communism, Philby soon after began his triple-agent role as an associate of the Cliveden set, and undoubtedly passed increasingly high-grade intelligence to the Soviets at an early point. Meanwhile, his communist-to-quasi-communist credentials developed in England all involved

prominent British communists and "fellow travelers" who were all British intelligence community agents — although the Soviets, to this day, are apparently duped by many of these cases.

These pre-Cliveden credentials, well known to British counter-intelligence, did not prevent Philby from being assigned to the supersensitive Iberian post at a crucial point, or from enjoying a position during and immediately following the war which no Counter Intelligence Corps (CIC) staff would permit without relevant instructions from the highest quarter.

There is nothing in Philby's known background at any point which suggests a humanist conviction: in fact, all his known features are typically bestialist-Oxonian. Such types do produce the odd-communist out of psychopathological reaction formations — a profile which the known features of the Burgess case would tend to fit. Such types sometimes join communist circles the way a college freshmen visits a whorehouse. However, even prior to 1963, Philby's case fits a contrary picture, the picture of the double-agent being carefully prepared.

It is the events from 1963 onward that are conclusive for the cases of Mclean and Philby. One merely has to ask what the effect of the work of Philby's protégé, Mclean, has been. One merely has to meet Mclean's protégé, Georgii Arbatov, and view the work of Institute of the World Economy and International Relations (IMEMO) and of the USA-Canada Institute in Moscow. One knows immediately and conclusively that Mclean is still a British SIS agent. One does not need a birth certificate to identify a skunk at a Sunday School picnic. Receipt of vital information concerning Philby's current role in the KGB was the final bit of conclusive proof needed.

The methods we employ to track the Philby-Mclean case is the same we employ to solve the case of one Robert Swann, British Foreign Secretary David Owen's special representative to the Euro-Arab Dialogue. Mr. Swann has attracted our special attention through certain peculiar actions against us in Luxembourg and Paris. We began a dossier on that gentleman as a matter of routine interest. We found his pedigree as given in public account and we added the fruits of inquiry and surveillance.

We found he belonged in earlier times to the old "India Hands" specializing in nasty operations among Islamic peoples, and also spoke Thai competently. We traced him to SIS Malaysian operations, and set ourselves the task of making a crucial test, determining whether or not he had relevant activities in Southeast Asia. From most authoritative sources, we discovered he was involved in the 1973 Thai coup in collaboration with British intelligence networks deployed under the cover of the Socialist International. We then immediately knew the nature of Mr. Swann's assignment to the Euro-Arab Dialogue.

In all such cases, one compiles a background profile, and then, as in all such scientific work, defines a crucial bit of experimental or observational information which proves or disproves a hypothesis. Given the background information, the post-1963 career of Mclean and Philby proves the case conclusively. When the skunk squirts his stink, one knows that the subject of interest is no "cat" painted up as a practical joke.

In the problem under consideration here, the use of the term "British intelligence" to identify the influence on the current Five-Year Plan is both exact and generic. Although U.S. and French intelligence made serious efforts, beginning during World War II, to establish independent positions in the Middle East, the sub-continent, China, Africa and Europe, these were predominantly British intelligence playgrounds, and U.S. efforts, particularly, have had limited success.

... the gang in Moscow which is identifiable with the circles of... Arbatov, Mclean, and Philby consistently move in tandem with each turn of the British SIS "party line."

Now, since Schlesinger's reign at CIA and Defense, the independent U.S. intelligence capabilities in many parts of the world have been savagely reduced to the relative advantage of British intelligence and British-allied factions in the U.S.'s own intelligence communities. Much of this "watergating" of the CIA, FBI, and attempted watergating of the Defense Intelligence Agency have been nothing but antics of the British intelligence networks and their U.S. allies to weaken those sections of the U.S. intelligence establishment which were either anti-British or simply too independent for British liking. The bulk of the U.S.-based penetration of the Soviet leadership has been either the work of neo-Fabian "left-CIA" networks politically allied with the British SIS network, or by elements of the U.S. intelligence and political establishment working in cooperation with the SIS neo-Fabian networks. (Nelson Rockefeller, if he sensed it useful and prudent to do so, could cast valuable light on this problem.)

The aspect of this which is of the greatest practical significance is that the gang in Moscow which is identifiable with the circles of the patrons of Arbatov, Mclean, and Philby consistently move in tandem with each turn of the British SIS "party line." Although U.S. vital interests do influence elements of the Fabian faction inside the U.S., otherwise the U.S. neo-Fabians, the British SIS and allied types, and Arbatov et. al. have moved almost consistently in tandem on every turn in policy during recent years. Unfortunately, that gang in Moscow appears to have a stranglehold on key parts of Soviet policy-making, including significant input into the Five-Year Plan policies.

The Disease Of Systems Analysis

The most prominent single element of British ideology imported into leading Soviet circles during recent time is the radical positivist doctrine known as "systems analysis." This product of radical positivism was developed around Vienna and retailed throughout much of the world through such British pimps as the late Bertrand Russell. Not surprisingly, the Vienna International Institute for Systems Analysis is presently one of the world's most significant intelligence conduits into the Soviet leadership.

This writer is quite familiar with systems analysis, and also informed concerning certain of the important collateral ways through which this doctrine was insinuated into leading Soviet circles.

Systems analysis became widespread through extended use of digital computer systems for administering tasks of management. A digital computer is, however sophisticated, an "idiot" which is intrinsically incapable of "conceptualizing" on any higher level than that represented by "systems analysis." Hence, the extended use of computers, particularly the use of extensive systems of computer and peripheral units, naturally fostered the wider use of methodology adapted to the sub-animal intelligence level of which computers are capable.

This is not to suggest that scientific computer users are themselves therefore idiots — but, we shall come to that point shortly.

A digital computer is intrinsically capable only of handling linear functions. Immediately, some specialist, not thinking things through clearly, will object: there are procedures for "putting nonlinear functions onto computers." Granted. This is accomplished by virtue of the feasibility of approximating nonlinear functions through linear "curve-fitting." The computer programmer's director designs the nonlinear function to be programmed. By these methods, the computer can perform any underlying prespecified function. Granted, in this way, because of the scale and speed of computation and related "logical" operations of which modern computer systems are capable, a computer can reach results which are ostensibly qualitative in character because no mass of human beings without computers could extend the formulations to that degree.

There are... Soviet spokesmen who identify... "systems analysis" as... realization of Marxist-Leninist methodology! Lenin himself would box their ears!

The point to be made is that the kind of operation which can be put onto a digital computer system, or certain types of combined digital analog systems are "nonlinear" by specification, but involve only one, lower aspect of the entire domain of nonlinearity.

Anyone who understands computer technology knows that it is the creative mental powers of those human beings who design the applications that is the sole origin of the *qualitative* power of advancement of the computer applications. Again, the ingenuous admirer of computer technologists mistakes the quality of complexity of operations for qualities of what the computer is intrinsically incapable.

This distinction is the crucial aspect of economic analysis. As long as one assumes that the technologies of production and consumption are fixed in range, such that systems of either linear equations or simulated nonlinear functions can account for the causal chains of events, methods like those employed in systems analysis can

apparently succeed. However, once one attempts to analyze entire economies for effects of successive qualitative advances in technologies, the applicability of systems analysis is limited to "explosions" of each specific new sets of expressions derived as appropriate to the new technologies. In other words, the most advanced teachers of the work of Reimann and Cantor come directly into play.

Therefore, computer systems are indispensable for modern production scheduling, but can not "handle" conceptually the specific problems of "economic planning" in connection with technological progress.

Conversely, there is nothing but advantage in use of related computer technologies, including software technologies, as long as that and related distinctions are kept in view. It is the crossing over from "production scheduling" to more advanced topics which represent the transition from useful computer technology to lurid metaphysical gibbering. Unfortunately, a significant number of Soviet representatives have crossed the line to such Viennese lunacy.

Exemplary is the case of the otherwise amiable and well-disposed Soviet speaker at a recent Leibniz conference in Hanover, who committed the obscenity in public of tracing "systems analysis" from Leibniz. Clearly, that Soviet spokesman has not understood the most elementary features of Leibniz's *Monadology*, *Theodosy*, or the Leibniz-Clarke correspondence. The Soviet spokesman was attributing to Leibniz precisely what Leibniz absolutely denounced! There are, on a broader scale, Soviet spokesmen who identify the promulgation of "systems analysis" as the road for realization of Marxist-Leninist methodology! Lenin himself would box their ears! The most rabid Viennese positivism being attributed to him!

The shameless Arbatovian recognizes the epistemological implications of this lunacy. Just as systems analysis applied to society reduces the human individual to a bestial unit of Hobbesian man, the Arbatovians shamelessly embrace that implication, and advance the neo-Malthusian refuse which the same outlook evokes in London, Oxford, Cambridge, England, or Cambridge, Massachusetts.

The proposal to extend "systems analysis" to the purposes of determining social policy and related matters is directly a moral self-degeneration on the part of the advocacy of such "systems analysis" philosophy. Arbatov and his ilk are precisely such degenerates on all counts.

Brezhnev's Address

Despite the Arbatovians and "systems analysis" freaks, President Leonid Brezhnev's 60th Anniversary address devoted a major portion of its content to stressing humanist principles of technological progress. In fact, the British agents and their cronies in the Soviet leadership are a minority. The bulk of Soviet citizens have a deep felt organically humanist commitment to technological progress. Some leading strata are more sufficiently conscious of the implications of that commitment. Other leading strata are simply being muddleheaded realpolitickers on the issues at hand —

“sly peasants”. Once the effects of the current Five-Year Plan becomes visible there will be a “typically Russian” reaction against it — a period of sour, inner grumbling, followed by an outburst.

Despite Moscow’s present contentment to have the United States settle the Middle East problem (despite the outer display of ritual objections to this or that aspect of the proceedings), the Soviets will lose most of their interest in the Middle East and much in other parts of the Third World and elsewhere — unless the Sadat-Begin entente fails to provide Palestinian Arab state, in which case the Soviets will be back into the Middle East bigger than ever in short order. Presuming that Israel ends up recognizing the PLO (in one way or another) and cooperating to establish a Palestinian Arab state, the Soviets will have lost their Middle East political position as a result. This, and some intersecting developments, will trigger interesting reactions in Moscow leading circles.

Contrary to widely held illusions on this subject, Soviet influence in the Middle East was never based on either a significant Arab socialist movement — none really existed — nor on a given number of Arab client states. Rather, in the circumstances dictated by Anglo-American maneuvers in that region, the Arabs’ only alternative was to bring the Soviets into the region to offset the Anglo-Americans, and thus gain a bargaining position for perceived Arab interests. Once a Middle East settlement occurs which provides the Arab sector with genuine, sustained economic development, and under the condition this is aided by the United States and Western Europe, major Soviet influence in the Middle East will almost vanish.

This consequence will bring home to some circles in Moscow the fact that Moscow ought to have moved for such an economic development-focused solution. Then, Moscow would have had the favored position in the Middle East. Moscow had the opportunity, at the point that the Third World was moving toward adoption of the IDB-type new world economic order. However, Moscow, under the influence of the Arbatovians and similar types, acted in effect to sabotage the IDB effort through 1975 and early 1976. In short, if Moscow senses a loss of its Middle East influence, Moscow has no one but itself to blame.

The Middle East is not the end of the matter. Granted, the Soviets have in the past given much development aid to Third World nations. The case of India is notable among the best Soviet efforts. Egypt is also notable. However, Moscow has refused to tackle the fundamental issue of economic development in general. The policy of the forces behind the current Five-Year Plan direction have, on balance, abandoned the Third World to Robert McNamara and similar types.

Now with the de-emphasis on development in the Soviets’ own Five-Year Plan, the process of Soviet self-isolation will tend to grow steadily worse, and accelerate to that effect — until the cumulative consequences of recent years’ Arbatov-tainted policies brings political counteractions in Moscow. The counteraction will, we anticipate with regret, occur in a characteristically Russian way. Then the Soviets will decide, in their own way, that they have been made once too often the prize dupes of British intelligence. Then, Arbatov, if he is fortunate, will probably be found teaching “systems analysis” at Trinity College.

Key Parameters Of The Soviet Tenth Five-Year Plan (1976-80)

The Tenth Five-Year Plan (FYP) of the USSR, passed into law in 1976 to determine Soviet economic policy for the period of 1976 to 1980, represents a precipitous decline in the rate of growth of the USSR’s economy (Chart 1). Never in the history of the Soviet Union, excepting during war, has an increase of industrial output of only 36 percent been plotted for a five-year period.

A close look at the Tenth FYP reveals that if this plan reflects some difficulties, it contains the seeds of much worse trouble. The steepest decline in growth rate is going to occur in capital investments; that is, at the point where the future backbone of the economy is being built. This undermining of a future productive base is confirmed when the Tenth FYP is broken down by branches of industry (Chart 2): the sharpest growth rate declines are registered for machine tools — the wherewithal to produce the means of production — and cement — representing the prospects of the construction industry. In the Ninth FYP, the Soviets had succeeded in holding the line in these vital industries, which achieved a stable or only slightly declining growth. For 1976-1980, this is not even being attempted.

The sector most notably scheduled to grow at a faster rate in the Tenth FYP than the Ninth is agriculture. But its 17 percent expansion is merely a recovery from the 13 percent growth achieved in the Ninth FYP, a result which fell far short of the targeted 21.7 percent growth planned for agriculture in that period. During the years of the Ninth FYP, 1971-1975, the USSR suffered one harvest failure (1972) and one harvest catastrophe (1975). As part of its priority position, the agriculture sector is receiving *increasing* portions of national electro-energy production and capital investment. But agriculture, the least efficient sector of the economy, is a notorious sinkhole down which such investments drain with a low rate of return.

Soviet energy production, whose slowed growth is partially indicated in Chart 2, is characterized by what Soviet planners call “the shift of the country’s energy base to the North and East.” Energy development, in other words, depends on the development of Siberia. (We are not ignoring the production of nuclear fission energy, which is also an increasingly important component of the Soviet energy program.) This involves not only tapping

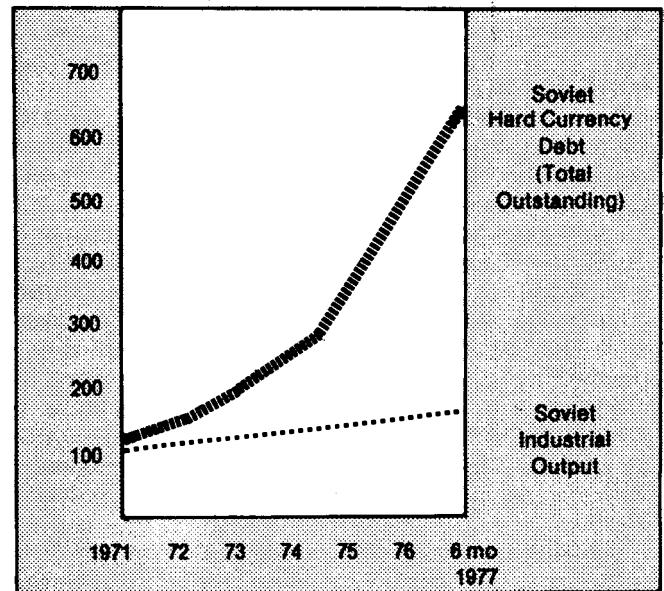
Siberia's fossil fuels, but the construction of several new hydroelectric stations as the cores of new cities in the region.

Although the correlation is not spelled out in the Tenth FYP documents, it is no secret that completion of these projects, especially those related to the extraction of fossil fuels and their transportation, is geared to expected input from the OECD sector: credits for purchase of pipeline, for sophisticated drilling technologies, etc. It is precisely this area of expansion that is jeopardized, when East-West trade stalls because contracting Western markets cannot absorb Soviet exports. The first two years of the Tenth FYP have seen a leveling and then drop-off (Chart 3B) of the share of Soviet foreign trade conducted with the advanced capitalist sector, a portion which had mushroomed in the first half of this decade (Chart 3A).

The same point is made in a different way, when the West German daily *Handelsblatt*, representative of some of the USSR's most important trading partners in Western Europe, complains bitterly that all Moscow wants is barter, compensation, and more barter!

In sum, the Soviet Union is in a situation where a leading Academy of Sciences member can tell *Pravda* that thermonuclear fusion power is industrially practicable by the end of this century, yet the country's economic growth at this moment is slowing down. The way in which this contradiction is "reconciled" by the planners is symptomatic of one of the root problems: in the long-term project for the Soviet energy balance, issued last year by the State Committee on Science and Technology, fusion power is not mentioned. It was not permitted into the closed "system" of the energy industry by the committee whose Vice-chairman Dzherman Gvishiani, is simultaneously co-chairman with McGeorge Bundy of the International Institute for Applied Systems Analysis in Vienna.

— Rachel Berthoff



GRAPH 1

Increase of Soviet debt and Soviet industrial growth (1970=100).

Source: Estimates prepared for U.S. Congress Joint Economic Committee; Chase Manhattan and Morgan Guaranty estimates; Soviet Yearbooks and *Ekonomicheskaya Gazeta*.

	Percent of Total Turnover	Percent of Exports	Percent of Imports
1965	19	19	19
1970	21	19	24
1975	31	25	36
1976	32	28	37
1977 (Jan-June)	29	25	34

CHART 3b

Portion of Soviet trade with capitalist sector (1965-1977).

Source: Soviet yearbooks and *Foreign Trade*.

CHART 1
Growth of the Soviet economy in the Eighth, Ninth, and Tenth five-year plans (percent growth shown for five-year periods, from actual results for Eighth and Ninth plans, from targets for Tenth FYP).
Source: Soviet yearbooks and *Ekonomicheskaya Gazeta*.

	National Income	Industry	Industry A Means of Production	Industry B Objects of Consumption	Capital Investment	Agriculture
8th FYP (1966-1970)	41	50	51	50	43	21
9th FYP (1971-75)	28	43.3	45.7	36.7	42	13
10th FYP (1976-80)	26	36	38	32	26	17

	Electro-energy	Oil	Steel	Machine Tools	Cement	Mineral Fertilizers	Household Goods
8th FYP (1966-70)	46	45	27	64	31	77	88
9th FYP (1971-75)	41	39	21	63	28	63	62
10th FYP (1976-80)	33	30	19	51	18	58	56

CHART 2

Growth of some key branches of industry in the USSR during the Eighth, Ninth and Tenth five-year plans (percent growth shown for five-year

periods, from actual results for Eighth and Ninth plans, from plan targets for Tenth FYP).

Source: Soviet yearbooks and *Ekonomicheskaya Gazeta*.

	TURNOVER		EXPORTS		IMPORTS	
	Total	Capitalist Sector	Total	Capitalist Sector	Total	Capitalist Sector
1970	151	168	155	157	147	179
1975	347	564	324	436	371	693
1976	389	664	378	557	400	771
1980 (Plan)	462	NA	NA	NA	NA	NA

CHART3a

Growth of Soviet trade and trade with advanced capitalist sector (1965 = 100).

Source: Soviet yearbooks and *Ekonomicheskaya Gazeta*.

The Tenth Five-Year Plan To Date

In 1976 and the first ten months of 1977, the overall industrial output targets of the Tenth FYP were met. For 1976, in fact, they were surpassed: industrial output grew 4.8 percent, whereas the planned increase was 4.3 percent.

In part, this pace was maintained because of the very successful grain harvest of 1976. A record 224 million metric tons of grain was harvested, providing a sufficiency of foodstuffs domestically and avoiding the necessity of large grain purchases using hard currencies. This year's grain crop, however, has been preliminarily announced as 194 million metric tons. Although not a disaster, this low total will deprive the Soviet economic managers of some flexibility. A crop shortfall usually has significant ripple effects in the Soviet economy.

At the same time, the areas where the plan has not been met in 1976 and 1977 sound a warning signal. In 1976, plan targets were missed for steel, mineral fertilizers, cement, and reinforced con-

crete. As of October this year, the Ministries of Ferrous Metallurgy (steel) and Construction Materials were again listed as behind target by the Central Statistical Directorate of the USSR. It is at the heart of Soviet industry, steel, and construction that faltering is noticeable even in the terms of the Tenth FYP's scheduled slowed growth.

It was revealed last month that the Soviet Union has slashed its imports by \$2 billion so far in 1977, a reduction of approximately 20 percent. This is one side of Moscow's attempt to manage its payments deficit. The other side, boosting exports, is proving more difficult than anticipated in the plan. For the first six months of 1977, the volume of Soviet exports and of total trade turnover with its major western trading partners showed an absolute decline over the same period in 1976. Soviet trade with France fell 8.2 percent (exports down 7.8 percent); with West Germany it fell 6.8 percent (exports down 8.2 percent); with Britain it fell 5.3 percent (exports down 1.7 percent).

On Eve Of Cairo:

Middle East Poised Between Geneva, U.S.-Soviet Showdown

The danger of the polarization of the conflict in the Middle East into a sharp U.S.-Soviet confrontation has increased in recent days, only two weeks after the historic visit of Egypt's President Anwar Sadat to Israel and just days before the crucial Egyptian-Israeli negotiations in Cairo, which are set for Dec. 14.

Although there remains a strong momentum toward an overall settlement of the Arab-Israeli and Palestine questions at a Geneva conference, a highly destabilizing tendency toward a separate Egypt-Israel deal has begun to emerge and is gathering force. The region is drifting in such a direction under pressure from circles associated with British intelligence, City of London banks, and their U.S. allies, Henry Kissinger and Walter Mondale.

The decision by Sadat this week to break diplomatic relations with Syria and other countries who attended the recent Tripoli, Libya meeting of the radical "rejection front," followed by the Egyptian expulsion of many Communist diplomats and threatened rupture with the Soviet Union and its allies, has exacerbated the polarization. The goal of the British forces destabilizing the Middle East is to wreck detente and pit the United States and its client states — Israel, Egypt, Saudi Arabia, Sudan — against the Soviet Union and the radical Arabs — Syria, Iraq, Libya, Algeria, and the Palestine Liberation Organization.

Neither Washington nor Moscow desires a confrontation in the Middle East, a hot-spot whose detonation would have profound implications on every level of U.S.-Soviet relations.

But Henry Kissinger and his patrons in the boardrooms of the New York and London investment houses have called out their troops to exacerbate existing disputes and wreck the potential for a Geneva settlement. Like an octopus, the British networks operate on all sides of the Middle East conflict: On the Arab side, British intelligence and some Israeli networks penetrate radical Palestinian groups like Saiqa and the PFLP and certain factions in Iraq and Libya, along with the Western Sahara nationalist group Polisario, all provocateurs whose deployment is to wreck Geneva — although there is evidence that Syria, Iraq, and Libya are aware of such operations and are moving to expel British agents. In addition, radical Moslems within Egypt and Saudi Arabia opposed to a peace settlement are run by British circles, along with the British-allied faction of the Israeli military led by General Moshe Dayan.

Saudi Arabia Moves

But there is increasing evidence that powerful Saudi

Arabia is beginning to exert its muscle behind the scenes to reunite the Arabs and prevent the positive momentum of the Sadat-Begin meeting from devolving into a disastrous "separate peace." The *Washington Post* reported this week that Saudi Arabia has launched a "diplomatic offensive" aimed at reconciling Egypt and Syria, and that envoys have left for most Arab capitals from the Saudi capital of Riyadh in recent days with a view toward the convening of an Arab summit. As the *New York Times* put it, "only Saudi Arabia has the moral, political, and economic power to swing the majority of the Arab governments" behind a single Arab policy.

Both Syrian President Assad and Jordan's King Hussein have visited Saudi Arabia in rapid succession, and both Assad and Hussein plan to make separate tours of the states of the Arab Gulf. In addition, a top envoy of Sadat, Ashraf Marwan, was in Saudi Arabia this week.

The Saudi moves, probably backed by powerful U.S. forces and certain key West Europeans, might be able to stabilize the Middle East and ensure an early reconvening of the Geneva peace conference. The current trip of Secretary of State Cyrus Vance to the Middle East should parallel the Saudi efforts, unless Vance is tempted to encourage the tendency toward a separate peace. The *Jordan Times*, following a meeting in Damascus between Assad and Hussein, said calmly that things "are not as gloomy as they seem on the surface." Hussein, who then traveled to Cairo for a talk with Sadat, emerged to say that "the establishment of peace will occur in the Middle East in the near future."

Western Europe is also gearing up to stop Henry Kissinger's mad rush for a war. The Italian press has launched a blistering attack on Kissinger for sabotaging Middle East peace and plunging the region toward war. "The *New York Times* prints lies from Kissinger," said one leading Italian daily. Stated an informed West German diplomat, "Western Europe is not going to buy a separate peace."

Focus On Cairo

Much will be known after the start of the Cairo conference, called by Sadat immediately after his visit to Israel, to which only Israel of the states in the Middle East has responded.

With the State Department's Alfred Atherton as an observer, Egypt and Israel will get down to hard bargaining at the Cairo meeting. The attention of the world will be focused on Israel, expecting some general concessions to come from the Israelis that could pave the

way for a Geneva conference.

According to Egyptian sources, if the Israelis fail to make some important step toward an overall settlement, then — as he had promised — Sadat may be forced to resign, and the entire complexion of the Middle East situation will be completely altered.

The Soviet Union is playing it cautiously. Although TASS and the Soviet press have warned strongly that the Cairo meeting "is a cover for a separate peace" between Egypt and Israel, privately Soviet officials are saying that "while there is real danger of a catastrophe coming out of the Cairo meeting, let us wait and see what happens." According to the *International Herald Tribune*, U.S. envoy Philip Habib — who met with Vance in Brussels two days ago following Habib's visit to Moscow — was told by the USSR in no uncertain terms that the Soviets would vigorously oppose any steps toward a separate peace coming out of the Cairo meeting.

An ominous sign emerged this week with the arrival in Cairo of a Palestinian delegation from Gaza, and the expected arrival of a second group of non-PLO Palestinians from the West Bank. There is speculation — fed by such Kissinger conduits as the *Washington Post's* Joseph Kraft — that Sadat may be considering a move to by-pass the PLO and encourage Jordan and "moderate Palestinians" to negotiate with Israel. This move, which would permanently alienate Syria, the PLO, and the USSR, would be a step toward a nuclear Armageddon in the Middle East.

Dr. K's Warpath

Sadat's decision to break with Syria reflects a growing split in the Arab world that, if widened further, could destroy the chances of reconvening the Geneva conference. Instead of trying to conciliate Syria after the Tripoli meeting, Sadat chose to expel the Syrian Embassy from Cairo. Sadat took this action despite the fact that Syria had exerted great efforts to restrain the more radical Arab states and, in fact, had achieved a victory in that the anti-Egypt Tripoli meeting did not condemn Resolutions 242 and 338 of the United Nations, which form the basis of a Geneva conference.

The Soviet Union, fearing Sadat's conclusion of a bilateral Egypt-Israel pact, threw its weight behind the anti-Sadat Arab forces and condemned the recent Egyptian-Israeli diplomacy in harsh terms. "In reality, Sadat dances to the tune of imperialist circles," commented the Soviet news agency, TASS. "Let's call things

by their proper names. We are confronted here by Cairo's actual capitulation to imperialism, to militant Zionism."

The Soviet response to the crisis in the Middle East is the essence of stupidity. Rather than capitalize on the positive aspects of the Sadat trip to Israel in cooling Arab-Israeli tensions, the Soviets have adopted a rigid, hardline opposition to what they see as a U.S. conspiracy. This paranoid response directly reflects the input of British intelligence in the Kremlin, not unlike the way the British puppet-masters manipulated the 19th century czars.

The *New York Times* and U.S. Secretary of State Cyrus Vance — who had met for an hour with Kissinger Dec. 2, just before deciding to announce his Dec. 9-15 tour of the Middle East — immediately jumped on the Soviet support for the Arab hardliners. "An outmaneuvered Soviet Union seeks to profit from turmoil by encouraging radicals" in the Middle East, the *Times* warned, calling Moscow a "poor partner for peacemaking."

Vance's criticism was more moderate than that of the *Times*. At a Washington press conference before he left for a NATO meeting in Brussels and then the Middle East, Vance delivered a cautious and balanced view of U.S.-Soviet relations in the Middle East that reflected the State Department's factional position in the Administration in favor of detente. Some of the Soviet Union's statements "have not been helpful" and "raise questions about what their ultimate objectives are," said Vance, but he added: "We still believe that the Soviet ultimate objective is to see a comprehensive settlement of the Mideast problem."

Vance stressed that he intends to push for a Geneva conference and that "the time has come to really begin to come to grips with the question of substance" (that is, the nuts and bolts of a Middle East peace that Israel has long resisted facing). However, he hinted that an indefinite postponement of Geneva is not undesirable, and he put undue stress on the upcoming meeting in Cairo Dec. 14 at which Israel, Egypt, the U.S. and a UN observer will convene a "pre-Geneva meeting."

A serious Israeli negotiating posture at that Cairo meeting, combined with efforts by Jordan and Saudi Arabia to reconcile Egypt and Syria, might swiftly clear the way for the reconvening of a Geneva conference. If Vance can accomplish that, with French and Soviet assistance, then peace is a virtual certainty.

Sadat: I Do Not Want A Separate Peace

Here are portions of an interview with Egyptian President Anwar el-Sadat from Der Spiegel magazine on Dec. 5.

Spiegel: Mr. President, the Arab world is split over your visit to Israel. Outrage is being expressed in some Arab capitals. Weren't you expecting such reactions?

Sadat: What's happening right now is nothing new. It's something we've gotten used to — that's our method in the Arab world, unfortunately.

Spiegel: But an Arab head of state has never before been attacked by his neighbors violently.

Sadat: Following the second Israeli-Egyptian ceasefire agreement on the Sinai the same thing happened; that campaign against us went on for an entire year . . . There's nothing about this which would make me worried. As I announced, I will carry through my initiative to its conclusion. I intend to bring about a comprehensive peace, and not merely an Egyptian-Israeli agreement — under no circumstances. I want an overall peace, which will solve the Mideast problem in its totality. In any case nothing will stop me from proceeding along my course and completing my mission — even if only Israel comes to Cairo and Geneva. . . . My people are backing me up 100 percent. Just think about the millions of people who greeted me so enthusiastically after I returned from Jerusalem. Such a thing has not even happened in the days when our revolution celebrated its victories. I will proceed along my course. And as soon as I have reached an agreement — even if only Israel and myself are represented — I will present it to the Arab Kings and Presidents at a summit conference.

Spiegel: But why didn't you discuss your intentions beforehand with other Arab countries?

Sadat: Let's look at things calmly and soberly: No politician who takes himself and his post seriously needs to get permission beforehand from outsiders when the future of his people is at stake. And besides, Arab solidarity doesn't mean that I have to seek out permission for every move I make . . . I don't dictate anything to anyone, and I won't accept the dictates of anyone else. Anyone who comes to me with such things should reread my speech in the Knesset and at the following press conference. For, my Jerusalem trip was thoroughly covered by radio, television, and satellite — there were no dark places. Whoever follows all this and then still has to ask why I didn't ask the advice of others, is a saboteur of the Arab community. . . . Only two days before my trip I was in Damascus. So much I do know: Now as before, Syria does want peace — as does the entire Arab world. . . . But each of us has just taken a different path. President Assad doesn't share my views on the ways and means by which we can achieve peace. I told him the following: "If it turns out that I made a mistake, then I am man enough to state before the Parliament that I was in error, and will offer my resignation. Then I will also say: 'Hafez el-Assad was

right, and he should now take over the helm.' " . . . But I would like to assure you that my personal relations to King Khalid and my Saudi Arabian brothers, as well as the relations between the Egyptian people and the Saudi-Arabian people, are based on genuine fraternity and full mutual understanding, no matter what happens.

Spiegel: Then there exists only a slight misunderstanding between you and Saudi Arabia?

Sadat: You can rest assured of one thing: Our relations to Saudi Arabia are in no way clouded — on the contrary, every day they are further strengthened.

Spiegel: Your opponents claim that your visit to Jerusalem is a recognition of Israel.

Sadat: I am saddened by such assertions. As if you take people for idiots! But our brains can't be just turned off — my visit to Jerusalem was in no way a recognition of Israel. Go through my Knesset speech and the press conference with Begin, as well as my discussion with the parties in the Knesset: we have recognized no one. . . .

Spiegel: Didn't you undertake your trip for a much more directly urgent reason?

Sadat: Perhaps you have heard what I said before the Parliament, namely, that we are on the brink of war, and are so because of small misestimations of the situation on both sides. . . . The nerves of our troops were so tense that afterwards the Israeli Defense Minister laughingly admitted that he had viewed our maneuvers — in response to the Israeli maneuvers — as preparations for an Egyptian attack. Any small mistake could have unleashed a catastrophe. What would have happened then? How would the United States, the Soviet Union and the rest of the world have reacted? . . .

Spiegel: Arab insiders are convinced that Israel has offered to give back the Sinai, a part of the Golan Heights and grant a special status to the West bank of the Jordan.

Sadat: By no means, we didn't so much as mention such things. We only removed the eternal doubts, the chronic mistrust and the psychological barriers. . . . No other questions were up for debate outside of the two points, "no more war," and "security for both sides." . . .

Spiegel: In the event that Syria and the PLO reject the results of the Cairo conference, will you then terminate your negotiations with the Israelis?

Sadat: No. If Syria and the PLO reject the results, I will carry through the negotiations to their conclusion in spite of this. Then I will convene an Arab summit conference in order to have the negotiation results discussed. . . .

Spiegel: (Asks about Moscow's support of Syria and the PLO.)

Sadat: I am ashamed to have read in the newspapers that an Arab country is putting its destiny into foreign hands. We aren't doing this. In any case, the Arab countries would do well to let the Palestinians decide on their own destiny.

Spiegel: Can the Palestinians alter this situation by themselves?

Sadat: If the Palestinians had listened to me one year

before the October War when I recommended they form an exile government, things would be completely different now. The entire world would have recognized them, but naturally they are not in a position to do this, since Syria does not want an exile government. Syria would like a Ba'ath government for the Palestinians. This is where it stands, unfortunately. . . .

Spiegel: Can you imagine a practical solution to the Arab-Israeli conflict without Moscow?

Sadat: Since the October War the Soviet Union has sent no more arms to me, whereas Syria has received four times the amount of arms they ordered. We have not even received spare parts. The Soviets have not even respected the old, still-in-effect treaties on arms deliveries. The USSR has also refused to support our debt — all this the Soviet Union can't deny.

I have nevertheless invited the Soviet Union along with the other partners. The decision is now for Moscow to make. But if the Soviet Union participates in the negotiations or then tries to create difficulties for us, even though we who bear direct responsibility and are directly affected are able to reach agreement — then we won't accept this.

Then, if we are in agreement with the future settlement, this will go immediately into effect. A Soviet objection to it will have no effect on us. . . .

Spiegel: But all this is still far off. What time appears to you as realistic for the ending of Arab-Israeli conflict?

Sadat: 1978. The coming year is the decisive year during which the Arab-Israeli conflict will be ended once and for all.

Moscow On Sadat

The Kremlin is undergoing a "painful reevaluation" of its Mideast and Africa policy in light of recent events, says Hans Lathe, Moscow correspondent of the West German Kieler Nachrichten Dec. 8. Lathe comments that the Soviets say their policies are based on science, but when it comes to these areas they have no realistic policy at all.

Washington Observers On The Mideast

Egypt's break of diplomatic relations with Syria is having a profound effect on the entirety of Mideast politics. The following are assessments of the impact of Sadat's moves on both the international and inter-Arab level by prominent observers in Washington.

From an interview with a Washington source close to Israeli government circles.

Sadat would rather see a split in the Arab world than a comprehensive settlement. Sadat wants to assign to the Syrians the role of Soviet puppet. His thinking is that, in an overall settlement, his value to the U.S. becomes nil, while if the Syrians exist as a pro-Soviet force, then he

Pending their strategic reassessment, the Soviets have escalated their propaganda attacks on Egyptian President Anwar Sadat. The most strident yet was a Dec. 5 Tass commentary by top political observer Yuri Kornilov, excerpted below.

...It is becoming evident that the final goal of this nasty political game is a separate accord with imperialism and Zionism against the Arab peoples, an accord for which Cairo is ready to pay any price, and notably, among other concessions, to sacrifice the vital interests of three million Palestinian Arabs.

He is docilely giving in to the imperialists, who are looking to keep the PLO from participating in the settlement of the Middle East conflict, by substituting a small group of Quisling Palestinians. It exactly on these Quislings that Sadat is counting, while looking feverishly in different regions of the Middle East and beyond, and especially in the United States, for suitable candidates he could bring without difficulty on American or Israeli airplanes to the American-Israeli-Egyptian meeting planned for Cairo, and pass them off as representatives of the Palestinian people...

President Sadat is not looking to arrive at a comprehensive solution of the problem. This is a lie, a premeditated lie motivated by his will to justify to the extent possible in the eyes of the Arab world his separate actions with the aggressor. Let us call a spade a spade. It is really a matter of de facto capitulation of Cairo before imperialism, before belligerent Zionism. It is a matter of treason.

Sadat is quoted as follows:

My admiration before German militarism is indescribable. If I would try to describe it, I could not find sufficient words in Arabic to express my immense admiration and love. Hitler has stricken me, and before him I was stricken by the German military spirit.

(Tass concludes:) These declarations of Sadat are very eloquent in describing who is who in Cairo today.

becomes an invaluable ally of the U.S., and Sadat wants the U.S. behind him. So he wants to drive the Syrians into the Soviet camp, into the Rejection Front, into an extremist position.

You see, Sadat believes that U.S. policy in the Middle East is based on a deception, and a clumsy one, one which the Russians will not fall for. Vance is trying to pull in the USSR to support a Middle East settlement as a process, at the end of which process the Russians will no longer have a presence in the Middle East! Sadat thinks the Russians are not stupid enough to fall for this plan, and that the U.S.-Soviet statement has given the Russians a procedural handle by which to sabotage

peace.

The Israelis understand and sympathize with Sadat. Sadat wants to ally with Morocco against Algeria and Libya, with the Sudan against Ethiopia, and with Israel against Syria and Iraq.

The plan according to which Sadat and Begin are operating is as follows. They will announce after a time that Egypt and Israel have made peace, a separate peace. Then, second, they will announce, Balfour Declaration-style, an Israeli willingness to negotiate other settlements — including a Palestinian homeland or entity — provided that the other parties engage in direct talks. The PLO is excluded from this process; they will be killed off. That is the payoff to Israel.

From an interview with a distinguished Washington-based Middle East specialist:

We're in one of those frequent Mideast situations where everything looks like it's falling apart but it really isn't. Egypt and Syria are continuing their old awkwardness in the Mideast, so the question is where the complex of power remains. Look at the way the Lebanon civil war ended, by the Saudis pulling the Riyadh conference together. We're back in that historical mode, and it's up to the Saudis again to pull things together. I see that happening in about a month, at another conference called by the Saudis. What the Saudis are really thinking is unknown, but this much can be said: They're worried about rejectionist influence increasing. And they'll act to change all that around.

From an interview with a Washington-based source close to Energy Secretary James Schlesinger.

Habib is in Moscow to tell the Soviets to rein in their operations and stop f...g up our operation in the Mideast.

Meanwhile, there is a movement in Cairo to pull the Arabs into the Cairo conference. There's a deal in Cairo. The Israelis are ready to offer a great deal: Golan, Palestinians, everything — enough to bring the Syrians back in. The Syrians don't want to be the stooges of Moscow, to get caught with those rejectionist characters.

The number one rule of the past three weeks has been a change in U.S.-Soviet relations. Vance and Brzezinski are on the offensive. This is healthy. It's forcing Carter to take a long look at the Soviets, at what they're doing in Africa. Carter has been *provoked* by the Soviets, and he's finally reacting to what they're doing in Africa. Carter's response will be hard-nosed, more so than six months ago. His recent statements on Cuban involvement were authorized leaks.

The PLO now is *out* and the so-called genuine nationalists of the West Bank are *in*, and unless Arafat comes around, all the way over, and accepts Resolution 242, he'll be dealt *out*. We'll get some kind of homeland deal without sovereignty, with hopes that it will last for years. In the short run, we'll smudge over the sovereignty question, and the autonomy issue, and we'll see a limitation of Israeli settlements. There will be a deal, too, over the Lebanese refugees, offering them cash to smooth over the right-to-return problem.

Dayan Has Begin's Ear

Israel's negotiating stance with Egypt is not finally resolved, but is now clearly working on the assumption that Egypt's recent leanings toward a separate peace should be encouraged. The prevailing view at the moment is that of Foreign Minister Moshe Dayan, who last week openly called for a separate peace "at any time" with Egypt. In London for a state visit, Prime Minister Menachem Begin declared that a separate peace with Egypt was "possible," thus shifting his earlier stance that a separate peace would be regrettable and that Arab disunity was not to Israel's ultimate advantage.

ISRAEL

According to a U.S. correspondent for a right-wing Israeli newspaper, Begin, Dayan, and Deputy Premier Yadin are "all agreed on strategy, but how long this lasts will depend on Sadat. If he leans in the direction of a separate peace, Dayan will prevail, but if he holds firm for a comprehensive settlement, Begin and Dayan will split and Dayan will be on the outs."

The current Begin-Dayan convergence has undoubt-

edly been abetted by Sadat's diplomatic break with Syria. According to France's *Le Monde* Dec. 7, ruling circles in Israel are "clapping their hands" over the Egypt-Syria split since it expedites a separate Egypt-Israel peace.

Begin is also echoing Dayan formulations. On Dec. 7 in London, he bitterly attacked the Soviets and stressed that Israel would welcome a Geneva conference without the Soviets — one of Geneva's two co-chairmen — if Sadat preferred that.

Begin also interceded with British officials to form a bloc against France in the European Economic Community, exactly one week after Dayan in West Germany counselled West German leaders to break with the French "pro-Arab" line. According to the *Jerusalem Post*, Dayan played upon "dormant anti-French feelings" in West Germany, and was overjoyed that West German officials had privately told him that the country would not recognize the Palestine Liberation Organization.

A Mood For Concessions

Despite this government view, there exists in Israel increasing sentiment in favor of the government formulating a forthcoming position in peace negotiations. Israeli Finance Minister Simcha Ehrlich declared in an

interview last week that "peace" took precedent over "principles," an expression of the feeling that the more mystical aspects of Zionist nationalism must give way to the will to seriously negotiate a peace settlement.

A Dec. 4 political analysis by the *Jerusalem Post's* political correspondent Mark Segal claimed that subtle changes in the direction of concessions are occurring within two of Israel's most "hard-line" parties, the ruling Likud and its coalition partner, the National Religious Party. Segal identified Defense Minister Ezer Weizman as a key figure in determining the Likud's policy directions, expecting him to "emerge as a tough-minded realist."

But the consensus view in Washington is that it is Begin himself who most personifies the historical moment in Israel, and who will determine whether the country plunges toward a new war or develops a serious peace approach.

The Egypt Option vs. the Jordan Option

The following excerpts from a commentary by Shmuel Segev in the Nov. 28 Israeli daily Ma'ariv discuss the ongoing debate and factional splits inside Israel over the shape of a Middle East peace settlement.

The Egyptian president's recent moves in Jerusalem did have an immediate outcome: the "closing of a circle" in Israel's policy, which is now characterized by Moshe Dayan's "Egyptian orientation," in lieu of Yigal Allon's "Jordanian orientation." The struggle between these two concepts has been characteristic of Israeli cabinets since the six-day war. Thus, for example, when in the summer of 1970 Moshe Dayan conceived the idea of an interim settlement with Egypt based on an Israeli withdrawal from the Suez Canal, Allon was among the opponents of the idea initially, and he was also supported in this position by former U.S. Secretary of State William Rogers. It was Henry Kissinger who, in his capacity of President Nixon's national security advisor, supported Dayan's idea. And when Sadat publicly adopted the idea in February 1971, a respite began in the internal struggles, and since then Israeli policy has sought to reach that settlement.

The contest between the "Jordanian option" and the "Egyptian orientation" continued during Yitzhak Rabin's cabinet, when Yigal Allon was inclined to support the U.S. urgings for a settlement with King Hussein while Rabin and former Defense Minister Shimon Peres preferred further settlements with Egypt. Now the circle has been closed and Israel's policy has been hermetically "locked" on Moshe Dayan's "Egyptian orientation."

Regardless of how attractive a separate agreement with Egypt may seem to Israel, the dangers inherent in such a move cannot be disregarded. Success for Sadat's policy depends on his ability to draw Jordan along with him and thus isolate Syria among Arab confrontation states. In order to enable Sadat to draw Jordan with him, however, Begin's cabinet has to change its conceptions regarding the future of Judea and Samaria. Should Israel carry on with its present West Bank policy, Hussein will

have no "incentive" to follow Sadat, and his loose alliance with Syria's President Hafiz Assad is likely to tighten. Thus the threat to Israel from the "eastern front" would not lessen but increase in the long run. And even if Assad and Hussein alone are unable to defeat Israel, they can certainly harass it from various sectors....

Begin As Peacemaker: An Assessment

The following excerpts are taken from an interview with a distinguished Washington-based Middle East specialist.

Unfortunately, I see little movement from Begin. He's coming out with the same old line now in Britain. I wouldn't necessarily quarrel with him on the PLO as such, but there must be a Palestinian state formed somewhere down the line. It's a must. Israel *must* accept the idea that there is a way to create a Palestinian state that they're not afraid of. If Israel is so goddamned strong that it can boast about being able to clobber every Arab state put together, then why are they so worried about a pipsqueak state of one million inhabitants? Begin, of course, raises the spectre of Soviet influence, but how can a modern state with more aircraft than Britain or France be afraid of a little rump Soviet state no bigger than Rhode Island? Ridiculous! This is overemphasis on security from a limited standpoint. This Israeli illogic just doesn't track.

In Israel, Abba Eban is now saying the most important things. He's changing. Eban is the key to the situation, because back some months ago he was playing games with Begin, supporting Begin unconditionally, but now you see a change...Even a guy like (Defense Minister) Weizman thinks that security is based on air superiority, not territory, so he might be accepting some changes in his thinking too.

As for Begin, he now has his chance. What does he want? He wants to go down in Israeli history as a great man. He fought with Ben-Gurion over the creation of the state, bitter battles that often were literally battles. Then Begin went into a 30-year eclipse in the opposition. But now he has the chance to be a hero, so the question now is what kind of hero he wants to be. Does he want to get more territory and have the world accept it, or does he want to be a big peacemaker, to transform a dream into reality and remove Israel from this dreadful cycle of war, paranoia, and economic disaster? Intransigence, though, won't go anywhere. Begin thinks of himself as the father of the country, but I don't know exactly how his thinking processes now are going. He *could* transform the dream of peace into a reality, but the question of his choice is not resolved at this point as far as I can see.

Israeli Scientists Propose Joint Israel-Egypt Nuclear Center

The following excerpts are taken from an article by Ya'acov Friedler in the Dec. 5 issue of the Jerusalem Post.

Serious consideration should be given to the establishment of a joint Israeli-Egyptian nuclear energy centre in Sinai, Technion professor Shimon Yiftah said yesterday at the opening session of a nuclear energy conference at the Technion (in Haifa).

Apart from that optimistic note, the conference atmosphere was gloomy owing to the continued delay of the U.S. government in supplying the nuclear reactor for Israel's first nuclear power plant.

The reactor was ordered by the Electric Corporation, but the Carter administration's review of its nuclear export policy has again delayed delivery.

The conference...is sponsored by Israel's five nuclear societies in the fields of nuclear sciences, radiation, and medicine.

Yiftah, who is president of the Nuclear Sciences Society and a member of the Atomic Energy Commission, proposed that while the U.S. reconsiders its nuclear export policy, Israel work out a nuclear policy of its own. He suggested that it be based on five points:

*A clarification of whether the option for the supply of our first reactor from the U.S. is still open.

*A study of the possibility of buying a reactor from France, Germany, Japan, or Canada.

*A study of the feasibility of building our own reactor, possibly with the aid of other countries.

*The immediate stockpiling of uranium fuel, and the production of uranium from Negev phosphates.

*A serious study of the possibility of a joint nuclear energy centre in Sinai together with Egypt. He believed

that in view of the recent political developments in the region such a scheme was now "within the range of feasibility."

Yiftah proposed that the mooted Sinai center comprise large nuclear power plants linked to large-scale water desalination plants, which together would support a giant sub-tropical farming project to make the desert blossom. The centre should also include a large plant to produce nuclear fuel for both countries.

He believed that the farming project, with its use of modern methods and technology, would serve as an example for the whole world, while the centre as a whole would demonstrate the tremendous potential for developing the region. Israel would contribute its vast know-how in desert farming and water desalination to the project.

The centre would demonstrate the advantages of large-scale production for more than one nation at a time and would provide an answer to the fears about exporting sensitive technology to a single country, Yiftah said. He was sure that such a project would have no difficulty in attracting international financing.

Yiftah foresaw the possibility of a "nuclear isolationism" trend in the U.S. which might drive Third World nations to seek nuclear technology elsewhere or to make an even greater effort to develop their own.

He did not rule out the possibility of the cartelization of nuclear fuel supplies by the producing countries, possibly through the establishment of a "nuclear OPEC" (including South Africa).

Is A Palestine Gov't In Exile The Next Break For Peace?

The question of the Palestine Liberation Organization (PLO) forming a government in exile in preparation for negotiations has again come into the news.

A Palestinian government in exile could remove some major political stumbling blocks that have impeded progress toward a comprehensive settlement of the Mideast. Most importantly, Palestinians outside the PLO umbrella such as certain Palestinian West Bank and Gaza mayors could be brought into the government. As well, the constitution for such a government could be worded in such a way as to recognize the sovereignty of all nations of the Mideast — a de facto recognition of Israel.

After the summit of hardline Arab states at Tripoli last week, the French daily *Le Monde* reported that there may have been a reconciliation between PLO chief Yasser Arafat and the radical left-wing elements of the PLO led by George Habash and Nayef Hawatmeh. In a report from Cairo, *Le Monde* noted that such a rapprochement might have been to bring these "rejectionist elements" within a framework amenable to setting up a Palestinian government. Since the Tripoli summit, only Zuhair Mohsin, the leader of the Syrian wing of the PLO

As-Saiqa, has demonstrated a willingness to undermine such a reconciliation, by making a grab for command of the liberation organization (see below).

Reporter for Events magazine, Salim el Lozi, editorialized in the Nov. 18 issue for the formation of a Palestine government in exile. Here are excerpts:

Many people in the Middle East, like myself, cannot understand why there has been so much delay in the announcement of a Palestinian government. The conditions are ripe, the provisions are available and many Arabs and Palestinians have come to believe that the formation of such a government would help solve the problem of a Palestinian representation in Geneva. The U.S., because of the nature of its administration and its international role, cannot deal with revolutionary movements.

More than once, the Americans have made it clear that they represent major international legitimacy, which is opposed to international revolution. Consequently, they cannot work with a revolutionary organization, whose program includes striving for the destruction of a state

which is a member of an international organization. Therefore, the U.S. insists on PLO recognition of Resolution 242, which recognises the existence of Israel.

The Palestinians gave an intelligent reply to this demand. They said it was addressed to states and governments and that they are neither a state nor a government. A revolution does not extend recognition to a state, indeed the reverse is the norm. This is what led President Sadat to put forward the idea, as far back as 1972 of the formation of a government in exile....

PLO: Not 'Delighted' With Tripoli Summit

Le Monde correspondent Eric Rouleau last week interviewed PLO spokesman, Mahmud al-Labadi. Rouleau stressed that the moderate wing of the PLO for which Labadi speaks was more anxious about attending the refusal summit in Tripoli than was Syria, since the main body of the PLO favors a compromise with Israel. In this connection, Labadi told Rouleau:

"We are still prepared to establish our own state in the West Bank of the Jordan and in Gaza, or on a territory representing only 22 percent of Palestine. In plain language, that means that we are prepared to coexist with the State of Israel and to establish relations with it which remain to be defined. For the sake of this we are ready to go to the Geneva conference — on the condition, of course, that we are invited to it as the legitimate representatives of the Palestinian people."

Rouleau further reported that the moderate wing of the PLO had refrained from calling Egyptian President Anwar Sadat a "traitor" as Damascus news media and Mr. Zuhair Mohsin, chief of As-Saiqa, the Palestinian organization with Syrian allegiance, are doing.

Rouleau concludes that the PLO's tactic is, despite appearances, not to desert the moderate Arab camp for that of the "rejection front" and to maintain the alliance with Syria without, however, altogether closing the door to dialogue with Egypt. This is why Yasser Arafat was not "delighted" with the Tripoli summit. Said Labadi: "We doubt that such a meeting can succeed. But we have

no choice. If we had refused to go there we would have been accused of betraying the Palestinian cause and of surreptitiously supporting el-Sadat's policy. By going there we are certainly risking attracting the displeasure of certain Arab countries, which would take a dim view of our rapprochement with Al-Qadahafi (President of Libya—ed.)."

Saiqa Threats

The following are excerpts from an interview given to the Italian magazine Espresso Nov. 27 by Zuhair Mohsin, head of the "Saiqa" branch of the PLO. Saiqa is run by British-controlled networks of Syrian intelligence, and Mohsin has often vied for the leadership of the PLO against chairman Yasser Arafat, as during the 1975-76 Lebanon war.

Q: What is your opinion of the idea of sending an American professor of Palestinian origins to Geneva, for which el-Sadat claims to have Arafat's agreement?

A: Arafat has no power to appoint anyone to any conference without the preliminary agreement of the PLO Executive Committee.

Q: Why do you Palestinians want to prevent every attempt by el-Sadat and Saudi Arabia to make peace with Israel?

A: I too want peace. But nobody can accept the unconditional surrender to which As-Sadat wants to lead us. If the Arabs' oil wealth is not to be used for a just peace, then it should be burned, destroyed.

Q: There is talk of the possibility of the Palestinian resistance splitting and of a new Palestinian front emerging from the agreement among all the forces opposed to negotiation under present conditions.

A: Why not? If the present leaders are leading us to defeat and liquidation, what reason is there for remaining united?

Q: From what people are saying, can it be deduced that before a war with Israel there will have to be a war among Arabs?

A: Why not? Even Saladin, before he defeated the crusaders, had to fight the Arab monarchs for 25 years.

Smith 'Concedes' While Bombing Mozambique

Rhodesian Prime Minister Ian Smith's announced acceptance of the principle of one man-one vote is a deliberate action which will raise tensions and increase the possibility of conflict in the region. Smith announced Nov. 23 his intention to begin talks with a small group of Rhodesian tribal leaders and ministers with the goal of calling universal suffrage elections for the purpose of making one of them the nominal black leader of Rhodesia. Instead of cooperating with an internationally acceptable solution that the rest of Africa could accept, Smith is going with this "internal option," as he calls it, to preempt the Patriotic Front, a front of two national liberation groups headed jointly by Joshua Nkomo and Robert Mugabe; and divide the frontline states.

At the same time, confirming Smith's intentions the Rhodesian military launched raids deep into Mozambique against refugee camps which included members of ZANU, Mugabe's organization. Over 100 civilians including women and children were killed, including the families of the top leaders of ZANU who were in the Mozambique capital of Maputo for a meeting. The Smith regime boasted that they had killed 1,200 guerrilla fighters, a figure which would amount to 20 percent of Mugabe's forces.

The gameplan was described by a spokesman from the Center for Strategic and International Studies (CSIS) in Washington, a strategic think tank linked to Georgetown University. The CSIS intends to lend legitimacy to this operation by calling for international observers and guarantees while drumming up international support for this operation.

The primary figure being used to draw support for the operation is one of the figures with whom Smith will open talks, the Rev. Ndabaningi Sithole, presently being escorted around the U.S. by CSIS. However, Bishop Abel Muzorewa, another Rhodesian political figure with whom Smith has considered running the internal option in the past, is now reported by European diplomatic sources to be cooperating with forces opposed to this internal option, but who favor a unity government including the Patriotic Front, a development which makes it still more difficult for Smith to ram through this operation.

CSIS: U.S. Should Support Rhodesia's Elections

A spokesman from the Center for Strategic and International Studies put forward this think-tank's view of Prime Minister Ian Smith's call for elections in Rhodesia.

The Anglo-American proposal for a solution to the

Rhodesia crisis was bound to fail right from the beginning. It tried to solve two conflicts at once — the conflict between blacks, and the conflict between blacks and whites — and therefore was too ambiguous. Everyone looked at it as points to be negotiated, as opposed to a framework to be followed.

Smith's internal option of calling for elections is designed to preempt the guerrillas, undercut them. By moving ahead with plans to create a black government with people willing to talk to him, Smith is creating a *fait accompli* for the guerrillas and the frontline states that puts them on the spot. The raids were carried out to show he means business, putting the Patriotic Front in deep trouble.

The U.S. should support the internal solution by calling for things like international observers to guarantee that the election is fair, and making sure that all parties are invited. If the U.S. supports this solution, or at least says nothing against it, it will have a good chance of working. Sithole, a credible nationalist, is playing an important role in this. He is on a tour of the U.S. trying to get an open-minded American attitude to an eventual Rhodesian government worked out through Smith-initiated talks with the non-Patriotic Front leaders.

Zambia: Tug-Of-War

Tremendous pressure is being put on Zambian President Kenneth Kaunda to break ranks with the frontline states and capitulate to Smith's maneuver. The Zambian economy is in such a crisis that Kaunda said last week: "If we don't take action, we will perish — we will collapse as a nation." Kaunda faces growing internal opposition as a result of this crisis, and for this reason has been anxious for a settlement package for the Rhodesia crisis mediated through Rowland W. Rowland of Lonrho Corporation (who holds extensive business interests in Africa and the Middle East) and allied European political forces.

Kaunda is also being threatened with Rhodesian military raids. After the Mozambique raids, Rhodesian Defense Minister Hawkins claimed that Nkomo's ZAPU was training guerrillas in Zambia and threatened that Rhodesia will take whatever military steps necessary to defend itself. Forces pushing the internal option think that if Kaunda can be forced to capitulate, Nkomo, a close political ally of Kaunda, can be pulled into the internal solution, giving it credibility.

The Carter Administration has so far remained unequivocal with respect to Smith's internal option, still trying to resolve whether to oppose it or not. Their hesitation is understandable.

The danger of Smith's maneuver is that it could easily

lead to U.S.-Soviet confrontation. Rhodesian military operations have been largely confined to attacks on ZANU in Mozambique, which could force the Mozambicans to call in military assistance from Cuba or other socialist allies. Furthermore, U.S. commitment to the Anglo-American plan in southern Africa could be seen by Moscow as an abrogation of the superpowers' implicit agreement to mutual restraint in southern Africa.

Britain Maneuvers Support for Sithole

British Foreign Secretary David Owen met with Sithole in London Dec. 4, giving credibility and support to Sithole's effort to form a blackface government with Smith in Rhodesia. Both Owen and Sithole stated that elections prior to independence were the key feature of the settlement effort, and Sithole said that the Anglo-American initiative was the basis for his negotiations with Smith.

In a speech the day before, Owen made the threat of war against the liberation front explicit, as he castigated those at a Labour Party and Anti-Apartheid conference who wanted to support the liberation front: "It is going to be a very long, bloody, and damaging struggle in which a whole host of people will be killed and the outcome is uncertain." Instead he called for the West to back a settlement along the lines of the Anglo-American proposals.

At about the same time Owen backhandedly endorsed the Rhodesian raids into Mozambique in a BBC interview, saying they may be advantageous in getting what he called "overall compromises" from the Patriotic Front that would help achieve an "overall settlement."

Sithole Stumps in USA

The now discredited onetime political figure in the Rhodesian nationalist movement, Rev. Ndabaningi Sithole, for the past few weeks has been on an extended tour of the U.S. His trip is being sponsored by the Center for Strategic and International Studies (CSIS). After speaking with Secretary of State Vance Nov. 18, Sithole gave a speech sponsored by the Center. He then went to California, speaking at the University of California at Santa Clara, and then returned to Washington for a discussion meeting at the American Enterprise Institute. On Dec. 1 he was in New York where he met with Andrew Young. In numerous interviews and television appearances, Sithole is claiming that "the guerrillas work for me," and not for the Patriotic Front.

Thailand, Vietnam Normalize Relations

Thailand and Vietnam issued a joint communique this week calling for the normalization of diplomatic relations as a contribution "to the cause of genuine peace, independence and neutrality in southeast Asia." This diplomatic breakthrough was foreshadowed when Thailand's Prime Minister and military Commander-in-Chief, General Kriangsak Chamanand, told a correspondent for the Soviet daily *Pravda* two weeks ago that he hoped to develop "mutually beneficial and equal ties" with the Soviet Union and other socialist countries. At the same time, Thai Foreign Minister Uppadit Payariyangkul also announced the resumption of talks with the Vietnamese on the question of overflights of Thai commercial airlines in Vietnamese airspace.

These developments come as somewhat of a surprise and a reversal of the anticommunist hostility of the previous military-backed government of Prime Minister Thanin, who was removed in a military power play Oct. 20. What is indicated is that Thailand has been brought into the mainstream of efforts by countries like Indonesia, Malaysia, the Philippines, Japan, and the Soviet Union to promote detente and economic cooperation between the communist and noncommunist states in the Southeast Asian region.

If Thailand continues to move out of its confrontationist posture, the major loser in the area would be the People's Republic of China. The Chinese have recently made moves to build their own sphere of influence in the region, reminiscent of the ancient Han dynasty control of the area. The chief Chinese client in the region, the xenophobic Cambodian regime, has been the major resource for the Han chauvinists. Chinese Vice Premier and Communist Party Politburo member Chen Yung Kuei is currently heading up a delegation now in Phnom Penh as a follow up to Cambodian Party chief Pol Pot's recent visit to Peking.

Another objective of Chinese wooing has been the shaky government of President Ne Win in Burma. Returning a recent visit to China by Ne Win, Chinese Vice Premier Teng Hsiao-ping is currently in Rangoon. Teng, a protégé of the late Chou En-Lai, is considered the major architect of China's anti-Soviet diplomacy and helped arrange Ne Win's recent visit to Cambodia, the first head of state to be received in Phnom Penh since the Khmer Rouge took power. Teng's Burmese visit is his first foreign trip since his second "rehabilitation" earlier this year.

Chinese methods involve not-so-subtle forms of blackmail. Chinese-backed guerrilla insurgencies in Burma, which have been a major source of trouble to that government, and in Thailand are de facto offered as bargaining chips for friendship with the Peking regime. Informed sources report that Burmese President Ne Win sought withdrawal of Chinese support for the guerrillas on his last visit, but got merely a noncommittal "keep

him on the hook" response from Peking. It is similarly thought that the Chinese will offer their influence over the Cambodians to seduce the Thais, who have had severe border clashes with the Cambodians in the past months.

Chinese maneuvers in Southeast Asia place them squarely in the path of Vietnam, which is a major power in the region and not too eager to see the Chinese dominate it. Since unification, the Vietnamese have been actively promoting a policy of détente and economic cooperation in the spirit of peaceful coexistence. But, their continuing support of the Soviet Union's right, along with other powers, to maintain an economic and diplomatic presence in the region has brought them into sharp conflict with their erstwhile fraternal allies to the north.

This was made most apparent during Vietnamese Party Secretary General Le Duan's recent visit to Peking where, in a clear diplomatic snub, Chinese Vice Premier Teng Hsiao-ping neither appeared at the welcoming ceremony nor took part in subsequent talks.

According to diplomatic sources, Le Duan's visit was a Vietnamese initiative to help patch up the Sino-Soviet rift. Teng's boycotting of the visit is laid to the Vietnamese rejection of the Chinese "Three World" stratagem of pitting the two superpowers against each other in a war in which, allegedly, only the Third World will survive. Teng, who is said to be responsible for resuscitating the theory four months ago, is considered a "deviationist" by Le Duan. The frosty visit was capped off by a speech by Le Duan praising the Soviet Union's role in the world, while Chairman Hua mouthed the familiar anti-Soviet line.

Despite his apparent failure in Peking, Le Duan took the opportunity of a visit by East German party leader Erich Honecker to declare Vietnam's resolve to heal the split. He declared: "The party and people of Vietnam will henceforth unceasingly work for the strengthening of militant solidarity and fraternal cooperation between Vietnam and other socialist countries."

He also took the opportunity to reiterate Vietnam's policy towards Southeast Asia, saying, "The government and people of Vietnam fully sympathize with and strongly support the struggle of peoples in Southeast Asia.... standing ready to establish and promote relations of friendship and multifarm cooperation with other countries in the region...."

Developments in other countries of the region indicate that Chinese and Western attempts to rekindle past suspicions and tensions will run up against policies aimed at promoting broader economic cooperation. In an unprecedented move, Philippine President Marcos played host to Honecker this week, and signed a trade agreement. It should not go unnoticed that Honecker's visit, his first to a non-communist government in

Southeast Asia, occurred during negotiations between the U.S. and the Philippines over U.S. military base agreements.

In Indonesia, a Vietnamese trade delegation concluded a week-long visit. Commenting on the visit, the official Indonesia Army newspaper, *Berita Yudha*, predicted the expansion of relations between the two countries. An editorial commented, "We consider this mission very important because it will further a bigger understanding

that none of the countries of the Associations of Southeast Asian Nations are only interested in the region's prosperity." After holding a meeting with President Suharto and discussion with numerous Indonesian officials, the delegation discussed cooperation in petroleum development, territorial disputes, and Vietnamese importation of Indonesian fertilizer.

— *Dean Andromidas*

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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 DEJECTION OF TERRY LEVNER WHO WAS PREVIOUSLY INVOLVED IN THE POLITICAL FAC-TIONAL WAR AGAINST NIXON WHEN LEVNER WAS DEPUTY COUNSEL TO THE SENATE WATERGATE COMMITTEE. INFORMED SOURCES IN THE PETROLEUM INDUSTRY CONFIRM THAT THERE HAS BEEN AN INTERSE EMBIND TO SCENES ACTING AT TIMES THROUGH ITS EXON INTERESTS TO SABOTAGE THE DEVELOPMENT OF THE LARGELY BRITISH PETROLEUM BACKED EFFORT BY AN EXPLOSION AND FIRE EARLIER THIS SUMMER HAS ALREADY CAUSED SUBSTANTIAL DELAY IN EP ALASKA OIL REVENUES, WHICH WAS FURTHER AGGRAVATED BY A US INTERSTATE COMMERCE COMMISSION DE-CISION FORGING DOWNWARD REDUCTION IN RATES CHARGEABLE BY THE PIPELINE CONSORTIUM TO ITS CUSTOMERS.

BRITISH NUCLEAR REPROCESSING INQUIRY GETS ECOST
AUG 18 - THE GIGGING BRITISH GOVERNMENT-CRDERED PUBLIC INQUIRY INTO THE QUESTION OF WHETHER THE EXISTING NUCLEAR FUEL RE-PROCESSING CENTER OF BRITISH NUCLEAR FUELS LTD. AT SIND-SHALL GOT A MAJOR ECOST 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 UNIVERSITY DISPELLED THE MYTH, WIDELY CIRCULATED BY VARIOUS ENVIRONMENTALIST GROUPS, THAT THE PLUTONIUM BY-PRODUCT SUCH REPROCESSING WAS ONE OF THE MOST DEADLY SUBSTANCE WHICH POINTED OUT THAT ALMOST EVERY DAY IN THEIR COFFE- THE CAPTAINS PEOPLE DRINK EVERY DAY IN THEIR COFFE- BRITISH AFFILIATE OF THE SO-CALLED 'BOWIE' FRIENDS OF THE-TRADE BY ANCYR LEVINS IS BELIEVED BADLY FALTERING ATTEMPTS TO SO FAR WHIP UP PUBLIC Hysteria AGAINST THE EXPANSION. THE EXPANSION IS PART OF ONE OF THE JAPANESE ELECTRIC UTILITIES FOR A MAJOR CONTRACT.

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