April 5, 1978
Vol. V
No. 13

EXECUTIVE INTELLIGENCE REVIEW

New Solidarity International Press Service

[THIS PAGE IS INTENTIONALLY BLANK]

April 5, 1978
Vol. V
No. 13

ISSN 0 146-9614

EXECUTIVE INTELLIGENCE REVIEW

P.O. Box 1972 GPO New York, N.Y. 10001

TABLE OF CONTENTS

INTERNATIONAL

U.S. REPORT

ECONOMICS

JAPAN ECONOMIC SURVEY

ENERGY

EUROPE

THIRD WORLD

EXECUTIVE INTELLIGENCE REVIEW is published by Campaigner Publications. Inc.
231 W. 29th Street, New York City, N. Y. 10001
Subscriptions by mail for the U.S.: 3 months — $125. 6 months — $225. 1 year — $400.
Address all correspondence to. Campaigner Publications. Inc.
P.O. Box 1922. GPO New York City. N.Y. 10001

EXECUTIVE INTELLIGENCE REVIEW

Editor-in-Chief *Nancy Spannaus*
Managing Editors *Linda Frommer*, *Tessa DeCarlo*
Production Editor *Deborah Asch*

U.S.A.—*Konstantin George* • **Economics**—*David Goldman* • **Energy**—*William Engdahl*
Science&Technology—*Morris Levitt* • **Soviet Sector**—*Rachel Berthoff* • **Military Strategy**—*Paul Goldstein*
Europe—*Vivian Freyre* • **Middle East**—*Bob Dreyfuss* • **Africa**—*Douglas DeGroot* • **Asia**—*Dan Sneider*
Latin America—*Robyn Quijano* • **Law**—*Felice Gelman* • **Press**—*Fay Sober*

IN THIS WEEK'S ISSUE

While the Mideast stands at the brink of war, **major public-private initiative for expanded U.S. exports** is moving aggressively into the region...with urgent proposals for peace through economic development...The **polarization** between the Israeli leadership's **death-wish plunge into war**...and those U.S. and Saudi factions pushing to impose the trade and growth alternative...is at the heart of the most crucial developments of the past few days...Our **INTERNATIONAL** report examines the political impact of the latest Mideast news from this standpoint...the **Rockefeller-Saudi "development corporation"** plan for food and energy projects ...versus the **"breakaway ally" scenario for Israel** that anti-trade, anti-U.S. British press outlets are advertising...

* * *

Included in **INTERNATIONAL** ...a profile of Israeli Defense Minister **Ezer Weizman**, who's all too well qualified to lead Israel down the British-scripted road to **national suicide**...intriguing news of **where Rockefeller may be taking his development drive next** ...Energy czar Schlesinger's alliance with the Zionist Lobby for a **"Crash of '78"**...and from Washington, and **on-the-scene** report on how U.S. policy-makers are now looking at Israel, the Saudis, and the Mideast peace process...

* * *

The **momentum** of the growth- and technology-oriented export drive...among private individuals and members of the Administration...with the Rockefeller initiative **just one example**...confronts Jimmy Carter with some **tough decisions and increasingly little time to make them**...The fundamental issue: will Carter go with the "export faction"?...or will he remain in the grip of the **war-hungry, growth-hating** Mondale-Blumenthal-Schlesinger grouping?...In this week's **U.S. REPORT**, an analysis of some key areas where the decisions are due...and how both sides of the fight are coming into focus...The story on the **openly declared "export drive"** by Special Trade Negotiator Robert Strauss, Eximbank head John Moore, and other top officials...with an **eyewitness report** from a just-concluded trade conference in Atlanta where the "export faction" gathered...The **countermoves to wreck the dollar**, following precisely orders straight from Britain...The parallel fight over détente with the Soviets and the **neutron bomb**...and over policy in the **African** hot-spot...**Featured**: a **memorandum on labor policy** to the leadership of the AFL-CIO from the **U.S. Labor Party**...counterposing the importance of an **export policy and East-West trade**...to the treasonous spouting of **outright fascist policies** by AFL-CIO leaders...

* * *

This issue's **ECONOMIC SURVEY** paints a picture of the **havoc the "soft dollar" gang has already created in Japan's economy**...and the devastation it will create there and throughout the advanced sector if it is **allowed to remain in force much longer**...Surveying **Japan's economic woes**, this report documents how the yen rise has hit export-dependent Japanese business...what's **really motivating the attack** on Japan's economy...and how Japan's business and political leaders are responding to **their perceptions of the factional balance inside the U.S. government**...An **important lesson for U.S. readers:** new insight into Japan's tradition of high-technology development...a tradition that puts **Alexander Hamilton** and **G.W.F. Hegel** among the most influential Japanese economist...

* * *

Also in this issue: Why West Germany and other Europeans are beating out their American competition in Brazil by **not** following in U.S. footsteps...a **pointed rejoinder to Jimmy Carter's** remarks in Brazil, in **ENERGY**...Who's ganging up on the IMF, World Bank, in **ECONOMICS**...and in our **THIRD WORLD REPORT**; how the IMF is ganging up on **Peru**...

U.S. Groups Back Mideast Development Plan With Saudis

It became evident last week that a U.S. group including both government officials and private circles has drawn up a development policy for the Middle East that could break the currently deadlocked peace process and provide the basis for breaking Israel forcibly out of its "Masada" stance.

The first public sign of the initiative came at Secretary of State Cyrus Vance's March 24 press conference. Vance stated that a Mideast regional "economic and development program is essential to overall peace," adding that the Carter Administration has already done a "great deal of work on specific proposals and discussed those with other nations." The Secretary of State also reaffirmed the "sound principles" behind the October 1977 U.S.-Soviet joint Mideast communiqué.

In the same context, former Vice-President Nelson Rockefeller this week made public his plans to establish a New York City-based development corporation which would bring billions of Saudi Arabian petrodollars into both the U.S. and underdeveloped economies.

Such intentions epitomize the importance of the U.S.-Saudi alliance as the keystone for international economic prosperity. The growing needs of the developing world can only be met if the powerful U.S. economy is geared to a massive expansion of high-technology exports, and such a gear-up of U.S. industry in turn requires the level of financial input only the Saudis currently can provide — in what Rockefeller termed "productive" outlets for their accumulated liquidity. In fact the peace-through-development initiatives coincided with the emergence here of a drive for expanding exports this past week, centered in the U.S. State Department and Export-Import Bank (see National Report).

Both the Vance statement and the Rockefeller announcement were virtually ignored in the major U.S. press. However, the *Daily Telegraph* of London did print a brief report March 27 that as part of a U.S. peace plan for the Mideast, President Carter is including an "economic support program" backed up jointly by Saudi Arabia, France and West Germany to go in effect immediately after a negotiated settlement is reached. According to French sources, Nelson Rockefeller personally offered the Israeli government a proposal late last year whereby large support would be extended for a West Bank development program in the event of a peace settlement.

An executive for the European American Bank emphasized that there is a "realization occurring" in the U.S. that Saudi Arabia is the United States' most valuable ally, and that for that reason in the future Washington will begin "to squeeze" the Zionist Lobby.

Saudis Solid Behind Dollar

The Saudi Arabians are working closely with these prodevelopment U.S. networks to silence the forces against the dollar both within and outside of the Organization of Petroleum Exporting Countries (OPEC). On March 28, Saudi Crown Prince Fahd assured a touring group of U.S. businessmen that "his country would use only the dollar in international transactions. Others may have their views on the matter, but the Kingdom stands firm." Fahd was pointedly referring directly to a contingent within OPEC led by Kuwait and Iraq which has been pushing for either a break with the dollar as a means of pricing oil in favor of the International Monetary Fund's paper, the Special Drawing Right (SDR), or raising the price of oil.

Just before Fahd's statement, the OPEC directorate in Vienna announced a postponement of an extraordinary meeting of OPEC set for April 3 to May 4. The *Wall Street Journal* noted that the postponement was a breathing space "for the dollar." The meeting had been called by Kuwait in order to discuss breaking with the dollar. Saudi Oil Minister Sheikh Ahmed Zaki Yamani, moreover, announced days before the Fahd statement that the Saudis had no intention of abandoning their policy of enforcing an oil price freeze throughout 1978. Hence, the Saudis with quiet support from the Shah of Iran have again asserted their powerful voice within OPEC and have quashed the antidollar block which has been acting on behalf of the City of London.

The Saudis are furthermore gearing up to win critical Congressional support for the sale of 60 F-15 fighter jets. The Zionist Lobby and a number of members of the Senate Foreign Relations Committee with City of London allegiances have launched a major campaign to block the sale, calculating that this will undermine U.S.-Saudi relations.

But Saudi Defense Minister Prince Sultan, according to *Middle East Economic Survey*, strongly hinted that failure of the F-15 sales would not prompt the Saudis to go for a price rise. But even on this front Riyadh is employing the good services of the U.S. industrial establishment. The *Washington Post* reports that a personal friend of U.S. Ambassador to Saudi Arabia John West will now coordinate the activities of the "Saudi Lobby" through a Public Relations firm with ties to the California aerospace industry's McDonnell Douglas.

A Wall Street analyst specializing in the Middle East noted with optimism that there is at present an awakening within the Saudi royal family that industrialization is the "only" viable future course for Saudi Arabia and the entire world. The emerging ties between U.S. industry and Riyadh underscore such thinking.

—*Judith Wyer*

The following are excerpts from an interview with the Saudi Prime Minister Prince Fahd given to the Kuwaiti daily al-Rai-al-Amm *published March 9:*

Q: If the peace efforts failed completely and war with Israel became unavoidable in order to obtain Arab rights by force of arms, does your Highness envisage that the oil battle would be as effective this time as it was in the war of 1973?

A: At this particular juncture, we ought to talk about peace, not war. We have always been advocating peace and the entire world is looking toward peace at the present. In these circumstances we do not like to invoke the other grim alternative. This does not mean to say that we dismiss such a possibility, but we are now concerned with promoting the appropriate climate for the Middle East peace. A great deal of nonsense has been put about regarding oil. We wish to reaffirm our desire to place oil at all times at the service of humanity and the development and prosperity of the world. We have always realized the importance of this. But if we show concern for the wellbeing of humanity, we would in return wish civilized people everywhere to show concern for our just causes. The Arabs pursue justice in order to be able to play a constructive role in the world community.

Q: In some of your most recent statements, you indicated that the Kingdom would be prepared to recognize Israel if the other Arab states did so and the Arabs' just demands were met. Would it be enough for just some Arab states to recognize Israel or should all of them do so including the rejectionist states?

A: As you know major and decisive positions are not always taken individually but stem from collective decisions adopted at summit meetings or within the framework of the Arab League. If the comprehensive settlement we are advocating is reached, ensuring the withdrawal of Israel from all occupied territories and restoring the legitimate rights of the Palestinian people in their homeland, thereby enabling them to establish their own state, it would be possible then to look into the question of according recognition to Israel within the framework of a united stand by all the Arab states.

Rockefeller Development Policy

The following are excerpts of statements by former Vice-President Nelson Rockefeller as released to the New York Daily News *on March 29:*

To the Synagogue Council of America, *last May Rockefeller said:*

...(it is) important to the OPEC countries and to all of us that ways be found for the investment of these funds on a long-term basis to add to the productive capacity, social progress and political stability of the world.

Asked by the Daily News *of his activities he said:*
"I have had a deep concern about the importance of recirculating excess oil monies into productive enterprise, particularly in the fields of new sources of energy and the production and distribution of food."

Carter, State Department Prepare Middle East Development Policy

Exclusive from Washington, D.C.

In the wake of the meeting between President Carter and Prime Minister Begin, the White House is now engaged in an intensive discussion of the next phase of Middle East diplomacy. And, in the process, a faction of "developmentalists" is emerging into the open in support of a public American commitment to massive industrial and agricultural development in the Middle East, drawing especially on American exports of capital and technology.

In an article in the London *Daily Telegraph*, the scope of the debated American policy was described as follows: the United States, West Germany, France, and Saudi Arabia have agreed to underwrite an economic development program for the area as a "sweetener" to the Israelis, in the context of a peace settlement. This has been confirmed by discussions in Washington with State Department and Defense Department officials, former intelligence specialists, and highly placed U.S. Middle East analysts.

More and more, the program for Middle East development first formulated by the U.S. Labor Party, developed in detail at the conference on the Mideast held by the Fusion Energy Foundation in New York on January 24, 1978, is becoming the focus of official attention in Washington.

The policy is viewed as virtually the only way of exerting the necessary pressure on Israel to make concessions while avoiding, as far as possible, the ever-present danger of a sudden Israeli preemptive war in panicked response to a belief, however unfounded, that the U.S. has "switched sides." Said a former U.S. Middle East ambassador: "If it were done in a dramatic way, where the President would announce that America was prepared to support a huge expansion of Middle East development, then this might have a significant impact on the Israeli population. They would see that they could have not only peace and security, but prosperity as well."

Another State Department official said that several U.S. departments have worked on a set of concrete plans for regional development, with a concentration on the problem of the economy of the West Bank, locale of an expected Palestinian state. The American Enterprise Institute, in a project headed by former Treasury official Richard Erb, is working on a similar project for the West Bank, in coordination with the State Department.

Too Slow?

The Carter Administration timetable for the Middle East leaves something to be desired. According to officials, Carter is expected to wait until after the Panama Canal treaty passes the Senate before making a major push on the Middle East; even the U.S. arms package, including the controversial proposal to sell F-15s to Saudi Arabia, will not be introduced until then. Afterwards, however, it is expected that Carter will begin a national drive to put across the American position on the Middle East, in what would become a showdown with the Zionist lobby.

Despite these politically motivated delays, however, there is a clear understanding of the urgent dangers of the situation. The war in Lebanon, officials agree, could easily spill over into Syria and turn into a conflagration. An official at the Defense Intelligence Agency said that such a danger could be dealt with most directly by "imposing" development.

"Israel," he said, is "not entirely a rational place. There is always a tendency in the general staff for the inherent Masada complex to trigger an Israeli strike at the Arabs, even if they have nothing to gain." The Israelis calculate, he said, that under certain circumstances they might be able to deal a crushing blow at Syria to cripple Syria militarily for years — though ignoring the consequences in terms of possible Soviet military intervention. "We've told them that we won't support their military adventures," he added. "But maybe they won't listen, or won't believe us. I've always thought that the answer lies in calming Israel's fears by setting up joint development zones with the Arabs. The West Bank is especially crucial. I think what we ought to do is what we did in Germany after World War II: go into the West Bank and impose development — build it up!"

* * *

Rockefeller Development Corp. Eyes Turkey

Former Vice-President Nelson Rockefeller is reportedly eyeing Turkey as one of the main beneficiaries of his soon-to-be-established development corporation. According to a State Department official, Rockefeller will leave soon for Ankara where he will discuss with Turkish government and business leaders his plans. His initiative is expected to clear the way for massive investment in Turkey by U.S. private interests eager to involve themselves in long-term development projects there. Such investment will place the U.S. in direct cooperation with the Soviets, who have recently signed an economic development agreement with the Turks aimed at developing the country's industrial and energy capacity.

The revived interest in Turkey reflects the growing recognition on the part of U.S. businessmen that economic development is the key to stabilizing the entire region, both economically and politically. In the case of Turkey, the understanding is especially crucial. Faced with a $14 billion debt, most of which is short-term, a $4 billion trade deficit, and a cutoff of credits by Western banks, the Turkish economy has been staggering for more than a year, defaulting repeatedly and closing down entire branches of industry to generate cash for debt repayment.

The unraveling of the economy has left the country a prime target for internal destabilization. Bloody clashes between leftists and rightists have left 150 dead this year, twice the number of deaths as occurred during the same period last year. In addition, the military is restive as a result of the U.S. arms embargo imposed after the 1974 Cyprus affair.

Last week, Prime Minister Ecevit warned the U.S. that Turkey will reconsider redefining its relations with the U.S. and NATO. With U.S. interests and the delicate balance of power in the region jeopardized, President Carter this week dispatched three high level State Department officials, led by Assistant Secretary of State Warren Christopher, to Turkey carrying new proposals from Carter.

Energy Department Threatens Saudi-U.S. Relations

Just at the time good political relations between the United States and Saudi Arabia are most crucial for the health of the dollar, officials with the Energy Department are doing their best to disrupt the Saudi-U.S. alliance. The foremost point for applying pressure on the Saudis centers on oil supply interruption, the theme of an article in the current issue of *Foreign Policy* magazine, titled "OPEC's Threat to the West." The magazine was formerly run by the National Security Council Advisor Zbigniew Brzezinski and Trilateral Commission member Samuel Huntington, now in the Department of Defense as security advisor, and is now under the editorial direction of Kissinger crony and former NSC member Morton Halperin. Predicting that "another kind of crisis — an oil embargo or OPEC production cutback could occur quite easily," the article discusses at length "supply interruption" scenarios. It continues, specifying that "political events — such as another Mideast war, the destruction of oil-producing facilities by terrorists, or the overthrow of one of the key OPEC governments — might lead to a production cutback..."

The potential for such an interruption was underscored this week when an Israeli military official announced earlier last week that a major terrorist explosion had damaged the Saudi Arabian Tapline running into southern Lebanon.

On March 27, the Saudi Arabian government officially complained to the U.S. State Department that Israel has been flying "mock raids" into northern Saudi Arabia. Comment by an Israeli military official intimated that this serious provocation was a warning to the Saudis and the U.S. of Israel's response to the Administration's proposed sale of F-15 jets to Saudi Arabia.

Sen. Henry Jackson (D-Wash.) of the Senate Foreign Relations Committee also bellowed that Israel would be provoked by conclusion of the jet sale. Last week Jackson called for cancellation of the controversial deal; subsequently his committee produced a "classified" memorandum issued only to select Senators, the White House, and the *New York Times*. According to a think tank source, that report will "seriously complicate the situation in Congress" surrounding passage of the jet sales agreement. The source reported firsthand knowledge that the classified report was leaked by a member of the Senate Foreign Relations Committee to the *Times* in order to pressure the Administration to cancel the Saudi deal.

The classified report, according to the source, states that there are two likely results from the actual delivery (not due for two years) of U.S. F-15s to Saudi Arabia: (1) if the planes are delivered, that will invite a preemptive strike from Israel against Saudi oil fields in the event of another Mideast war; or (2) if the sale does not go through, it will prompt the Saudi government to fully nationalize Aramco. He added that failure of the sale to go through will seriously weaken the internal strength of the most "pro-American" political faction within the Saudi leadership, that is, Oil Minister Zaki Yamani, Prince Fahd, and Khalid. The shift, the source added, will go from this faction which has staked enormous internal political prestige on their American ties, to the "pro-British" faction around Abdullah, head of the Saudi Royal Guard. Abdullah has sought to raise oil prices and cut Saudi production.

—W. Engdahl

Mideast Development Chances Held Hostage To Israel's 'Masada'

American and Western European policy-makers who are concerned with stabilizing the Middle East and bringing that region under the sway of extended development programs and expanded trade are currently being held hostage to a utopian Israeli strategic outlook generally known as the "Masada" or "breakaway ally" stance. This is the view that Israel, if it perceives itself to be "abandoned" by its American ally, will launch massive preemptive strikes against its Arab neighbors and risk national suicide in a direct showdown with forces of the Warsaw Pact.

In interviews, leading U.S. strategic analysts have privately expressed grave concern about the threat that this utopian doctrine poses to the ability of the U.S. to develop a coherent Middle East policy. According to one strategist, "Israel will launch a war instantly if it perceives the U.S.-Saudi or U.S.-Arab relations to have advanced beyond a certain point that threatens the unique historical U.S.-Israel relation." Said another: "Israel is prepared to throw everything it's got at Syria, knocking that country's capacities out for a decade in one to two weeks of combat. A minority group in the Israeli military wants to do this *now*, but this viewpoint will accelerate if Israel becomes convinced that the U.S. is abandoning Israel to its fate."

Since the "breakaway" operation risks not only Israel's real abandonment by a U.S. not willing to be dragged into a showdown with the Soviets, but also Israel's actual destruction as a state—whether by losing a war or by the inevitable ostracism it would face from the entire international community — this operation is not uniformly supported by Israeli strategists, but is rather the subject of ongoing debate. One of the supporters of the breakaway outlook is the country's current Defense Minister, Ezer Weizman — the man singly most responsible for Israel's Lebanon invasion, a military adventure that since its inception has risked provoking a much larger regional war and that has become such a messy quagmire for the Israelis that new escalations are an ongoing threat. It is Israel's actions in Lebanon that have brought the concern with "Masada" to the fore in American policy considerations.

The breakaway aspects of Israel's Lebanon adventure were advertised in the March 25-31 London *Economist*. In a feature titled "Why Begin Didn't Stop," the *Economist* analyzes why Begin decided to "send the Israeli forces hurtling onward to one of their biggest war operations instead of turning back home," after having completed a more limited foray six miles deep into Lebanese territory. Begin's *defiance* of the U.S., the *Economist* stresses, was the reason for the move: after the U.S. insisted that Israel not advance beyond six miles and instead began an immediate retreat, "the Begin government suddenly found itself confronted with ... the United States standing between it and victory. Mr. Begin, who for 30 years as opposition leader had thundered that the government was spineless and should stand up to the Americans, decided to take action ... He ordered the campaign expanded instead of stopped ... Since Israel was in the middle of a vital showdown with President Carter's administration over the whole range of Middle East peace negotiations, it must show itself tough over Lebanon. If it crumbled on that, its position on larger issues would be weakened."

Weizman And Masada

If Lebanon is the rehearsal for the final act of Israel's breakaway preemptive strike against the Syrians and other Arab states, Weizman is the perfect man to complete the job.

Underneath the suave, urbane veneer that he has developed since the November visit to Jerusalem of Egyptian President Anwar Sadat, Weizman has an unbroken track record of adopting extreme views with bravado and recklessly trying to impose them on Israel's strategic planners. These views add up, fundamentally, to the will to act on a strictly *localist* perception of the correlation of forces facing Israel, in which Israel has overwhelming military superiority against its neighbors. In this cowboy approach to basic questions of war and diplomacy, Weizman is cavalier about the possibilities of a local confrontation with forces of the Warsaw Pact, and has no compunctions about provoking a direct confrontation between the U.S. and the Soviet Union.

Weizman, then, doesn't hide his view that Israel's alliance with the U.S. is in reality a one-way street, and that he feels little pangs of regret about dragging the U.S. into war scenarios that are worse than detrimental to the American national interest.

Weizman's attitude emerged in bold relief during the period leading up to the U.S. government's 1970 Rogers Plan regional peace initiative. Prior to the offering of that initiative, Israel and Egypt were locked into a deadly "war of attrition" characterized by Egyptian forays against Israeli forward positions and massive Israeli retaliation bombing raids against Egyptian infrastructure, raids which crippled much of Egypt's vital plant and equipment. The Rogers Plan was both an attempt to put an end to this war, especially as it threatened direct military confrontation between Israel and the Soviet Union, and to bring the conflicting Middle East parties to agree on the basic principles of a region settlement.

Weizman's attitude toward the U.S. initiative itself is revealing. In *On Eagles' Wings*, Weizman's autobiographical account of the development of the Israeli Air Force, Weizman bluntly states, "The acceptance of the ceasefire appeared at the time to be tied up with the implementation of the Rogers Plan, and I was convinced that for Israel to accede to the Rogers Plan would be a disaster."

Weizman's attitude to the war of attrition itself is even more telling. According to the authors of the book *Who Rules Israel?*, Weizman, during the 1969-70 period, "particularly rejected ... fears that the Soviets would actively intervene against Israel."

By his own account, Weizman "over and over again ... told cabinet ministers and army officers: 'The war of attrition is the first battle in the campaign to retain the fruits of the (1967) Six Day War. If we don't win this battle, it will be hard to win this campaign.' When it was essential for her security," Weizman emphasized, "Israel could not refrain from taking military action solely because there were Russians in Egypt's operational echelon. Over and over I argued that if, by refraining from action, we accepted the Russian presence as a buffer against Israeli action, we would lead the Russians to step up their demonstrative involvement, steadily whittling down our own freedom of action."

In fact, during that crisis, Israel's Air Force *did* come into combat with Soviet pilots. According to Ze'ev Schiff, Israel's leading military correspondent and the authoritative historian of the Israeli armed forces, Israel at the time felt that the Soviets were "testing" Israel and, therefore, if Israel backed off, "Russian boldness would increase," so Israel "accepted the Soviet challenge." Schiff claims that the Soviets "sustained a decisive defeat" in the air combat with the Israeli jets and boasts, "Israel made it clear that she would not flinch from fight with Russian pilots if the latter attacked or attempted to prevent Israeli aircraft from operating in the (Suez) Canal region ... The Russians realized that if they really wanted to beat Israel they would have to bring hundreds of thousands of soldiers into the area."

Israel Will 'Go To Any Lengths' To Crack Saudi-U.S. Ties

The following is an assessment of the current Israeli perception of the growing U.S.-Saudi link given by an Israeli analyst with close ties to Israeli Foreign Minister Moshe Dayan and to the U.S. Rand Corporation:

Israel's answer to this Saudi-U.S. link, under Begin's rule, is, "We're ready to go to any length to resist it." Israel will, under this view, resist even if U.S. aid is cut back. The whole ruling Likud Party is united in this view. That is, if Carter is pressuring Israel *because of the Saudis*, Israel will have the following response: "If this is your strategic premise, we're not playing the game, even if you bring Eisenhower-like pressure to bear upon us, because if the Saudis are making American policy, then in ten years their current demand that we withdraw to the pre-1967 territorial lines will become a demand that we withdraw to the 1947 United Nations partition lines, and that the Palestinians have a right to return to the *pre*-1967 boundaries.

If Israel assesses the basic U.S. motive to be that of allowing the Saudis to be behind everything — behind Jordan, behind Egypt, behind the U.S. policy — then Israel will raise very publicly the following question, "Why does the U.S. claim the Saudis to be moderate? If the Saudis do in fact support the PLO, then they are not moderate, and the U.S. should stop claiming the opposite. This is the way Israel will counter the Saudi game, with a very public push around this issue, forcing the Saudis and the U.S. to answer to it — and the Bert Lance affair is going to be used to the hilt in the same way.

Analyzing the "superiority" of the Israeli Air Force that Weizman was singly most responsible for building up, Schiff quotes a top Israeli pilot: "We are the best, even if Russian pilots come against us ... I think our character is what gives us this supremacy. It's something connected with the history of the Jewish people ... To lose supremacy means for the nation to walk into the sea. I don't think it will happen."

Weizman himself stated, in *On Eagles' Wings,* "In 1948 and 1967, and during all the difficult times up to 1970,we never budged from the concept, without which Israel's existence would have been inconceivable, that our safety would be ensured not by parity of armament, but by the quality of the Israeli soldier; that it wasn't technological superiority which made us stronger than our enemies, but *our great spiritual preeminence.*" (emphasis added)

In an interview with Schiff in the early 1970s, Weizman stated bluntly, "If we stand against the Russians, in equal numbers, we will overcome them."

Not surprisingly, Weizman had been one of the more adventurous superhawks during the 1967 Arab-Israeli war. In *On Eagles' Wings,* Weizman notes "the fear" during the first hours of the war that "following Egypt's crushing defeat, the Syrians had taken on such importance in Soviet eyes that rather than see the Syrians beaten, the Russians would overcome their apprehensions and send combat forces into the Middle East. (Defense Minister) Dayan and others were much preoccupied with this fear ... This feeling did more than just reinforce our fears about Syria. It was the reason we stopped where we did, on the banks of the Suez Canal, instead of thrusting deep into Egypt ... I can say in my defence ... that ... I had contended that we ought to push onto Cairo and there dictate peace, or any settlement we found convenient ... For years we had awaited such an opportunity for settling accounts with our most bitter foes. But the chief of staff left that night (June 8, 1967 — ed.) in the certainty that the Golan Heights would remain Syrian and the settlements below would continue to suffer from Syrian viciousness."

Weizman then exults, however, that "there is no explanation for what happened to Moshe Dayan that night ... Without consulting the chief of staff, without sending the order to the head of Northern Command through the usual channels — some even claim, without prior Cabinet agreement — Dayan did a complete turn-about and added ... Syria to the list of routed states."

Weizman, Dayan, and the Cowboy Clique

The Weizman-Dayan interaction is, more generally, an important element in the propagation of the Masada-breakaway mentality. Dayan, who is Weizman's brother-in-law, is described in Weizman's autobiography: "Anyone who says he isn't a brave man, doesn't know Moshe Dayan." After the 1967 war, Weizman gloats, "Moshe Dayan's name was on everyone's lips, a modern Ghengis Khan enjoying absolute veneration."

This revealing statement identifies an absolutely fundamental aspect of Weizman's persona, his cowboy-bravado profile, which he freely flaunts in his writings. Linked to an ideological flair for Zionist expansionism, Weizman has been the traditional "bête noire" of the three decades of Israeli history.

For him, the 1967 war represented the "liberation of the land of Israel," the emergence of "Greater Israel" (the title of one of the chapters of *On Eagles' Wings*). "The liberation of Jerusalem, Judea, and Samaria," he exults, "was more than just (a dazzling victory) — far more. For me it meant returning home, to my own country, to places whose very names filled me with excitement and made my heart tremble."

These views, he boasts, had often, prior to 1967, branded him within Israel as an "historical hysteric, without any rational foundation." Analyzing why he was bypassed for the Chief of Staff appointment in the 1960s by the Labour Party leadership, he stresses, "I didn't conceal my views from anyone. Everyone knew that ... my roots weren't in the dominant Labour movement. The loyal party stalwarts understood that it was an unusual animal they had in this Weizman. To them I was a wild man, with horrifying opinions: a senior commander who claimed that we have the right to Hebron and Nablus (both in the Arab-inhabited West Bank — ed.) and all of Jerusalem, and that we must endeavor to implement that right by force of arms, if there is no other alternative ... They viewed me as a 'national desperado' who preached that the best pilot in the world isn't a man who knows how to squeeze the right button and send off his missile at the right moment, but must believe in the justice of his deeds in defence of the rights of the Jewish people to the land of Israel."

Weizman and the British

In developing these traits, Weizman has played an interesting counterpoint with the former British occupiers of colonial Palestine. While joining the anti-British Irgun militias in the 1940s, Weizman preserved several strong Anglophile tendencies. Earlier, at age 15, he had met and admired top British intelligence officer Orde Wingate, who stayed at the Weizman family home in Haifa. By the early 1950s, after having spent several years in the Royal Air Force during World War II, Weizman was one of the first two Israelis to be trained in a British Staff College.

Needless to say, when Israel joined Britain in the 1956 Suez invasion of Egypt, Weizman enthusiatically supported the operation — except for his disagreement with Prime Minister Ben-Gurion over the use of French jets to carry out raids into Egyptian territory. Weizman wanted the Israeli Air Force to do the job.

—Mark Burdman

Support For Israel Wanes In U.S.

Support in the U.S. for Israel is waning in the wake of the invasion of Lebanon. Attacks on Israel have been seen in the press and in the Congress in the last week. Senator James Abourezk (D-S.D.) introduced a resolution in the Senate supporting the UN resolution for an immediate withdrawal from Lebanon. In his motivating statement Abourezk detailed the "barbarism" of the Israeli invasion. The following excerpts are taken from the Congressional Record of March 21:

The Israeli Invasion of Lebanon

...The *Washington Post* has reported that cluster bomb units, antipersonnel weapons provided by the United States, have been dropped on the city of Tyre. At least one bombing raid by the Israeli Air Force has been directed at the city of Tripoli, Lebanon, which is north of the capital city of Beirut. Anthony Lewis of the *New York Times* reports Monday, March 20, that at least 700 people have been killed in Lebanon thus far by Israeli military operations. A great many of these are innocent civilians. Their numbers are far in excess of the 35 civilians who were killed in the terrorist raid in Tel Aviv....

Reports of the use of American weapons, such as the F-15 and the cluster bomb units being dropped in city areas, killing anyone in range in a nondiscriminatory manner bring to mind a major question; that is, should the United States continue to underwrite such barbarism on the part of a so-called ally. The propagandists for Israel have succeeded in dehumanizing Palestinians, Lebanese, and Arabs in general because such dehumanization makes it easier for Israel to engage with impunity in the savagery of killing. That is a tragic lesson in racism, committed by people who have suffered the most throughout history from racism.

The question of the Israeli attack in Lebanon goes beyond that of retaliation. We would hardly expect the United States to invade Mexico if 10 terrorists from Mexico attacked inside the United States. We would hardly expect the Soviet Union to invade Israel the next time a Soviet Jew hijacked a Soviet airliner. Other than the desire by Israel for its expansion into southern Lebanon, what plausible reason can there be for such an attack? I was told in 1974 by an Israeli journalist that, when Israel deemed the provocation to be appropriate, it would invade southern Lebanon and effectively annex part of that country at the Litani River line....

Most of the world has come to recognize the kind of imperialism pursued by the Israeli Government....

As I see it, Israel will refuse to give up the fruits of its aggression, unless it is convinced it has more to lose than it has to gain as a result of such aggression. In 1956, when Israel joined France and England in attacking Egypt and attempted to keep the Sinai Desert, President Eisenhower was successful in threatening Israel to the extent that Israel withdrew from the Sinai....

The Foreign Military Sales Act prevents the use of American weapons for aggression against a third country. All of the facts exist for the cutoff of American arms to Israel, much the same as we shut off the arms for Turkey when Turkey invaded Cyprus. Israel's clear violation of our law is the obvious lever the administration should use to enforce its demand for Israeli withdrawal....

The Chicago Tribune, *"Israel's Incursion: Shades of Pershing," by Nicholas Von Hoffman, March 21, 1978:*

At 4:15 in the morning of March 9, 1916, a band of between 1,000 and 3,000 terrorists or guerrillas — name them according to your politics — crossed the Mexican border under the command of the storied Pancho Villa and attacked the town of Columbus, N.M....

America had her Menachem Begins then, demanding barbaric revenge....

The knowledge that we ourselves are not only capable of committing the same crimes as Begin but have actually done so may give us insight into the emotions guiding the Israeli premier but it doesn't make the murder of Lebanon any more defensible than the invasion of Mexico 62 years ago.

Shared evil is still evil and Americans might remember it was jets manufactured in Long Beach, California, that were used to bomb the homes and hovels of the Lebanese peasantry....

Perhaps the most hateful, considering the background of the Holocaust, has been the Israeli policy of inciting religious warfare in Lebanon. Premier Begin has even been on American television trying to stir up Christian animosities here against Lebanese Moslems there. In any other public figure, such a performance would have been adjudged bigotry....

The Seattle Post-Intelligencer, *"Israel Pushes Towards Peace," March 29, 1978:*

It takes an optimist to believe that Israel can continue to exist in the long run without coming to a peace agreement of some sorts with its Arab neighbors. To believe that it can continue to exist as it is, armed to the teeth, under constant threat, with an inflation that gallops toward the sky, with taxes that are already there...It assumes that this country for years to come will continue to prop up the Israeli economy with huge infusions of dollars....It assumes that the national interests of Israel and of the U.S., while not exactly parallel, will not diverge so far as to infect American public opinion with the notion the time has come to let the Israelis go their own way and good luck to them....

If the present stalemate holds and war again looms, what should the U.S. do? In the past, when war started, this country has tromped hard on Israel to stop because it seemed likely the U.S. and the Soviets might find themselves at war over the Middle East....

Begin, voicing the political will of the Israeli populace, is refusing to budge. Carter, with American national and global concerns goading him, cannot accept that. Destiny forces him to use what levers he has. Pressure on Israel is one of them.

The Black American, *"That 'Guerilla Raid' On Israel Was a Phoney," issue dated April 6-April 12:*

Last week, before the invasion of Lebanon, we wrote: "They have bombed Southern Lebanon before, killed hundreds of civilians before, burned villages to the ground before."...

Thirty thousand troops against barefoot civilians and goats and children and a few scattered pockets of guerrillas armed with rifles and grenades.

And people are dying.

Hundreds of tanks, hundreds of aircraft, bombing and strafing the villages. Dozens of gunboats and warships shelling the villages. And people are dying....

What comes to mind are pictures of Hitler's Panzers blitzing into Poland and Austria and Czechoslovakia.

And Hitler, too, gave an excuse for his paranoid murder of defenseless civilians....

England is Like Lola

England is like Lola. What England wants, England gets.

England has "always" been on top and England wants to stay on top.

This means America must stay below. And the Soviet Union must stay below.

If America and the Soviets could get together it would spell the end of England...

Lola is kicking America in the ass from many angles. She has been tearing up the American dollar and when it seemed that finally our agreement with West Germany would rescue the dollar, their man, our own Michael Blumenthal, Secretary of the Treasury, sabotaged it....

This whole Kissinger-Israeli-English strategy spells suffering and destruction for the U.S. and the world. The time to put a stop to it is now. Let the Israelis work for peace, not war. The people of the Mideast need food, not guns. They need a chance to live, not die.

Carter Faces Four Key Decisions

U.S. President James Earl Carter is now facing a whole series of interlinked policy decisions which add up to one basic decision. Either he breaks decisively with the "British faction" in the U.S. led by former Secretary of State Henry Kissinger and including National Security Advisor Brzezinski, Treasury Secretary Blumenthal, Energy Secretary Schlesinger in his own Administration, lining up instead with Americans like Secretary of State Vance and Special Trade Negotiator Robert Strauss, or he faces the possibility of imminent explosions in major world hotspots in the Middle East and Africa and probable confrontation with the Soviet Union, not to mention the rapid descent of the U.S. economy into IMF austerity conditions resembling those now administered to Third World countries.

Basic policy decisions are required immediately in four areas:

1) The SALT arms control talks — unless Carter makes a ruthless commitment to push through a SALT II agreement with the Soviets, ignoring the bleatings of Kissinger's sheep in Congress, relations with the USSR will likely undergo complete collapse.

2) Trade and development — Vance, Strauss and the Commerce Department are pushing for a combined public-private sector U.S. export drive in the range of $200 billion to stabilize the U.S. dollar. Carter must support this as part of an overall expansion of world trade, rejecting the British line spouted by Blumenthal and Co. that increased U.S. exports can only come out of the hides of Japan and West Germany, an approach that will guarantee the breakdown of the General Agreement on Tariffs and Trade (GATT) talks, protectionism, and global trade war.

3) Energy—massive pressure from industrial and political circles, including the National Governors Conference, has produced renewed efforts by the Administration to appear pro-nuclear. But without a high capital investment fission and fusion national energy policy, something Energy Secretary James Schlesinger is actively sabotaging, the U.S. will not have the industrial base required for necessary export expansion.

4) Southern Africa — Carter's stop in Nigeria is the most important on his current tour of the developing nations. The situation in southern Africa is now at a critical point, and unless the Administration commits itself to a complete rejection of the illegal Smith regime's "internal solution" for Rhodesia, and begins negotiations among all parties leading towards elections and majority rule, and the rapid ouster of Smith, there is little doubt that Cuba and the Soviet Union will defend the five frontline African states backing the Patriotic Front from attempts by Smith to destroy the Front through military action against the frontline states.

Public-Private Effort Emerges...

Export Drive To Support $, Ensure Mideast Peace

The call has gone out across the U.S. for a joint, public-private sector initiative to support the U.S. dollar with a mass export drive and the imposition of a U.S.-Soviet-European peace-through-development program for the Mideast. Since Vance's March 24 statement that economic development is necessary for Mideast peace, the leaders of the Administration's "political faction" — including Export-Import Bank Chairman John Moore, Special Trade Negotiator Robert Strauss, Assistant Secretary of Commerce Frank Weill, and President Carter himself plus former Vice-President Nelson Rockefeller, the leading U.S. commercial banks, and the government of Saudi Arabia have made major initiatives for a U.S. export drive to support the dollar and develop the world.

President Carter's Special Trade Negotiator Robert Strauss, appearing March 28 at the prestigious Detroit Economic Club in the midst of a national speaking tour, called for a strong export defense of the dollar. "National politics is in a precarious state," he said, urging a new consensus for "a strengthened dollar to continue world trade... Free trade is the only way to go." He emphasized that "one out of every eight agricultural jobs, one out of every 20 manufacturing jobs in the U.S. is due to exports."

On March 29, Export-Import Bank head John Moore and Frank Weill of the Commerce Department made coordinated speeches calling for a strong gear up of U.S. exports, an expanded Exim Bank, and increased private capital to finance such trade.

William Eberle, Chairman of the U.S.-European Community Joint Business Council and Trade Negotiator from the Ford Administration, is simultaneously heading up a U.S. lobbying effort for cooperation with Western Europe to vastly expand all of world trade, informed sources said today, including the organization of vocal European support for the U.S. Eximbank. Cooperating with him and the entire Exim drive are Morgan Guaranty, Chase Manhattan, Bank of America, and the bulk of the U.S. commercial banking community.

Exim Chief Moore Asks $300 Billion In Exports

U.S. Export-Import Bank Chairman John Moore, in what he stressed was *coordination with the private sector*, delivered a speech Mar. 29 to the Georgia Conference on Exports in which he called for American exports at a $300 billion level.

The conference was sponsored jointly by the Eximbank, the Georgia International Trade Association, and the Small Business Administration, and in his presentation Moore characterized his presence in Georgia as "part of a nationwide drive for export expansion" being conducted by the Carter Administration, our correspondent reports. Moore called attention to the fact that Assistant Commerce Secretary Frank Weill and two other officials were making simultaneous speeches elsewhere in the country with the same policy thrust. "We are tapping only part of our export potential, and the Carter Administration intends to fulfill that potential," Moore told the 300 attending businessmen.

Emphasizing the "political faction" concept of the Eximbank as a government participant in large banking consortia *with private commercial banks* to enable Exim resources to be amplified throughout the economy, Moore said. "Although we expect to see a significant increase in Exim authorization, we also hope to see an overall increase in U.S. exports far exceeding" those financed by Exim alone. Exim official Julius Holius, speaking after Moore, noted that with such public-private cooperation, Exim's current authorizations "will generate $200 to $300 billion in U.S. exports" annually, or more than double the present rate.

Miller, Blumenthal Push British Attack On Dollar Within Administration

Federal Reserve Chairman G.W. Miller, Treasury Secretary W.M. Blumenthal, and White House aide Henry Owen this week constituted themselves as a faction within the U.S. Administration to promote as "official U.S. policy" the British government's stated policy of "dethroning" the dollar and relegating the U.S. to a third-rate power.

Amidst public statements by Miller that the U.S. will conduct "no support operations for the dollar," Henry Owen, former Director of Foreign Policy Studies for the Brookings Institution and just-appointed personal representative of the President for the International Economic Summit, has adopted as the "U.S. negotiating position" for the July heads of state economic summit in Bonn the "five-point program" as announced as British government policy March 14 by Prime Minister James Callaghan. The deeper point, however, as admitted almost word for word by knowledgeable State Department sources, is not to implement Callaghan's numerological hodgepodge per se—but to create an open split between the U.S. and its European and Japanese allies at the summit which will undermine the dollar and the international credit of the United States.

Five Points for Confrontation

Henry Owen was introduced personally two weeks ago by Treasury Secretary W. Michael Blumenthal into the White House from his post at Brookings where he has consistently formulated strategic economic policies of the British System model second only to John Maynard Keynes. He is reportedly now in Bonn, meeting with West German government officials and demanding the Schmidt government reflate immediately, to counteract the production declines of the current West German strike wave, or "face a domestic economic crisis," according to the West German press of March 30.

An interview with Owen's chief White House aide March 29, provided by banking sources, made the Owen-Blumenthal schema for the summit explicit: the Callaghan government's five-point program as presented to the London Finance Houses Association March 14 and reviewed extensively in *Executive Intelligence Review* last week. "We hammered it out, there is a general consensus on this," said Owen's office of his British collaboration.

However, discussions throughout Washington departments working out the summit indicate that the program is doomed to fail and cause major international confrontation. West Germany and Japan, said a State Department source, "won't reflate anymore," (contrary to Callaghan/Owen point No. 1); will "certainly not" discuss going off the dollar as a reserve currency onto a five-currency basket and then the Special Drawing Rights (contrary to Callaghan/Owen point No. 2), and so forth. It is a "distinct danger," the source agreed, that a confrontation at the summit will make the failure of the U.S.-German March 13 monetary communiqué, which dropped the dollar from 2.08 marks to 2.00 flat in a day, look like a success.

No Support For The Dollar

This strategic threat to the United States represented

Is Japan the 'Export Faction's' Weak Flank?

With sources saying that the Japanese yen may go as high as 200 to the dollar by the end of April, Japanese firms are understandably fearful that U.S. factions supporting trade and the dollar are presently unable to prevent U.S. Secretary Blumenthal from continuing his dollar-wrecking activities. (For the catastrophic effects of Blumenthal's "soft-dollar" policy on Japan, see this issue's *Economic Survey.*)

Indeed, last week Blumenthal's allies went on a new anti-Japan rampage. Federal Reserve Chairman William Miller not only refused to allow the U.S. to intervene to keep the yen stable, but denounced the Bank of Japan for doing so March 27. Two days later C. Fred Bergsten, Undersecretary of the Treasury, and formerly of the Brookings Institution, told a meeting of the Japan Society of New York that the U.S. would intervene to stabilize the deutschemark but not the yen.

Significantly, Bergsten also called for increasing U.S. exports — by having Japan import more, while demanding that Japan cease its export dependence. Two weeks ago Goldman Sachs partner Henry Fowler had called for increasing U.S. exports by increasing this country's share *relative* to Japan and West Germany.

Clearly, what Fowler, Bergsten, and the rest of the Blumenthal group are attempting is to derail their opponents' efforts to greatly expand exports and save the dollar by shunting it away from *international* economic development and into their own scenario for trade war. That the "export faction" is vulnerable to this ploy is evident from the ranting anti-Japan, pro-protectionist statement last week by former Treasury Secretary John Connally, himself a spokesman for a strong dollar backed by increased exports.

Recently, a top-level delegation of Japanese businessmen indicated to NSIPS that they could recognize and identify those individuals in the U.S. both for or against the dollar, and expanded trade. For example, they were told by officials in the Commerce Department that supporters of the dollar could be identified by the fact that they were trying to achieve significant expansion of the U.S. Eximbank. Recent Japanese newspaper articles have supported such expansion.

But, the Japanese businessmen reported, the Commerce Department officials also added that they did not think that it would be possible to push such expansion proposals through the Administration at this time.

by the day-to-day activities of Blumenthal and his protégé G.W. Miller shows up in the current course of the dollar. An unrelenting British attack against the dollar is in progress on the Tokyo foreign exchange markets. Every day, the dollar is marking a new record low against the yen, today dropping to 220.7.

"There will be no support operations" for the dollar, Miller told the press today, "until economic fundamentals," such as reductions in U.S. oil imports "have been implemented."

Simultaneously, Miller has also escalated a psychological warfare operation within the White House with a series of public statements insisting that, unless drastic action is taken, the U.S. economy will burst under the impact of massive inflation. In line with Callaghan's attempt to direct U.S. policy implementation out of London, Miller is threatening to unilaterally raise interest rates to cut back on the "threatening" increase of the money supply.

Dismiss "Inflation" Panic-mongers

Responsible officials of the U.S. Commerce Department brushed off Miller's panic warnings of the inflationary effects of money supply growth as "incompetent" in an interview March 28. However, Miller's threats to hike interest rates are merely one part of a package which he and Treasury Secretary W. Michael Blumenthal have presented to Carter in an attempt to use the phony inflation menace to force the President to implement a reduction in industrial output. Other features of the package, which is also being backed by Council of Economic Advisors chairman Charles Schultze, include: voluntary wage-price controls; a $6 billion oil import tariff; and promotion of the U.S. share in international exports at the expense of the West Germans and Japanese.

The inflation panic warnings received backup on March 26 from a *New York Times* feature on an imminent explosion in international commodity trading prices, allegedly similar to the famous commodities price takeoff of 1972. An official of the U.S. Agricultural Department discounted the likelihood of such a development in an interview March 28, on the basis of a detailed explanation of the collapse in Third World commodity demand, and U.S. agricultural goods distribution which contrasts strongly with the 1972 developments.

Henry Owen's Aide: We Hammered It Out With Callaghan

Q: What is the U.S. negotiating position for the Bonn economic summit?

A: We have a five point program. The coordination of growth strategy, currencies, North-South relations including long-term capital exports, energy conservation, and trade.

Q: Could you run down the substance? "Coordination of growth" I assume refers to the OECD's Coordinated

Reflation Action Program otherwise known as the "convoy" theory'?
A: Yes, we will discuss how the coordinated targets are being met by the various countries and use the negotiations to pressure Germany and Japan into meeting their commitments.

Q: What about points 2-5?
A: Currencies, I cannot comment—too sensitive. North-South, the usual, commodity support programs, human rights, etc. We also intend to ask the Japanese to do more to aid the LDCs. Energy will naturally be conservation, cooperation, alternative energy sources...

Q: Including nuclear?
A: No, definitely not. We are not proposing any discussions nor do we want any nuclear. Trade, we will review all the multilateral trade negotiations, discuss how the growth coordination strategy can help reduce trade imbalances.

Q: This sounds very much like British Prime Minister James Callaghan's speech to the London Finance Houses Association two weeks ago calling for a very similar five-point program. Did you discuss this with Callaghan and his summit negotiator Sir John Hunt in Washington this week?
A: Certainly, we hammered it out, there is a general consensus on this.

Q: Is this a joint U.S.-U.K, strategy to pressure Germany and Japan?
A: Oh, no, no we wouldn't want anyone to think that!

State Department Expert on Bonn Summit

Q: It seems to me that Henry Owen's five point program for the Bonn summit will be rejected by Germany and Japan. Isn't it true for example that they won't do anything under "coordinated reflation" at all?
A: Well, they will review their growth targets and may make some more promises...but they won't reflate any more, that's correct.

Q: What about "currencies?" Will the U.S. actually discuss Callaghan's proposal to move off the dollar onto a five-currency basket and then onto the SDR?
A: Oh, no, certainly not...

Q: Well, what, then? What will be done about the dollar?
A: Nothing in particular, just general discussion...

Q: And trade? Do you really think Owen can get Germany and Japan to agree to cut their exports to give the U.S. a greater market share? Isn't that what is meant by dealing with trade within the "coordinated reflation" strategy?
A: Yes, and you're right, we could never directly discuss a cut in their exports, that's politically impossible...

Q: The impression I get from all my discussions with Washington sources on the summit is that it will accomplish nothing but to show the world that the U.S. is in a deep split with its allies. Won't it have in sum an even worse effect on the dollar than the recent flop of the U.S.-German communiqué on the dollar?
A: Yes, that is a distinct danger. These negotiations are very difficult.

Carter Seeking Breakthrough On SALT

President Carter intends to send Secretary of State Cyrus Vance to Geneva to meet with Soviet Foreign Minister Gromyko in April, in a new attempt to secure a SALT II arms control agreement, according to a *Washington Star* dispatch of March 10 by reporter Henry Bradsher, summarizing the views of high officials among the President's party in Brazil. Vance will reportedly explore the possibility of a summit meeting between Carter and Soviet President Brezhnev to finalize an agreement.

The *Star* report, together with last week's decision by Carter to postpone a March 27 Brussels meeting where the U.S. was to have informed its NATO partners of a decision to begin production of the neutron bomb, signals that the President is considering a major effort to rebuild deteriorating U.S.-Soviet relations.

Washington sources believe these developments signal pressure on Carter from Vance, chief arms control negotiator Paul Warnke, and Secretary of Defense Harold Brown, from the bellicose line of the President's Wake Forest speech, delivered under the influence of National Security Advisor Zbigniew Brzezinski, and to make conclusion of a SALT agreement a top Administration priority.

It is known that the State Department in particular took extremely seriously a 3,400 word Soviet policy statement published in *Pravda* March 28, which delivered the message that SALT II was a "now or never" proposition as far as the Soviet leadership is concerned. The article, under the byline of Moscow's USA-Canada Institute director Georgii Arbatov, affirmed that a "crucial decision" must now be made on SALT to determine the course of U.S.-USSR relations "for years to come."

Arbatov wrote that now is "the time when one must finally decide: will there be an agreement or not"; if not, the failure would amount to "torpedoing the Soviet-American dialogue on vital questions of security, and a considerable deterioration of the overall atmosphere."

Adding that remaining technical problems in the SALT negotiations are strictly secondary to the basic political decision of the Carter Administration for or against détente with the USSR, he seconded the concern expressed by the Soviet news agency TASS after Carter's March 17 Wake Forest speech that the Administration was shifting definitively into a mode of "threats and building tension."

State Department spokesmen described the Arbatov article as "serious and thoughtful" and said they were giving it "careful study." On March 29, the Baltimore *Sun* reported that Carter had dispatched new instructions to U.S. SALT negotiators in Geneva, "instructions which privately encouraged the most staunch advocates of arms control."

Meanwhile, the State Department has dispatched a team composed of Deputy Secretary Warren Christopher, Counselor Matthew Nimetz and Assistant Secretary George Vest to "explain to the USA's European allies the reasons for Carter's decision to delay production of the neutron bomb." Officials in Bonn should have little trouble understanding Carter's reasons, as West German Chancellor Helmut Schmidt has long sought to establish the preconditions under which the provocative weapon — which the Soviets correctly regard as evidence of U.S. belief that "limited nuclear war" can be fought in Europe — could be "negotiated away." According to a March 28 article in the *New York Times*, Carter personally vetoed the Brussels NATO announcement on the grounds that he remained unsure that NATO governments would agree to deployment of the bomb if it were actually produced. Although much of the U.S. press is now reporting that the State Department mission is an effort to twist the arm of Schmidt and other European leaders into requesting the bomb's deployment — something only Britain's James Callaghan has so far done — there are equally strong indications that Carter hopes to use the upcoming special session of the UN General Assembly on Disarmament in May and June to provide a context for defusing the whole issue.

The Soviets have repeatedly stated publicly that a full U.S. commitment to the neutron bomb would signal "a new round of the arms race." Members of a U.S. Congressional delegation in Moscow last week told reporters that "every other word" to them from Soviet officials was a condemnation of the n-bomb.

Carter Faces 'Acid Test' For U.S. Policy In Africa

On the verge of President Carter's scheduled meetings in Africa on his third international tour, UN Ambassador Andrew Young, speaking from Lagos, Nigeria, stated that an "internal solution" for Rhodesia is a "suicide policy" which, if supported by Great Britain, would lead to "civil war in Africa" and "the end of the British government." Young's statements, reported by ABC networks as representative of both the White House and the State Department, sets the stage for Carter's Africa policy. The question now is whether or not Carter will pursue the line established by Young and fight for it at home in the U.S. despite the activities of Henry Kissinger and Zbigniew Brzezinski, who favor a "tough line" for Africa against the Patriotic Front and Soviet presence.

Such a decision by Carter can no longer be put off, at the risk of a complete "blow-up" in the Horn of Africa. An Administration source this week admitted that the one world "hot spot" where U.S. "prodétente forces" do not have a handle on a solution is the southern African region.

Britain's desire for Carter couldn't be clearer. One British commentary charged Young with seeking black votes for Carter, while the *Daily Telegraph* challenged the President to "insist on more restraint and better manners." The *Daily Mail* editorialized: "The British are heartily sick of being insulted... We do not expect to get it from a member of the U.S. cabinet."

Memorandum on AFL-CIO Economic and Strategic Policy

The following memorandum was released on March 16, 1978 by Warren Hamerman, of the U.S. Labor Party's National Executive Committee.

I have before me for consideration three recent policy statements by the AFL-CIO leadership which go beyond the usual mere incompetence and indecency on economic and strategic issues that we have come to expect from AFL-CIO Secretary-Treasurer Lane Kirkland and his minions. While the duplicitous leadership presents for the credulous a monolithic policy front, I also happen to know that each of these statements is put forward in the most defensive "macho" fashion because the "Jewish Lobby" crew around Kirkland and the labor-intensive Maoist networks of former UAW boss Woodcock are being opposed *policy by policy* by thinking men and women inside the AFL-CIO.

The three statements are: (1) *The AFL-CIO American Federationist* of February 1978, which contains the economic program of Felix Rohatyn, Mike Blumenthal, and Nazi Finance Minister Hjalmar Schacht reworded to simulate a labor movement policy; 2) the March 1978 *Free Trade Union News*, published by the AFL-CIO's Department of International Affairs under the "dictation" of Zbigniew Brzezinski and Henry Kissinger; and (3) Lane Kirkland's recent speech at the Chicago Council on Foreign Relations, on the near-term "inevitability" of U.S.-USSR confrontation.

The first document calls for creating 4 million new unskilled jobs a year for the next four years through a $13.25 billion program of public works, public service, and youth labor programs, mass transit and railroad "revitalization," low-and-moderate income housing, and the creation of an Urban Development Bank. Furthermore, the "economic stimulus" package calls for a tax reduction program of $10.9 billion, a social security tax cut of $5.4 billion, regulating imports through tariffs, banning transfer of U.S. technology abroad and a G.W. Miller-style selective credit policy for the Federal Reserve. The Kirkland leadership also supports destruction of the Eximbank and nuclear energy development.

Typical of the February *Federationist* are such simple and outright lies as: "Unregulated imports, foreign dumping, the wholesale transfer of U.S. technology abroad, and continuing U.S. investment in overseas operations deprive the American economy of jobs and investment capital and disrupt efforts to rebuild the American economy."

Elsewhere, the parallel with Nazi-Schachtian "job creation" concepts is virtually spelled out: (We urge) "A $1 billion separately funded program of 'soft' public works to help conserve energy and rehabilitate older public and private buildings. Eligible projects would be rehabilitation of vacant houses and apartment buildings and weatherization of houses and buildings in low income areas."

The second document, the March newsletter of the AFL-CIO's Department of International Affairs, is a Josef Goebbels tract of the crudest sort which is intended to whip up the most backward paranoid hatreds and direct them toward a short-term war confrontation with the Soviet Union. The cover story, written by Alexander Solzhenitsyn's wife, is a call for the defense of one Alexander Ginzburg, an inmate in a Soviet prison. Other articles include a call for the United States to intervene against the Cubans in Africa by Bayard Rustin, transcripts of the Rome International Sakharov Hearings (a front for the British Fabian Society's "Amnesty International"), picture essays on Soviet human rights violations and an exposé of Chinese prisons. For spice, Ernest S. Lee, AFL-CIO International Affairs Director has an editorial "On Foreign Trade." Lee explains that the way for the United States to reverse its 1977 trade imbalance of $26.72 billion and "protect" American jobs is for the U.S. to impose import tariffs, ban the export of U.S. technology to the Third World, and halt the development of plant and equipment export, particularly to the developing sector. This program, Lee has the nerve to say, is not "protectionism," but instead constitutes "fair and free trading realities"!

Lee bristles at the December 1977 address by C.V. Devan Nair, Secretary General of the Singapore National Trades Union Congress, in which he called for trade unions to declare 1978 "Anti-Protectionism Year." Nair presented a straightforward case:

"Slow economic growth in the industrialized countries and consequent unemployment will mean increasing protectionism on the part of their trade unions. Indeed, the greatest danger which threatens workers in the developing countries, comes not such much from the governments of developed countries as from their trade unions. Now, if the AFL-CIO succeeds in intimidating the American President and Congress into adopting protectionist policies, how would this affect us in the developing countries of East Asia and Southeast Asia?... Then trade unions in the developing countries will find themselves with hardly any members left. A highly protectionist U.S. may help the AFL-CIO in the short run, but even this is doubtful. However, this means massive unemployment for the developing countries of Asia in the short run and, in the long run, catastrophe for both George Meany and Devan Nair."

In response, Lee has the gall to claim that "Imports from the Less Developed Countries into the United States in 1976 and 1977 accounted for most of the U.S. trade deficit. We are surprised at Devan Nair's claim that when it comes to trade issues 'international labour solidarity give(s) way to the perverse doctrine: "Everyone for himself and the Devil take the hindmost".' Those who would export to destroy jobs in another country are just as protectionist as those who would put up walls. Devan Nair seems to be the one seeking protectionist goals—and defeatist goals for people and union solidarity."

The surface observation which must not be missed on current AFL-CIO economic and strategic policy is that "Our Crowd" Kirkland and also-ran Meany are attempting to deploy the American labor movement against the fundamental interests of the United States as an integral part of the ongoing British subversion operation centered around Brzezinski, Kissinger, Schlesinger, Blumenthal, and Mondale.

Kirkland and his associates must be immediately ousted from leadership, *before* a 1962-style Cuban Missile Crisis nuclear showdown between the U.S. and the USSR around the British stage-managed Mideast and Africa crises. Secondly, economic growth-oriented strata within the AFL-CIO must immediately wrest control of the AFL-CIO leadership to ensure that skilled-jobs creation through capital-formation and high-technology exports is the predominant economic program. The alternative depression program of labor-intensive "pooled-labor" jobs programs of the Humphrey-Hawkins prototype would do to the United States labor force as a whole what Felix Rohatyn and company have "achieved" in New York City.

At this moment hundreds of thousands of Italian workers are mobilized to defend their republic against a terrorism war by British intelligence services. Trade union leader Lama has correctly stated that all those who claim to represent the labor movement yet are sympathetic to terrorism must be immediately ousted from leadership.

At this moment, Treasury Secretary Blumenthal, Federal Reserve Chairman Miller, and Council of Economic Advisors Chairman Schultze—*all arch-advocates of hyperinflationary policies*—have officially "shifted" to the adoption of straightforward "fiscal conservative" short-fix monetary controls. Recently, Blumenthal and Miller have claimed that they now understand that fighting inflation is America's single most important economic priority. Therefore, they are advocating the inevitability of wage-price controls, lower money supply growth and reduction by decree of energy consumption.

It is well known that the leadership of the AFL-CIO has maintained a formal position of opposition to wage-price controls in favor of so-called "jobs creation" programs. A fight between hyperinflationary jobs programs and fiscal conservative "incomes" policy and price controls is a deliberately contrived game plan in which the ship of the U.S. economy is given the "choice" of being wrecked by Scylla or Charybdis.

We must be crystal clear about the significance of this choice. This is nothing more than the alternative between Hitler and Schacht's 1933 "Jobs Creation" program or the Hitler and Schacht 1937 so-called "Four Year Program" of final solution transformation of an economy into a war machine. Since the "alternative" of the 1933 jobs creation program inevitably leads to the 1937 Nazi economy, the significance of any potential "debate" defined strictly on the terms of these alternatives is purely one over the velocity with which the American economy will be completely deindustrialized and destroyed.

A Real Labor Program

The following considerations are advanced to immediately strengthen the factional situation of the American trade union networks who oppose terrorism, world war and fascist economic policies. What is needed at this crucial hour to defend the American republic is a forging of a public coalition of Labor, Industry, Minorities, and Agriculture in common defense of our national interests. Our fundamental national interests are defined as world peace through global economic growth: a combination of Eisenhower's "Atoms for Peace" program with the "Rogers Plan" for Mideast economic development.

1. *The official AFL-CIO program for unskilled jobs creation is classic Nazi policy.* From 1933 to 1937 unemployment in Hitler's Germany fell from over 6 million to under 1 million while real wage earnings were gutted through public works programs targeted around mandatory "labor service" of youth and unskilled populations, reconstructing rail, transit and highways, special subsidies and tax-exemptions for home repairs and low-income housing construction, high tariffs on imports and bans on exporting technology, selective federal credit controls punishing productive capital formation, outright "seizure" of all trade union assets and destruction of labor institutions, ersatz production of "soft" technologies, Big-Mac or Urban Development Bank-style pure paper recycling debt instruments, and finally, strict penalties against advanced-technology energy production while favoring energy-conservation.

2. *As Adolph Hitler himself proclaimed in the last chapter of* Mein Kampf, *the National Socialist economics and strategic policies were modeled on the "British system" and were opposed to the "American system" of economic growth and technological growth orientation.* The United States developed in fundamental contradistinction to the British System. The British monetarists, financially bankrupt for 200 years, scarce in natural resources and land, while plentiful in capital and labor, have pursued policies of "burning up" labor and capital unproductively while looting raw materials and land territories around the world through the most ghoulish methods. The early United States, however, the "New World" development project of European humanist statesmen, was rich in land and resources, and chose to place a premium simultaneously on the development of skilled labor and capital. Thus Washington, Hamilton and Franklin built our nation upon the notion of Progress through scientific development, technology and industrialized growth while constantly uplifting the educational and material standards of the population from generation to generation to increase the *productive powers of labor.*

3. *American labor's interests are enhanced through the growth and development of the world economy as a whole.* One in every six jobs in our manufacturing sector are for exports. One in every three acres planted in our nation are for exports. More than one in every five jobs in our machinery and machine tool sector are for exports, while nearly one in five jobs for chemical workers, electrical manufactures, and primary metals workers are for exports. The greater the economic development in the Third World, the greater the potential markets for American goods and services.

Expand Exports

4. *The centerpiece of all economic development policy in the short term is a full national commitment to the export and domestic construction of nuclear energy power plants.* Nuclear fission, and shortly both fission-fusion "hybrids" and fusion power facilities, will define the energy for a boom in industry, agriculture and research and development for the United States and other advanced sector nations. Millions of skilled jobs for American workers will result from our nation's commitment to nuclear energy development. The target proposals of the 1960s for 1,000 nuclear energy plants in the United States by the end of the century and large-scale deployment of nuclear facilities in Third World development projects will rightfully create tremendous shortages of skilled labor in the United States, providing the impulse for eliminating the unemployment and underemployment of our population. Expansion of the Export-Import Bank of the United States is the most appropriate vehicle for implementing a nuclear-energy exports policy spinning off into other sectors of our industry.

5. *From the day Blumenthal was sworn in as U.S. Treasury Secretary in January 1977 the U.S. dollar has plunged more than 16 percent in value against the West German mark, 24 percent against the Swiss franc and 19 percent against the Japanese yen.* Blumenthal has pursued a policy of "malign neglect" and deliberately "talking down the dollar" while straightjacketing the American economy from the top down with a near $27 billion trade imbalance. Once Blumenthal is removed from office, our immediate policy goal must be to bring the value of the dollar back up to the DM 2.50-3.00 range. This can be accomplished through concentrating available U.S. credit on creating a nuclear energy-centered high-technology export boom which will, as a byproduct, reactivate idled industrial and cultural capabilities in the domestic U.S. economy. The problem of the steel industry is exemplary. The steel crisis is due

not to foreign competition but to lack of modernized plant, equipment and production processes. The objective of national economic policy must be to generate an investment boom in industry, agriculture and research and development.

6. Tax policy can not be handled as a "tradeoff" between either business or individuals, if we are to avoid the short route to national bankruptcy. Tax policy begins *first* with a policy to increase the real tax base by expanding both the real profits of the corporate-industrial sector and the real income of the population. The Blumenthal policy of capital gains tax is therefore the worst policy imagineable, since investment in creating future plant, equipment and production capability is penalized. The entropic auto-cannibalism of such tax policies can be studied by the case of New York City in the recent period. The more fixed assets are taxed so as to negate investment in future production, while speculation is enhanced, the less productive capacity is left standing, the higher the unemployment. As to Social Security, if the tax base of the U.S. Treasury is expanding, then the deficit in the Social Security system can be usefully funded out of general revenues, rather than increases in payroll deduction. In the past 20 years, such deductions have doubled at the same time that inflation has wiped out the real income left. On the corporate side, maximum benefits must be given to corporations replacing outmoded plant and equipment.

7. Urban Development Bank and Big Mac-style paper-debt recycling financing must be opposed down the line to avoid hyperinflationary crises. Credits for real productive outputs, "hard-commodity credits," is the policy for achieving world industrial recovery. The large mass of already existing dollar liquidity abroad in the Eurodollar and Petrodollar holdings can be absorbed as means of payment against U.S. high-technology exports. Secondly, other portions of that immense dollar liquidity can be usefully deployed into capital formation in industry in Europe and Japan, thereby stimulating the markets for American capital goods exports. To achieve a net export balance for the advanced industrial nations as a whole, the massive expansion of high-technology imports by the developing sector is wanted. OPEC nations generate a large surplus of potential investment capital for increased long-term investment-oriented exports from the industrialized nations to the developing sector. Those developing sector nations which are primary commodities exporters will improve their earnings automatically through forcing up the industrial production levels of advanced sector nations like the United States.

By a combination of controlled measures, the non-performing foreign debt balances of the developing sector owed to institutions such as the IMF and World should be "frozen" without any chain-reaction to the overall banking system. The remaining debt of the developing sector can then be reorganized through national banking procedures similar to those employed by Alexander Hamilton, our first Secretary of the Treasury, and more recently adopted by the governments of Mexico and Venezuela. The Hamilton approach is to issue selective, easy credit to capital formation and real productive investment while penalizing speculative real estate and debt-pyramiding investments through high interest rates.

Soviet Cooperation

8. The fundamental strategic consideration of the United States is to ensure that expanded East-West trade is not *pursued through nuclear missiles with 18 minute delivery lead-times, but is pursued in cooperative economic, scientific, and technological development strategies.* The two super-republics of the world today each came into existence through revolutions against the British monarchy and were established as republics to fight for policies of industrialization through science and technology. Peaceful U.S.-USSR leadership of a global economic recovery is achievable around initiatives for (a) the commercial development of nuclear fusion and advanced fission technologies; (b) large-scale development projects in Third World areas similar to the conception of the Rogers Plan for Mideast economic development; and (c) an exciting joint space program to create the possibilities for extension of man's economic activity and scientific frontiers from our planet in the 21st century.

Together with the advanced industrial and scientific impulses of the Soviet Union, we must jointly declare a war on economic impoverishment in the world and on ignorance in science and technology, and not allow for a war between the world's two leading industrial nations.

9. In summary, Brzezinski, Blumenthal, Mondale, and Schlesinger must be immediately removed from the cabinet. Lane Kirkland, George Meany and company must be replaced by a new union leadership which is committed to defending our national interest through an alliance with industry, the minorities, and agriculture around global economic growth. Those forces within the AFL-CIO who constitute networks for humanism and progress through economic development are most usefully designated as those who recognize the U.S. Labor Party as their primary political programmtic leadership.

The way to clean up the cancer at the top of the AFL-CIO is for the USLP to be given the public commitment and material resources to lead the nation to Progress. The U.S. Labor Party constitutes a political association of leading humanists and scientists who alone have developed and are capable of managing policies of global skilled-job creation and a capital-formation industrial boom. The AFL-CIO is fundamentally composed of human beings who rightfully demand such an alternative to thermonuclear confrontation and fascism. The above-outlined measures constitute the only pathway to a future for labor and the American Republic.

February Trade Figures Clobber Dollar

The dollar fell back sharply to 2.005 deutschemarks, 1.83 Swiss francs, and 2.2150 yen following the March 31 announcement of a record $4.52 billion trade deficit during February, double the January level of $2.38 billion. The announcement took the market entirely by surprise — the dollar had been rising on all markets up until the moment of the announcement — and foreign exchange traders, who have not yet fully digested the news, expect the dollar to dip again below the 2.00 deutschemark line.

FOREIGN EXCHANGE

Unless the current export-promotion efforts of Ambassador Strauss, Assistant Secretary Weil, and other Administration officials take hold quickly, the prospect for the dollar will be grim. Preliminary cross-checking indicates that the February deficit is not an aberration, but reflects a basic deterioration of the U.S. manufactures trade balance.

Imports rose 14.4 percent and exports fell 1 percent, with all the changes occurring in the key industrial categories. Imports of manufactured goods, of which the largest component was steel, rose by $400 million. Import increases occurred in machinery, transportation equipment, motor vehicles, steel, and aircraft. The more volatile fuels and agricultural products categories were stable over the month.

Historically, the manufacturing balance has been the largest surplus item in the American trade balance, but fell from $20.7 billion in 1975 to $12.7 billion in 1976 and $3.7 billion in 1977. Conceivably, the United States could go into deficit on manufactures during 1978, for the first time since the war.

There has not been sufficient time before deadline to examine all the major categories of the balance of payments. However, the steel sector is exemplary of the problem. Net imported steel rose from 1.537 million tons in January to 2.219 million tons in February. The explanation currently circulating is that importers sought to beat the Feb. 21 deadline for imposition of the Treasury's reference prices on steel imports. However, steel analysts do not believe that import volume will decrease substantially with respect to last year, despite the reference prices. Blyth, Eastman, Dillon projects an import level for 1978 of 16 to 17 million tons, as opposed to 18 million tons last year. The reason is that the discrepancy between imported and domestic steel prices will apparently remain in place. The most recent round of steel price increases, namely U.S. Steel's rise of $10.50 per ton and National Steel's rise of $5.50 per ton, will enable foreign steel suppliers to continue to export to the U.S. despite their sharp export price increases due to dollar depreciation. In turn, domestic steel suppliers— using the Treasury's reference prices as a floor — will also increase their prices.

Whether this neatly interlocking arrangement has anything to do with the surprising calm with which foreign steel suppliers met the reference price system in the first place is open to question. What is clear is that the manufactures trade balance incorporates a process of capacity shutdown, lower volume, and higher prices. Since the devaluation of the dollar over the last six months has increased import prices and lowered export earnings in foreign-currency terms, the basic industrial position of the United States has become the primary victim of the process. Without a basic reversal of American trade policy, the trade deficit can be expected to deteriorate throughout 1978 on the manufactures account. Even if Alaskan oil and lower oil consumption cut back the fuels deficit, the gross size of the deficit will reflect even greater disadvantage to the American economy than the corresponding figures for 1977.

Most economists believe that the $4.5 billion February figure is far above the underlying level of deficit; all the special factors have not yet been sorted out. However, the February deficit is an unmistakable warning about the longer term health of the American economy.

French Franc to Return to the European Snake?

State Department officials speculate that the French franc might return to the European snake in advance of the July summit in Bonn, establishing a Franco-German alliance against the "convoy" reflation approach pushed by Britain's Prime Minister Callaghan. State Department official Henry Owen and his associates reportedly see this as a major threat to their plans for the summit, which reduce to forcing the West Germans and Japanese to swallow the Callaghan program. There are even indications that Secretary of State Cyrus Vance and officials close to him are trying to end-run the Owen operation, and supporting a Franco-German initiative.

Société Génerale de Belgique Chairman Albert Coppe told a New York Banking audience March 29 that a return of the French franc to the snake was likely.

Sterling in Trouble

The pound sterling dropped from its recent $1.88-1.89 level to a 1978 low of $1.86 on March 30. Market-watchers agree, first, that the Bank of England wants to ease the pound's parities to cheapen exports — sterling dropped against other currencies beside the dollar; and second, that the awesome dilapidation of the United Kingdom's economy, no longer glazed over by North Sea oil, not only precipitated sterling's slide but may speed it past Threadneedle Street's brakes. This would knock out key

City of London capacities, including Prime Minister Callaghan's courage to lecture the United States on the impressive fruits of United Kingdom domestic austerity, capital controls, and incomes policies.

Credit policy is also a sound way to understand the deterioration of the pound sterling, as it catches up with the deterioration of the productive economy. As the American Banking Association testified at the final stage of UK hearings on City of London operations chaired by the Labour Party's Harold Wilson, the British method has been "liquidation" of the productive assets of any firm that couldn't keep up with its debt schedule, whereas American commercial banks work actively with their corporate customers to make the borrower a better "going concern," at best on the basis of actual innovation and expansion.

The industrial post mortem on the British economy has been delayed for many months by London's ability to draw international investors into sterling paper — especially government "gilts" — by vaunting the $20 billion national reserves amassed since 1976. The material prop to these pretensions — floods of North Sea oil revenue — has now become discredited; British exports are lagging; and, according to the fine print in the Bank of England quarterly report, the $20 billion reserves, if netted out, would be a £7.3 billion deficit as of September 1977, even before the trade drop intensified. The gross figure not only fails to account for long-term post-World War II U.S. loans which London never intended to repay, and whose payment has never been demanded; it includes public-sector medium-term borrowings and special foreign-currency bonds that will have to be met.

The *International Currency Review* of London, an intelligence sheet with increasingly canceled subscriptions from New York bankers because of its anti-dollar purple prose, stated this month that "before the end of the year there is likely to be a catastrophic collapse of confidence in sterling — the development of which is currently being deferred only by the U.S. dollar's persistent international weakness." Whatever the ICR's motives in raising such an alarum about sterling (motives possibly including the hope of restoring credibility among their disgusted New York commercial bank subscribers) the inverse pound-dollar relationship is now being taken for granted. For example, the March 31 *Journal of Commerce* cites a New York banker predicting that "if the dollar strengthens by any appreciable amount, the pound would be likely to go lower" than the $1.80 level he foresees soon.

West German bankers figure the pound considerably lower, and along with the Italian press have been maliciously reminding the UK about its $20 billion foreign debt. Much of this debt comes due in 1980-82, and London's well-advertised payments of small portions ahead of time to the International Monetary Fund and Chase Manhattan are openly viewed in New York as efforts to get a jump on the crisis of confidence.

In July 1977, the Bank of England officially severed its "buffer" reserve relationship to the dollar. Since then, London has daily campaigned for the demotion of the dollar and its role in world trade and investment. It is a crass and therefore fitting irony that one of the things eroding the pound sterling in the last week of March was the expectation of a reflationary budget of the kind Callaghan has been urging on all the advanced-sector OECD countries except the U.S. which is supposed to "contract." The "danger that the Bank of England couldn't control the situation if it started to allow the pound to slide" as the March 31 *Journal of Commerce* put it, has so much international leverage at stake that the Bank of England should be expected to step in soon to try to prop up the UK's pretensions as world arbitrator.

Congress Could Collapse World Bank

According to a high official in the World Bank, that institution will collapse unless the Carter Administration mounts a "Panama Canal Treaty" mobilization to get its heavy new funding requirements through Congress. The official stated that the House of Representatives was a particular obstacle, with an unusual assortment of different congressional interest groups opposed to the new funding requests, each for their own reason. The official indicated he was not certain that the Carter Administration would rise to the occasion.

The *New York Times*, a strong supporter of the World Bank's labor-intensive austerity programs, rushed correspondent Graham Hovey to press March 28, with an article mistitled "White House Defends World Bank Against Hostility of Congressmen" — a bald lie. As the article itself indicated, it was Vice-President Walter Mondale and Sen. Jacob Javits who were principally concerned about the threatened demise of the World Bank, not President Carter. This was not contradicted by the interviews with the World Bank official, excerpts of which follow:

Q: We saw the New York Times *article this morning. Are things really that bad for the World Bank?*
A: Yes, Hovey's article is accurate.

Q: It seems like you people are getting hit from all sides, aren't you?
A: You aren't kidding! The worst is the House. There's the conservatives who hate the World Bank. There's the human rights people with their impossible riders. There's the antihuman rights people who want Nicarigua but not Vietnam. There's the palm oil lobby that doesn't want U.S. money to go to countries competing with us in palm oil. There's the sugar lobby, there's the soybean lobby, that was last year.

If that wasn't enough, this year there's going to be a steel lobby, a shoe lobby, and a textile lobby. Then there's (Under Secretary of State) Warren Christopher with his group over at State — they prepare shopping lists of who's good, who's bad, who's so-so. The good guys get weapons and loans, the bad guys get nothing. And the "in-betweens," in between. It used to be that they just used their shopping list for direct U.S. aid. Now they've been going after indirect aid — like U.S. World Bank funds. Put that together with Congress trying to get control over more things and you see what we're up against, since 40 percent of U.S. foreign aid goes through non-U.S. controlled channels like the World Bank.

But that isn't all. There's (Treasury Secretary) Blumenthal. He's given some speeches saying our salary structure over here should be reduced. It just isn't fair. We're not civil servants over here. We shouldn't be reduced to U.S. civil service scales. First of all, we're getting paid in dollars, which are worth less and less every day. Second, we come from the private sector, we're not your civil service types. Blumenthal should pay more attention to defending the dollar rather than harassing us. That's what other Organization for Economic Cooperation and Development countries have been telling Blumenthal too.

Q: Who are the good guys from the World Bank's standpoint in Congress?

A: Rep. Conte of Mass. is friendly to us, Sen. Javits is especially marvelous. Also helpful are Sen. Dick Clark of Iowa, Elford Cederburg of Mich., David Obey of Wisconsin, Jack McCall of California, Jim Wright of Texas, Alan Cranston of California, Paul Tsongas, and Henry Reuss, both on the House Banking Committee. Among the Administration it's Walter Mondale and especially Under Secretary of Treasury Fred Bergsten.

Q: Who's been hurting you?

A: Clarence Long of Maryland; Bill Young — a ranking Republican on his committee — who says we're guilty of funding left-wing nations. What makes the problem much worse this year is that there's much more funds needed, because of deals and postponements in previous years. Why, the International Development Agency alone needs $1.55 billion! We want to get a capital increase for the World Bank. The Administration just isn't pushing the way that's necessary. What a mess!

British Agents Draft:

The Final Solution For New York

Any question as to who makes financial policy for New York City ended last week as proposals were made to restructure New York under the rule of the International Monetary Fund. The scenario as it is presently unfolding, will use the ongoing municipal union negotiations as a backdrop for the implementation of drastic austerity measures by Municipal Assistance Corporation Chairman Felix Rohatyn, Treasury Secretary Blumenthal, and Federal Reserve Chairman Miller. All of Mayor Koch's provocative demands to the transit workers are part of the script previously determined by Miller, Rohatyn, and Blumenthal. The Mayor is to simply set the stage for the destruction of the city's trade unions, making New York the example of austerity for the rest of the U.S.

The Unions Must be Broken

A Washington, D.C. source close to the Joint Economic Committee indicated what was expected of Mayor Koch in the upcoming contract negotiations.

Q: What did happen during Mayor Koch's visit to Washington earlier this week?

A: Koch received a "pep talk" on how to deal with the transit negotiations. What happens between Koch and the transit workers will set the pace for how future negotiations will go. (Federal Reserve Chairman G.) William Miller and (Treasury Secretary) Blumenthal have told Koch that he must stand firm against extravagant demands and Mayor Koch agrees. When the negotiations get down to the wire, Koch will do as Miller and Blumenthal say....(Municipal Assistance Corporation Chairman) Felix Rohatyn has been telling him the same thing.

Q: Does that mean that Mayor Koch's Administration is prepared, and willing to face a strike?

A: If necessary, to demonstrate New York City's commitment to austerity, Koch may have to take a strike....Miller and Blumenthal feel that a strike — regardless of the chaos it produces — will have beneficial effects not just on the city, but on the rest of the nation. Someone will be shown as "holding back the flood," and this will deliver one way or another. Koch must show a determination to break the back of union wage demands and force major concessions from its workers or it could forget about any Administration support for loans or loan guarantees to avert a city bankruptcy....Koch will deliver one way or another, either (with) contracts that show union concessions or a victory in a strike....

The IMF Should Takeover New York

Dudley Fishburn, author of the American Survey in the March 24 issue of The Economists, ***reiterated his proposals to "save New York City" while a guest on CBS talk show March 26. Excerpts of Fishburn's "solutions" appear below.***

The City must shrink, its people should be redistributed through out the North American continent... Let the old industry move out of the city. New York will never have a future as a port or rail terminal... There are already more people working in museums and concert halls than on the docks and that is the way it must be... New York (could become) a capital of the world for a new elite kind of industry....

(New York went wrong) in Albany 15 years ago with Rockefeller. It got worse with Lindsay.... These people thought they could spend money that they didn't have... money (went to the unions) to programs....

Twenty eight months ago Britian was in the same shape... The International Monetary Fund got tough... New York needs a federal program for (administration of the) Emergency Financial Control Board (to put) it in shape. It would be folly to give New York money without putting a stop to its whimsical way of spending money. In my (*Economist*) article I suggest we put the IMF on the board (administering) New York City....

I was in Washington, D.C. ... I talked to several officials.... New York is still misunderstood in there.... The rest of the world looks at New York and sees a safe city... Businessmen feel secure here.... In Rome, you can be kidnapped,... in Paris blown up... but in New York you are safe....

U.S. Labor Party Draft:

Legislation To Save New York City

Whereas the City of New York is the nation's largest and most important urban center and is the headquarters of U.S. commercial banking, world trade, fashion, printing and media industries, and

Whereas the City is facing bankruptcy which will affect municipal services, municipal employee wages, payment of debts, and providing funds for capital improvements, and

Whereas a bankruptcy or continued financial instability in the City would jeopardize the stability of the commercial banks and their ability to fund trade and industrial growth, and jeopardize future City and New York State finances.

Whereas the Municipal Assistance Corporation, a State agency, not only fails to provide growth capital to the City but if City revenues remain level or decline, the Municipal Assistance Corporation will be bankrupted, jeopardizing $3 billion in obligations mainly to New York City commercial banks and municipal union pension funds, and further, jeopardizing City and State finances if City sales tax revenues are used to bail out the Municipal Assistance Corporation, and

Whereas the true "ability to pay" the City's obligations, whether debt service, municipal employee wages, other operating costs, or capital expenditures, depends solely — as it has done historically — on the economic growth of the City, State, and Nation, and

Whereas the City's failure to conduct "good faith" collective bargaining with its municipal employee unions based on an "ability to pay" premised on level or reduced City revenues has created a climate of imminent crisis and chaos in the City and

Whereas the City requires certain revenues immediately to maintain existing services and eliminate the present confrontationist mode of union negotiations, and requires, for the Region as a whole, several billion dollars for creation of increased nuclear energy supplies, transportation linkages and augmented port facilities, and

Whereas the New York State Senate has affirmed its commitment to rapid national growth by passage of the Exim Bank Resolution, (Senate legislative Resolution No. 119)

Be It Therefore Resolved:

1. That the State of New York create an Industrial Development Authority for the purpose of assuming, with Federal guarantees, the debt obligation of the Municipal Assistance Corporation. Those obligations will bear interest equal to U.S. Treasury notes, and conversion will be voluntary.

2. That the Industrial Development Authority be empowered to issue State guaranteed notes up to an amount fixed by the Legislature at such time deemed appropriate by the Legislature for high technology nuclear energy production, transportation networks and port facilities in the State.

3. That the Municipal Assistance Corporation be disbanded and the earmark of New York City sales tax be released.

4. That the revenues saved in the form of lower interest payments on the former MAC debt be placed at the disposal of the City treasury for immediate operating expenses including the payment of municipal employees.

5. That the Legislature, in conjunction with other agencies, public, quasi-public, and private, request Congress to appropriate up to $11 billion in funds to the Federal Economic Development Administration for the following purposes: 1) 7,000 megawatts of nuclear power generation for the State and Metropolitan Region to assure the power necessary for large-scale industrial growth; 2) rail and road and rapid transit linkages necessary to the fullest development of the nation's largest port, not excluding such concepts as Starport integrated intermodal terminus, and off-shore port facilities. This request is made in the national interest to implement a national policy of greatly expanded U.S. exports based on an augmented role of the U.S. Export-Import Bank and other Federal agencies and private agencies.

6. That the Legislature declare its intention not to "steal" industry from other sections of the nation but rather to coordinate with national industrial growth policies to maximize the City's, State's and Region's contribution to expanding the nation's wealth.

7. That the Legislature monitor the process of industrial growth with frequent hearings that examine not only State and City activities, but scrutinize the efficacy of Federal programs relative to the capital needs and labor needs of the State, City, and Region.

8. That the Industrial Development Authority (IDA) seek joint investment with large private investors, foreign or domestic, and with quasi-public agencies such as the New York Port Authority, Power Authority, Urban Development Corporation etc.

9. That the board of directors of the IDA be composed of representatives from industry, banking, labor and quasi-public agencies; that each appointee must have proven expertise or experience in creating or realizing economic development plans; and that the board shall cooperate with local boards of education and the City and State Universities to create the necessary labor skills requisite to the proposed construction.

Blumenthal's Yen Rise Seeks Japan's Downfall

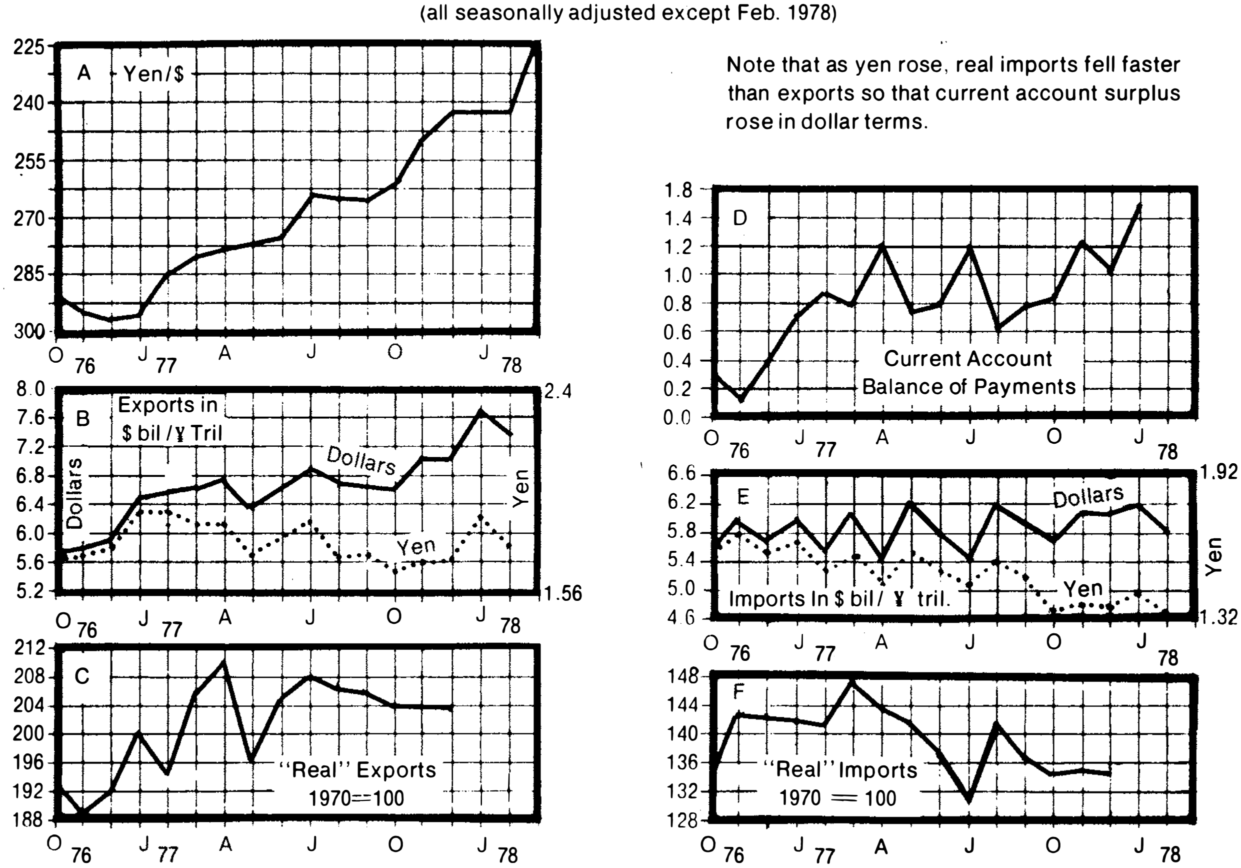
Since his inauguration, U.S. Treasury Secretary Michael Blumenthal and his "soft dollar" cofactioneers have jacked the Japanese yen up 33 percent relative to the U.S. currency. At this writing, the yen is up to 221 to the dollar and fast rising toward the 200 mark and beyond, and Blumenthal is looking to drive it even higher.

As the intended result of Blumenthal's policy, Japan is being driven into bankruptcy.

"Blumenthal's motivation is not economic, but political," a top British official of the Lazard Freres investment bank told a reporter last year, at an earlier stage of Blumenthal's declared economic war against Japan. "You see, Japan and the Europeans resisted the Blumenthal-Healey line" — the package of reflation, export cuts, low-growth, and International Monetary Fund policing that Blumenthal and his British counterpart Denis Healey were demanding — "but if Japan can be forced to surrender, this will show that resistance just isn't possible."

Just as Blumenthal and Co. planned, the yen's rise has caused a continuous fall in Japan's exports since early 1977, in current yen as well as constant-value terms. (see Graph I) The results for this export-dependent economy have been catastrophic:

Graph I
Trade Indicators
(all seasonally adjusted except Feb. 1978)



Source Ministry of Int'l Trade and Industry

* **Ten percent of all Japanese corporations are "virtually bankrupt,"** according to Sanwa Bank. That is, these corporations are being saved from the Japanese version of Chapter 11 only by either under-the-table bank debt moratoria or government bailouts, or both.

* **Twenty-five percent of all corporations are in deficit this term** (October 1977-March 1978).

* **Profit rates overall are the lowest since the takeoff of Japan's postwar revival,** worse than at the depths of the 1974-75 recession.

* **The firms facing deficits and bankruptcy are not marginal or mismanaged businesses,** but multi-billion-dollar enterprises, including the most prestigious leaders in steel, chemicals, ship-building, and so on.

* **Industrial production has been virtually flat since early 1977,** thanks to the collapse in exports. The effects on corporate and bank finances have, in turn, been devastating. (See Graph II)

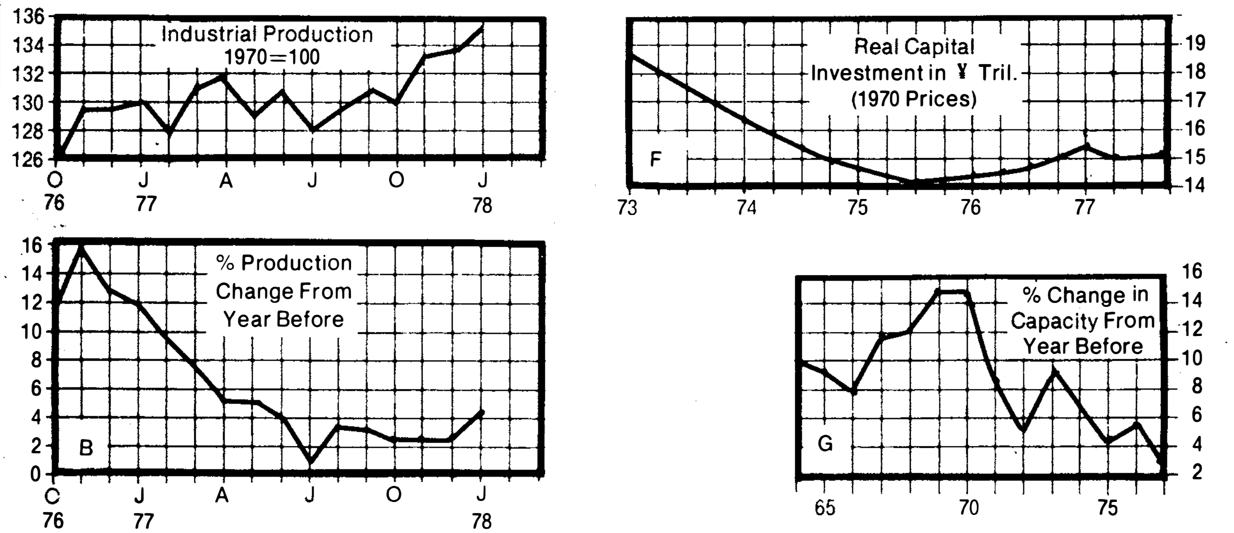
* **Bank profits are almost nil, and may turn into losses this year,** due to the strain of providing effective debt moratoria plus the effects of overall sluggish loan demand. The interest rate margin on total funds is only 0.07 percent, versus the normal 1.0 percent.

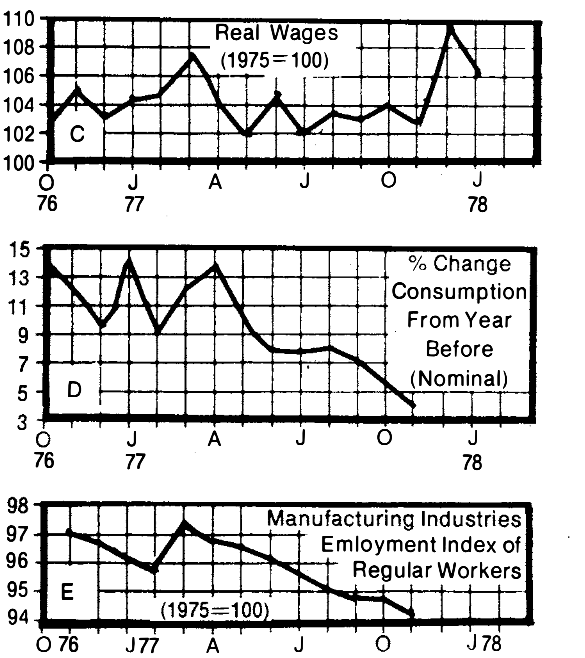
Hardly any other country could have survived this degree of pressure. Japan has done so by subordinating financial considerations to the necessity of maintaining its productive system as much as possible. This has been achieved through tight collaboration among the nation's corporations, banks, and government, the development-based dirigist system often nicknamed "Japan, Inc."

Graph II

Production, Consumption, and Investment Indicators

(Seasonally Adjusted)





Source: Ministry of Int'l Trade & Industry

But the effort has stretched Japan's credit system like a taut rubber band that could snap at any moment and plunge Japan into full-scale economic depression. And make no mistake — if Japan, the world's second greatest trading partner, goes into depression, the rest of the world will soon follow.

To avoid a collapse of the banking system, the Bank of Japan has acquiesced to a policy of triaging some debt-strapped corporations. This decision was responsible for the dramatic $800-million bankruptcy of Japan's largest plywood maker, Eidai. And Edai's downfall is seen as only the first of many.

The financial crisis is now being allowed to erode the productive foundation of the entire system. If there is any one guiding rule of Japanese economic policy, it is that capital investment must be maintained at all costs, for it provides the primary basis of development. Throughout all previous economic crises, Japan maintained its capital investment, even if at a somewhat reduced rate. Now private capital formation, which (as a crude measure) averaged 17 to 20 percent of Gross

National Product throughout the postwar miracle, has dropped to 12.5 percent — the lowest ever since Japan's recovery took off in the mid-1950s, lower even than 1974-75 recession lows.

Export Controls Versus Expanded World Trade

Japan's leaders are frantic, terrified that further appreciation of the yen will produce financial pressures they cannot control. They are rightfully frightened that Japan could descend into unstoppable financial panic and depression. In their desperation, some leaders have seized on a treacherous deal offered by the Blumenthal axis: pressure on the yen will be eased if Japan imposes export controls.

Considering how much falling exports have already hurt Japan, there is only one explanation why anyone would advocate export controls: fear that a rising yen could cause even more harm. The foremost advocates of export controls are the Ministry of Finance and the Bank of Japan, both traditionally inclined to accomodate to foreign pressure against a high capital-formation policy. Even more worrisome is that some of the most fervent advocates of dirigism and development have acceded to the demand for export controls, for example ruling Liberal Democratic Party leader Yasuhiro Nakasone and the *Yomiuri Daily News.* Only International Trade and Industry Minister Toshio Komoto has come out firmly against controls.

Clearly, Nakasone and Yomiuri are motivated by a pessimistic evaluation of the political situation in the United States.

In mid-March, a delegation of top-level Japanese business and political leaders, led by Mitsui and Co. president Ikeda, visited the U.S. Leading members of the mission repeatedly told this reporter that they found the U.S. Administration split down the middle. Some U.S. officials, they said, such as Trade Negotiator Robert Strauss and Commerce Undersecretary Frank Weil, are firmly behind expanded U.S. exports as the solution for the dollar crisis, and eager to reach a realistic arrangement with Japan. Others they found were not so cooperative.

The message the Ikeda mission brought back was that in general the U.S. would not commit itself to defending the dollar — the Blumenthal faction still prevailed. Indeed, since the visit the yen has been clobbered even harder, rising from 240 to 221 to the dollar during March. Following the return of the Ikeda mission, the demand for export controls — never even mentioned publicly before — became front-page news.

What the Japanese pessimists apparently overlook is that agreeing to export controls to "save" Japan would be a futile gesture. Blumenthal will never keep any promise he makes, for his objective is not, as he claims, to eliminate Japan's trade surplus. If it were, why does he continue to force the yen up — since he knows that yen appreciation increases Japan's trade surplus in dollar terms: Japan would go bankrupt long before yen revaluation could end its trade surplus.

Nor will export controls keep the yen from rising. What is hiking the yen is not Japan's trade surplus, but the profound crisis of the dollar. And this fact points up the truly monstrous political motivation on which the policies of the Blumenthal crowd are based.

For the dollar is weak primarily because of the stagnation in world trade that is eroding the powerful U.S. economy. This stagnation, caused at root by a gigantic expansion of debt in both the Third World and the advanced sector at the expense of real economic development, is effectively the economic "base" of Blumenthal and the financiers he speaks for. It is for that interest that the U.S. Treasury Secretary and the investment houses to whom he is personally tied are actively undermining the dollar in the international currency markets, in the hopes of reviving the supremacy of the historic center of economic stagnation, the City of London.

Blumenthal has no interest in a settlement with Japan. What he seeks is an end to the high-growth, high capital-formation system that Japan embodies — a crucial step in imposing no-growth medievalism on not only Japan, but the U.S. and Europe as well.

The prodevelopment leaders in Japan are not unaware of this fact. Whatever temporary accomodations a man like Nakasone might propose, he and his allies in business and politics are organizing with similar groupings in the U.S. and Europe for a trade-and technology-oriented answer to the dollar crisis.

Moreover, these leaders are not concerned simply with bilateral Japanese-U.S. or even Japanese-European trade as the solution for economic difficulties between the U.S. and Japan. Rather, they are proposing that both countries expand their trade to the underdeveloped nations as part of an aggressive development strategy. It is from this standpoint that they are vitally interested in the outcome of the factional struggle inside the U.S. government.

The Japanese business newspaper *Nihon Keizai Shimbun,* whose editorials tend to reflect the consensus within business, wrote that Japan must "demand, in collaboration with European countries, that the U.S. take steps to bring stability to international currency trading." By contrast the accomodationist Foreign Ministry has insisted that Japan deal only bilaterally, with Blumenthal. Plans for currency stabilization efforts include the gold option desired by the Europeans. A few days ago, *Mainichi* newspaper's Econoscope column noted "reinstatement of gold as a monetary reserve and standard guage of currency value . . . (i.e.), remonetization of gold, would thus restore financial substance and prestige to the dollar." In a previous column, Econoscope targetted "that tribe who call themselves English gentlemen" as behind the sabotage of gold remonetization. Business Federation chieftain Toshio Doko presented Japan's policy when he stated recently that technological stagnation as well as liquidity imbalances were at the heart of the monetary crisis.

The prodevelopment group in Japanese business, exemplified by the organization called the Industrial Structure Council (ISC), is behind the politicians Nakasone and Komoto. It includes such fervent prodevelopment dirigists as Industrial Bank of Japan chairman Sohei Nakayama and Nippon Steel chairman Inayama, as well as centrists like Doko, Fuji Bank chairman Iwasa and Mitsui Trading Co. advisor Tatsuzo Mizukami. This group and its predecessors are responsible for Japan's economic miracle. They would like to see either Komoto or Nakasone become Prime Minister when the term of current Prime Minister Takeo Fukuda ends in November.

For the present, business is putting pressure on Fukuda to resist Blumenthal. Fukuda himself, who would like to continue for another term after November, is close to Rockefeller circles in the U.S., with both the virtues and flaws of that connection. He is thus for maintaining the value of the dollar, but so far he has restricted Japan to "Maginot Line" defenses. He is hampered by his own susceptibility to low-growth ideas (e.g., endorsement of the Club of Rome), but is under severe pressure from business. When he visits the U.S. in early May to see President Carter, he will make a trip to New York, to visit Kurt Waldheim, but, according to reliable sources, to secretly visit David Rockefeller.

The Fukuda-Komoto-Nakasone group is under attack by the closest thing to a London ally in Japan, LDP Secretary-General Masayoshi Ohira, who also hopes to succeed Fukuda. Long an associate of London circles in Tokyo, Ohira advises accomodation to low-growth policies under the guise of "accepting a *fait accompli.*" His main economic advisor, Osamu Shimamora, openly advocates low growth on the grounds that technology is exhausted. Back in 1971 he called for zero growth in capital investment in the 1980s. Another London associate, Employer's Association head Takeshi Sakurada, also heads a group called the Industrial Planning Council which called for adjusting to yen rises by cutting exports, cutting growth, and cutting capital investment.

Ohira's strength depends on an unprincipled alliance with him by former Premier Kakuei Tanaka, who actually opposes Ohira's economic policies. Together, the Ohira-Tanaka group is the most numerous faction in the party. Tanaka believes he could control Ohira if the latter became Prime Minister. In fact, Japan's ability to resist Blumenthal would be crippled.

The Attack on Development

It is only partly true that the pressure on Japan is simply political blackmail, as stated by the official from Lazard. Beyond that short-term goal lies a campaign to eliminate Japan as a force for development in the world, to destroy Japan as an evolving, modernizing economy, to reduce it to the status of a Southeast Asian sweatshop "writ large" — all under the slogan of "restructuring to low, stable growth." This policy is explicit in press articles blaming Japan's "overinvestment in capital goods" for its export drive. It is also see in attacks on collaboration among bankers, producers, and government, which is said to block fair trade. In fact, such collaboration was the heart of the dirigist system responsible for Japan's economic miracle.

Japan's economic miracle was based on a policy of continuously upgrading Japan's basic economic structure to successively higher modes of production through successively higher rates of growth, of capital formation, of advanced technology, and of labor productivity. Japan's leaders recognized that this could only be achieved through an export orientation. In succeeding years, basic exports shifted from textiles and apparel to steel and basic assembly, to autos and stereos, and now increasingly to capital goods and computers. The mind of the Japanese is exemplified by an energy official who recently said, "In 20 years Japan will be the main supplier of energy to the world as fusion power comes on stream."

Japan never hesitated to scrap obsolete methods in its pursuit of investment. Within one generation, the postwar world saw the population change from a majority of farmers to only 15 percent farmers. Textiles, formerly one of the largest industries, now lags in size far behind more advanced sectors. Within the steel industry, managers repeatedly scrapped not-so-old plants to make way for the new, giving Japan the most modern facilities in the world. The oldest plant of the major manufacturers was built in 1962. Labor productivity surpasses the U.S. despite a lower living standard. Technology, not low wages, makes Japanese steel competitive.

And yet, Japan was prepared to shelve even this tremendous investment in steel in pursuit of still further advancement. As one leading economic thinktanker remarked in 1971, "Why should we sell steel at $200 per ton when we can sell it at $2 million per ton in the form of airplanes or computers?"

Integral to Japan's strategy was the upgrading of its Asian neighbors. As Japan moved to more advanced technologies, it financed the development of its own earlier stages in the Southeast Asia countries, e.g., textiles, steel, chemicals, assembly.

The Healey-Blumenthal international austerity drive has now cut short that process. By gutting trade and capital formation, they have cut off the avenue for shifting exports to capital goods. Valiant efforts are being made to maintain sales, particularly in the Soviet bloc, China, and the Mideast, but the high yen rate is calling forth a flood of cancellations. For example, the machine tool industry, which now exports one third of its product, must sell at a loss if it hopes to export. At the same time, Blumenthal's allies within Strauss's office have made Japan's computer industry a major target of their wrecking efforts, demanding that the Japanese government procurement give special consideration to U.S. makers.

At the lower end of the export spectrum, radios, steel, and textiles produced and exported by Korea, Taiwan, et. al — much of which was financed by Japanese investment — is now seen as a threat. Whereas before Japan wanted to steadily reduce the textile industry, what can it do if there are no more advanced jobs to transfer the workers to? The government still subsidizes beef farmers — leading to $15-a-pound steaks — when it knows that all rationality calls for imports. But where are the new jobs? Blumenthal has removed them.

Such an absurd competition with Southeast Asia over relatively lower-skill exports is exactly the mode into which the City of London wants to push Japan. *Far Eastern Economic Review*, published out of the British protectorate Hong Kong, devoted its Feb. 24 cover story to this issue. Employer's Association chief Takeshi Sakurada used just such "competition" to justify near-zero growth in Japanese real wages for the fourth year in a row.

Japan is not prepared to resign itself to being an assembly shop. Nonetheless, the fait accompli presented by the yen rise has stymied its development strategy. Despite record foreign exchange reserves, the Finance Ministry estimates that foreign investment in 1977 dropped 25 percent from 1976 and investment in developing countries was down perhaps 50 percent from 1973 peak levels. Toshiro Tomabechi, the managing director of the top trading firm, Mitsubishi Corp., remarked, "Theoretically, we have to invest abroad in order to reap the harvest 5 to 10 years from now, but I don't think the time is ripe."

Why Yen Rise Bankrupts Japan

Japan's postwar miracle was built on a relatively delicate financial structure for which exports provided the foundation. High growth in capital investment was

Table I

Comparative Index of Growth Rates of Wages, Productivity and Prices:

1968 Vs, 1960 (1960=100)

	Labor Productivity (A)	Wages (B)	Labor Costs (B/A)	Export Prices
Japan	216	237	110	92
Italy	170	200	109	94
West Germany	157	184	117	111
France	149	181	121	110
United Kingdom	132	165	122	112
United States	129	133	104	113

Source: National Institute Economic Review and Ministry of Labor

Japan's Economists: Hamilton, Hegel, and Kanamori

Japan didn't get where it is today by relying on the crackerbarrel notions of "free enterprise," "anti-big government," and "our job is to make profits, not products" popular among U.S. businessmen. On the contrary, its industrialists as a group have more advanced notions of development than any others in the advanced capitalist sector.

A public official paper titled "Knowledge intensification; Can human beings build a Tower of Babel to Heaven" by the Ministry of International Trade and Industry appropriately referenced the early 19th German philosophical giant G.W.F. Hegel to the effect that Japan's task is to change the economy from the level of thing-in-itself to the level of being-in-and-for-itself — that is, from one in which jobs use people as mere talented beasts of burden to one in which jobs require the most human qualities of creativity, a fusion-power-dominated economy, in which laborers are skilled technicians, engineers, and scientists.

Saburo Okita, advisor to former Prime Minister Takeo Miki and leading economist of the Japan Economic Research Center (JERC), expressed the best outlook of Japanese business when he said productive consumption is that which "will contribute to the activities of tomorrow, to the qualitative elevation of labor in the long run, i.e. to enable the qualitative expanded reproduction of labor."

The head of the JERC, Hisao Kanamori, pinpointed Japan's policy in a winter 1971 article in the *Japan Interpreter*. He wrote that neither high growth nor low growth is "normal"; the norm is constant acceleration of growth rates. Kanamori is an influential thinker behind the Industrial Structure Council faction of Japanese business. In 1971 he predicted that by 1980 Japan would surpass the U.S. in per-capita GNP and, by 1990-95, in absolute GNP. This, he said, would be achieved by a 20-fold increase in spending on research and development to $75 billion per year by 1985!

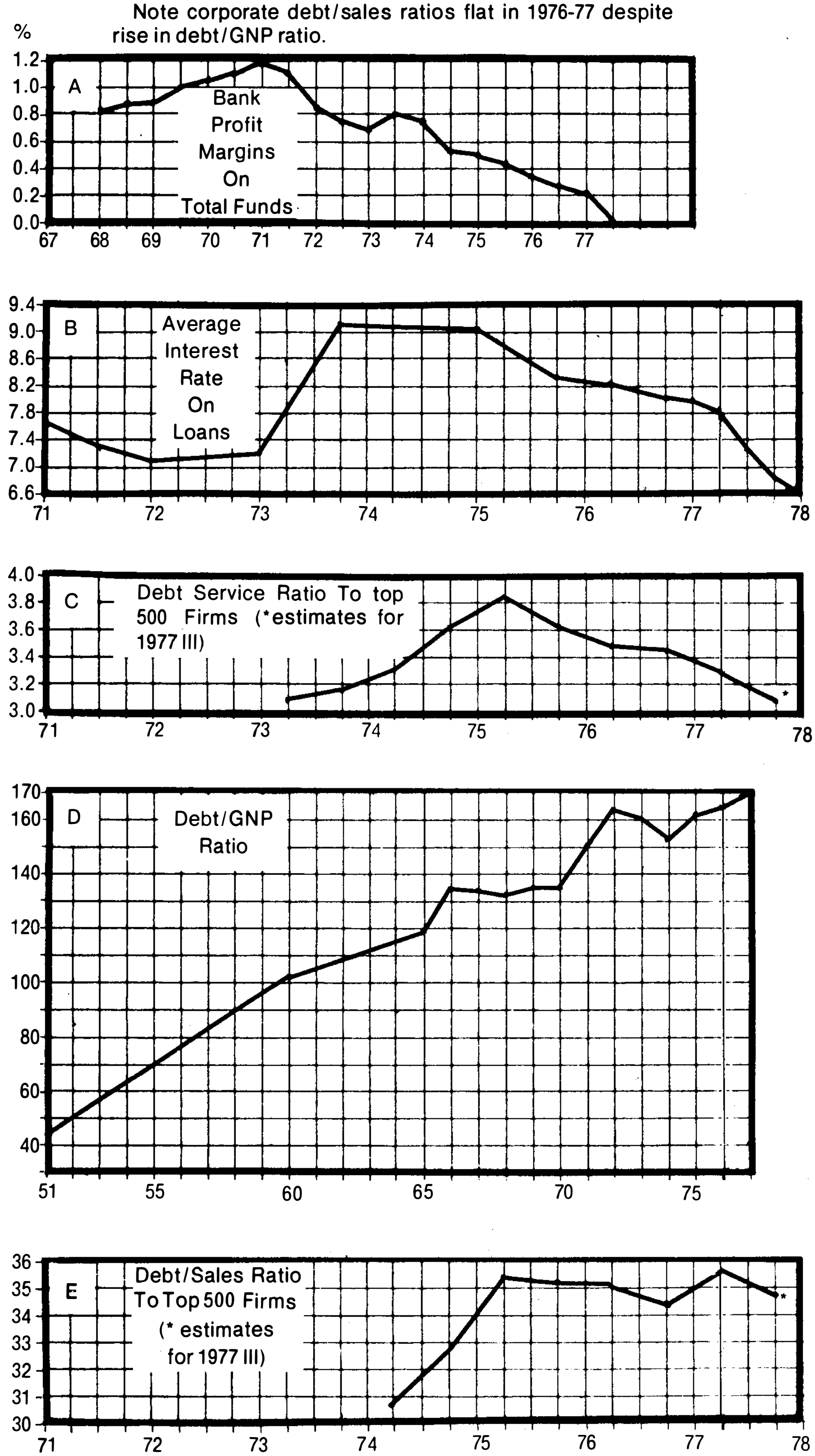
The progrowth thinkers in Japan have been constantly forced to respond to arguments by economists attached to certain London-New York circles that Japan should slow its growth. Kanamori responded in the article cited above by demolishing the theoretical basis of arguments — founded on the theories of British economists J.S. Mill, Malthus, and Keynes — that the so-called laws of marginal utility and diminishing returns require low growth for "mature" economies. Kanamori simply pointed out that constant increases in technology and the capital-labor ratio voided these "laws." Another economist wrote that the problem with low-growth advocates is that they think economic "stability" is analogous to a hard table. In fact, he said, it should be thought of more like the "stability" that is true of the larva that is changing into a butterfly.

Japan's fight against the low-growth line is not a postwar phenomena but goes back to the days after the 1868 Meiji restoration. The predecessor of today's prodevelopment faction was Yukichi Fukuzawa, who fought for a national bank policy explicitly modeled on Alexander Hamilton's. His opponent was Japanese banker and British agent Eichi Shibusawa, the institutional ancestor of the Luddite environmentalist commandoes who attacked Japan's Narita Airport last week.

Graph III

Debt and Debt Service Ratios

Note corporate debt/sales ratios flat in 1976-77 despite rise in debt/GNP ratio.



Source: Bank of Japan

financed through extremely high corporate debt levels that can only be carried by means of still higher growth at higher technological levels.

Throughout the 1960s, except for recession periods, industrial production grew at a 15 to 20 percent annual rate, private investment in plant and machinery averaged 17 to 20 percent of GNP, and real wages increased 10 percent yearly — all accomplished with wholesale inflation below 2 percent!

Export orientation made this possible. Capital investment was made on the basis of being realized through the nation's exports while domestic consumption increased as a byproduct of national growth. In this way 10 percent annual real wage increases were offset by equal improvements in labor productivity; unit labor costs thus remained flat throughout the 1960s while consumption as a percentage of GNP decreased from 60 percent to 50 percent. In one generation, living standards rose from near-Third World levels to half of that of the U.S. itself, and equal to the best in Europe. (See Table I)

Restructuring of the economy to eliminate backward industries or equipment was no problem economically. At 15 percent annual rates of growth, within 7 to 8 years, two thirds of all industrial equipment would be entirely new, even if none of the old were scrapped!

The entire process was financed by a huge mushrooming of corporate debt. Unlike the U.S., where a similar debt explosion fed speculation and hindered investment, the debt was used almost entirely productively. Nonetheless, debt steadily grew relative to GNP, and debt service of corporations relative to sales. (See Graph III D)

What made it possible to sustain this debt without inflation was surplus profits earned through trade. This can be shown easily through the case of steel. From 1960 to 1970, labor time per unit of steel fell 75 percent, while iron ore costs fell 10 percent. Despite real wage increases, overall costs fell one third in those ten years, but the export price did not fail to reflect lower costs. Thus Japan could sell steel to the advanced industrial countries cheaper than the latter could make it themselves, but at a price way above its own costs. Through such mechanisms within overall trade, this author estimates that by 1970, as much as one third of all corporate profits in Japan were the result of surplus profits in real terms of trade. This is not seen on the books of the trading corporations, but is spread over the economy through the credit system. This is a large part of the reason for the stability of Japan's debt-GNP ratio during the 1965-70 period. (See Table I)

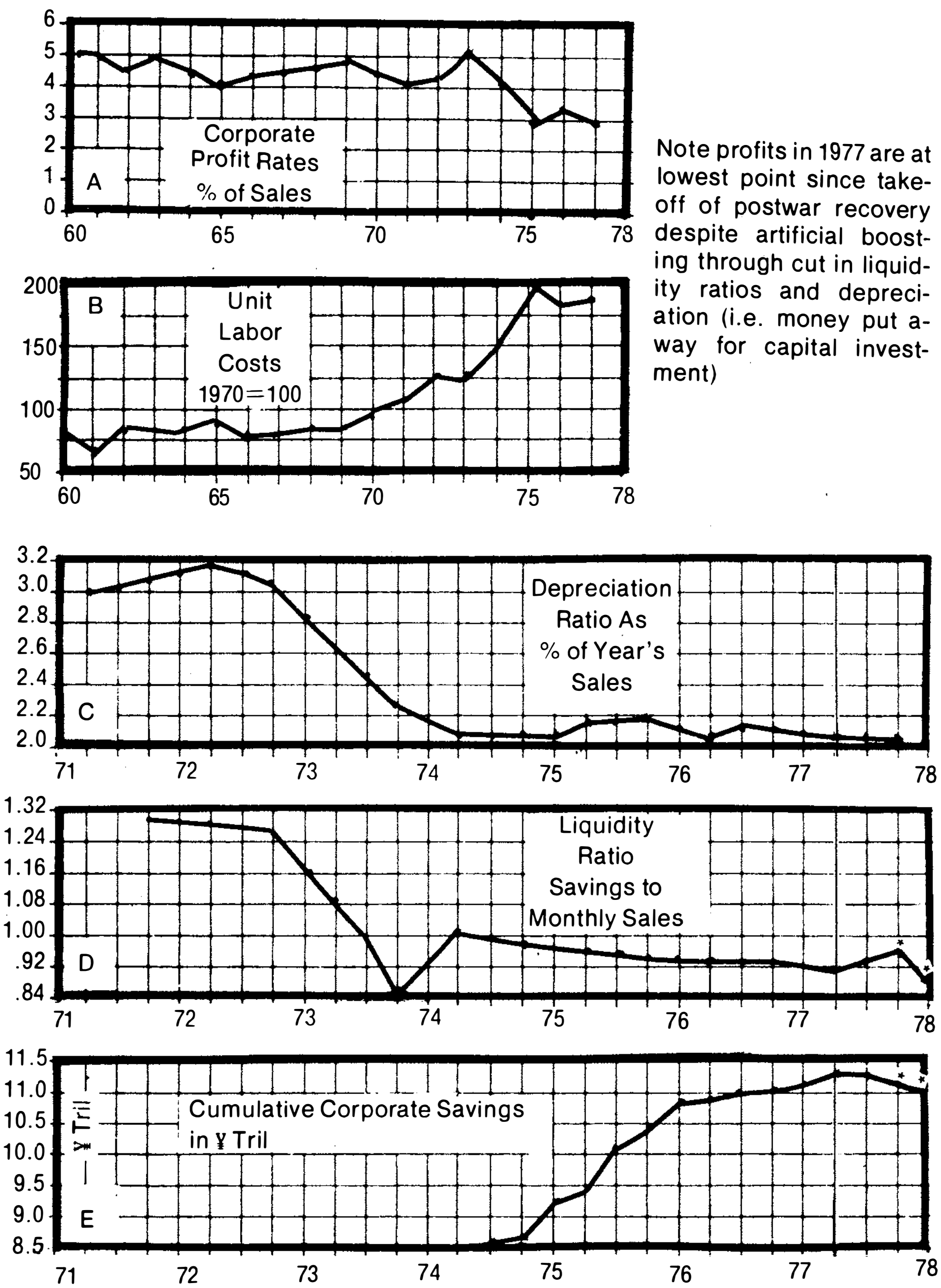
Such a system requires a constant acceleration in technology and productivity. In 1971, the Industrial Structure Council — the group behind Komoto and Nakasone— pushed for a shift to what they termed "higher value-added, knowledge — intensive" industries, e.g., computers, capital goods, et al. They recognized that this required a major improvement in living standards. Although they rose constantly in the 1950s and 1960s, living standards were still too low to produce sufficient skilled workers. Even now, in time of recession, Japan has a shortage of hundred of thousands of skilled workers. They also recognized that the program required the industrialization of Southeast Asia.

Ironically, Japan would benefit from a steady rise in the yen, since that would improve terms of trade — if it occurred under conditions of a growing world trade volume.

The entire program of the ISC was cut short by the dollar crisis which began on August 15, 1971, was worsened by the 1973 oil shock, and now is approaching cataclysm with Blumenthal's yen appreciation. Debt to GNP ratios sharply rose, corporate liquidity zigzagged and profit ratios plunged; unit labor costs rose for the first time. (See Graph IV) Previously inflation-free, Japan now experienced 30 percent inflation. Efforts to halt the inflation produced a 20 percent cut in production in 1974-75, the worst depression since the 1930s.

Graph IV

Accounts of Corporations



Japan never recovered from that recession. The illusory recovery of 1975-76 was provided by an export boom that could not be sustained, since world trade as a whole never recovered. Now, the yen appreciation could lead to a catastrophe that would make 1974-75 look mild by comparison.

The Current Crisis

In many ways Japan's situation is far more dangerous than that prior to the 1974-75 collapse. The financial situation of the banks, corporations, and government is far more precarious. So there is very little financial cushion if the present flatness in production turns into actual downturn.

The danger of a downturn is imminent unless action is taken on an international scale to remove Blumenthal, stabilize the dollar, and restore trade. Although increasing in dollar terms due to the yen appreciation, exports are falling both in yen terms (which determines the financial condition of corporations) and in real terms (which determines production levels of an entire economy). (See Graph I) Certified exports, a two-to-three-month leading indicator, were down 2 percent from February the year before, after a 0.1 percent fall from a year earlier in January — the first such decline since November 1975.

The entire economy follows the gloomy results of exports:

(1) Industrial production was virtually flat from November 1976 through October 1977 and the government expects the February-March results to significantly reverse the November-January bulge; Japanese industry is now operating at 80-85 percent of capacity an average. (See Graph II)

(2) Quarterly consumption increases in household expenditures was the lowest in October-December since the government began the survey six years ago; real wages did not grow at all in 1977.

(3) While capital investment recovered somewhat in October-December, the level was still below the post-recession peak achieved in January-March 1977 and far below 1973 levels.

(4) Corporate profits for the term ending March 31 are estimated to have fallen 6 percent, following a 13 percent drop in the previous six-month term. One out of four firms will show a loss. Profit rates are the lowest since the start of the postwar recovery. Particularly hard hit have been export industries (see box).

(5) Domestic demand is so sluggish that both wholesale and consumer prices are falling, not because inflationary pressures have lessened, but because firms cannot pass on cost increases. Deflation of course worsens the debt position of the firms. (See Graph V)

(6) Corporate bankruptcies increased 30 percent in 1977 with liabilities totalling $12 billion, while bankruptcies in Feb. 1978 alone hit $2.1 billion (including the $800 million Eidai).

Export Industries: How The Yen Rise Hit

Most export industries are now running losses due to the yen rise, and the threat of bankruptcy looms large. Several have been declared emergency cases qualifying for government aid:

TEXTILES (6 percent of exports, 10 percent of industrial production): The industry as a whole, both natural and synthetic, is running huge losses and has been declared an emergency case. It is feeling competition from Asia. The 16 largest firms are running a combined $1 billion loss.

STEEL (15 percent of exports, 7 percent of production): Exports continue to decline. China is expected to replace the U.S. as Japan's biggest customer when 1977's 2 percent decline to U.S. is followed by a sharper fall in 1978. Operating at only 70 percent of capacity, the industry as a whole is running in deficit, and will cut capital investment by half in 1978 from 1976 peak. Normally their investment is 20 percent of Japan's total.

SHIPBUILDING (11 percent of exports): Orders are being cancelled, and this industry is at only 50 percent of capacity and running huge losses. Six major bankruptcies in the last few months included Hashihama, at $100 million. Top-level shipping firms in trouble include the Japan Line, connected to Nakasone, which asked for debt moratoria from government and private lenders on $150 million. Komoto's own firm, Sanko Shipping, is in similar trouble, but has not yet asked for moratoria.

CHEMICALS (6 percent of exports, 9 percent of production): The top seven firms are running combined $87 million in losses.

TV AND STEREOS (5 percent of exports): TV exports were off 5 percent in 1977, due to protectionism.

AUTOS (15 percent of exports): half of the industry's production was exported in 1977 as exports rose 17 percent, but the industry expects only a 2 to 3 percent rise this year.

PLANT AND EQUIPMENT (10 to 15 percent of exports, 23 percent of production): This had been a major bright spot, but now is losing orders due to the yen rise. In machine tools, exports rose as a percent of production from 7 in 1970 to 30 in 1977. But now orders are falling off, and what is sold is sold at a loss.

The government's policy has been to avoid widespread bankruptcies and a full-scale recession by combining government stimulation of the economy with measures to help cut corporate costs. In particular, the government has tried to cut the debt-service-to-sales ratio.

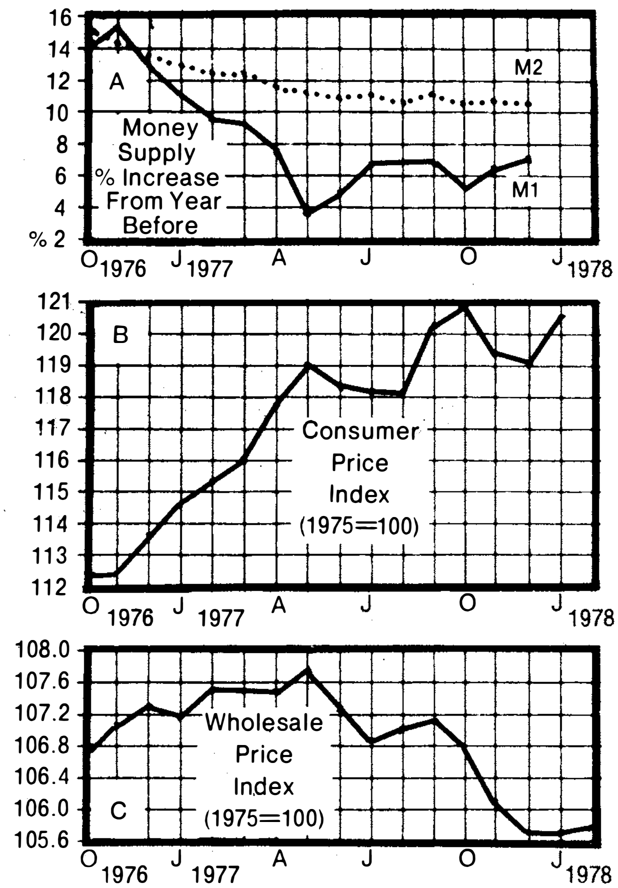
In pursuit of that aim, the government has cut the discount rate to 3.5 percent, a postwar low, leading to a drastic drop in interest rates. The government itself has taken on tremendous debt, raising its deficit ratio to 37 percent in the 1978 budget. This is debt which corporations would normally have acquired. This is why flatness of corporate debt-sales ratios contrasts with rise of the debt-GNP ratio. The banks must absorb the government debt, which amounts to 40 percent of new loans in 1977, at yields lower than normal. In addition, the banks are offering under-the-table debt moratoria. (See Graph III)

This cooperation among government, banks, and corporations is the "Japan, Inc." system. It cannot be stretched much more. How high a deficit can the government run? Moreover, the banks themselves are in an immediate crunch. Due to debt moratoria, sluggish loan demand, etc., interest rates on loans have fallen more than that on deposits — the margin is now negative 2 percent. *Nikkei* on March 14 attributed this to "suspension of interest collection by banks from slump-ridden clients." On total funds (adding borrowed money, investment in securities, etc.) the margin as a positive .07 percent against a normal 1.0 percent. This could disappear with the latest discount rate cut.

Recognizing that the banks could not maintain all firms, the Bank of Japan let Eidai go bankrupt in February. But corporate managers fear there will be many Eidai's in the April to June-period. There will be, unless Blumenthal is put out of office.

— *Richard Katz*

Graph V
Monetary Indicators



'Development Pays'

How West Germany Is Winning The Brazilian Market

The silly admonitions which President Carter made in Brazil March 30 about the danger of nuclear proliferation exemplify American attitudes towards the problem of Third World development which are causing American industries to be squeezed out of Brazil.

The Brazilian government is now favoring European and Japanese investors in competitive bidding for the mammoth state development projects and in gaining permission for industrial investment in Brazil. Not long ago, American corporations considered Brazil their choice spot for profitable expansion. Now, largely in response to the Carter Administration's provocative campaign against nuclear development and to the refusal of many U.S. multinationals to provide effective technological transfer, the big Brazilian market is becoming increasingly off-limits for American firms.

The West German industry is winning hegemony in Brazil, *because* they are not stepping into American shoes. The Rio daily *O Globo* outlines the secret of German success — their understanding that their domestic economy can thrive through maximum transfer of the most advanced technology available to the developing nations — "Development pays."

The sophisticated marketing techniques and strategies of monopolizing control over technology practiced by U.S. firms have lost out against the West German challenge. IBM's imperial policy of preventing technological diffusion cost it its chance to have a chunk of the Brazilian computer business. A Brazilian firm building steam turbines severed its partnership with the Elliott Corporation of the U.S. and entered into one with Siemens of West Germany, because of Elliott's refusal to provide Brazil with the most advanced technology. Brazilian experience with Henry Kissinger and James Schlesinger's unending string of sabotage operations against Brazil's nuclear energy program have not stopped it, but have made American nuclear suppliers "unreliable" in the eyes of the whole world.

'In the War for Markets, the Armaments Give Energy'

The following are excerpts from O Globo, *March 19:*

Contrary to the American exporter model (not only in the nuclear area) which seeks intensive sales of goods and services, the German plan is to promote the growth of its "partner-clients," expanding the specific-weight of their economies, thus increasing their buying power. The plan seeks real technology transfer and the formation of "joint ventures," that will bring about a real growth of the economy and of national industrial output, which will demand more consumption goods — and more advanced technology.

The logical corollary is that German science and industry must always remain a step ahead so as to be able to fill orders.

(Globo then describes how the Germans are moving into world leadership in the next generation high-temperature thorium and fast-breeder reactors)...thanks to the decision of its President Jimmy Carter to interrupt research.

In summary, Germany has decided to win the battle for the international market of the future to guarantee living space for its own economic expansion. Its main weapon is offering its partners energy autonomy, in the case of Brazil, the complete nuclear fuel process, from uranium research through enrichment and reprocessing.

'A German Point of View On The Nuclear Agreement: A Strategy To Reach Technological Hegemony'

The following are excerpts from an article in Rio daily O Globo *of March 19 by special envoy to Bonn Eduardo Pinto:*

...The (West -ed.) German government, businessmen and scientists do not see nuclear energy as an isolated issue. The development of their energy industry — not only nuclear — is considered vital for permitting the nation as a whole to grow and as the spearhead for opening up international markets for exports of goods and capital.

...German efforts towards Brazil are based on the foreign policy of the genius of German post-war resurgence, Konrad Adenaur. The number two man in Kraftwerk Union, Hans Frewer, clearly summed up the German nuclear thrust in a speech to leading businessmen in late 1977.

The German philosophy of conquest of the nuclear market — and through it achieve massive economic penetration as a form of opening markets — is all encompassing. The first step is signing scientific cooperation agreements, covering the widest variety of fields including the exchange of scientists and information . . . The Brazilian-German nuclear deal really began in 1967 when the two countries signed an extensive technical and scientific cooperation accord. The nuclear aspect was the most publicized, but the accord included fields such as urban planning, oceanography, and mineral resource research.

The German strategy is based on the realization that "starting in the 1980s the crucial problem of the developing countries will be fulfilling their energy needs." In his speech, Hans Frewer stressed that "the receptor countries, especially those in which nuclear reactors will play a significant role in energy generation over the long term, are very sensitive on the basis of their not always good experiences, and will react to any kind of dependency, whether to the U.S. or to Europe."

The redoubling of Germany's promotion of its reactor industry, and especially its agreement with Brazil, is entirely due to the realization that "the volume of the German market alone is insufficient for economic utilization of nuclear technology. It is necessary to conquer export markets so that lengthy and expensive research and development efforts can be effectively amortized. The transference of nuclear technology to third countries is, thus, an essential premise for a stable long term nuclear industry structure."

New Concept

"What makes it difficult to export to third countries," continued the KWU director, "is the dominant position of American suppliers. This fact necessitated evident and important differentiation in relation to American promotion techniques. The German government recognized very early that short-term export strategies wouldn't work. Exports could best be achieved through a long term all-encompassing technological cooperation which included ever-wider circles of the industries of the receptor country. This establishes the basis for investments in common and the formation of joint ventures. Only in this way can the developing countries, and especially raw material producers, be convinced that the Federal Republic of Germany, through this long-term model of technology transfer is interested in demolishing the North-South gap, and not just in doing business."

. . . "The participating governments have a key role in every export project. This is true, of course, in regard to the Federal Republic's commitment to non-proliferation. But more generally, the financial dimensions and the multiplicity of enterprises, research institutions and state offices participating in nuclear cooperation means that state organisms must invariably serve as coordinators and moderators."

"After the global agreement, a second stage sets up technical cooperation with universities and other research centers to study basic questions like alternative energy sources, structure of energy industry, raw materials, etc."

"Thus," he continues, "the two countries are interlaced with cooperation contracts, with an exceptionally complex structure. Transference of know-how, especially at the industrial level, must be accomplished within limited time spans in order to meet requirements of the energy program."

. . . Brazilian-German relations are in this second stage as shown in the recent visit of President Geisel to Germany where he signed complementary agreements for research on biomass alcohol production and on niobium, a metal used in ultra-resistant steels and which Brazil possesses 90 percent of known world reserves. Existing oceanography and space rocket research agreements were amplified. It was not accidental that a large and important group of businessmen and industrialists was brought on the trip. An ever-greater linking of private sectors is expected as a logical consequence of the agreements between the governments.

'Country's Nuclear Project Looks To Next Century'

The following are excerpts from an article by Eduardo Pinto, West German correspondent of the Brazilian daily O Globo *of March 20:*

What seems evident is that as the nuclear accord is not for West Germany merely a fabulous trade deal of more than $5 billion, or for Brazil just a means of generating electricity: beyond the electrical energy 'decorrente', the basic objective, according to well-placed sources, is to promote industrial modernization (of Brazil), by importing a bridge technology, by formation of managerial and administrative elites . . .

The principal function of nuclear energy continues to be its use to generate electricity. But, in the decision to carry forward the nuclear program other considerations came into play, among others that the sophisticated technologies involved and the high standards of personnel training would be reflected throughout the entire industrial sector, with an (overall) elevation of quality. Also, the strategists of Brazilian development consider that, whatever the form, it will be indispensable by the period 2000-2010 to 'apelar' some form of energy generation that does not come from natural sources. They believe that the only valid and fully developed alternative is nuclear energy.

Technical-military sectors of the Government believe that 'no nation can be considered master of its destiny, authentically free, that does not entirely dominate its sources of energy supply.' Such concepts, based on geopolitical forecasts, suggest that Brazil will be an 'intermediary power' . . . by the end of the (20th) century. And nuclear energy is considered . . . a key element in achieving this objective.

SPD Faces Tight Race in West German State Elections

Orchestrated labor disputes and "environmentalist" actions against industrial investment pose the two most insidious internal threats to the survival of the government of Helmut Schmidt this year. Although there is little danger that these will cause any dramatic political turns on a national scale, they could help shape a climate in which the effect of Schmidt's industrial growth policies would become nil.

WEST GERMANY

In southwest Germany, there are still no signs of a conclusion to the wage dispute between the German Metalworkers Trade Union and their employers, most of whom are in the auto and electronics industry. The past two weeks of selective strikes and lockouts has put between 100,000 and 250,000 workers out of work each day, with economic effects already being felt in Belgium and Scandinavia. Original fears of an immediate expansion of the strike into the critical Ruhr steel industry have not come true, but metalworkers union head Eugen Loderer has regularly stressed that "the situation may get out of control."

According to a recent study by the German Federation of Industry (BDI), 9.4 billion deutschemarks of domestic nuclear power investment is currently being held up by antitechnology "Citizens Initiative" groups, not to mention their blockage of various other infrastructural improvement programs. West German industry has made it clear to the government that it will not be able to maintain its aggressive nuclear technology-export policies for long if this is allowed to continue. The cumulative successes of environmentalist groups could seriously damage West Germany's ability to help foster industrial growth worldwide.

These challenges to the Schmidt government will come to a head in several state elections coming up in June and October of this year. In practice, the danger will be posed in the form of an alliance between local environmentalist groupings and the parliamentary opposition party, the Christian Democratic Union (CDU), which could cause electoral defeats for Schmidt's Social Democratic Party (SPD).

Herbert Wehner, the chairman of the SPD faction in the federal parliament, the Bundestag, clearly warned of the danger of a CDU attack on the SPD state machines in an article in the April issue of his party's monthly, *Neue Gesellschaft.* Wehner wrote that the "Federal Republic of Germany is in danger," because there is a current in the CDU out to make an effective coup against the government of Chancellor Helmut Schmidt by gaining an unbeatable majority in the 1978 state elections. If the CDU controls a majority of the state governments in West Germany, it then also controls the Federal Senate, and could block Schmidt's legislation by controlling the Federal Senate's veto power. If the CDU wins a majority in the State elections, Wehner warned, "its aim is to pull the Federal Republic back to the cold war period of the 1950s."

Although Wehner clearly outlined the CDU threats against the Schmidt government, he ignored a danger just as great from the SPD's own ranks: the self-styled "left-wing" student and environmentalist layers who are threatening to cross party lines and vote for various antinuclear "Green" election slates supported by the country's environmentalist Citizens Initiatives groupings. This split in the SPD has already caused the party to lose Munich's municipal elections, to the CDU, when the SPD's traditional working-class base, which is strongly in favor of nuclear energy development, chose to cross party lines rather than vote for an environmentalist SPD candidate.

Coming up are two more important elections that will test the SPD's cohesiveness. The traditionally Social Democratic city-state of Hamburg and the state of Lower Saxony will hold elections for a new state parliament on June 4. Then another traditional SPD stronghold, the state of Hessen, will go to the polls in October, while at the same time, Christian Democrats in the state of Bavaria, the Christian Social Union (CSU), are expected to keep their traditional majority in that state.

The Green Machine

Although the SPD and the CDU both privately admit that Schmidt is irreplaceable as Chancellor, the local and state SPD machines that provide the bulk of Schmidt's support are the object of working-class disenchantment because they lack the political courage to discipline the anarchistic environmentalists in their own ranks. In addition, SPD leaders have failed to attack the zero-growth Citizens Initiatives, who have already succeeded in organizing some SPD "lefts" to join them in everything from antinuclear riots at the Brokdorf and Grohnde nuclear power plants, to voting against a new Bavarian power plant.

One of the main reasons why the environmentalists have succeeded with these tactics inside the SPD is that they are being protected by a string of SPD officials, stretching from SPD chairman Willy Brandt to strategically placed antinuclear trade union operatives.

Chancellor Schmidt, on the other hand, has been counting on the pronuclear Action Circle for Energy, a trade-union group that fully backs his energy program of expanding both nuclear and coal power plants. However, Heinz Brandt, a national committee member of the huge Metal Workers Union (IGM), has been counter-organizing against Schmidt's allies by establishing an Action Circle for Life, which will support the "green" election slates. In conjunction, the vice-chairman of the SPD, Hans Koschnik, the mayor of Bremen, has even allowed the SPD chairman in Bremen, Henning Scherf, to organize national support for four SPD parliamentarians, nicknamed the "Gang of Four," who have consistently joined with the CDU in opposing Schmidt's energy legislation.

Thus, the CDU is thoroughly optimistic about facing an opponent as divided as the SPD. The logic is that if the party does not win protest votes from SPD members angry at the depression in West Germany industry and its one million unemployed, it will win protest votes from SPD members disgusted with their party's refusal to control its own environmentalist fringes.

The clearest handwriting on the wall was in the March 5 Munich city election. Although Munich is the capital of the conservative state of Bavaria, it has always been an SPD working-class stronghold with an SPD mayor and city council majority. But on March 5, this working-class base crossed party lines and gave the CSU their first Munich victory in the post-war period.

Even more ominous for the SPD urban machines is that Munich is the third "socialist stronghold" that has fallen to the CDU in the past year. Last year the CDU also gained control of Frankfurt and Stuttgart for the first time since World War II.

In the Munich city elections, the voters had a choice between CSU candidate Erich Kiesl, 48, who ran an American-style campaign of maximum exposure and minimum commitment, and SPD candidate Max von Heckel, the incumbent City Treasurer, who voted against Munich's participation in Bavaria's latest nuclear reactor.

The Munich SPD actually had a much better candidate than von Heckel in the incumbent SPD mayor, Georg Kronawitter, but Kronawitter's entire faction was defeated at the last Munich SPD city conference by the group of SPD leftists and zero-growthers backing von Heckel. In a fit of disgust at not getting his own party's nomination, Kronawitter, a popular mayor, formed his own splinter party, which further contributed to the SPD's March 5th loss.

Understandably, the Citizens Initiatives have been quiet about their allies' defeat in Munich, and instead point to SPD local victories in the state of Schleswig-Holstein on March 5 as proof that the SPD will become an environmentalist party. In that campaign, the local SPD "waved the bloody shirt" over the earlier antinuclear riot at the Brockdorf nuclear plant, broken up by police acting under the orders of CDU Minister-President Gerhard Stoltenberg. Using this pitch to appeal to students and liberals, the SPD gained 5 percent, bringing its share of the local electorate up to 40 percent, while the CDU dropped from 53 percent to 50 percent.

Such a victory is less than pyrrhic for the SPD as a national party. An environmentalist SPD state government for Schleswig-Holstein would stop construction of the Brokdorf reactor, which is supported by both Schmidt and Stoltenberg, and would force many CDU industrialists now backing Schmidt to have second thoughts about Schmidt's ability to keep his own party in line. Understandably, the environmentalist take-over of the local SPD machines has so enraged the SPD working-class base that Herr Schwalback, the head of the Public Service Employees union (OETV) in the state, has supported Stoltenberg and called for "more union representation in elections and party committees, in order to end the reign of the so-called intellectuals."

Localist Chaos

The crucial test for the SPD will be the elections in Hamburg and Lower Saxony June 4. Hamburg, like the country as a whole, is presently governed by a coalition between the SPD and the Free Democrats (FDP); it is also Schmidt's home town. But the FDP in Hamburg is so close to the environmentalists that it is hampering SPD efforts to increase energy investments in the port of Hamburg, West Germany's largest, and Schmidt has decided that the SPD will try to win the election without the Free Democrats.

The SPD is also facing a challenge from a unified environmentalist slate, called "Defend Yourself," a motley crew ranging from the Maoist Socialist Bureau faction to such liberal splinter parties as the European Federalist Party, which has joined the slate to give it dubious respectability.

Both the FDP and the "Defend Yourself" slate will be running with the same purpose: to take enough liberal votes from the SPD, and to drive enough working class votes to the CDU, to either give the election to the CDU or force the SPD to ask for environmentalist support in an anti-CDU coalition. The CDU has wisely allowed the SPD and its zero-growth opponents to slug it out, and is instead concentrating on exposing minor corruption scandals in the SPD-FDP city government.

The SPD faces an even more debilitating situation in Lower Saxony. It allowed itself to be kicked out of the state government last year when several state parliamentarians in the SPD-FDP state coalition secretly supported the CDU in a state parliamentary vote, and it has not yet located the political traitors responsible. The left-wing SPD in the state, controlled by state chairman Peter von Oertzen, has made its major theme, the alleged right-wing revival in West Germany, citing the (staged) street battles between fascist right-wing fringe groups and their equally fascist left-wing counterparts. To add credibility to the atmosphere of fear, a rash of anti-Semitic incidents have gone unpunished. Finally, the SPD base in the state's large steel, chemical, and auto factories is facing a strike over contract negotiations.

The SPD's final test will be in the Hessen elections in October, which will be heavily influenced by what occurs in Hamburg and Lower Saxony. The CDU has already gained city hall in Frankfurt, the major city in Hessen, and chalked up impressive victories in elections last year through a local backlash against an SPD-directed reform of municipalities. The FDP suffered such severe losses in that election that it is now considering splitting from its present coalition with the SPD.

—James Cleary

IMF and U.S. Treasury Seek Peruvian Default

"What's happening to Peru is all their own fault. They will have to suffer the consequences of a default...Let other countries see they can't get away with such things."

Frank Maresca, U.S. Treasury Department, Developing Nations Sections

The International Monetary Fund, the U.S. Treasury, and the British media are coordinating efforts to bankrupt Peru and install a fascist austerity regime there as a "lesson" to the rest of the Third World.

PERU

It is now universally recognized that Peru cannot, without substantial debt relief, pay the $942 million in debt service from it this year. The IMF is determined that Peru not get that debt relief. The American commercial banks, which as recently as late 1977 bucked IMF efforts to "pull the plug" on Peru, have now lined up behind the IMF's efforts — despite the fact that they will be the first victims of the British default scenario.

Special energy is being expended on Peru by London-linked forces because that country has served as a symbol of the Third World's drive for national development. The revolutionary process of 1968-1975 caused headaches for the domestic oligarchy, for multinationals unwilling to adapt to national planning priorities, and for bankers interested only in fast return of capital.

While Peru's present centrist military president Morales Bermudez has agreed to go three-quarters of the way with the IMF, it is that remaining one quarter that the British are now trying to extract.

IMF Accuses Peru of Violating Agreements

The IMF is trying to "pull the plug" on Morales on the grounds that "Peru has failed to meet virtually all of the targets of the stabilization programme agreed to under the stand-by arrangement," according to the *Financial Times* March 17. An IMF inspection team, headed by Linda Koenig, nosed around Lima from Feb. 14 to March 1 quietly looking for evidence of Peruvian "violations." While the IMF refuses to make any official statement on the question, its press conduits, led by London's left Fabian *Latin America Economic Report* (LAER) reported that Linda Koenig had reached the end of her tether."

The *LAER* added that the IMF has refused to disburse the meagre second $12 million payment on its stand-by arrangement, because of alleged Peruvian violations. The *Financial Times* says the IMF "found that the central bank had been cooking most of the figures" to fake international reserve levels and hide the fact that the accepted budget deficit for the year "had been overspent in the first two months of the year." *LAER* says: "the budgetary deficit must still be cut back severely, despite big savings already in health, education and public investment projects such as irrigation."

The IMF is trying to smash the "gentlemen's agreement" which has held the Peruvian sol stable at 130 soles per dollar for the last two months. It is being helped to this by the British press which smugly observes that its reports on Peru's bankruptcy will stimulate a panic to obtain foreign exchange, making rapid devaluation "certain."

There could be substantial self-fulfilling prophecy in the headline, "Peru Appears on the Verge of Default" which the *Washington Post* splashed across a page on March 14. The *Post* declared, "Peru's Central Bank will run out of money to pay the country's foreign bills by June 1 at the latest . . . Sources here (in Lima — ed.) said the most immediate internal results of default to the banks would include political upheaval beginning with a Cabinet shuffle. They predicted the possible replacement of moderate President Gen. Francisco Morales Bermúdez with a hard-line military faction that could use economic priorities as an excuse to suspend the scheduled June 4 election of a constitutional assembly."

But the *Post* story and subsequent predictions of the inevitability of a Peruvian bankruptcy in the *Financial Times* and *The Economist* were premised on a "fact" which the authors knew to be false. The press run by London financial circles claimed that the U.S. banks had cancelled a major debt refinancing package already negotiated with Peru because the IMF had disapproved of Peru's conduct. With this "big lie," the British media hoped to exacerbate Peru's economic-political crisis to precipitate the fascist coup suggested in the *Post* scenario.

The Economist fabricated a March 10 meeting of the steering committee of banks arranging the $260 million refinancing package at which the American banks (Manufacturers Hanover, Citibank, and Wells Fargo) fought against Dresdner and Bank of Tokyo efforts to procede with the loan. "After a six-hour meeting," lied *The Economist*, "the loan collapsed."

The U.S. banks, which the British media knew would also suffer from the effects of a Peruvian default, were caught with their pants down. Manufacturers Hanover

Trust, the coordinating bank of the steering committee, dashed off telegrams to the 54 other banks in the consortium urging them to keep calm, telling them that negotiations with the Peruvians were continuing, but that debt relief would only follow IMF approval.

A reliable source from one of the banks involved swore that *no* steering committee meeting took place on March 10, because "we've been postponing the meetings every week since February. Everybody's just sitting around waiting for the green light from the IMF!"

A group of experts sat in Washington last week musing about the fact that the $1.9 billion Peru owes U.S. commercial banks is larger than the entire profits made last year by the major banks. They wondered whether a declaration of Peruvian default would also undermine the capital structures of the banks. They performed a talmudic study of the Treasury Department's position (quoted above) in an effort to determine "How would bank inspectors react to a Peruvian default?" They also discussed the Third World, which they found at the Geneva UNCTAD meeting was no longer capable of putting forward a collective reaction to "case-by-case" defaults by indebted countries. They took bets on whether Turkey, Jamaica or Zambia would be the first to follow Peru into default and fascist reorganization.

Hammer "Bullish on Peru"

Just when it looked like the IMF-London operation would succeed in destabilizing President Morales, Dr. Armand Hammer, owner of Occidental Petroleum, made a dramatic intervention. The 79-year old independent oil man jumped into his private jet, flew from Los Angeles to Lima, and announced at a March 17 press conference that Oxy was going to increase its investment in Peru from the present $211 million to $500 million. Hammer explained that Occidental's new investment would enable Peru to export 100,000 barrels of crude per day by the end of this year — enough to keep Peru solvent.

Hammer maximized the political impact of his surprise visit by assuring reporters that his announcement "will greatly relieve U.S. bankers' worries over Peru's ability to repay its massive foreign debts." After meeting with top government officials, including the Navy commander widely believed to be plotting against Morales, Hammer offered Morales his much needed support: "I am willing to help President Morales Bermudez, a great leader, in any way I can for the benefit of Peru," Hammer told the press.

The problem Hammer is offering to help solve has been at the critical "blow-out" stage since the beginning of this year, if not earlier. At that point, in early February, a seven-man Peruvian government team headed by Alvaro Meneses of the Central Bank, arrived in New York to initiate refinancing negotiations. He made no bones that if their objective were not met, Peru would be obliged to default. Meneses told the bankers that Peru had $300 million in debt obligations due in February and March which could not otherwise be paid. The Treasury is penniless and Peru's trade balance is in deficit, as always during the first months of the year.

Meneses explained that Peru was "making tremendous sacrifices at a very high social cost" to insure that the 1977 trade deficit of $370 million would be turned into a surplus of $136 million this year. Despite such "dramatic progress in improving commercial balances," Peru would not be able to pay the $942 million in debt service due in 1978 without considerable refinancing, including $150 million from U.S. private banks, $100 million from their European, Japanese and Canadian counterparts, $60 million from the Soviets, and $170 million from other official lenders. Even with such postponements or new loans, Peru would run down its net international reserves (the difference between assets and liabilities due within a year) by another $150 million to reach negative $1.237 billion by the end of 1978. The Peruvians exhibited a debt profile (see Table 1) showing that debt service would eat up 48 percent of expected export revenues in both 1978 and 1979. (Economists consider 17 percent to be a danger level and 25 percent to be critical.) They pleaded with the bankers for the refinancing package to include a five-year grace period — a plea which will not be heeded.

Table 1

Peru's Foreign Debt Profile
In Millions of U.S. Dollars

	1975	1976	1977	1978	1979	1980	1981
Debt Service Payments	474	533	635	942	1.096	1.121	1.113
Amortization	284	299	390	639	764	790	773
Interest	190	234	244	285	331	331	340
New Disbursements	1.077	846	993	800	814	878	904
Total Debt (as of Dec. 31)	3.066	3.641	4.243	4.404	4.454	4.541	4.672
Debt Service/Exports Ratio (%)	37	39	36	48	48	43	37

Source: Central Reserve Bank of Peru made these estimates in Oct. 1974, based on their stabilization plan

Why the Mess in Peru? The Monetarist Myth

It has become fashionable for monetarists and even honest conservatives to attribute the disastrous financial and economic mess Peru is in to "errors" made by the Peruvian Revolution of General Juan Velasco Alvarado (1968-1975). They speak of "mismanagement," "wanton indebtedness for projects too big and too capital-intensive for Peru," "the disruptive effects of social and agrarian reforms," and "nationalizations scaring away foreign investors."

The reality is otherwise. Velasco refused to accept the backwards oligarchic Peru he took over. His social reforms, though sometimes perverted by British-inspired "local control" doctrines, were based on a humanist conception that the material and intellectual quality of the labor force is the ultimate determinant of productivity. He created a state machinery capable of planning and executing development projects on a scale beyond even the cheap rhetoric of "engineer" ex-President Belaunde Terry, who could think of little other than exporting "surplus populations" to the jungle.

The quality of Velasco's projects and their dollars and cents viability was recognized even by the 12-nation World Bank Consultative group for Peru ("Paris Club") in April 1975. The official news release of the World Bank stated at the time, "The group reviewed Peru's external capital requirements and agreed that to achieve the necessary disbursement levels, project loan commitments on the order of $950 million annually would be needed in the three-year period 1975-77 . . . The group discussed the list of projects prepared by the Government, amounting to $3.5 billion for 1975-1977, an amount which should enable the project loan commitments to reach the desirable level . . . . A newsworthy feature of the meeting was the lively interest expressed by group members in many of the projects included in the project list."

It is important to remember that the positive evaluation of Peru's potential by all the leading industrial capitalist countries was made on the heels of Velasco's more "radical" reforms, *after* most foreign oil companies claimed there was little oil to be found in the jungle, *after* the Peruvian fishmeal euphoria had ended, and *after* copper prices had dropped to below current levels.

"Stabilization Plan" Destroys the Economy

What is actually at the root of today's problems are the very monetarist "cures" the IMF and Morales applied to reverse Velasco's supposed mistakes. These measures have included devaluations of the sol, stringent austerity, wage cuts, import reductions, and so on. Despite whatever magical figures can be shown on Peru's account books, the national economy today has much less productive potential than when austerity began.

The labor force has been hit by huge wage cuts. The Organization of American States found in April 1977 that real wages to be *half* those of 1973, and the government admits they have been cut further since then. The result of consumption collapse from real wage reductions and strict government budgetary austerity is seen in the decline of domestic industry. Manufacturing fell by 4.7 percent through November 1977, with a rapid deceleration in the last months of the year, according to Banco Continental. The hardest hit sectors were those providing consumer goods. Auto production fell by 27 percent, textiles and clothing by 15, shoes by 40, and glass by 30 percent. The only areas of significant advancement in industry were the 43 percent gain in basic metals and 5 percent in paper, as a result of new refineries and mills coming on line.

Investment levels have been decimated by the imposition of public sector austerity, the reduction of consumer demand, and drastic credit shortages. The

Peru's Balance of Payments

In Millions of U.S. Dollars

	1975	1976	1977	1978	1979	1980	1981
Exports	1,291	1,360	1,735	1,966	2,260	2,998	3,272
Imports	-2,390	-2,100	-2,095	-1,829	-1,900	-2,478	-2,840
Trade Balance	-1,099	-740	-360	137	360	520	432
Current Act. Bal.	-1,538	-1,192	-844	-337	-148	-113	-20
Total Long-Term Capital	1,135	676	665	176	102	172	249
Net International Reserve Position	116	-752	-1,089	-1,236			

Note: "Net reserves" are foreign assets minus foreign liabilities due within one year.

Source: Central Reserve Bank of Peru

World Bank estimates that 1977 gross internal investments were 17.6 percent below the level of the previous year. The decrease in reproductive investments was reflected in Finance Ministry estimates that capital goods imports were slashed in 1977 to 40 percent below the constant value level of 1975.

IMF-mandated devaluations have lowered the value of the Peruvian sol to less than a third of its 1975 value, which has naturally been reflected in rising internal inflation. In response, the Morales government has followed IMF mandates to reduce the real money supply. Banco Continental reports that real private liquidity (M1) was lowered by 7.5 percent in 1977 and the World Bank projects that the ratio of money supply to GNP in 1978 will be half of what it was in 1975. This translates into scarcity of credit, usurious interest rates, widespread bankruptcies, and the inability to finance the expansion of productive capacity.

Whatever real improvements can still be noted in Peruvian economic performance are due to capital-intensive development projects initiated during the 1968-1975 Velasco period. The only area of the economy which advanced rapidly in 1977 were copper exports, which rose by 90 percent in volume above the previous year due to the completion of the mammoth Cuajone and Cerro Verde open pits. This expansion boosted copper revenues from $227 million to almost $400 million. The added copper revenues provided half the increase in total export income. The other half came from a doubling of coffee prices and from the diversion of an additional $100 million of processed food fish and manufactures from local consumption to export markets.

Somber Prospects for 1978

The economic plan of the Morales government offers no prospects of recovery in 1978. Even if Morales survives the British default scenario and obtains a roll-over on unpayable debts, he will still lead Peru down the path of economic destruction. The only difference between what he offers and what the IMF demands is that Morales thinks "two years is too short a term" to destroy the whole country.

Morales' stabilization program calls for further devaluations and import reductions. Food and fuel subsidies are to be eliminated, causing prices of basic necessities to skyrocket. But the IMF is adamant that wages be prevented from rising more than 10 percent, and Morales is doing his best to comply. Further cuts in money supply and a 38 percent increase in tax collections which the government is pledged to achieve will place an intolerable burden on the depressed private sector.

Morales is thus continuing his eternal "balancing act," while the rats of London are nibbling away at his tightrope. As *The Financial Times* gloats: "Clearly the whole affair casts a big cloud over the standing of President Morales Bermudez . . . Bankers think he will have to put into effect an even fiercer austerity programme." *Agence France Press* reports daily rumors that the hardliners in the military are preparing to replace Morales with a repressive regime "to give the credibility the country needs to obtain an understanding with its creditors." Ex-President Fernando Belaunde Terry is openly associating himself with plotters in the Navy and factions of the Army for a coup in the name of "immediate elections." Belaunde could well serve as an Uruguayan-style civilian figurehead president for a defacto military government.

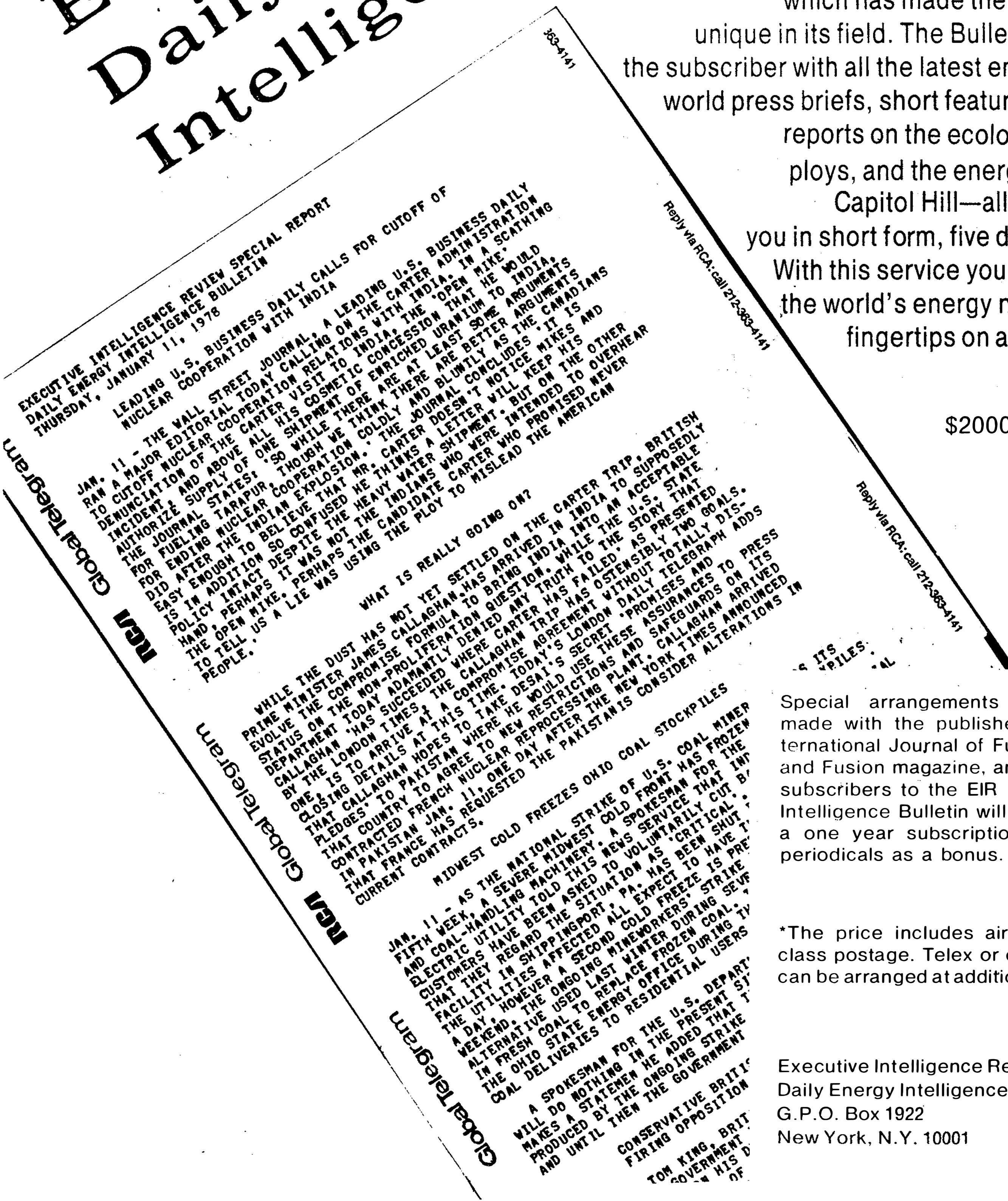
Peru Economico, a virtual campaign document published by the eager Belaunde crown, demands the following program: impose "an economic-political agreement" to pay the debt; smash wages; slash the budget; and permit foreign speculators to reposess Peru's state-owned mineral wealth. "If the political-economic agreement which must be imposed fails," they intone "then the Government will find itself obliged to use violence, its ultimate recourse."

—Mark Sonnenblick

EIR Daily Energy Intelligence Bulletin

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

$2000 per year*



363-4141

RCA Global Telegram

Reply via RCA: call 212-363-4141

EXECUTIVE INTELLIGENCE REVIEW SPECIAL REPORT
DAILY ENERGY INTELLIGENCE BULLETIN
THURSDAY, JANUARY 11, 1978

LEADING U.S. BUSINESS DAILY CALLS FOR CUTOFF OF NUCLEAR COOPERATION WITH INDIA

JAN. 11 - THE WALL STREET JOURNAL, A LEADING U.S. BUSINESS DAILY RAN A MAJOR EDITORIAL TODAY CALLING ON THE CARTER ADMINISTRATION TO CUTOFF NUCLEAR COOPERATION RELATIONS WITH INDIA. IN A SCATHING DENUNCIATION OF THE CARTER VISIT TO INDIA, THE 'OPEN MIKE' INCIDENT, AND ABOVE ALL HIS COSMETIC CONCESSION THAT HE WOULD AUTHORIZE SUPPLY OF ONE SHIPMENT OF ENRICHED URANIUM TO INDIA, THE JOURNAL STATES: 'SO WHILE THERE ARE AT LEAST SOME ARGUMENTS FOR FUELING TARAPUR, THOUGH WE THINK THERE ARE BETTER ARGUMENTS FOR ENDING NUCLEAR COOPERATION COLDLY AND BLUNTLY AS THE CANADIANS DID AFTER THE INDIAN EXPLOSION.' THE JOURNAL CONCLUDES, 'IT IS EASY ENOUGH TO BELIEVE THAT MR. CARTER DOESN'T NOTICE MIKES AND IS IN ADDITION SO CONFUSED HE THINKS A LETTER WILL KEEP HIS POLICY INTACT DESPITE THE HEAVY WATER SHIPMENT. BUT ON THE OTHER HAND, PERHAPS IT WAS NOT THE INDIANS WHO WERE INTENDED TO OVERHEAR THE OPEN MIKE. PERHAPS THE CANDIDATE CARTER WHO PROMISED NEVER TO TELL US A LIE WAS USING THE PLOY TO MISLEAD THE AMERICAN PEOPLE.'

WHAT IS REALLY GOING ON?

WHILE THE DUST HAS NOT YET SETTLED ON THE CARTER TRIP, BRITISH PRIME MINISTER JAMES CALLAGHAN HAS ARRIVED IN INDIA TO SUPPOSEDLY EVOLVE THE COMPROMISE FORMULA TO BRING INDIA INTO AN ACCEPTABLE STATUS ON THE NON-PROLIFERATION QUESTION. WHILE THE U.S. STATE DEPARTMENT TODAY ADAMANTLY DENIED ANY TRUTH TO THE STORY THAT CALLAGHAN 'HAS SUCCEEDED WHERE CARTER HAS FAILED,' AS PRESENTED BY THE LONDON TIMES, THE CALLAGHAN TRIP HAS OSTENSIBLY TWO GOALS. ONE, IS TO ARRIVE AT A COMPROMISE AGREEMENT WITHOUT TOTALLY DIS-CLOSING DETAILS AT THIS TIME. TODAY'S LONDON DAILY TELEGRAPH ADDS THAT CALLAGHAN HOPES TO TAKE DESAI'S SECRET 'PROMISES AND PLEDGES' TO PAKISTAN WHERE HE WOULD USE THESE ASSURANCES TO PRESS THAT COUNTRY TO AGREE TO NEW RESTRICTIONS AND SAFEGUARDS ON ITS CONTRACTED FRENCH NUCLEAR REPROCESSING PLANT. CALLAGHAN ARRIVED IN PAKISTAN JAN. 11, ONE DAY AFTER THE NEW YORK TIMES ANNOUNCED THAT FRANCE HAS REQUESTED THE PAKISTANIS CONSIDER ALTERATIONS IN CURRENT CONTRACTS.

MIDWEST COLD FREEZES OHIO COAL STOCKPILES

JAN. 11 - AS THE NATIONAL STRIKE OF U.S. COAL MINER
FIFTH WEEK, A SEVERE MIDWEST COLD FRONT HAS FROZEN
AND COAL-HANDLING MACHINERY. A SPOKESMAN FOR THE
ELECTRIC UTILITY TOLD THIS NEWS SERVICE THAT IN
CUSTOMERS HAVE BEEN ASKED TO VOLUNTARILY CUT B
THAT THEY REGARD THE SITUATION AS 'CRITICAL.'
FACILITY IN SHIPPINGPORT, PA. HAS BEEN SHUT
THE UTILITIES AFFECTED ALL EXPECT TO HAVE T
A DAY, HOWEVER A SECOND COLD FREEZE IS PRE
WEEKEND. THE ONGOING MINEWORKERS' STRIKE
ALTERNATIVE USED LAST WINTER DURING SEV
IN FRESH COAL TO REPLACE FROZEN COAL.
THE OHIO STATE ENERGY OFFICE DURING TH
COAL DELIVERIES TO RESIDENTIAL USERS

A SPOKESMAN FOR THE U.S. DEPART
WILL DO NOTHING IN THE PRESENT SI
MAKES A STATEMENT HE ADDED THAT T
PRODUCED BY THE ONGOING STRIKE
AND UNTIL THEN THE GOVERNMENT

CONSERVATIVE BRITI
FIRING OPPOSITION

TOM KING, BRIT
GOVERNMENT
HIS D
OF

Special arrangements have been made with the publisher of the International Journal of Fusion Energy and Fusion magazine, and all charter subscribers to the EIR Daily Energy Intelligence Bulletin will also receive a one year subscription to these periodicals as a bonus.

*The price includes airmail or first class postage. Telex or express mail can be arranged at additional cost.

Executive Intelligence Review
Daily Energy Intelligence Bulletin
G.P.O. Box 1922
New York, N.Y. 10001