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# **EXECUTIVE INTELLIGENCE REVIEW**

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# EXECUTIVE INTELLIGENCE REVIEW

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## IN THIS WEEK'S ISSUE

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The lines are drawn on the **African battleground** . . . not between "Communism and the West," but between the international forces committed to **development policy** and the British-led financiers demanding **debt payment and murderous austerity** . . . between the "**Grand Design**" and City of London-dominated **International Monetary Fund** . . . In **INTERNATIONAL**, the story on the emergency June 5 Paris summit on Zaire . . . that explains the "**stabilization**" the IMF is demanding . . . and the effect the **U.S. policy vacuum** — on Africa, on **East-West relations**, on **economic policy** — is having on the Europeans . . . **Featured**: a **country-by-country grid** of the IMF's most recent crimes, starting with Zaire itself . . .

\* \* \*

"**Confrontation or cooperation**" was the rubric President Carter employed in his June 7 address . . . Our analysis in **INTERNATIONAL** tells why, despite the rhetoric to the contrary, the policy framework that underlies his speech will **ensure the former** . . . as long as the **sane forces in Carter's Administration** allow insanely anti-Soviet Zbigniew **Brzezinski**

to **effectively dictate U.S. policy** . . . Our coverage includes selections from the U.S. press . . . and **excerpts from Senator George McGovern's televised charges** that **Brzezinski is illegally usurping the power** of cabinet officials to carry out his own **dangerous "face down the Soviets" strategy** . . .

\* \* \*

The **IMF assault** is not directed only at the far-off Third World . . . the **death-agony of New York City** is part and parcel of the same **austerity** . . . and so are state and local slashes in services that are being peddled with the seductive slogan, "**taxpayer's revolt**" . . . In our **U.S. REPORT** you'll find the real story behind the **ugly "tax revolt" swindle** . . . that's being **pushed as the "new American revolution"** across the U.S. in the wake of the June 6 victory of Proposition 13 in California . . . In our **special package** on the California "tax revolt": why **Federal Reserve chairman Bill Miller**, one of the City of London's **best friends in the U.S.**, is **saluting the California result** . . . while looking forward to a **world depression of unprecedented scope** . . . how the California campaign around the **issue of nuclear power** got swamped by "**taxitis**" . . .

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# IMF Or The Grand Design: America Must Choose

A deadly battle has broken out between those who propose to guarantee world peace through industrialization and rapid economic growth — a potential opened by the signing of the historic Bonn-Moscow 25-year economic pact a month ago — and the debt collectors of the International Monetary Fund (IMF) and its hangers-on.

The protagonists in the "Grand Design" for global development have included, to varying degrees, Chancellor Schmidt of West Germany and Soviet President Leonid Brezhnev — the initiators of the Bonn-Moscow pact — oil-rich Saudi Arabia, President Giscard of France and an important faction of the Gaullist party, allied U.S. industrialists and certain Third World leaders.

Ranged against these forces is the IMF, led by British Chancellor of the Exchequer Denis Healey and his protégés IMF Director Johannes Witteveen and U.S. Treasury Secretary W. Michael Blumenthal. The IMF, which continues to be the international center of British colonial economic theory, in fact still runs the world monetary system, and will continue to block the Grand Design through its control of the world's credit lifeline until it is dismantled — *politically*.

As if to demonstrate its authority, during the first week of June an IMF mission walked into international negotiations on the explosive crisis in Zaire, demanding that the Mobutu government "accept outside control of Zaire's key institutions" in return for stretching out Zaire's overdue \$2.5 billion foreign debt, the *Washington Post* reported June 4. The IMF's conditions amounted to "making him (Mobutu) a ward of the court," as one diplomat put it, and included IMF control of the Zaire National Bank and the "decentralization" — cut off — of war-torn Shaba province and other areas from the central government, each to be put under their own IMF fiscal administration (see "IMF" below). The Sudan, Turkey, Egypt, Peru, and other similarly strategic developing nations are all "hosting" such IMF missions at the present time.

This latest IMF austerity has been timed precisely not only to undercut the Africa, and specifically Zaire, policy of the Grand Design forces, but to stop such policies once and for all.

The June 9 issue of *Paris Match* magazine reported that during his mid-May trip to Paris, Saudi Arabian King Khaled discussed with President Giscard and French industrialists "plans to mobilize Saudi money for a world economic recovery," including development of the massive agricultural potential of Sudan and the rest of Africa. Khaled's second in command, Saudi Prince

Fahd, will travel to Paris and Bonn June 20, where he will continue these talks with Schmidt, discussing in particular the "largescale transfer" of West German technology with Arab funds into Africa. Shortly thereafter, Chancellor Schmidt will begin a tour of Africa (see excerpts, below).

The United States government, which could tip the balance either for or against the Grand Design, is still paralyzed. The Carter Administration remains hopelessly split between a moderate faction around Secretary of State Cyrus Vance, U.N. Ambassador Andrew Young and certain corporate supporters of the Grand Design, and the Washington-based British faction led by Treasury Secretary Blumenthal and National Security Advisor Zbigniew Brzezinski.

Vance and Young continue to support "economic development to stabilize Zaire," as Vance told the press in early June, based on detente and an early SALT II agreement with the Soviet Union. But Blumenthal is throwing the power of the U.S. Treasury behind the IMF, demanding that the Fund have the right of "surveillance" over all sovereign governments. And Brzezinski has called point-blank on nationwide television for joint Western-Chinese confrontation against the Soviets in Zaire (see below).

In consequence, the emergency June 5 meeting in Paris of the U.S., France, West Germany, Belgium, and Britain on Zaire produced precisely nothing. David Newsome, a Kissinger appointee who represented the U.S. State Department at the meeting, refused to discuss development for Zaire and instead supported the IMF's demands. Worse, the meeting was to have made concrete proposals for a comprehensive economic development and security package for Zaire, and all Africa, for the June 12 OECD meeting in Paris of OECD economic ministers. If this meeting fails to bridle the IMF, the City of London will have won a strategic victory.

### *Leading the Grand Design*

Zaire and Africa generally have become the centerpiece of Grand Design strategy for the simple reason that last month's invasion of Zaire's by British intelligence-sponsored mercenaries was a direct move to sabotage the 25-year Bonn-Moscow Economic Treaty. As this review has documented in depth, the "Katangan rebels" who invaded Zaire's Shaba province were in fact ex-security guards of the British Rothschild-financed Belgian mining company, Union Minière (see *EIR* Vol. V, No. 21, May 30-June 5, 1978).

Mr. Zulu, Director of the African Bureau of the IMF Secretariat told this magazine June 9 that the African

Bureau "knows nothing about" the Zaire negotiations with the IMF — "The entire meeting is being coordinated by Mr. DeGroot, the Belgian IMF representative, himself."

As Marc Ullman reported in the June 9 *Paris Match*, Saudi King Khaled and French President Giscard's plans for Africa are part of a global design to be coordinated with West Germany and, if possible, the U.S. An "agricultural and food development program for Sudan, realized and financed by the Arabs," Khaled was reported to have said, must take place within a "relaunching of the world economy...through a massive investment program which can only sanely be financed by long-term loans."

Arab capital should finance an export drive from France and West Germany to raise the industrialization level in Italy, Spain, and the rest of southern Europe, so that all Europe could export capital goods to the developing sector.

King Khaled flew to Paris after discussions at the mid-May Montreux, Switzerland meeting of the Euro-Arab Dialogue. At that earlier meeting, Dr. Nasarollah Fatemi of the Farleigh Dickinson Institute for International Studies in the U.S. presented a plan for "scientific industrial education regional technological development centers" for the Middle East and the rest of the less-developed countries to a top-level audience of European and Arab government officials, corporations, and banks (see "Interview with a participant at Montreux" below).

The participants, particularly the Saudis, stressed that such centers, which would truly prepare populations for development and huge markets for the industrialized world's exports, should be built in southern Europe and elsewhere. "Although the U.S. government gives them no support whatsoever, unlike European governments, American corporations such as General Electric, Exxon, and others are coming directly into the Euro-Arab project on their own," the source added.

#### *IMF Political Power Play*

The IMF decision to intervene directly into the Zaire negotiations was made within the context of U.S. Treasury Secretary Blumenthal's speech to the May 24 International Monetary Conference. There, Blumenthal stated that international financial policy should hereafter be made at the IMF under the amendment to the articles of the IMF written by British Chancellor of the Exchequer Denis Healey and recently ratified by IMF membership nations. The amendment gives the IMF absolute "power of surveillance" over the "general economic and financial policies of the nations of the world" (see EIR Vol. V, No. 21, May 30-June 5, 1978 for full coverage of Blumenthal's proposals).

Under this format, the IMF's economic missions, with the formal recognition of the U.S. and allied governments as *the* institution charged with international economic policy formulation, are empowered to walk into the offices of governments around the world and impose upon them levels of austerity that make New York City's Big MAC look like a gala charity ball.

In Zaire, for example, the proposed austerity program will result in social chaos and likely collapse of central

government power in the strife-torn nation. Every centrifugal tendency, from British Intelligence-backed "liberation fronts" to tribal gangs, will have a free hand to foment civil wars in Zaire and conflicts with neighboring nations that would quickly lead to a U.S.-Soviet nuclear showdown.

In Sudan, the second development focal point for Africa Grand Design negotiations, the IMF has demanded the country "begin no new major development projects for the next two years," according to the June 7 London *Financial Times*, especially should the Sudanese government want a badly-needed debt extension loan. A large-scale high-technology project for the irrigation and development of Sudan is the Saudi Arabian government's fondest project; Sudan has some of Africa's richest agricultural land, now devastated by the Sahel drought.

Moreover, Egypt, whose government is anxious to make the country a major Mideast "regional development center," is being forced to choose similar IMF programs to pay off its short-term obligations.

#### *Fight At The Top*

With the U.S. government endorsing the IMF's actions, by default if not officially, via Blumenthal, the French, Germans, and Saudis have begun an independent effort to undermine the IMF, particularly in Zaire. The June 9 *Journal of Commerce* editorial, "Imposing Discipline in Zaire," (excerpted below) reports that the IMF may fail in Zaire because "official sources...(may) bolster his (Mobutu's — ed.) regime at considerable cost. The Saudis aren't the least among them."

While some U.S. bankers, like the more intelligent corporations, are ready to dump the IMF as the quack invention of British economist Lord John Keynes that it is (see "IMF" below), the New York commercial banking community especially is being led around by the nose by Blumenthal, the British, and the Belgians.

Rimmer de Vries, respected international economist of Morgan Guaranty, for example, has called for Blumenthal-style "talking down" of the U.S. dollar, and then explicitly endorsed the IMF surveillance clause, the Dow Jones reported June 9 (see below). Similarly, Citibank's chief LDC debt troubleshooter, Irving Friedman, who has managed to stave off an IMF receivership for Zaire for the past two years, gave the full support of Citibank, the largest creditor of Zaire, to the IMF's "ward of court" takeover of the Zaire government at the June 5 Paris meeting.

Henry Mueller, Chairman of the Credit Policy Committee of Citibank, told this magazine June 7, "We agree with the IMF's goals and we have every intention of seeing that the banks go into Zaire only with the IMF." Chase Manhattan has taken the same attitude, according to their spokesmen.

The New York banking sheep are fleecing themselves alone. In their terrified urge to fulfill their craving for "fiscal conservative" security, as promised by the IMF, the banks are supporting the takeover of world credit policy by the very institution that, once firmly entrenched, will so cut back levels of world production and trade as to plunge the industrialized West into a depression out of which the dollar and the U.S. banking system will not reemerge.

## U.S. Industry Invited to Participate in LDC Development

*The following is an interview with a participant at the Euro-Arab Dialogue held in Montreux, Switzerland in mid-May.*

*Q: Is it true that the discussions between Saudi King Khaled and French President Giscard reported in Paris Match came out of the Euro-Arab Dialogue meeting? And what kind of development program is it?*

*A: Yes, King Khaled flew to Paris shortly after the meeting. The programs under discussion for Africa are very much like the speech made by Dr. Nasarollah Fatemi, Director of the Fairleigh Dickinson University Institute for International Studies, on the transfer of technology. Based on U.S., European, and Japanese cooperation with OPEC, and large-scale OPEC financing, he called for "scientific industrial-educational regional technological development centers" in the Middle East, which of course includes Israel. These would be modeled on what the U.S. corporations have done in Japan and in South Korea, which last year exported over \$10 billion in industrial goods. That is, the centers would simultaneously train and employ in actual industrial development projects a skilled workforce for an entire region, which would then return to their countries to begin development at home. Prince Hassan of Jordan immediately suggested Amman as the site; Egyptian Petroleum and Industries Minister Helani offered Cairo. The Saudi delegate stressed that such a center is needed also in Southern Europe, Italy, Greece, or Spain, to link the European and Arab world as they were historically by technology.*

*Q: What did Thibaut de St. Phalle, the director from the U.S. Ex-Im Bank, say to the meeting?*

*A: He stressed the desire of the American companies to participate and his own desire to expand the help of the U.S. Exim Bank to such undertakings. But the Exim Bank is hobbled with too much red tape and too little money. Although the U.S. government gives them no support whatsoever, unlike European governments, American corporations such as General Electric, Exxon, and others are coming directly into the Euro-Arab project on their own.*

*Q: What was the concrete result of the conference?*

*A: The Euro-Arab Dialogue has created a permanent committee, the "Trans-Mediterranean Partnership," which will turn itself into an information and research-co-ordinating center to channel Arab funds into such projects and to individual corporations, to get things going right away.*

### "King Khaled Brings Hope"

*The following are excerpts from an article entitled "King Khaled Brings Hope: A world plan for prosperity*

*will be studied with France," which appeared in the French weekly magazine Paris Match, June 9 and which refers to the historic visit of Saudi Arabian King Khaled to France during May.*

The whole package could represent several billion francs and make France a real political partner of Saudi Arabia.

This political cooperation, founded on the fact that French actions in Africa uphold the established order, may be translated also into joint operations in third countries. It is thus that the Agriculture Minister discussed an agricultural development program in the Sudan which would be partially realized by France and financed by Saudi Arabia.

In reality, we are living today in a period similar enough to that, which in 1947, led America to conceive the Marshall Plan to allow for the relaunching of the European economy. But, at that time, everything was much simpler because the U.S. held the essential part of the wealth and the liquidity at one and the same time. Today, the situation is infinitely more complex: the riches are distributed between the U.S., Japan and Europe, while the liquidity is in the hands of the Saudis and other petrodollar holders. That is to say that a new world economic order can only take place through increasing cooperation between the industrial West and Saudi Arabia.

On a grander scale, Mr. Giscard d'Estaing talked of stable oil supplies for Europe and evoked the possibility of a large European loan, which represents an idea dear to the Common Market Commission in Brussels. This idea begins from the principle that a take-off in the world economy begins with a program for massive investment and that this program can only be financed efficaciously by long-term loans.

The beneficiaries would not only be the industries of the member countries of the Common Market, but also the southern countries of Europe; like Spain, Portugal, Greece and Turkey. These countries possess a great potential for development but are in the throes of grave financial crises. If their economies could again move forward, that would bring contracts for the most technologically advanced nations. It would also be the case for certain Third World countries technically capable of now realizing their economic takeoff.

This is a veritable world plan. It implies that the different continents draw the conclusions of their interdependence concretely. In the case of failure, each country risks calling into a crisis, hiding behind tariff barriers, in order to inflate their exports and limit their imports. A recession more profound than the one we are experiencing today would be unleashed. It would begin among the weakest countries, then little by little, would spread throughout the world.

### "Imposing Discipline in Zaïre"

*From the Journal of Commerce editorial of June 9:*

Imposing financial discipline on a country as poorly managed, as vulnerable to outside pressures and as



important to the security of Africa as Zaire isn't easy. Citibank's Irving Friedman can tell you that.

The major industrial countries, not to mention Saudi Arabia and Iran, are so alarmed about the influence of the Soviet Union and Cuba in the heart of Africa that they will go to great lengths to shore up President Mobutu, discipline or not.

Dr. Friedman's long, involved and intricate negotiations with Zaire for what was to have been a \$250 million Eurocurrency loan were intended to result in a textbook case on how the banks and the International Monetary Fund can work together to restore a nation's creditworthiness. He wanted to avoid, at all costs, a rescheduling of private debt. . . .

The commercial banks also believe the discussions with the fund might be helped if President Mobutu were to put his signature on the Eurocurrency loan agreement, which now involves about \$218 million.

The president has been reluctant to do so before the Brussels meeting even though the commercial banks have warned him that the consortium might fall apart if he doesn't act in a reasonable period of time. . . .

Dr. Friedman's conditions, and those that the fund, might like to impose will, therefore, go by the board. . . .

## Morgan Bank: IMF Surveillance, Down with the Dollar

*According to a Dow Jones wire June 9, Rimmer de Vries, economist at Morgan Guaranty Trust in New York, said that he was "moderately bearish" on the dollar:*

It is difficult to believe that the heavy foreign bank purchases of dollars — totalling more than \$40 billion in 1977 and the first quarter of this year — by the central banks of the industrialized countries and the frequent calls for the U.S. to sell gold and to float foreign currency denominated bonds in the capital markets were solely for the purpose of maintaining orderly exchange markets. Instead, these interventions appear to have had a protectionist bias, limiting the ability of the U.S. to correct its current account deficit. . . .

It would be desirable that the new Article 4 Agreement of the IMF be given operational content in the form of a stronger surveillance role for the fund whereby it is empowered to examine exchange rate policies of member countries.

## Bankers Concerned Over IMF Role As 'Police State'

The International Monetary Fund's attempt to abolish the national sovereignty of deeply indebted Third World nations like Zaire, Peru, Turkey, and Sudan has begun to draw public and private criticism from sections of the world banking community.

The pivotal question now is whether what is now merely "concern" on these persons' part can be immediately transformed into action proposals before the Fund wrecks the world economy and the possibility of economic development-based solutions to the Third World's political problems.

"What concerns me," the international economist for a leading U.S. commercial bank said this week, "is the role of the IMF as a police state. This can be detrimental in the long run. If the IMF acts as a powerful surveilling agency, it can take the initiative for development out of the international market. We need longer-term financing to accommodate these countries' development programs."

At the same time, Hermann Abs, the dean of West German banking, issued a public call to arms against the IMF's disastrous practice in the May issue of *Die Bank*, the West German banking association monthly. "Only undiminished access to international credit," Abs wrote, "gives a state the possibility of maintaining national sovereignty over social and economic policies. settlement—such as those that need to be conducted with the Third World—must accept this principle."

What must guide debt-rescheduling procedures, Abs wrote, is not interest and principal considerations, but the debt-carrying capacity of the national economy, keeping the national economy under question in the framework of world trade and finance. As low a debt to exports ratio as possible should be maintained, Abs said.

The key is new credit injections to restart economic growth.

What Abs and his colleagues are most immediately worried about is the IMF plan, officially outlined by Belgian Foreign Minister Henri Simonet at the Paris emergency meeting on Zaire June 5, to settle Zaire's outstanding foreign debt (unofficially put at over \$5 billion) by splitting the country into endless warring tribal sections to impose austerity under IMF control. It is clear to most that Zaire would just be the first of several such "solutions" for heavily indebted Third World nations — solutions which would wreck international political stability.

The recognition of the danger of the IMF's plans is also reflected in recent activities of the U.S. foreign policy bureaucracy. It is known that a group in the State Department was responsible for lessening the stringency of the conditions for the IMF loan now under negotiation for Egypt. Both U.S. and Saudi Arabian officials had publicly noted the destabilization potential inherent in the dire conditions previously attached to the loan.

Sentiment of this State Department faction was summed up by one department senior official who told an interviewer this week: "There's a feeling here that the IMF topples governments."

### Zaire: Give Up Sovereignty for IMF Bailout

The IMF's proposed "rescue plan" for Zaire, discussed this week at the five-nation conference in Paris and to be finally decided at a scheduled June 13-14 meeting in Brussels, is, according to one American diplomat,

"about as austere as you can get." It includes large cuts in the government budget, further slashing of already minimal imports, and an "anti-corruption campaign." In return, Zaire is to receive a further rescheduling of its multibillion-dollar foreign debt, aid packages from the IMF itself and possibly from a private bank consortium, and emergency provision of food and fuels.

The salient feature of the IMF plan, however, is that for possibly the first time, the IMF proposes to assume virtual sovereignty in Zaire, making Zairean President Mobutu Sese Seko "a ward of the court," as one specialist told the *Washington Post* June 4. The Monetary Fund is proposing that an IMF representative be appointed to the number-two spot in the Central Bank of Zaire, with veto power over foreign exchange allocations, according to one source, and actually standing "in charge of disbursements," according to another source. This day-to-day control of Zaire's assets would supplement a plan already in force whereby Zaire pays revenues from its copper sales directly into an account at the Bank for International Settlements in Zürich. Furthermore, an American government official (probably State Department Africanist David Newsom, who represented the U.S. in Paris) is reported by the London *Times* to advocate the appointment of European managers throughout the Zairean banking system, right down to regional level.

### IMF Has Turkey Hamstrung

A proposal to restructure \$2.5 billion of Turkey's \$15 billion debt was drawn up last week by Turkey's eight largest international creditors and presented to the 220 smaller U.S. and European banks owed money by the Turks. Although the proposal is not being made public, the Turkish Central Bank has requested that the \$2.5 billion—most of which represents "quick cash" short-term convertible Turkish lira accounts on which the Turks have defaulted for more than a year—be rolled over for seven years, with a three-year grace period. The Central Bank has also requested that creditors forego interest payments on the accounts, pegged at a whopping 20 percent. Additionally, Turkish Finance Minister Muezzinoglu is asking for a \$650 million cash infusion of new funds, a request that has raised the ire of most bankers.

The willingness of Turkey's creditors to reschedule the debt was contingent on Turkey's willingness to comply with the IMF. Although numerous Turkish officials opposed cooperation with the IMF, in the beginning of March Prime Minister Bulent Ecevit announced a series of drastic austerity measures based on IMF proposals, including a 40 percent devaluation and an almost complete cut-off in imports.

Despite the prospects of rescheduling and refinancing, the situation in Turkey is bleak as a result of the IMF's conditions. Whole segments of Turkish industry have been idled because of the collapse of imports. Inflation is at 50 percent.

The Turkish government has attempted to shore itself up by looking toward the Soviet Union and the East bloc for closer economic ties. While impressive multi-million dollar development deals have been worked out with the Soviets, the Turks remain hamstrung as a result of the

IMF's tactics vis a vis the Western banks, as well as by the bank's willingness to play according to the IMF's rules.

Ecevit has shown a marked reluctance to involve himself in "Grand Design" economic strategy exemplified by the recent West German-USSR 25-year trade deal, and has instead embraced the IMF's policies as his only alternative.

Last week, a delegation from Citibank, Turkey's largest creditor, arrived in Ankara to negotiate a \$100 million credit. While numerous sources report that the loan is solely for debt refinancing and is being extended in the context of IMF policy, others are speculating that Citibank may be "stepping out of line" and is earmarking the loan for tabooed imports, contrary to IMF recommendations.

### Sudan Role as Food Producer Discouraged by IMF

The Sudan has undergone a major policy debate recently, on whether to accept conditions mandated by the International Monetary Fund for decelerated growth.

As early as two weeks ago, *NSIPS* received reports that the IMF delegation in Sudan was not having very much success in convincing President Gaafar Numeiry to adopt a slow-growth perspective. But, lacking foreign credits and under extreme pressure to follow the IMF guidelines, the June 7 London *Financial Times* reports that the Sudan is going ahead with a "stabilization program" of austerity measures which are designed to prove to the IMF that the country is creditworthy.

One of the major stipulations of this program is to freeze all new major development projects for the next two years. This demand virtually ends any hope the Sudan had of becoming the chief food producer of the African continent.

In a conversation with the Sudan's IMF desk officer in Washington, *NSIPS* learned that the IMF looks askance at Sudan's ambitious development programs and wants them to slow down drastically. An IMF representative said, "Sudan produces cotton, you know, and we think that they want to transform their economy into a food producer too fast. We are trying to get them to slow down. Saudi Arabia can still import its food from Australia as it has been doing. It doesn't have to import from Sudan." When asked if Sudan's development wouldn't be important for the region as a whole given that the Sahel is now experiencing severe drought condition, the IMF representative replied: "Well, we don't make those kinds of policy assessments. You would have to call the World Bank for that information. We only handle fiscal difficulties."

### IMF Takes Soft Approach With Egypt

The International Monetary Fund and the Egyptian government reached an agreement June 1 on a letter of intent for Egypt to receive a three-year \$720 million IMF extended facility. This letter of intent commits the Egyptians in principle to following the program

prescribed by the IMF in return for a loan. The loan will go into effect as soon as the Fund's executive board and the Egyptian cabinet each give their approval officially to the agreements that were reached when a Fund delegation completed a trip to Egypt last week.

According to a Fund official on the delegation, "An austerity theme was prevalent throughout our discussions, but nothing was really discussed concretely." He stressed that the sensitive issue of cutbacks of government subsidies for vital imports "was only obliquely touched upon, but not actively pushed. In fact, our main emphasis was on taxation collection and certain anti-inflation measures. We are making generous allowances for rises in wages and salaries and for development allocations."

Similarly, a second Fund delegation official stressed that while "an austerity angle was there" in the talks and that "we want to make sure the country is living within its means," the extended facility allocation will "buffer up a very ambitious development program, with rapid Gross National Product rises, and high economic growth rates."

Both IMF officers vehemently denied a June 3-9 London *Economist* report that the IMF had made "it brutally clear that it is skeptical" about Egypt's economic performance. The article, one IMF officer insisted, "has no basis in truth. Some journalist got carried away with himself."

This "soft" austerity line coming from the IMF, a departure from the Fund's general fixation on austerity, is not to be explained by looking for new outbreaks of charity and, or good sense within the IMF itself.

Rather, it is clear that the IMF was given a clear directive from the United States and Saudi Arabia and perhaps several western European governments, not to impose conditions on Egypt that would destabilize Anwar Sadat's government and threaten new outbreaks of unrest such as that which followed the announcement by Egypt in January 1977 that it was cutting back on commodities subsidies because of IMF insistence.

According to a State Department Middle East expert, "The United States and Saudis would not support the Fund putting such conditions on Sadat as to make him unstable. The Saudis' aid to Egypt is political in motive; they want Sadat stabilized. If Sadat were to go to the Saudis and say, 'Look, the IMF is putting demands on me that are too tough, I can't accept them,' then the Saudis would back Sadat up and not the IMF."

Late last month, West German Economic's Ministry officials told reporters that Chancellor Schmidt's government was urging a policy of major capital transfers and significant debt relief for Egypt and would argue against a harsh austerity program at the key June 14 meeting in Paris of the consortium of donor countries and private institutions which lend to Egypt.

## IMF Brings Peru Counter-Revolution, Riots

The price of the Peruvian government's May 12 capitulation to IMF demands for 60 percent increases in prices of food and gasoline has been weeks of strikes and riots.

The country is now under State of Emergency martial

law and the long-awaited June 4 elections for the Constitutional Assembly have been postponed. The consensus in Lima and abroad is that Peru's "democratization process" has been truncated and that an even more repressive regime will be required to hold down a starving population.

### *Chronology Of IMF Takeover*

*April:* After feverish activity, the Morales Bermudez government arranged with the IMF, the private banks, and the U.S. government for debt rollovers until after the June 4 elections. Morales promised to hit the population with the full weight of the IMF program during the weeks following the elections, under the guise of giving the government back to civilians.

*May 5:* Wells Fargo Bank pulled the plug by declaring Peru in default on a \$15 million payment due the previous day. (A Wells officer concedes that the problem was simply routine delays by major Eurocurrency banks in wiring funds.) The Wells default notice electrified banking circles and caused an immediate cut-off of all remaining Peruvian credit lines.

*May 6-10:* The Peruvian Foreign Minister went to Washington to plead with Secretary of State Vance and Treasury Secretary Blumenthal to aid Peru in the name of the Carter Administration "human rights policy." "In a frank talk," Blumenthal tells Peru that it must submit to the IMF and that the government won't even consider postponement of debt service due it until Peru settles with the IMF and the banks.

*May 10:* Peru decreed tax increases, severe budget cuts — and an 8 percent devaluation — partial concessions to IMF demands.

*May 12:* Amid pressure building from businessmen unable to fund any imports, Interior Minister Luis Cisneros attempted a Chile-style coup against Morales. Morales persuaded the generals to keep him as President, but capitulated to the IMF demands.

*May 12:* "The Mother's Day Massacre" — Morales decreed increases of up to 130 percent in prices of edible oils, wheat and wheat products, milk and other foods, and up to 80 percent in fuels and transit fares. Average Lima prices jumped by 60 percent overnight, according to Agence France Press and other observers.

*May 13:* Civilian fascist technocrats sworn in to the top posts in the Economics and Finance Ministry, and the Central Reserve Bank, replacing military and civilian officials who had tried to restrain the pace of the IMF triage conditions. They offered workers 10 percent wage increases to compensate for the cost of living increases.

*May 14-20:* Riots erupted in cities and towns throughout the country; vigorously repressed — 28 died.

*May 19:* Elections postponed; state of emergency imposed; hundreds of union leaders arrested.

*May 23-24:* A national general strike supported by unions of all political shades completely paralyzed the country. The strike showed working class force stronger than any mobilization in a decade, but it won nothing. The regime is determined to "bite the bullet."

*May 25:* 13 leftist union and military leaders deported; others are sought.

*Early June:* Teachers' strike continues; the government hires scabs; the three-million member CNA

peasant federation, founded in 1974 by Velasco government to defend agrarian reform, is dissolved.

#### *Peru's Standing With The IMF*

At this moment, Peru is renegotiating its stand-by agreement with the IMF. According to banking circles, Peru will accept "week-by-week monitoring" by the IMF and repeated rounds of austerity shocks in return for IMF approval of its refinancing of its public and private debt. The "moratorium" granted by the private banks is conditional on persistence in triage policies. Chase Manhattan telexed Peru an ultimatum that debt relief is also dependent upon Peru giving special privileges to

Southern Peru Copper Company, the Lazard Freres operation which has \$700 million invested in a new copper pit in Peru.

While the government has been siphoning off 55 percent of export income for paying its debts, private industry has fallen \$130 million in arrears to suppliers, and is unable to obtain further vital supplies. The *Wall Street Journal* June 2 quotes Samuel Drassinower, Peru's most successful industrialist, "The time has come when paying the government debt isn't top priority anymore. We must use all the foreign exchange we need to keep the country productive."

## The Consequences Of Brzezinski's Folly

The deterioration of U.S.-Soviet relations engineered for the past eight months by British Special Intelligence Service U.S. operatives Henry Kissinger and Zbigniew Brzezinski has turned U.S. foreign policy into a dangerous shambles, putting America on track toward a European theater nuclear confrontation with the Soviet Union in the near term, over Africa or the Middle East.

Jimmy Carter's June 7 speech to the U.S. Naval Academy (see below), a mismanaged product of the "unity program" instituted in the White House in an attempt to keep the Administration faction fight over SALT and dealings with the Soviets from perpetually erupting into the unfriendly hands of the *Washington Post*, is only the most obvious symptom of the problem — that National Security Advisor Zbigniew Brzezinski was hopelessly manipulated by the Chinese on his recent trip to Peking, and is manically furthering the Chinese scenario for a war between the world's two superpowers.

The realization that near-term Atlantic theater nuclear war is likely has provoked a split in the ranks of the same British intelligence gamemasters who run Brzezinski and Kissinger — British SIS, which has sought to promote a U.S.-Soviet showdown *in the Pacific*, with the British as a leading surviving power. In recent days, the London *Financial Times*, *Toronto Star*, *Christian Science Monitor*, and the *New York Times*, all British-connected outlets, have run editorials warning that Brzezinski's NATO-in-Africa antics and campaign to destroy detente could produce war; and broadly suggesting that "evidence" that the Soviets and Cubans were responsible for the recent Katangese invasion of Zaire, evidence "collected" by Brzezinski's factional ally CIA Director Stansfield Turner, is a hoax.

Even more indicative are statements by British Prime Minister James Callaghan, who is defending detente with the Soviets in a way that has not been seen in Britain in years. Callaghan in Parliament warned last week that the world is a "powder keg," and that "the Soviet Union understands that this government is not anti-Soviet for its own sake...we intend to live with that country in the world and not set up artificial confrontations with it....I am trying not to raise the temperature with the Soviet Union. I am trying to lower it." Callaghan concluded, "We don't want a new Cuban missile crisis," in

defending his attempts to work with Carter to secure a SALT II agreement.

Paralleling the split in Britain, in the U.S. the so-called "left" in the Democratic Party, the heirs of the British Fabian Society, has begun to deliver strong warnings to Carter that Brzezinski-inspired confrontationism in Africa will destroy his Presidency. Although the liberals have been most vocal, the Brzezinski-Turner "evidence" is being greeted with outright disbelief in much of the U.S. Congress, which understands that the U.S. population is in no mood for Cold War frenzy and military showdowns.

The Carter Administration has announced that it is scheduling another round of negotiations on SALT II between Secretary of State Cyrus Vance and Soviet Foreign Minister Gromyko in early July, and informed Washington sources say it is still possible for a SALT treaty to be concluded by fall. But new anti-Soviet provocations by Brzezinski are occurring daily — the most recent, reversal of a previous Administration decision not to sell certain military-related technology to the Chinese. The same technology is denied to the Soviets on national security grounds; the decision will no doubt be read in Moscow as a further evidence of a NATO-directed "two-front war" strategy against the USSR.

The major foreign policy debate over Africa opening up in Congress, however, provides an opportunity to stabilize the Administration by forcing adoption of a broad-ranging economic development program for the African continent, in a context of continued detente. Without such a commitment, no "geopolitical" balance-of-power gimmicks can stabilize an international climate rapidly deteriorating toward general war.

### Carter To Soviets: Buy Detente On Brzezinski's Terms

President Carter's speech to the U.S. Naval Academy June 7 got wide advance billing as an effort to "clear the air" on U.S.-Soviet relations and to organize political support for a SALT II agreement which is "95 percent complete." It will have precisely the opposite effect.

True, Carter said "prospects for a SALT II agreement

are good." True, he took note of past U.S.-Soviet collaborative efforts, including the World War II alliance against Hitler. True, he pointed out that "there are no ideological victories to be won by the use of nuclear weapons."

But stripped of its modest amount of "peace and cooperation" rhetoric, the basic policy framework enunciated by the President cohered completely with the "new world order" of his Peking-oriented apostle of U.S.-Soviet confrontation, National Security Advisor Zbigniew Brzezinski. Saner forces in the Administration, typified by Secretary of State Cyrus Vance, arms control negotiator Paul Warnke, and UN Ambassador Andrew Young, are apparently pursuing a program of "peaceful coexistence" with Brzezinski, rather than going for his head, in exchange for a renewal of Carter's formal commitment to SALT.

The result of their foolishness was all too evident in Carter's remarks. Conspicuous by its absence was any response to Soviet overtures for joint collaboration on world energy and economic development — for example, the Velikhov proposal for joint U.S.-Soviet construction of a "breakeven" thermonuclear fusion power experiment in a third country, which the Soviets presented at the recent United Nations disarmament conference. Nor did Carter himself present any rationale by which the U.S. and Soviet Union could collaborate in preventing the genocidal depopulation of the Third World which is inevitable under current World Bank-IMF zero-growth austerity policy.

Carter also avoided a substantive discussion of the

issues of the prospective SALT II treaty itself, despite the fact that even the *New York Times*, hardly a pro-Soviet newspaper, accused the Administration of creating "homegrown" difficulties for SALT. "What has been lacking during the Carter Presidency," said the *Times* in a lead editorial June 7, "is a detailed Presidential discussion of the strategic arms negotiations...a vigorous explanation of the treaty as it stands and a reasoned discussion of the principles at stake in the remaining issues."

Even in his Annapolis speech, Carter's commitment to SALT was equivocal, as it has been ever since Brzezinski raised the spectre of "linking" the SALT negotiations to Soviet "good behavior" in Africa last fall. Said Carter, "We have no desire to link these negotiations with our competitive relationships nor to impose other special conditions on the process. In a democratic society, however, when public opinion is an integral factor in the shaping and implementation of foreign policy, we recognize that tensions, sharp disputes and threats to peace will complicate the quest for an agreement. This is not a matter of our preference but a recognition of fact."

The Soviets are likely to read this as a Carter "hunting license" to Senate and other opponents of a SALT II treaty to walk all over him in the name of "public opinion," if and when a completed treaty comes up for ratification.

The rest of Carter's remarks seemed largely aimed at assuring that "public opinion" toward the Soviets grows increasingly hostile, as the President echoed the basic line used all year by Brzezinski, Henry Kissinger, the

### Congressmen Critical of Brzezinski Line, Deeply Suspicious on Zaire "Evidence"

Key members of Congress, including much of the Senate Foreign Relations Committee, are openly expressing their outrage with the drift toward the viewpoint of National Security Advisor Zbigniew Brzezinski in Carter Administration foreign policy, and openly skeptical of Brzezinski and CIA Director Stansfield Turner's purported evidence of Soviet-Cuban involvement in the recent Katangese raid into Zaire.

Following a meeting of the Foreign Relations Committee to hear Turner June 9, committee chairman John Sparkman (D-Ala) found the evidence "substantial in quantity but circumstantial in nature, and not conclusive." Sen. Birch Bayh (D-Ind), chairman of the Senate Intelligence Committee, was equally unwilling to certify it as definitive proof of the Administration's charges. Sen. George McGovern (D-ND) said it would result at best in a "hung jury" if presented in a court of law.

McGovern and Sen. Frank Church (D-Id), after White House visits with Carter, both suggested that the President "cool the rhetoric" about the Soviets and Cubans if he wants to get a SALT treaty

through the Senate. McGovern was particularly blunt, saying he saw "no purpose in ginning the American people into a kind of anti-Soviet hysteria." Church called Carter's speech "the rhetorical image of the United States great seal, complete with the eagle's claws and talons. I don't believe in a demon theory of history....If the President's policy is actually postulated on the premise that the Russians should stop what they are doing in Africa and elsewhere, then it is doomed to failure....It is in the nature of governments to do all they can to increase their influence...let the Cubans and Russians make their own mistakes in Africa without duplicating them."

Following the Turner testimony, which was not made public, it was announced that the Foreign Relations Committee would conduct a full staff investigation and hold hearings on U.S. Africa policy. The Administration is itself preparing a Presidential Review Memorandum on Africa policy, in which the policy viewpoints of Vance, UN Ambassador Andrew Young, and Brzezinski will again clash. Present indications are the committee wants to counteract the Brzezinski influence at all costs.

Chinese, and the "superhawk" Committee on the Present Danger — the Soviets have, as Brzezinski charged on national television, "broken the code of detente" and are determined to achieve "global hegemony."

Carter explicitly rejected a definition of detente as "easing of tensions," calling it "simplistic" and substituting Brzezinski's phrases about "broadly defined reciprocity." The Soviets, charged Carter, have used detente "to struggle for political advantage" using military power and assistance as a means to political influence; Carter's denial that the U.S. has quite obviously done the same will ring as hollow in Washington's corridors as in the Kremlin's, given the U.S.'s abrupt shift to "keeping the Soviets out of the Middle East" following the U.S.-Soviet joint communique on reconvening the Geneva conference.

Carter concluded, "The Soviet Union can choose either confrontation or cooperation. The United States is adequately prepared to meet either choice. We would prefer cooperation through a detente with increasingly similar restraint for both sides — a similar readiness to resolve disputes by negotiation and not violence, a similar willingness to compete peacefully and not militarily. Anything less than that is likely to undermine detente...."

In other words, "Take detente on Brzezinski's terms — or else."

—Don Baier

## U.S. Press Trumpets Washington Split On Carter Speech

*New York Times*, "Carter Calls on Soviet to End Confrontation or Risk 'Graver' Strain...Toughest Stand Yet," June 8:

In his toughest speech to date on Soviet-American relations, Mr. Carter attacked the Soviet interpretation of detente, which, he said, "seems to mean a continuing aggressive struggle for political advantage and increased influence."

*New York Times*, editorial, "From Linkage to Sausage," June 8:

For all its ambiguity on the linkage of SALT to Africa or tension elsewhere, his speech was essentially conciliatory....This was the speech of a President ready to take an arms treaty to the country and to the Senate

and to defend it on its merits if the Russians will not further inflame conditions in Africa....

*Washington Post*, "Carter Challenges Soviet Leaders...Two Different Speeches," June 8:

...The Soviet Politburo may have heard almost the opposite speech that most Americans did...Carter made numerous explicit accusations against the Soviet Union that no American president has made before....He charged the Kremlin's leaders with using "proxy forces" in Korea as well as in Angola and Ethiopia....One of the most extraordinary paragraphs in the Carter speech combined the U.S. desire to increase "collaboration with the Soviet Union, Eastern Europe, and the People's Republic of China" with American dedication to achieving "genuine self-determination and majority rule in those parts of the world"....If Carter meant what he said, he surpassed the rhetorical goal of the late Secretary of State John Foster Dulles "to liberate" the people of Eastern Europe from the Communist yoke.

In Africa, Carter joined his national security advisor Zbigniew Brzezinski in drawing the line in the dust against "the persistent and increasing military involvement of the Soviet Union and Cuba...."

It may appear superficially that Carter split the difference between Brzezinski and Vance, but he did not. Carter yesterday said that "tensions, sharp disputes or threats to peace will complicate the quest for a SALT agreement...." Quest literally embraces both negotiations and ratification....The speech came against a background of the struggle between opposing forces inside the administration....

*Washington Post*, editorial, "Mr. Carter on the Russians," June 8:

The president has enunciated a *government* approach toward the Soviet Union....There is one fundamental condition on which the value of the president's speech rests. It is that he impose and continue to impose on his government the discipline that the mere preparation of such a speech implies....

*Baltimore Sun*, "Carter Warns Soviet," June 8:

...Still, there was confusion both inside and outside the Administration about Mr. Carter's priorities. To the extent that others among Mr. Carter's aides won or lost in shaping the policy declaration, Mr. Brzezinski may be most nearly satisfied. But the balance Mr. Carter struck is not expected to cause great difficulty for Mr. Vance.

There can be no certainty, of course, that what Mr. Carter said yesterday will develop as a clear, predictable policy...

# Schmidt's Victory Is A Lesson For U.S. Republicans

*In Hamburg development was the winning ticket*

*Republican Party leaders in the United States should take a close look at how West Germany's Social Democratic Party won an absolute majority in the June 4 election in Hamburg — and at how the Free Democratic Party went down to defeat. Federal Chancellor Helmut Schmidt, formerly Hamburg's Interior Senator, campaigned not on a grabbag of local gripe and tax issues, but on the importance of expanding international trade, in both East and West, for detente and stability. As he told a cheering rally May 18, "We have got to have peace with the Soviet Union. . . . We have to see that the economic deals signed in Bonn with the Soviet Union are an all-party compromise, since I want to have the entire domestic population carry out this policy."*

*Schmidt's SPD also won because of their hard-line stand against the environmentalist "greenies." By contrast, the Free Democratic Party lost not only the elections but its parliamentary status because it explicitly pandered to such antigrowth elements.*

*In the following exclusive interview, the cochairman of the European Labor Party, Uwe Friesecke, lays out the ingredients of Schmidt's victory.*

*Q: What is the significance of the Social Democratic Party victory in the Hamburg state elections June 4, and the defeat of both the environmentalists and the liberal Free Democrats in both Hamburg and the state of Lower Saxony?*

*A: The worldwide significance of these two elections is that they are the first elections of national importance in years to be run on the intentional issues of economic growth, detente, and support for nuclear energy.*

*West Germany Chancellor Helmut Schmidt, the real head of the SPD, and the SPD mayor of Hamburg, Klose, deliberately ran their campaign in Hamburg — Schmidt's home town — on a profile of world strategic problems. They concentrated all their party's energy on those three issues, and engaged in viciously sharp polemics against the environmentalists.*

*At one point in the campaign Schmidt told people at a huge SPD rally that voting for the environmentalist "green" election slate was just like voting for the Nazis in 1933. That firm intervention gave them the victory. The SPD in Hamburg gained 7 percent more of the vote than they previously had, winning an absolute majority in Hamburg of 51.9 percent. This enabled them to cut their dependence on the liberal FDP and end their coalition with the FDP in Hamburg. The only reason why the SPD lost Lower Saxony was that under Willy*

*Brandt's direction, the SPD stupidly ran and supported environmentalist candidates.*

*This is how Schmidt and Klose mobilized the majority of the population around an unbelievably sharp attack on zero-growth and environmentalism. The SPD victory of 51.9 percent is damned significant — it shows you can win by hitting the environmentalists hard.*

*Q: Then Schmidt has not only the hard core of the SPD behind him, the party's traditional working-class base, but a majority of the rest of the population too?*

*A: Sure. Look at Hamburg, Germany's largest port, a manufacturing and banking center in its own right. It is clear that Schmidt and Klose represent the SPD's hard core, because it is their faction that has continually built up the port of Hamburg, since World War II. Furthermore, the SPD did this against the opposition of the (opposition) Christian Democrats (CDU) and the FDP.*

*One of Klose's first announcements right after he learned he won was that he was now ready to create absolute and drastic economic expansion. This will be his main aim. He knows he depended on the European Labor Party (the EAP) for much of organizing around him in the elections. The EAP slogans were "German Technology for the Development of the Third World" and "Yes for Nuclear Energy and Progress." We had hundreds of huge posters with these slogans and pictures of nuclear power plants all over Hamburg. We attended almost all of the SPD, FDP and CDU election rallies, and made our interventions the decisive issue.*

*While we were organizing with these slogans, the Schmidt-Klose group was organizing under their slogan of several decades: "Hamburg, the Gateway to the World." Time after time in our interventions, we set the tone of the meeting for Klose or Hamburg Finance Senator Seeler. We introduced questions on a new monetary system and set the guidelines for discussion.*

*The SPD's base hard core responded well and fought. But the CDU was totally provincial. The best example of this is that one of our organizers, who is not a German citizen and who does not speak German, intervened into a CDU rally. The CDU members became hysterically enraged and went into an antforeign rant. They wanted to throw the organizer out. But later, at an SPD rally led by Mayor Klose, the same organizer asked the same question in English, and Klose translated it into German, so that his audience could understand it, before he answered it.*

*You know what they call the CDU chairman in Hamburg — "Sir Eric Blumenfeld." When he was asked*

during the campaign why a German citizen would be called that, he answered that once when he was at a London club, he was called that for some reason and the nickname has stuck ever since. These were the types that the EAP and SPD were running against.

*Q: Willy Brandt, the SPD chairman, is saying that since the "greenies" recorded 3.7 percent of the vote in Hamburg, the SPD will have to become more "green" in the future.*

*A:* Total nonsense. In reality, the FDP was destroyed not by the greenies, but because they tried to outdo the greenies. For a party to be allowed to sit in a state parliament, it must get at least 5 percent of the vote. Well, the FDP vote sunk from 11 percent in Hamburg to about 4.6 percent, and from over 5 percent in Lower Saxony to about 4.3 percent. This means the FDP is kicked out of the state house.

They are no longer a parliamentary party and cannot become one against until they get at least 5 percent of the vote. This is what they got for suggesting proposals that were far more "zero growth" than what the greenies would dare say. They even opposed a new superport for Hamburg! Our view is that the SPD can't tolerate such a party, and such a party has no right to sit in the parliament.

It is a fact that most FDP voters felt the same way, and voted for the SPD instead. FDP votes did not go to the greenies, as most of their votes came from the very young, from those who were voting the first time.

Let's consider Brandt's statement again. It is known that Klose only gained 7 percent of the vote in Hamburg because he fought the greenies as fascists.

But in Lower Saxony, the state to the south of Hamburg, Brandt forced the SPD to run candidates that were no different from greenies. They came from the group around Count Peter Von Oertzen, and voters could not distinguish between them and the hard core environmentalists. So the SPD actually lost a couple of percentage points of the vote. The clear lesson of this is that by aggressively fighting for export expansion and detente, you can win.

#### *The EAP's Role*

*Q: How many votes did the EAP get?*

*A:* We got 314 votes in Hamburg, and 180 in Lower Saxony. There are two significant aspects of this turnout. First of all, it is twice as large as what we were credited with in the 1976 elections in the same areas. Second, these small margins actually decided various elections. Despite its apparently small size, this vote indicates that our role as the catalyst in support of nuclear energy, the only party consistently backing nuclear energy, has been understood by a significant number of people.

The best example is our three rallies in the Gorleben district in Lower Saxony, the site for a future nuclear waste depository, a very backward, peasant area where the environmentalists have been living in the countryside organizing peasants against the depository. We got 26 votes in Gorleben, the greenies got 17.6 percent, and the SPD candidate lost by a small margin to the CDU candidate.

Our 26 votes were crucial — these people saw us after three brief rallies, and organized enough votes against both the greenies and the "green" SPD candidate to defeat both of them. This signals trade unionists and politicians how real political organizing works.

*Q: Can we assume that the Schmidt group in the SPD will continue to follow through on their victory in Hamburg?*

*A:* I think so; it depends on the EAP. Look, we are going to rub this victory against the greenies, and against the opponents of the Schmidt-Brezhnev agreement (the historic trade pact concluded between the USSR and the West German heads of state — ed.) into the face of every politician and trade union. We are going to tell them this campaign needs to be supported by everyone, and we will let this be a lesson — being soft against the environmentalists only makes the problem worse. We are really

### Elections in Lower Saxony

	State Elections 1978	State Elections 1974	National Elections 1976
Registered voters	5,230,293	5,129,254	5,205,680
Participation (%)	78.7	84.4	91.4
Social Democratic Party	42.2	43.1	45.7
Christian Democratic Party	48.7	48.8	45.7
Free Democratic Party	4.2	7.0	7.9
DKP (Communist)	0.3	0.4	0.2
NPD (Neo-Nazi)	0.4	0.6	0.3
GLU (Environmentalist)	3.9	—	—

### Elections in Hamburg

	State Elections 1978	State Elections 1974	National Elections 1976
Registered voters	1,264,489	1,313,889	1,287,473
Participation (%)	76.6	80.4	91.1
Social Democratic Party	51.5	44.9	52.6
Christian Democratic Party	37.6	40.6	35.9
Free Democratic Party	4.8	10.9	10.2
DKP (Communist)	1.0	2.2	0.8
NPD (Neo-Nazi)	0.3	0.8	—
GLU (Environmentalist)	1.0	—	—
Buute Liste-Wehrt Euch (Environmentalist)	3.5	—	0.2



going to use this as a "shocker" in the fall state elections in Hessen and Bavaria.

*Q: A month before the elections, we were told that the trade-union officials who organized the 70,000-person demonstration for nuclear energy in Dortmund last November were under attack from the Brandt group in the SPD. Some of these officials were even harassed out of their posts. Can we expect to see a counterattack around the Hamburg victory?*

*A:* The Hamburg results are producing a process of clarification within the SPD. We already have some indication that the situation is beginning to be reversed with these union officials. Moreover, we are certainly going to discuss with everyone, from unions to political parties, how we need a strong counterpunch against the soft line.

*Toward the July Summit*

*Q: Will this victory strengthen Schmidt's hand at the July economic summit in Bonn?*

*A:* It will, although it must be determined if Helmut Schmidt knows how to best use his victory in the federal parliament.

Schmidt does have problems regarding the national FDP-SPD coalition that forms his government. He has this stinking FDP Economics Minister, Count Otto von Lambsdorff and the group around him, he has an entire zero-growth clique around Research Minister Volker Hauff, and Schmidt must contend with the CDU.

Take the CDU. Although the CDU is trying to make the Lower Saxony election, where they kept control of the state parliament and the governor's post, as their big victory, they lost 3 percent of their previous vote in Hamburg, and lost .03 percent in Lower Saxony. What Schmidt is going to have to do is tell the CDU members who stand for detente, economic expansion, and nuclear energy they have to make an alliance.

Do you know what the trouble with the CDU is? Certain CDU liberals are trying to turn the party away from the

principles of the late CDU Chancellor Konrad Adenauer, and turn it into a British-style Liberal party. One of the CDU slogans in the Hamburg campaign was "We are more liberal than the FDP." Take this Walther Leisler Kiep, who is a personal friend of U.S. Senator Edward Kennedy — he brags that when ever he goes to Washington, Kennedy's door is open to him.

The EAP destroyed Kiep in Lower Saxony, because the vote was so close that he lost his directly elected seat in the state legislature, and had to be appointed to his old seat.

In West Germany, there is a two ballot system where you vote for individual candidates on one ballot, and for parties on the other. If a politician can't make it as an individual candidate, he can usually get a seat, a second-best position, by being appointed from the second ballot.

Kiep lost his directly elected seat by 50 votes, and in that district we got 30 votes, so we actually affected the outcome against him. We covered all of his election rallies, and, generally even the CDU members received us very openly. By the time we intervened at Kiep's fifth rally, he took one look at our organizers, and at the rather receptive CDU audience that was watching us, and said, "This looks like an EAP convention."

*Q: The FDP and the greenies have both been irreversibly defeated. Will the riots at nuclear power plants of last year continue?*

*A:* There might be more violence. Right now the greenies are trying to organize for a referendum against nuclear energy in Lower Saxony. But as we have learned that these people, even with 3 percent of the vote, are so disorganized and ineffective that the only way they could create a disturbance would be with massive outside financing and intelligence agency control. They are just not capable of organizing any large movement on their own. Maybe the dregs of the FDP and the greenies will regroup to form a new fascist movement — but this can be stopped if we organize the trade unions.

# Black Caucus, McGovern Denounce Brzezinski's Confrontation Games

The Congressional Black Caucus yesterday issued a stinging denunciation June 5 of what they termed efforts "to reintroduce an East-West confrontation over the invasion of the Shaba Province of Zaire." The black congressmen warned President Carter that he had better make good on his initial promise to "end a Cold War-oriented policy on the African continent," and demanded that the White House concentrate on achieving majority rule in all of Africa and persevere in "the quest for economic development and national integration."

The group also announced the formation of a lobbying group called Transafrica, including blacks in the Administration, Congress and civil rights groups to pursue the question.

At the same time, Congressman Charles Diggs (D-Michigan), chairman of the Caucus, called into question the Administration's assertions that the Cubans had been responsible for the Katangese invasion of Zaire in mid-May. Diggs declared that "the Cuban presence in Zaire was manufactured by the Administration."

The Black Caucus is working in parallel and in consultation with Senator George McGovern (D-SD), who last week challenged the Administration to prove to Congress that they had evidence supporting their charges that the Cubans were directly responsible for training and equipping the Katangese invasion forces. On the Issues and Answers television show June 4, McGovern warned that there was a strong effort on the part of Carter's advisors to begin "ordering some kind of decisive military action to firm up his public image." McGovern then directly blamed the foreign policy crisis on Zbigniew Brzezinski's National Security Council, referencing how former NSC Director Kissinger destroyed the peace and development initiatives of President Nixon's Secretary of State, William Rogers.

The Senator is planning hearings later this summer to determine the future role of the NSC.

### *Distinctions Necessary*

While McGovern has carefully attacked only Carter's advisors — British agents Brzezinski and CIA Director Stansfield Turner — for their war provocations, other congressmen such as the Black Caucus and numerous press around the country have not been so careful. The distinction is crucial. Britain's agents in both the Republican and Democratic Parties are working to finesse the growing "no new Vietnam in Angola" sentiment into a Watergate-style attack on Carter's "foreign policy bumbling — and away from the London-authored treason of Brzezinski and Turner.

Vote-hungry Republicans are particularly susceptible to this kind of ploy, and it is important that the GOP does

not become blinded to the fact that an ad hominem attack on the Administration will only force Carter to do London's bidding or else allow London to replace Carter with a hideous Mondale and Ted Kennedy Administration.

However, there is ample opportunity to push Carter in the right direction at the Senate Foreign Relations Committee June 9 when Admiral Turner is to present his evidence of Cuban responsibility for the Zaire invasion. Turner is running scared, with no real evidence to support his charges. He has refused to give the Foreign Relations Committee, on which McGovern sits, more than one initial piece of information, saying he will only trust the Senate and House Intelligence Committees with the real proof.

Some Capitol Hill sources are speculating that he hopes to thus prevent McGovern from exposing his "evidence." However, McGovern will be fully briefed by the Intelligence Committee anyway, according to his aides, and is expected to make some strong statements after the hearing.

Turner has been frantically meeting with Congressional leaders and Monday testified before the House Intelligence Committee hoping to persuade them about Cuban responsibility with ordinary maps of Africa and "eyewitness reports" from the bush. Defense Secretary Harold Brown admitted on "Face the Nation" Sunday, that "this of course is not the kind of evidence that a scientist is accustomed to seeing."

There is clearly no constituency in Congress for Brzezinski or Turner. Only a few sheepish Congressional leaders such as House Speaker Tip O'Neill, under pressure from the Administration to stand united with the President, have declared themselves satisfied with Administration assertions. There is widespread suspicion of the facts in the Zaire case and Brzezinski's motives in pressing the issue, particularly from the liberal layers. Conservatives hate Brzezinski for his insane China policy, i.e., forming an alliance with the unstable Chinese against the Soviets and at the expense of some of our Asian allies.

Under pressure from their constituents, an otherwise unlikely coalition of liberals and conservatives could be forged to drive Brzezinski from office.

### *Development Solution*

UN Ambassador Andrew Young, in a major interview this week in *U.S. News and World Report*, again reaffirmed that a key section of the Administration is determined to pursue an economic development not a confrontation policy in Africa. Young said that, regardless of what might finally be the case for Cuban activity in Zaire, U.S. should not respond "emotionally" to the

situation. "Our relationship with Africa is much more economic than it is strategic. . . . We need maximum freedom in providing economic assistance, because I think that our most successful approaches around the world have been when we have given food aid and development assistance."

But Young, like McGovern, the Black Caucus, and Secretary of State Cyrus Vance have not concretized these vague economic development sentiments by openly supporting the programs being worked out between France, West Germany, Saudi Arabia, and the socialist countries for the multi-billion dollar industrial development of Africa. It is precisely by collaborating with this well-defined international effort that Brzezinski's war-mongering can be completely undercut and the basis laid for a lasting peace.

—Barbara Dreyfuss

### Young: "The U.S. Needs a Rational Approach to Africa"

*Echoing his statement of recent weeks, Andrew Young continued to assert that economic development of Africa is the concern of a faction in the Carter Administration in devising policy in an interview with U.S. News and World Report.*

*Q: Mr. Ambassador, how should the United States deal with the escalating Soviet and Cuban military involvement in Africa that seems to concern President Carter so much?*

A: I know it sounds strange, but if you look at where the Russians were when Jimmy Carter was elected and where they are now, there probably has not been a significant expansion. The Russians were in Sudan, Ethiopia and Somalia. The Cubans were already in Angola. They are still in Angola, but their position there is no more stable than it was. In three years they have not been able to pacify Angola. It's still a land very much in turmoil, and with very many problems....

I've said that we ought to have a rational, analytical response to the Russians and the Cubans in Africa, and not respond emotionally. I'm afraid that we have been responding emotionally, and I would hope that we would stop and think very carefully about it.

...I don't think people here in the U.S. know Africa. Even the best of our experts tend to think of Africa through a European mind-set.

Take, for example, the Ogaden region in Ethiopia. Most of the U.S. press had not even heard of it six months ago. Then, all of a sudden, it becomes of great strategic significance. The Ogaden is really nothing more than a thousand miles of sand.

*Q: What about Eritrea? Doesn't Cuban and Russian involvement there pose a strategic threat?*

A: Remember, three or four years ago we were the ones advising the Ethiopian Army against these very Eritrean rebels. We thought it was in our interests to have a united Ethiopia. There's no question that our

concern in Ethiopia is for human rights, for the territorial integrity of Ethiopia, and basically for a peaceful settlement of disputes. I'm not sure that what happens in Eritrea makes a great deal of difference to the interests of the United States of America.

If one tends to see all this as a great Soviet design, and lapses back into the domino theory, then there may be some cause for concern. But we should have learned the weakness of the domino theory in Southeast Asia.

*Q: Is there danger that the United States will be perceived as a helpless giant that is unable to cope with a Russia on the move if this country fails to act?*

A: That's an image we've created for ourselves. It's not an image that I accept. I would say that, from my perspective here at the UN, that's not the case. We have more influence in Africa right now than in the recent past — including in Angola.

The Angolans are presently cooperating with us. They see that it's in their interest to have a peaceful settlement in Namibia. They are protecting our economic interest in Angola with Cuban troops, and they are supplying the United States with almost 1 billion dollars' worth of oil a year. Now, they're not doing us any favor; they need the billion dollars to keep their country going.

Even the Cuban presence in Angola has not threatened any material United States interest at this point, nor has it minimized U.S. influence in Angola....

*Q: Do the charges of Cuban involvement in the invasion of Zaire from Angola change the picture? Doesn't this threaten U.S. interests?*

A: Let me make this point: Angola is almost twice the size of Texas. It takes you two days to get from Houston to El Paso on superhighways. There are no superhighways in Angola, and there's not good telephone communications. What we're saying is that a group of people — the Cubans — who are predominantly in the capital of Luanda and who are doing most of their military operations in the south against UNITA, have got to be responsible for another 5,000 armed men from Shaba — which was known as Katanga in Zaire. Those men were originally armed by the Belgians, and later fought for the Portuguese. They later came in to fight with the MPLA — the Popular Movement for the Liberation of Angola. They have fought on every side. But they have always maintained their own interest in returning to Shaba in Zaire. They had Cuban weapons and Russian weapons. They also had Chinese weapons. Remember, the Chinese also were involved in Angola.

You can make a case for almost anything you want to make in Angola. But, in fact, I don't think anyone can be sure of everything that's going on there — not even the Cubans or the Angolans. I think that even the President's information has been greatly limited by the restrictions on intelligence gathering inside Angola, and the fact that it's difficult to gather adequate intelligence.

...Almost anywhere we have worked militarily we have produced limited results. And almost everywhere we have moved covertly we have failed miserably — and have produced results that are often counterproductive

to our interests. I think we ought to be finished with covert activities. I can't point to one place where we have succeeded with these.

...Covert operations reflect the kind of cynical attitude that has threatened to destroy our relationships with an entire continent. Fortunately, I think we have learned that lesson. I don't know anyone who is advocating that course of action.

*Q: Is there anything the administration can do to induce the Cubans to pull back from their African adventures?*

A: I think that there is. We made clear to them that we would take it as a serious breach of principle and a violation of territorial integrity had they gone on into Somalia — and they stopped at the border. We have talked with them constantly about their role in Eritrea. And they insist that they will not be dragged into Eritrea militarily — that they advocate a political solution there.

I think that we can get them to work toward a peaceful solution with us in Namibia, because I think it's in their interests and in ours and in South Africa's interest. If we can achieve a peaceful settlement in Namibia, then I think we will have paved the way for a peaceful settlement in Rhodesia.

Now, where we are diplomatically aggressive and active, there is almost no Cuban presence. Had we not been aggressively active in Rhodesia through the Anglo-American plan, Cubans would be all around Rhodesia in every frontline country in large numbers. Had we been able to move diplomatically in the Horn, we could have prevented the Cuban presence there....

*Q: ...Do you agree with people who argue that the U.S. should signal its displeasure over Soviet actions in Africa by slowing down strategic-arms-limitations negotiations, or curtailing economic relations?*

A: We should signal our displeasure in any way that does not hurt us. It hurts us to slow down SALT....

## McGovern Questions Brzezinski Role, Warns Carter: Don't Be Boxed In On Africa

*Sen. George McGovern (D-SD) strongly questioned the validity of the post of National Security Council and particularly the role of NSC Director Brzezinski in confusing and obscuring the current Africa situation on the ABC television program Issues and Answers June 4.*

*Q: You have mentioned Secretary of Defense Brown. He also said today that if the Russians are not checked in Africa and extend their adventurous activities there to other countries, there would be a real risk of a return to the Cold War. Couldn't that be devastating to prospects for a new SALT agreement along with relations with the Soviets generally?*

A: It could indeed. If I could give a little unsolicited advice to the President and to his colleagues in the

Administration, I'd like to suggest about three things.

First of all, don't panic regardless of what goes on in Africa today.

Secondly, play it cool. Don't over-react.

Thirdly, keep your eye on the ball; the main ball right now is the SALT discussions. The survival of the human race could very well be tied up with the progress we make with the Soviets in arriving at some kind of control on the arms race....I would hope that while we may be distressed and concerned about what the Soviets and the Cubans are up to in Africa, that we wouldn't let that divert us from the main theater of action where our survival rests and that is working out some sensible agreement with the Soviets....

*Q: Senator, the pendulum, as you know, frequently swings from one extreme to another, and it seems to be swinging in the direction of casting all kinds of doubts upon the Soviet Union. Do you feel that the administration may get trapped in its own rhetoric to the extent they won't be able to sign a SALT agreement?*

A: Well, I think the President is the victim, a kind of a victim, of an unfortunate and irrational political climate. There are several causes that have contributed to that irrational political climate. One is the legacy of Vietnam. Ordinarily we say that that means we can't any longer react when our interests are threatened. I think the more likely danger is that we will react even when our interests aren't fundamentally threatened, just to show that we are still strong and that our fortitude is there. And that, of course, is the thing that has involved us in unfortunate ventures in the past.

The second problem that I think the President is faced with is the rise of a new anti-Communist hysteria in the country....

The third factor is what my colleague, Senator Church, has referred to as the "situation room syndrome." I personally think the greatest accomplishment of President Carter to date is, he is the first President in modern times who completed his first year in office without any crisis, without any hostilities. But paradoxically that has left the impression in the minds of some people that he has a kind of fuzzy image and so there is a temptation to show the President as a powerful figure reacting at midnight to a crisis and ordering out the troops or ordering some kind of decisive military action to firm up his public image. There is a great temptation, I am sure, on the part of his advisers who are drawn to that kind of prospect like bees being drawn to honey, but I hope the President will resist that.

*Q: Senator, let me ask you, you put out a very strong paper last week, criticizing, in particular, the President's national security adviser, Brzezinski, for precisely this kind of mentality. Isn't it a fact, though, that if the President didn't want to hear that kind of advice or didn't want to respond to that kind of advice, all he would have to do is pick up the phone and say, "Zbig, cut it out"?*

A: Yes. In the last analysis, the President is responsible for his own Administration. He is responsible for Mr. Brzezinski; he is responsible for the Secretary of State. I must say, however, that, as I have watched what has happened the last few weeks, and thinking back to what happened in the early months of the Nixon Administration, I think there is something wrong with the way our national security and foreign policy apparatus is organized in the government. You have the so-called National Security Council, the National Security Adviser under Mr. Brzezinski. Now, without getting personal about him, but just talking about the institution, the person who holds that job, is not-accountable to the American people. There is no way that Congress can get at him. We don't even confirm him. We can't cross-examine him. He is a kind of free agent operating over there in the confines of the White House, sometimes going out to make statements in public, sometimes making them in China and elsewhere, where I think it is ill-advised at a delicate time in foreign policy. But it has the effect of eroding the power of the Secretary of State, who is the chief foreign policy officer in the government. So, as the Chairman of the Senate Subcommittee on International Operations, I have decided to hold some hearings later this summer on this whole question of how foreign policy is determined. The relationship to the National Security Council.

It may very well be that we have come to the time when we ought to abolish the National Security Adviser, the National Security Council, and concentrate the organization of foreign policy under the Secretary of State....

*Q: ... (the Administration) is encouraging a multi-African force; it is encouraging the Europeans to take an active role in Africa. It is not becoming involved in a military fashion, but just as Africa may not be of primary concern to us militarily, surely it has to be argued that it is not of primary concern to the Soviet Union either. What are they doing that far out of their traditional sphere of influence?*

A: I think they are making the same mistake that others have who have tried to establish a base in Africa, and I don't think they are going to be any more successful.

The main concern of Africa today is over the problems of poverty, the problems of race. Those are areas where we have been reasonably successful in making some contribution. We have got a good working relationship with a number of the African states based on the fact that we have assisted them economically and with technical back-up. We have been on the right side of the race question, at least in recent months, with Ambassador Young taking the lead and calling for majority rule.

I think measures of that kind will serve our interests in Africa better than anything we do militarily.

*Q: But forgive me, Senator. We have been boxed out of Ethiopia; we have been boxed out of Angola; we have been boxed out of taking any effective action in Rhodesia; we are damned if we do and damned if we don't in the current Rhodesian situation.*

A: Who boxed us out of those areas?

Let me tell you, we are not entirely boxed out of Ethiopia. We are still carrying on an economic

assistance program in Ethiopia, partly because we think even though it has a government whose ideology is different from ours, it is still important for us to maintain some relationship there.

We could very well be providing economic assistance to Angola. They have wanted investment from the United States and from the West. We could increase our influence even in these areas where they have governments that follow an ideology different from ours if we were a little more imaginative. I don't think we have to respond militarily in all of those areas in order to maintain a presence.

## One View of Brzezinski's M.O.

*From Joseph Kraft's column in the Washington Post, June 8:*

Recent cooling in Soviet-American relations has directed attention to the role of the president's special assistant for national security, Zbigniew Brzezinski. He plays an advocate's role — something far different from any of his predecessors in the office.

He does not discipline the president or check his weaknesses, as the special assistant usually did. In the Carter administration, as a result, the role of safety man in national security has had to devolve haphazardly on somebody else....

The central theme of Brzezinski's advocacy derives from suspicion of, even aversion to, the Soviet Union. He was born a Pole, took consistently anti-Soviet positions during his graduate school days at Harvard, as a professor at Columbia and during a brief stint in the State Department during the 1960s.

Under Carter he has been tough on Russia in arms control, human rights and attitudes toward Western Europe, China and the Third World. Though he favored the "comprehensive settlement" approach to the Middle East — in part, I suspect, because it went against the grain of Kissinger's step-by-step approach — he did not lean to the joint U.S.-Soviet declaration, which that policy at one point entailed.

Brzezinski tends to play down his intimacy with Carter, but beyond doubt he serves the president in important ways. He is well known to Carter and trusted more than anybody else in the foreign-policy community....

But his personality can be abrasive. He has alienated several foreign governments, including those of Israel and Russia. Several comments, including one made recently at the Great Wall of China — "last one to the top gets to fight the Russians in Ethiopia" — suggest a lack of nice judgment, and even good taste.

As an advocate, moreover, he shares Carter's chief weakness: the inability to see how good intentions on one matter can lead to bad results across the board. Thus a great many of the early blunders made by the Carter administration — notably the first arms-control proposal to Moscow — were mistakes made by Carter with the active help of the man who should have been saving him.

Presumably the president knows all this, and there is

no convincing evidence that he is Brzezinski's man. But neither has Carter developed a system for saving himself from the mistakes to which he and Brzezinski are both prone. The safety man on foreign policy in the Carter administration is whoever happens to come along.

Usually the task devolves on Secretary of State Cyrus Vance. He, for instance, saw the confusion building in Sino-Soviet relations and prompted the president's speech on the subject at the Annapolis commencement. But though Vance usually wins on the showdowns, he is loath to challenge Brzezinski, an old friend. Even when he does win, he does not control the final outcome — witness the Annapolis speech, which ended up as a muddle requiring further explanation to determine where the president really stands.

### Black Caucus: "No Diversion From The Development Issue"

*The Congressional Black Caucus issued this statement on the Administration's foreign policy on June 6:*

## National Energy Forum: Carter Energy Policy Is No Policy

With remarkably little mention in the media, scores of the world's leading energy experts, engineers, industry leaders, and political spokesmen from Democratic and Republican ranks met in Washington, D.C. on May 18 for the National Energy Forum of the World Energy Conference. The theme that was consistently struck throughout the proceedings was that the Carter Administration's current energy policy and related international nuclear nonproliferation policy were wrongheaded and disastrous.

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### ENERGY

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The World Energy Conference, founded half a century ago as the World Power Conference, ought to be one of the most credible and authoritative bodies in the world on all aspects of energy. Among the participants at this meeting were:

Robert Georgine — President of the Building Trades union;

J.C. Turner — President of the Union of Operating Engineers;

Gerard C. Smith — U.S. Ambassador for Non-Proliferation Affairs;

John D. Dingell — Democratic Congressman from Michigan;

James McClure — Republican Senator from Idaho.

In addition, leading members of the nation's major oil and coal companies, including Texaco, Gulf, and Island Creek Coal Co.; the major nuclear construction firms, including Bechtel Power Corp., Combustion Engineering,

(Our concern is over the Carter Administration's attempt) to reintroduce an East-West confrontation over the invasion of the Shaba Province of Zaire despite an initial commitment to end a Cold War-oriented policy on the African continent. We hope that the Administration will not overreact in this particular instance, since knowledgeable observers of the region have long recognized the multitude of causes to which the Katangan rebels have lent their support as well as the diverse sources of assistance for their grievances.

It is our firm conviction that as long as local political solutions are not found conditions in that region will lend themselves to the intervention of outside forces. The crisis in Zaire should not permit the Administration to divert its attention from two issues of paramount importance to Africa — first, the search for a rapid and just solution to the problem of white minority rule in Zimbabwe, and Namibia and South Africa, and second, the quest for economic development and national integration.

and General Electric; leading European and Japanese energy policy spokesmen, scientists, energy consultants, and electric utility representatives, were represented.

The one surprising thing about the conference — besides the press blackout of it — was that the participants confined themselves to criticism of the Administration without outlining measures to get at the source of White House misperception: the handful of well-financed and well-placed no-growth advocates. For instance, every major labor group, corporation, or utility that opposes the present anti-growth policy is under some form of attack by this environmentalist clique, ranging from allegations of anti-trust violations, Securities and Exchange violations to environmentalist legal challenge. Despite these attacks, not one speaker at the conference openly addressed this problem.

#### *NEF Man: Nuclear Energy is Real Issue*

*The following is an interview with William O. Doub, a former commissioner of the United States Atomic Energy Commission and current chairman of the U.S. National Committee of the World Energy Conference.*

*Q: The Carter Administration's national energy policy has been assailed from various quarters as a no-growth tax policy, not an energy policy. What is your evaluation?*

*A: These are the non-issues — when we run out of oil and gas — these are not the real issues. We are not about to run out of energy. The real issue is how to maximize utilization of all energy sources, and nuclear energy must play a major part in that. Developing nations, with no indigenous energy resources, do not have the luxury to*

sit back and debate these issues. They are turning more and more to nuclear energy sources.

*Q: Why do you think the Carter Administration is pursuing such radical policy departures on the nuclear issue?*

*A: Carter is the only one of the last seven Presidents to make nuclear power a political issue; no President before Carter has made this a political issue....He is not providing the nation with leadership such as Eisenhower did with the "Atoms for Peace" policy. Under the Carter Administration, we are pulling back into a shell and the rest of the world is dumbfounded...and rightly so.*

The problem is that Carter has institutionalized an antigrowth outlook in key policymaking positions in his Administration.

### Sen. McClure: Set Record Straight On National Energy Needs

*In his May 18 keynote address to the National Energy Forum Sen. James McClure (R-Idaho) upbraided the Carter Administration's "no-growth" energy policy as "the equivalent of war." McClure's speech, excerpted below, is a strong defense of the need to approach national energy needs from the standpoint of the nation's historical commitment to technological advance. Despite his mislocation of the U.S. energy crisis as the result of "dependence on OPEC oil," McClure's remarks and his call last week to base U.S. Africa policy on a commitment to industrialize that continent offer a pointed lesson in "vote-getting" to those Republican leaders scrambling for "ethnic" votes.*

The Congress and the President are today engaged in their own equivalent of war, the outcome of which will determine our Nation's energy policy for at least the next two years. And, this outcome will have a major impact on the energy policy decisions of our allies in Europe, the Middle East, Japan, and elsewhere . . . .

We realize that many of the opponents of nuclear energy genuinely believe that it is evil and must be stopped. But, we must not allow their fears to overshadow the facts regarding nuclear energy. Current nuclear technology represents a major hope that future generations may enjoy the standards of living available to all too few today. In addition, nuclear energy offers us assistance in increasing present day productivity, thereby improving the lives of people already living. We must not concede the moral issue to the opponents of nuclear energy.

The opponents of nuclear energy in the United States have finally found a powerful ally — the President. Before 1977, our nuclear programs had difficult problems and tense moments — such as during Senate floor votes on the Clinch River Breeder Reactor — but the Administration before 1977 provided the necessary continuing support for overcoming these difficulties. But, as of January, 1977, that has changed....

...with the advent of the Carter Administration, the

anti-nuclear movement finally discovered a winning combination: (1) stop the breeder program, using phony press releases concerning plutonium, (2) stop spent fuel reprocessing, while making vague threats about terrorists who somehow are immune to radiation, (3) create serious doubts as to the future availability of spent fuel storage facilities, and (4) cripple the opportunities for our domestic nuclear industry to survive through exports, using the threat of nuclear weapon proliferation while ignoring the reality that such prohibitions actually increase the threat of proliferation....

The proponents of nuclear energy have surrendered the moral issues involved. The opponents have wrapped themselves in the invisible Emperor's Cloak of righteousness and good . . . .

The battle lines have been clearly drawn by the Administration: Clinch River, Barnwell, nuclear exports, and spent fuel storage. There are those who support the nuclear program, but who still believe that you can negotiate with the opponents of nuclear energy, and that delusion must be stopped....

Clinch River and Barnwell (N.C.) are not, however, the real targets. The final solution to the nuclear energy problem is in their eyes the complete cessation of construction of new light water reactors (LWR), to be followed by the dismantling of the existing LWRs. The opponents of nuclear energy do not hide this goal. It is there for anyone who does not refuse to face reality. There is, for them, no compromise, short of total destruction of the nation's nuclear energy program....

These individuals (Amory Lovins, Ralph Nader — ed.) have one major advantage over the supporters of nuclear energy: They are embarked on a quasi-religious crusade to rid mankind of the horrors of the atom. This provides a strong moral position, which will easily override the factual arguments and logical presentations of a nuclear energy supporter *unless* he too believes that his position is morally correct. The supporter of nuclear energy must truly believe that nuclear energy is a moral necessity for mankind and that without it, future generations will sink ever deeper into poverty and, eventually dictatorship. Shortages of energy will result in shortages of jobs, housing, and food. And, shortages of necessities — even when caused by government action — always result in increased government controls. And, increased government controls will always lead to increased shortages. And the tragic culmination of such a chain of events is war, as those who are without seek to take from those who have!...

The advocates for a strong domestic energy policy, based on reduced dependence from OPEC oil production, are engaged in a crucial phase of our energy history. The issue is now that of a moral test of will. Our opponents know clearly where they stand. The National Council of Churches, for instance, has decided that plutonium should be excluded as a future energy source. They have made this decision based on their moral beliefs.

If you do not believe just as strongly that *exclusion* of plutonium as an energy source is immoral, then your arguments for breeder reactor development and commercialization of spent fuel reprocessing are lost at the onset . . . .

## Tax Revolt Means Big Mac For California, IMF Rule For The United States

The sheeplike behavior of millions of California voters this week has fed right into British-run plans to impose an International Monetary Fund dictatorship on the United States.

The California vote itself was accomplished by Governor Jerry Brown's political fraud. Within weeks before the referendum on cutting property taxes 60 percent, Brown's assessors released new real estate assessments that amounted to increases of 300-400 percent! Combined with a hyped-up media campaign, and the unpopular Brown's own public stance against the tax cut, this was sufficient to bring a landslide vote for a measure that will not only slash services, but also cripple the commercial banks that have provided California's credit.

Thus, with one stroke of stupidity, California has been put on the road to dictatorship by a Big Mac. The loss of property taxes cannot be compensated, even if zero-growth Brown were willing, by budget surpluses and other tricks. Standard and Poor, the bond raters, have already certified that California is following New York City by withdrawing ratings for city and state bonds!

No one should be fooled that the effects will stop in California. The populist "we won't pay" outcry has already been used to spark a tax revolt nationally and to rationalize British investment bank policy of bankrupting New York City. The nation cannot afford to wait until the sheep in California see the results of their stupidity in backed-up toilets, until the decay of all the nation's cities goes to the level of New York City and worse. Then the sheep will yell "tax me" — but it will be too late.

The aim of those leading the tax revolt and the "cut government spending" approach to New York City and other governments that goes with it has nothing to do with the pathetic complaints of the sheep. The sheep want to send their children to college, to remove government obstructions to nuclear power, to be able to live in a home, not a speculative commodity. The tax revolt leaders are merely manipulating these simple

desires — to destroy constitutional government in the United States.

The aim is consciously the same as that enunciated by the Shay's Rebellion British agents and their dupes in 1787. The leaders know that reducing taxes will not produce credit for productive investment and needed services; it will destroy it. The leaders know that the bankruptcy of the country's largest governmental entities, New York City and California, will threaten the country's largest banks and soon the national debt itself. Yes, the leaders know and have chosen the tax revolt as a conscious tool of catapulting the U.S. economy into a depression, and thus collapsing the central government of the United States. The cuts they force will cause riots, anarchy, rampant disease. As in a Third World country, they will make the United States ungovernable — until replaced by the gendarmes of the International Monetary Fund.

Sure, New York City and California are in for the IMF treatment, an official of one of America's largest banks admitted to the Labor Party last week; it's unfortunately necessary. This is the treasonous reality that the sheep have ignored.

Alexander Hamilton addressed precisely this problem during the process of organizing that led to the U.S. Constitution. Prosperity, progress, and peace depend on national credit. If that credit is not provided and guided by a strong national government, the United States will be reduced to hundreds of bankrupt, squabbling states and municipalities, he wrote in the Federalist Papers. That anarchy, he warned, will only be a prelude to reconquest by the rapacious foreign powers we have just defeated.

That is the choice the United States faces today. Submit to the anarchy of tax revolt, and the U.S. will be delivered to the eager dictators of the International Monetary Fund. Provide a national credit policy along the lines of Hamilton's National Bank for technological development and expanded trade, and the United States will be the cornerstone of the Grand Design for prosperity and peace.



# Miller Aims 'Tax Revolt,' Eurocurrency Regulation At U.S. Economy

In his speech to the National Press Club on June 7, Federal Reserve Chairman G. William Miller warned of an impending national bankruptcy, comparable to the cataclysmic Spanish bankruptcy of the sixteenth century if current high levels of consumption and inflation persist in the U.S. "Is there a parallel (with Spain — ed.) in our twentieth century experience?" Miller asked. "Will the legend of our time be an economic desert?"

The answer to that question will be yes if Miller is allowed to put the "overconsuming" U.S. population through his fiscal conservative wringer as planned. In his National Press Club speech Miller proposed to pull the plug on the U.S. economy immediately through two operations: a crackdown on the U.S. commercial banks' over-leveraged Eurodollar market operations; and the nurturing of the manipulated taxpayers' revolts in the aftermath of California's passage of Proposition 13.

Apparently out of the blue, Miller told the Press Club that the Federal Reserve will be considering ways to get greater control over the Eurodollar market so that "it doesn't create excess liquidity". The Fed is concerned about the unsettling effects of this excess liquidity on the international monetary system, Miller said. "While it is a serious problem, we don't yet have an adequate solution."

Miller's remarks are the signal that he is activating the City of London scenario for deliberately detonating the Eurodollar market so as to bankrupt the leading New York commercial banks. In December of last year this publication ran an exclusive expose of London's scenario for orchestrating a bear raid in the U.S. banking system ("Investment Banks Start Eurodollar Panic," *Executive Intelligence Review*, December 19, 1977). As reported then, the kingpin in this scenario was the proposal of Congressman Henry Reuss (D-Wis.), in a letter dated December 9 to then Federal Reserve Chairman Arthur Burns, to impose reserve requirements on the foreign branches of U.S. commercial banks operating in the Eurodollar and other off-shore markets. Reuss' intentions in advocating Euromarket controls were hardly benign.

In the absence of new credit and monetary arrangements, the imposition of reserve requirements on Euromarket banking would result in an immediate and massive drain of liquidity out of the Eurodollar market, defaults by developing countries whose debts could no longer be rolled over, the vanishing of commercial banks' profit margins, and other chaotic developments. Last December investment banking sources indicated that they expected that the newly appointed Federal Reserve Chairman Miller would be favorable to the reserve requirement scenario.

Miller's speech June 7 apparently took officers in the Fed's International Finance division by complete surprise; there was no prepared text of Miller's speech,

and at this moment there is apparently no study going on at the Fed on controlling the Eurodollar market. Staffers at Reuss's House Banking Committee, the original source of the reserve requirement proposal, were also at a loss to say what Miller had in mind in his speech. In other words, Miller is acting entirely on his own initiative — as London's political intelligence operative inside the U.S. Federal Reserve — to kick off the collapse scenario.

Most observers, however, are continuing to buy the line that Miller is a stalwart American conservative. Every newspaper save the *Journal of Commerce* passed over Miller's comments on the Eurodollar market in their coverage of the speech, choosing to highlight Miller's firm statement that wage-price controls will never be implemented — Miller's current "Hooverize the U.S. economy" strategy calls for industry and labor to battle it out in the upcoming labor contracts, rather than government imposition of an incomes policy. Most commercial bankers appear not to have taken the "novel" sections of Miller's speech seriously. An international banker at Chase noted, however, that there is no way that Miller could get the sprawling Eurodollar market under control. He *could* however, undermine the competitiveness and profitability of U.S. commercial banks, were he to impose reserve requirements in the foreign branches.

Miller's second front against the U.S. economy is his escalating efforts to throw the economy into an early recession under the cover of "fiscal conservatism." In his speech Miller commented that the victory for Proposition 13 in California was a statement that taxpayers are becoming disenchanted with government spending and now recognize the limitations of government. The victory for the so-called Jarvis-Gann proposal to reduce property taxes throughout the state, together with overwhelming rejections of school levies and bond issues in Ohio on the same day, is being played by the national media as evidence of a new wave of fiscal conservatism sweeping the U.S. A staffer at the House Banking Committee said the votes represented "a massive protest against the increasing intrusion of government into our lives. . . it comes out of the growing unhappiness and frustration of middle class people about inflation."

Apart from its usefulness for disorienting the Republican Party, the tax revolt fever is being manipulated to get the U.S. population to voluntarily implement New York levels of austerity in cities across the country — in the name of ending government interference!

According to the same House Banking committee staffer, the results on June 6 are the signal for public officials to begin implementing rampant budget cuts. "We're not going to completely do away with school, but maybe public officials will take pay cuts. And maybe

we'll make do with 10 percent fewer teachers and garbagemen. We're not a completely affluent society.... Take medical care. In my opinion medical technology exists to keep people alive for years and years and years. We're spending a bloody fortune on it. It doesn't make sense anymore."

In the immediate term, the passage of Proposition 13 has thoroughly destabilized the tax-exempt bond market, especially the California state issues. The hardest hit

have been the California development authority bonds, since these are supposed to be guaranteed by tax revenues derived from the annual increase in the assessed valuation of property. One bond dealer said he thought that the tax exempt market has been far more affected by rising interest rates than by expectation about the passage of Proposition 13, in recent weeks, but he added if one more state went the way of California, there could be a "tidal wave" in the markets.

## How The California Mandate Turned From Nuclear Energy To Zero Growth

California Republican Evelle Younger was made the brunt of a very slick "liberal" con job last week, following his endorsement of Proposition 13, California's ground-breaking property tax cut proposals. The swindle Younger fell for was to swap short-term victory in the Republican primary for California governor for the long-term survival of the state as a center for advanced-technology industry.

Younger, who had launched his campaign for the Republican nomination on the basis of a fusion energy development program for the state, was provoked into joining the opportunistic "vote-getting" bandwagon that too many Republican Party leaders have played suckers to lately. Worse, Younger's temptation was laid for him by California's Democratic zero-growth governor, Jerry Brown and Brown's friends, who are hell-bent on destroying not just California but the entire U.S. industrial economy.

Thus California's sizable pronuclear energy constituency joined with the antigovernment tax revolters to slash the California budget, and be the fallguys for a media-hyped streamroller for slashing services and taxes to the bone. If not checked, the result of this unholy coalition will be nothing less than a California Big MAC — Rohatyn austerity rule from coast to coast.

The California set-up ran roughly as follows. Voters in the June 6 California primary were offered a "choice": endorse "share-the-wealth" Governor Brown's 50-100 percent increase in property tax valuations over the past year or vote for the conservative "backlash" measure to cut property taxes by 60 percent, Proposition 13. Brown went on public record swearing his adamant opposition to Proposition 13. And poor Evelle Younger took the bait by endorsing the tax-cut proposition.

### *What Is Proposition 13?*

By July 1, Proposition 13 will have cost the state of California \$7 billion in lost revenue by limiting property taxes to 1 percent of assessed valuation, by restricting increases in valuation to two percent per year, and by requiring a two-thirds vote of the state legislature to impose any new taxes. The tax limitation which was passed overwhelmingly by a 67 percent majority vote in

the primary, will already contribute to a projected 50,000 layoffs and numerous closings of such vital public services as the summer school program of Los Angeles County. Two-thirds of California's teachers are threatened to be laid off by the fall.

Governor Jerry Brown at first appeared to "come around" to the "public consensus." In the aftermath of the primary, Brown has announced that "Proposition 13 is a great opportunity. . . I began my governorship with a pledge of no new state taxes. I've carried out that promise. I began the effort at government frugality, and what I hear out of this vote is that the people want more of it." Aping the "now you see it, now you don't" quality of the New York City crisis, the next day Brown called for applying a current \$5 billion budget surplus to the shortfall.

### *Where Does That Leave Evelle Younger?*

After defeating his closest rival for the Republican bid, former Los Angeles police chief Ed Davis, by 12 percent, California Attorney General Younger sent a letter to Governor Brown June 7 stating that in his official capacity he would defend the new property tax law against court challenges because he wants to "ensure the will of the people is not frustrated."

Although Younger has refused to campaign around the tax cut, by promising he would vote for it, he has been set up to conduct his challenge for the governorship as a test of who can implement "the people's will" better: "liberal" Brown or "conservative" Younger.

In reality, the California "tax revolt" represents carefully manipulated sabotage against progrowth, high-technology political campaigns across the country. The California result will be used to fuel agitation for a constitutional amendment to prohibit federal deficit spending now underway in 23 states. By this November, similar tax limitation referenda will be on the ballot in approximately 8 other states, including Michigan and Colorado.

Younger, formerly President Gerald Ford's campaign manager, began his gubernatorial campaign by distinguishing himself from the four other conservative and traditional Republicans with his advocacy of nuclear

power. Younger campaigned around the fact that the state needed more than its two existing nuclear plants and needed the proposed Sundesert plant.

In his capacity as Attorney General, Younger blocked Brown's attempt to destroy Sundesert by refusing to enforce what he labeled an unconstitutional law passed by the California state legislature prohibiting the construction of any nuclear plants until federal solutions to all waste problems are established. His interpretation directly paralleled the recent Supreme Court decision in *Consumers Power v. Aeschiman*, which affirmed that nuclear power development had been established by Congress as the nation's energy policy.

Moreover, when the California State Senate passed an "exemption" allowing the Sundesert plant to be built, Brown responded by stacking the State Energy Commission alongside environmentalists. And when Brown's State Energy Commission then reported that there was no need for the Sundesert plant, Younger created his own nuclear commission, headed by nuclear expert, and Rockefeller associate, Dr. Edward Teller. Younger's California Energy Council issued its own report May 11 calling for the construction of 50 nuclear reactors in the state by the end of the century at a cost of \$50 billion.

The Younger group's report stated: "California faces an energy crisis within a decade because of Governor Brown's reliance on conservation and alternatives to nuclear power. It will take considerable effort and ingenuity for the safe deployment of these reactors to be accomplished by the year 2000; however, without this component, the whole plan, and the whole energy supply for California will collapse. . . . It is in this respect that those persons presently in control of California government are committing their greatest and most irrational mistakes."

Younger insisted from the outset that the California Energy Council was not his campaign advisory committee but an official state institution established by him as an official counterpole to Brown's environmentalist-stacked State Energy Commission. Only three months ago, the nation's newspapers foretold that California's Republican primary would be a nationally significant vote on nuclear power versus zero growth.

However, Rockefeller Republicans responded according to their "fiscal conservative" profile, and Younger has now agreed to act as the court enforcer for the type of policy that will turn California and other states into "one, two, many New Yorks."

## California's Tax Rebellion: An Old British Trick

Last week's passage of proposition 13 in California, which is now hailed in the national media as the beginning of a national "tax rebellion," is not a recent development. Grassroots "tax strike" organizations have multiplied rapidly over the past decade as the postwar decline in real production has made the percentage of workers' paychecks taken out in taxes more and more unbearable.

Property owners have been caught in a multiple squeeze play. Federal Reserve Chairman G. William Miller's sky-high interest rate policy has only accelerated the collapse of the construction industry in this country, creating instead a speculative real estate bubble that has sent the price of housing, real estate taxes, and homeowners' fury at exponential increases in property tax assessments through the ceiling. Frustration over lower living standards has impelled tax rebels to strike out blindly against the "big government" they perceive to be at the root of their problems.

Most of those supporting measures like Proposition 13, however, have no idea of the devastating impact such measures will have under current depression conditions. The limits to their political understanding is aptly demonstrated by Howard Jarvis, a former middle-level industrialist and currently head of the United Organization of Taxpayers and of the Apartment Association of Los Angeles County, who co-authored Proposition 13. Jarvis once described why he chose the property tax as the centerpiece of his 15-year battle against the "government run wild": "When I have a

decision to make, I want to make the problem the size of a two-inch cube. And then I can solve the problem. . . ."

Many grassroots leaders in the tax rebellion would be astonished at the political pedigree and true intentions of those who have manipulated the tax strike cause into a nationwide issue.

### *One Conservative Down*

Ironically, the "Tory tendency" in the U.S. against whom the slogan "No Taxation Without Representation" was once directed and the American Revolution was waged have seized on the tax movement as part of the City of London's overall economic warfare against the U.S. Such a disruptive combination of British agents-of-influence teamed up with ignorant populist movements was painfully demonstrated under President Andrew Jackson's Administration, which left the country's credit destroyed and its industrial sector prostrate, and by the eighteenth century Shay's Rebellion which many tax strikers hold as their model.

Tory agent Milton Friedman, who recently called for collapsing the U.S. economy now, rather than draw out its current agony, is a leader of the National Tax Limitation Committee. The Committee announced at its May 19-21 conference in Chicago that it would carry Proposition 13 to at least 13 more states this year. In Michigan, the main focus of the NTLC's campaign, 200,000 out of the 350,000 signatures have already been gathered to put a property tax referendum on the ballot.

The NTLC is also sponsoring a constitutional amendment to prevent the federal government from deficit spending. Some version of this proposal — either a constitutional amendment or memorialization of the measure — is now underway in 23 states. Should this amendment be passed, it would quickly trigger the bankruptcy of all major financial institutions by precluding the government's ability to maintain its huge debt overhang.

Endorsing the "disruptive" effects of Proposition 13 in a recent Newsweek column, Friedman gloated "One down, 49 to go. . . . Of course, the reallocation of revenues to finance the most essential services will take some doing. . . . We are saying that we know it (Proposition 13) will severely disrupt state and city governments."

Among the "conservative" thinktanks drafting policy for Friedman's NTLC group is the Heritage Foundation, founded by Joseph Coors, but which has since been taken over by members of the British International Institute for Strategic Studies and the Mont Pelerin Society. The latter was formed by Friederich von Hayek, following on the initiative of Walter Lippmann to create a center for the revival of British 19th century liberalism.

Other "conservatives" connected to the Heritage Foundation include Robert Moss, head of the intelligence section of Evelyn de Rothschild's London-based weekly, *The Economist*; Herman Kahn, head of the Hudson Institute; and Roger Pearson, chairman of the World Anti-Communist League, which has been a deployment center for neo-Nazi terrorism worldwide.

#### ...More Liberals to Go

Friedman's "leftist" counterparts in the Libertarian movement and at the proterrorist Institute for Policy Studies (IPS) in Washington, D.C. have also joined the Tax Strike bandwagon. One of the earliest IPS agents to coopt tax strike layers was MIT linguist Noam Chomsky, who joined the board of the National Taxpayers Union while continuing to recruit the Libertarian Party members into British intelligence's Black Rose terrorist network.

Gar Alperovitz and others at Cambridge IPS have raised a hue and cry for a tax strike as the avenue for getting their corporatist "local control" projects implemented. "ACORN" and "Fair Share", two IPS-funded and staffed groups modeled on the 1960s Students for a Democratic Society's community-organizing projects have both picked up the tax strike issue. In Boston, these groups have joined with the Buckley family's leading "New Rightwinger", Richard Viguerie, to infiltrate the anti-busing movement and to coopt these networks into support for a tax strike.

In California, Sir Frank Layfield signaled the need to build the tax movement into a major issue through a policy study prepared for the California Center for the Study of Democratic Institutions (CSDI). CSDI was founded by top-level British agent Robert Hutchins during his tenure as head of the Fund for the Republic — itself a creation of the Ford Foundation. The Fund used CSDI as a testing center for the ideas that would later

dominate the New Left and zero population growth movements and lead to the founding of IPS. CSDI works in tandem with another key British think tank, the Aspen Institute, whose members, including Henry Kissinger and Robert McNamara, have set the parameters for California Governor Jerry Brown's environmentalist movement.

In his report, which has since been "classified" by CSDI, Layfield sold "tax reform" as a means to push austerity, arguing that taxpayers should only "pay for what they want." Layfield also called for consolidating California's school system under a single state agency, which passage of Proposition 13 would necessitate to maintain financing.

The realization of Layfield's prescription in last week's overwhelming majority vote for Proposition 13 in California indicates that the entire campaign may well have been concocted between Governor Brown and the CSDI circles.

#### *Playing a Losing Game*

California Republicans are not the only ones who have stupidly fallen into the tax strike trap, which threatens to take on the same overblown proportions as the Panama Canal issue in upcoming electoral campaigns. Republicans have placed two bills before Congress that their sponsors maintain will provide a "quick cure" for the nation's failure to re-capitalize industry.

Rep. Jack Kemp (R-N.Y.), who hopes to take Jacob Javits' Senate seat in 1980, is a leader of 118 House members who have endorsed the "Kemp-Roth proposal" to cut the highest income tax rate from 70 to 50 percent and to drop the lowest levels to 8 percent. Another part of the proposal would cut corporate income tax from 48 to 45 percent over three years. To attract the "silent majority", a provision has been included to raise the corporate surtax exemption from \$50,000 to \$100,000.

Kemp, who claims that his measures would restore America's "incentive to work, produce and invest" has organized the "Coalition for Economic Growth" both to campaign for tax relief and to build his Senate campaign.

The opportunism shown by Kemp, who has otherwise demonstrated a healthy understanding of the development programs needed to get the economy back in shape, is demonstrated by his recent claims that he has "reluctantly" concluded that President John F. Kennedy had "the best economic record of any Government in the past 26 years" because he carried out tax reform.

Another proposal, the "Steiger amendment," which calls for a reduction in the capital gains tax to pre-1969 levels is now before the House Ways and Means Committee. In a recent feature article, *Human Events*, a leading conservative weekly, played up the proposal as a new "bipartisan" front that could be opened against the Carter Administration. "What do Ronald Reagan, Sen. Frank Church (D-Idaho), Los Angeles' liberal black mayor Tom Bradley, the majority of U.S. Senators and the majority of lawmakers on the House Ways and Means Committee have in common? They're all supporting a measure by Rep. William Steiger...."

—Scott Thompson

# Miller, Blumenthal Set To Put NYC Through The Wringer

New York City continued its agonizing plunge toward social and political chaos last week, as the Senate Banking Committee finally began hearings on the proposed \$2 billion austerity-based federal loan guarantee package. By week's end, the city was still tottering on the edge of a manipulated bankruptcy, while the nation was treated to a display of "austerity" politics.

Sources in the banking community and Sen. William Proxmire's office report that a consensus now exists between Proxmire, Federal Reserve Chairman Miller,

Miller, Blumenthal, Proxmire, and Rohatyn favor a bankruptcy — provided they can find somebody to blame it on. The city unions, and the police union in particular, shape up as the likely candidates for "chief patsies."

## *Austerity Pact*

"We in New York know the meaning of the word austerity," Mayor Koch bragged at the first day's hearings of Proxmire's banking committee. Only the night before, he had concluded what one trade union official termed "the worst major trade union contract in recent history." The agreement, which has yet to be ratified by 250,000 union members, would give city workers a little more than 5 percent in wage increases over its two-year life.

"We have gotten our workers to take a real cut in their incomes," said Koch. Not good enough, said Proxmire. "Under normal conditions I might say that this is a good contract. But the city's situation is not normal . . . services must be cut more and workers will have to suffer. . . . That is the way things are. . . ."

Koch and Rohatyn have reportedly told Proxmire that they are prepared to implement what is termed a worst-case scenario for major budget cuts, regardless of whether they receive any federal aid. The plans — which have yet to be made fully public — call for more than 20,000 additional layoffs beyond the 20,000 specified in the so-called city four-year plan (the city has laid off more than 60,000 workers since 1975), drastic cutbacks in the municipal, hospital, and university systems, and school closings. Proxmire believes that the plans, which would devastate existing city services, will amount to a budget cut of more than \$1 billion. MAC's Rohatyn reportedly agrees.

"The City is already in effective receivership," Koch told the committee, "We tolerate it because, I as Mayor am willing to do what a receiver like the Emergency Financial Control Board (the city's austerity monitor — ed.) demands before it orders us to do it. . . . I fully agree with all budget cuts. . . ."

## *Useless Deal*

Proxmire, (who has been assigned the hatchet man role in New York's fiscal drama), peppered Koch, Blumenthal, Rohatyn and New York Governor Hugh Carey with a combination of questions and facts designed to cast aspersion on the proposed city loan guarantee package. This suits Rohatyn and Blumenthal fine — they are reportedly using Proxmire as a foil to gain commitments to purchase hundreds of millions in additional

## BUSINESS OUTLOOK

Treasury Secretary Blumenthal, London-linked merchant banking interests and their spokesman, Municipal Assistance Corporation chairman Felix Rohatyn, and the stupid leadership of the nation's commercial banks that New York City is to be made into "an example of fiscal responsibility."

The city is to be forced to undergo even more severe service cuts, layoffs, and so on, than outlined in Mayor Ed Koch's "austerity budget." New York's future is being compared openly to that of a Third World country placed under an International Monetary Fund dictatorship. Such sources fully expect riots and civil disturbances and are prepared, in the words of one Senate aide, to "crush all opposition with full force" — even if it means the use of National Guard troops.

Proxmire and others are already pointing to the so-called tax revolt as "evidence" of a "national mandate" for austerity in New York City. Whatever it takes, said a Senate aide, "New York will be forced to live within its means . . . so will everyone else. . . ."

While the threat of an immediate bankruptcy eased somewhat this week, our sources report that it is still very much a live option. Miller, Blumenthal, and Rohatyn can pull the plug on the outstanding \$14 billion in city, state, and MAC debt at almost any time — regardless of whether the Congress passes an aid program. This fact is being used to blackmail the banks into "going all the way" on the genocidal austerity drive.

But, as one Washington-based, London-linked reporter indicated, a bankruptcy is a political question which would "shake the country from top to bottom." Sources at leading think tanks involved in contingency planning for a city crisis, report that it is well known that a city bankruptcy would "nail the lid on President Carter's political coffin and likely drive him from office."

Despite their public protestations to the contrary, knowledgeable banking community insiders report that

MAC paper through the banks and the union pension funds. The Wisconsin Democrat is prepared to roast banking community representatives when they testify this week, sources report. Koch has also found Proxmire useful. Aides to the Mayor report that it was Proxmire's threat to cancel the hearings unless a contract agreement was reached that helped push union leaders behind the austerity pact.

Despite his previous statements that New York should receive no aid, Proxmire is reportedly going to support a renewal of the present seasonal loan package on a diminished scale. One source reports that this move might succeed in delaying passage of any aid package — thereby pushing the city closer to bankruptcy. It is widely acknowledged that if, after the current loan program expires, nothing is done by June 30, the city could stumble along until mid-July, and then go into bankruptcy.

More importantly, knowledgeable political sources regard all proposed "loan programs" as ultimately unworkable since they are hooked into an austerity program that will further destroy the city's tax and credit base. At best bankruptcy would be delayed. "What kind of recovery plan leaves the city looking like ground zero at Hiroshima," a corporate leader in the midwest stated.

Unfortunately, most corporate business and labor leaders are falling for the "let's cure New York by austerity" line — as they are falling for Miller's anti-inflation programs.

#### *Walking Into A Trap*

While Proxmire, Rohatyn, et al. conducted their farce in Washington, the police and fire unions started walking into Rohatyn's bankruptcy trap. Both unions immediately announced that they would not sign the "pattern wage" agreement. They then proceeded in effect to say "screw everybody else, give us our wages." Both unions are thus isolated, as Koch prepares to push them out on strike.

Both unions refused the purchase of MAC bonds to help the city get through the month of June; the other unions anted up their \$350 million the day after the contract was announced.

A spokesman for the Mayor's office announced that "Ed Koch is fully prepared to do what is necessary to make sure that the fire and police unions get not one cent more than anyone else. . . ." They are demanding roughly 30 percent in wage increases.

"The cops may finally pull the plug on the whole thing," said one banking source. "It would sure be a convenient excuse. . . ."

#### . . . Even If It Takes Tanks And National Guard In The Streets . . .

*An aide to a prominent Midwest Senator had the following to say about New York:*

. . . The key thing about the New York situation is austerity. Any way you cut it, the city is going to have to cut almost a billion dollars more than it says from its budget over the next two years or it won't be balanced. It's unpleasant, but that money is going to have to come from the hides of workers and city residents through service

cuts . . . it's going to be painful, but they should have realized this years ago when they were living high off the hog . . .

You are going to have to cut from everything, but the ghetto and poor are going to be hurt worse . . . they depend more on city services. There will no doubt be some riots. They will have to be crushed. There is no way around it, even if it takes tanks and national guard in the street, then so be it. New York is going to have to be made to live within its means. . . .

#### N.Y.C. Default Could Bring Down U.S.

*In light of current proposals for handling New York City's financial crisis, a Twentieth Century Fund expert on New York City portrayed that city's predicament as a perpetual crisis situation.*

*Q: Do you see the banks as having to absorb much more city paper or MAC bonds?*

*A: Definitely, although from the banks' standpoint it's not sensible to absorb more, but they'll just have to take in at least a couple of billion more.*

*Q: But that will put their holding of city paper in excess of their total equity capital, won't it, and make any default hit them very hard?*

*A: I know, but they have no choice.*

*Q: What about layoffs?*

*A: There will be layoffs, but they will be moderate — in the order of 20,000 or so (10 percent of the workforce — ed.)*

The budget deficit may not be as much as you say, and the hope is to get larger federal monies and state funds, and perhaps greater local revenues. It is doubtful whether this will happen, but Koch will try to avoid layoffs.

*Q: Given that the situation for some time will probably remain the same, with the city crisis capable of erupting any time and causing default; first, do you see bankruptcy as an increasing possibility, and secondly, do you see a bankruptcy as possibly being the straw that breaks the Administration's back and results in Carter's Waterloo, or Watergate?*

*A: You're right about default, that could indeed happen despite everyone's best intention, but I'm not sure it would bring down Carter. It would have tremendous international ramifications as to the confidence they would have in America and the White House, and it could indeed make Carter look very bad, and jeopardize the 1980 election, or even nomination, for him. It is possible that the Federal government will go out of control if New York goes down the tubes.*

#### Massive Layoffs A Must

*A source at the Russell Sage Foundation foresees massive layoffs and increasing debt absorption by New York banks:*

*Q: One person I recently spoke with indicated that he thought there will be only moderate layoffs, in the order of 20,000. What do you think?*

*A: There will have to be very heavy layoffs, I don't know exactly who or from what areas, but it has to be large. The budget is going to be completely out of whack with the wage settlements. Koch had projected that the budget would be \$1 billion in deficit by 1981, and that assumed no wage increases; more federal, state, and local revenues; and an expanding economy. We are sure to have a recession this year or next, federal and state money will not be forthcoming, and corporations are liable to start running from the city. In addition, the current budget is probably going to be a billion or a billion and a half out of kilter just on these wage settlements, and Koch hasn't even figured the police and firemen — that'll bring the total wage settlement to \$1.5 billion or so. The only way the city can get out of this is either by a*

debt forgiveness by creditors or a 25-year stretch-out — neither of which are going to happen.

*Q: How do you think Koch will deal with the police and fire unions?*

*A: Almost for sure he'll take a strike. Once he gets things squared away with the feds, whatever it is, he doesn't have to settle right away with anyone else. There may be a lot of chaos, but he can — and has to, to keep things intact with the other unions — stand firm.*

*Q: Do you think the banks will have to absorb city and MAC paper?*

*A: They will absorb at least \$2 billion, there's no way around this. Sure, it'll endanger their equity, but it has to be done, and they'll feel the heat. They can't let the city go down and they know it.*

## Is Schmidt Readying Gold Option For July Summit?

Chancellor Helmut Schmidt has now taken active charge of West German strategy for the July 6-7 economic conference of Western heads of state in Bonn. According to preliminarily confirmed reports in the daily *Frankfurter Allgemeine Zeitung* June 8, Schmidt has frozen out both central bank officials and finance

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### FOREIGN EXCHANGE

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ministry civil servants from monetary policymaking, and put together a private task force of trusted associates under his own guidance.

Both the *Frankfurter Allgemeine Zeitung* and other West German sources say that "reflation" is ruled out; a reserve role for the deutschmark to partially supplant the dollar is ruled out; and an expansion of West German-led joint-float currency "snake" is ruled out.

Schmidt's *positive* proposals remain to be specified. But two principal directions became clearer during the week of June 2-9. First, on trade: according to Economics Undersecretary Rohwedder, the Chancellor will press at the summit for the establishment of an international consultative forum for sustaining and expanding world trade, and urge that the Geneva talks on the General Trade and Tariff Agreement (GATT) must reach a prompt, growth-oriented conclusion.

Since Schmidt's multibillion-dollar 25-year trade and investment accord with the USSR gives the most concrete notion of what Schmidt means by "sustaining and expanding trade," this proposal seems to betoken a forward policy push beyond the complaints against European protectionist tendencies that have dominated West German statements. Rohwedder added in his June 2

speech that Schmidt had discussed the trade question with President Carter at the recent NATO meeting in Washington.

The second, still shadowy direction of positive initiative is currency policy. If Schmidt rules out the various London proposals for dollar demotion and the creation of anti-U.S. currency blocs, what does he suggest be done about dollar instability? It should be recalled that the Schmidt's talk with French President Valéry Giscard d'Estaing in April were reliably reported to include serious deliberation on the possibility of restoring some sort of gold backing for the dollar-reserve system. The *Frankfurter Allgemeine Zeitung's* June 8 report of the new Schmidt strategy explicitly refers to this option.

In the face of resistance to a restored role for gold from at least one group at the West German Bundesbank, the central bank, it was Schmidt who said at the time of his discussions with Giscard that his chief disappointment in the Nixon Administration was in its decision to sever gold from the dollar.

The gold question has resurfaced elsewhere. At a June 5 Conference Board gathering, former Federal Reserve foreign-exchange vice-president Charles Coombs, a veteran of the pre-August 1971 dollar blow-outs, proposed U.S. gold sales to the Swiss and West German central banks, a proposal originally made at the end of 1977 by Swiss central bank chief Fritz Leutwiler.

The "swaps" idea is regarded by both its advocates and opponents as a foot-in-the-door for remonetization of gold; it was rejected as such in so many words by Treasury Undersecretary C. Fred Bergsten at his June 5 press conference, when the West German press corps slyly baited him by raising the possibility.

Most significant is the recent public support for a gold-

pegged monetary system voiced by West Germany's senior financial statesman, Hermann Abs. Abs has not simply invoked the stabilizing power of gold, but laid out principles of a sound world credit system — amounting to an overall policy outline.

Whether the gold angle develops as a defensive European-centered move or part of a global growth policy along the lines of the late Jürgen Ponto's plan depends on the United States.

Scanning the public statements coming from West Germany, one would get little sense of this potential for a new, healthy credit arrangement. Schmidt himself threw out a smokescreen of sorts in a June 6 interview with the *DPA* press agency, murmuring about "better equilibrium in international energy flows" and European currency coordination as among his principal points for the Bonn summit, while refusing West German reflation once more. These are points which, on the face of it, cohere with the British government's agenda for the meeting, where, to use the West German veto on reflation as another harbinger of dollar collapse.

But a *Financial Times* editorial June 7 complains in effect that Schmidt himself is playing this game — that he knows Carter will not accept the summit orders to impose an oil import tax, and he knows Callaghan won't accept West German conditions for European monetary "coordination." London planners are manifestly worried about Schmidt's breaking out of profile on the energy-tightening, fiscal and monetary hold-the-line formulas he has stuck to this far.

Meanwhile, the head of the national federation of Chambers of Commerce, Otto Wolff von Amerongen, warned June 7 against those who intend to turn the Bonn summit discussion into a *Wunderwaffe* — a miracle weapon. Amerongen is making a scathing reference to the British mentality which attempts to introduce the same "utopian" ideology behind confrontationist military strategy into military policy formation.

The West German press has begun to get in a few malicious licks at the spectacle of the British government madly tightening credit, raising taxes and trying to deflate its money supply. As the June 9 *Die Welt* pointed out for the naive and forgetful, it is the same British government which has been pressing for "convoy" self-stimulation of advanced sector nations under the "concerted reflation action program" (CRAP) rubric.

Now Britain's summit options are narrowed: Prime Minister Callaghan can, of course, point to these new measures as evidence of Britain's responsible coordination of economic policy and thus the ripeness of the time for European monetary union, and other "coordination."

#### *Bundesbank Into Line*

There are also indications, beyond the *Frankfurter Allgemeine Zeitung* report that Schmidt is exerting a proper influence on the Bundesbank. Its president,

Otmar Emminger, has made a number of recent statements tending to weaken the dollar and bolster anti-dollar policy formulas, as when he proposed in a June 5 speech that the deutschemark serve as a reserve currency in a "European zone of monetary stability," backing up a greater use of the European Community's clearing-unit of account. Such a move "might eventually lead to a parallel currency," he said — parallel, that is, to a shrunken dollar.

Coupled with his endorsement of expanded intra-EEC credits to promote "stabilization," Emminger's speech reproduced every plank in Denis Healey's coffin for European-American relations, the "mini-International Monetary Fund" outlined by the Chancellor of the Exchequer last month.

The Bundesbank further issued a recommendation in its latest monthly report that West Germany accept a permanent reduction in its exports and devolve from an industrial power into a "service"-geared economy!

Feet were put down, and the bundesbank's supervisory committee ruled June 5 that the Deutsche Genossenschaftsbank would not be allowed to raise funds in the U.S. markets through a planned issue, managed by Wall Street's Salomon Brothers, of deutschemark-dominated certificates of deposit — because, said the committee, this would foster international holdings of mark reserves. Sources in the Bonn economic ministry simultaneously relayed Schmidt's indignation at the Bundesbank "post-industrial" report.

A further instance of deck-clearing for a growth policy has been a series of unusually frank attacks — from von Amerongen June 8 and Rohwedder a week earlier — on West German steel producers who are more or less covertly cooperating with Viscount Etienne Davignon's plan for Western European steel contraction via production quotas, "capacity rationalization," etc.

The markets have been twitching in suspense, meanwhile. Swiss authorities were expected to intensify exchange controls June 6, and when they didn't the dollar dropped somewhat to 2.08 marks. Rumors (spurred by Bergsten's public insistence on joint European reflation) that Bonn had agreed to stimulate the West German economy pushed it up again; dissipation of the rumors brought it back down.

More interesting than any market development was the report from sources in both Washington and Frankfurt that West German business leaders have finally decided that U.S. Federal Reserve chairman G.W. Miller is their enemy and the enemy of every upholder of national interests. Why this judgement was reached so long after this journal supplied many of them with Miller's dossier and intentions, yet before his June 7 announcement of the latter, is not quite clear. But, it probably reflects, and will further encourage financial and industrial opposition to the chairman in the U.S. itself.

—Susan Johnson



# France's Antidirigist 'Revolution'

*Sacrificing international development for a stock market spree*

Under the leadership of Prime Minister Raymond Barre and Economics Minister René Monory, France's government has embarked on an anti-dirigist economic "revolution" which threatens to sacrifice France's

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## INTERNATIONAL FINANCE

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leading role as a proponent of capital-intensive international development policies for the sake of a short-term run-up in industrial profits and a Wall Street-modeled stock market boom.

The major features of the program Barre has released piecemeal to the public over the past few months aim at the heart of the system of centralized industrial planning founded by Charles de Gaulle. It includes a rapid phase-out of the price-control mechanism in existence since 1945, sharp reductions in spending by public-sector industry, and drastic curtailments in state aid to ailing private industry. The government will, in the eloquent words of the French press, "let the lame ducks die."

Besides decontrol, the government threw in another sweetener for private industry this week by proposing to create several new tax incentives for investors in corporate shares. For example, an individual would be able to invest up to 5,000 francs in equities without being subject to taxes. Barre and Monory hope to channel 5 to 6 billion francs in additional liquidity into the Paris Bourse through such measures, ostensibly to allow industry to raise more capital needed for new investment.

In reality, the "liberalization" measures will at best extend the French stock market recovery (which began immediately after the center-right electoral victory last March). Public utility rate hikes and price decontrol are expected to set off raging inflation—with consumer prices rising as much as 15 percent this year. In April, even before the first phase of decontrol went into effect, retail prices shot up by 1.1 percent. Like the Carter Administration, the French government has set itself up for a brief stock-market "bubble," which will turn into a panic as inflation accelerates, as the French franc crumbles on international currency markets, and as wage austerity provokes ugly confrontations with labor unions.

### *"Cheap" in 1968*

The British merchant banks are already rubbing their hands with glee. The May 31 meeting of the New York Association of Foreign Analysts featured a French stock broker, Jacques Sigalla, who attempted to pitch the assembled New York investment bank and brokerage firm analysts on the great new opportunities awaiting them in the French stock market. Significantly, Sigalla

was introduced to the gathering by Francis Finlay, a representative of London's Lazard Frères, and a former colleague of Sigalla's at the Paris-based Euro-Finance think tank. Following Sigalla's talk, questions centered around the possibility of another collapse of the franc or even the recurrence of a social upheaval like that of May 1968. "Oh, we bought into France cheap in 1968!" Finlay chuckled.

Barre's flagrant disregard for the maintenance of working-class living standards—under the guise of a proindustrial policy—could set in motion such a destabilization. Despite high inflation and rising unemployment due to the phase-out of industrial "lame ducks," Barre intends to strictly limit wage increases for all but the lowest-paid workers. Middle- and working-class households will also suffer as a result of elimination of tax breaks for homeowners.

A dramatic example of the new *laissez-faire* approach came at the end of May when a major textile firm, Boussac, was forced into bankruptcy court following the refusal of government aid. The Boussac management, which had run up a \$100 million debt, attempted to salvage itself through a plan which would cut 1,400 jobs, sell off many nontextile assets, and close several textile installations in return for \$40 million in state aid. Even this plan was rejected by the government as not austere enough.

Meanwhile, the high growth- and investment-oriented public sector industry—de Gaulle's legacy—is to be deemphasized in favor of "free enterprise." Public firms will be allowed to borrow only 15 billion francs abroad this year compared to 22 billion negotiated in 1977. Yet the French electrical concern, Electricité de France (EDF), alone borrowed 7.7 billion francs last year, which only covered half of its financial needs. At the same time, the nationalized banking system—and particularly Crédit Agricole, Europe's largest single bank—have come under increasing attack from the private banking sector for their alleged unfair bank competition. The Barre administration has prevented Crédit Agricole, from investing 1 billion francs in additional liquidity available to the bank in loans to needy French farmers. Rumors abound of a sweeping "reform" of the banking system which will greatly reduce the power of the public banks.

French policymakers have apparently learned nothing since Adam Smith peddled the "free market" mythology of *Wealth of Nations* to credulous French intellectuals in the 1770s. Monory recently proclaimed, "I shall spread the gospel of liberty and competition. The more you assist the economy, the more you progressively destroy imagination, pugnacity and creativity, and less less competitive you ultimately become."

Barre has stressed that there "are no condemned sectors. But we must recognize that there are methods of

production calling for a large, low-paid workforce which are no longer appropriate to this country. You cannot pretend that the future of France depends on the number of ships we sell at a loss or the volume of steel we make and cannot sell."

Perhaps. Yet the creation of those high-technology, high-paid jobs of the future depends on the creation of

new markets in the East bloc and developing economies, markets which can only be created through centrally directed state-to-state deals. President Valéry Giscard d'Estaing understands this but has allowed his domestic economic policy to be governed by short-term "pragmatic" considerations which could ultimately prove his undoing.

## Future Growth Is Dependent On Rewards For Risk-Taking Venture Capital

Increased research and development is needed on a large scale if the United States is to continue its traditional industrial world leadership with adequate export sales and a high standard of living for its workers.

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### GUEST COLUMN

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Several built-in factors of the U.S. economy as it is today work against this. These factors need to be changed, so that the U.S. will again become a healthy forward moving economy. The needed changes are:

1. Reward venture capital risk takers by lowering the capital gains tax. The current high capital gains tax which makes no allowance for fictitious capital gains based on inflated prices has the effect of freezing people into what they have previously invested in. To sell the old investment is to be subject to a confiscation of capital. As a consequence, there is an inertia to investment change which results in much needed research and development not being financed.
2. Research and Development rarely is profitable in less than half a dozen years. This is especially so for advanced technology

As a consequence the U.S. Internal Revenue Service and Securities and Exchange Commission requirements for companies' expense in Research and Development costs mean that even the Research and Development that later becomes profitable does so after carry forward losses cannot be balanced against current profits. This does not bother the industrial giants which are able to reduce their current taxes by funding Research and Development from part of their other earnings. Most real research is done by small entrepreneurial companies. The industrial giants are

not strong in research but in development, production, and marketing.

Venture capital is now unwilling to finance the small Research and Development company, for it sees its capital being confiscated by current accounting and taxation processes. What happens is that the "start up" Research and Development company must usually pay all of its costs while the industrial giants pay only about half of their Research and Development costs. This needs to be changed.

3. Further, the industrial giants with a resident vice-president in Washington — who is an expert on bureaucratic paper work and is friendly with all the officials who process government research grants — get nearly all the government funded research. The industrial giants have less talent for the research than do the imaginative and dedicated entrepreneurs who rarely receive any consideration for grants. Yes, many college professors do, but they usually have an assured professional income, spare time and a university laboratory. The technological entrepreneur is usually short of money, time and much else. This too needs to be changed.

In summary, it is the Benjamin Franklins, the Thomas A. Edisons, the Nickolai Teslas and Edwin H. Lands who produce the new technologies, not the giant industrial companies. The U.S., by having a taxation and accounting system such as it now has, is retarding its own forward progress. As a consequence, U.S. workers are destined to have smaller real incomes and longer unemployment than would be true if these discouragements to venture capital investment in small advanced technological companies were changed. Why have the U.S. wilt on the vine? Let's change it.

—Wm. Cornelius Hall  
President, Chemtree Corp.

# Will America Take Up The Fusion Challenge?

*The Soviets and Japanese are pushing the U.S. to say yes*

As of this writing, momentous proposals for the development of fusion energy are reportedly under consideration at the highest levels of the Carter Administration. What has prompted the Administration to reevaluate its consistent policy of slighting this most advanced form of nuclear energy is a series of public offers from the Soviet Union and Japan to collaborate on bringing fusion "on line" as quickly as possible.

This is the "energy core" of the international Grand Design pattern of development deals and proposals. It is clearly intended to create a political climate in which the vacillating Carter Administration will be forced to dump its "less is more" antinuclear wing, most particularly Energy Secretary James Schlesinger, and put U.S. resources fully behind the international fusion effort.

The Soviet and Japanese offers came one after the other over the past month.

On May 3, Japanese Prime Minister Takeo Fukuda announced before the Foreign Policy Association and Japan Society in New York City that he had proposed to President Carter a joint fusion energy development fund of up to \$1 billion.

Fukuda's announcement occurred just three days prior to the signing of the momentous Soviet-West German agreement for industrial and technological cooperation over a 25-year period. It is no coincidence that in mid-May Mexican President Jose Lopez Portillo was in the Soviet Union, completing economic and scientific accords focused on transfer of Soviet oil and nuclear technology to Mexico. Portillo's visit to the Kurchatov Institute, site of advanced fission and fusion research facilities, underscores his country's commitment to world peace founded on international scientific and technological collaboration geared to industrial development.

Finally on May 31, the Soviets culminated a long series of proposals to the United States with the most open and far reaching one yet. On that day *Pravda* printed a full page proposal "On Practical Ways to Stop the Arms Race," the Soviets' official policy proposal to the United Nations disarmament talks. It said in part, "The Soviet Union is ready to cooperate on a constructive basis with other states in research on new sources and forms of energy. We declared only recently our readiness to participate, together with the United States, the European countries, Japan and other countries, on an international project on the 'tokamak' thermonuclear (fusion) reactor."

## *The State of the Art*

Fundamental research breakthroughs in recent years have forced the construction of a prototype test reactor, the next step prior to a commercial reactor, onto the agenda. The implications of this turn of events are world historical. For the first time in history, we are on the threshold of an era of energy abundance on a world scale.

But Schlesinger is calling for moving back fusion research into the next century. His program of cuts to the already under-funded U.S. fusion budget will mean that America will lose out on what the Soviets and the Japanese are proposing now.

Controlled thermonuclear fusion is the process by which the conditions in the interior of the sun are replicated in miniature on earth in order to generate energy. The fusion of hydrogen atoms to create helium, which occurs in the sun's core and has been achieved under controlled conditions on a laboratory scale as well as in the hydrogen bomb, releases tremendous amounts of energy. It has, in fact, been estimated that the supply of deuterium (heavy hydrogen, the primary fuel for first generation fusion reactors) available on the planet is sufficient to supply the world population with energy at current North American consumption levels for from 1 to 10 billion years.

Of greater importance even than the sheer quantity of energy that will become available in a fusion-based economy is the implications of the quality of that energy. The temperature of the solar core, 50 to 100 million degrees centigrade, provides unique and now unavailable energy sources for large-scale materials transformations, both in primary material extraction and in recycling. A device known as the fusion torch could carry out this processing by heating raw materials in a fusion plasma (the extremely hot gas which makes the fusion reaction possible) to temperatures where the individual atoms are ionized (that is, stripped of their electrons). Different elements can then be separated by electric and magnetic forces.

Bulk delivery of high-energy radiation, such as x-rays and gamma radiation, now available only in relatively small quantities from fission reactors, will facilitate photochemical processing, thus transforming large sections of the chemicals industries.

At this still early stage, prior to the development of a fusion-based economy, only a few of the revolutionary technological, industrial, and social implications of

fusion can be envisioned. We can be sure, though, that the rapid development of this technology, with the concomitant boosting of living standards and skill levels in the population as a whole, cannot but be a boon to all men.

#### *Recent Breakthroughs*

Among the breakthroughs that have made it feasible to begin design of a test reactor is that announced at the Fusion Energy Foundation's January 24 Conference on Middle East Peace and Economic Development in New York City by Dr. Stephen O. Dean, Assistant Director for Confinement Systems of the U.S. Energy Department's Division of Magnetic Fusion Energy. Dr. Dean told the conference that the Princeton Large Torus (PLT) had reached the highest temperature ever achieved in experimental work using a neutral beam heating device. The PLT, like other magnetic confinement fusion devices, uses the principle of magnetic fields acting on the hot, ionized plasma to confine it while the fusion reaction takes place. Plasma temperatures are too high for any material container to hold them. The development of this heating method has facilitated the design of more compact, more economical-to-operate reactors than had previously been thought possible.

The PLT is a prelude to a much larger device now under construction at Princeton, the Tokamak Fusion Test Reactor, which will be completed in 1981. This larger device, using the same principle as the PLT, is expected to produce as much energy through fusion as it consumes in achieving the right conditions, a regime researchers call "energy breakeven." Once this criterion is attained, the next step will be to scale up and modify the design to maximize net energy production. Then, commercial feasibility is in sight.

Soviet fusion researcher Academician B. Kadomtsev recently announced that the Tokamak-7 successfully completed its first test in Moscow last April. This device uses powerful superconducting magnets, rather than the conventional magnets of earlier designs. As a result the Tokamak-7 can be run continuously. Its predecessor, the Tokamak-10, could only run for periods less than a second; otherwise the magnetic coils would melt. Furthermore, the Tokamak-7's superconducting magnets require thousands of times less energy than conventional ones.

In addition to these examples of advances in magnetic confinement fusion research, the consensus of the American Physical Society's annual meeting of the Plasma Physics Division last November 7-11 is that laser and electron beam fusion research are making similar progress. In these two research areas, a small pellet of fuel is bombarded with energy, either in the form of coherent light from a laser or as high energy electrons. The pellets implode, creating high temperature and pressure regimes in which fusion is possible. The technical problem is to design systems in which the period of pellet "burning" is maximized, so that the greatest amount of energy can be produced. Experiments in both the U.S. and the Soviet Union have confirmed earlier theoretical predictions; indicating that fuel pellets can now be designed which have a high enough energy gain that existing low-efficiency lasers

can be used not only for breakeven experiments, but even for commercial power plants based on laser fusion designs. These new conceptions will be tested on the world's largest laser fusion device, Shiva at the Lawrence Livermore Laboratory, which began operation in May.

Among other recent achievements:

\*Three additional tokamak experiments will come on line within the next few months — the Poloidal Divertor at Princeton, the Doublet III at General Atomic, and the Alcator C at the Massachusetts Institute of Technology. These experiments will conclusively prove the feasibility of tokamak power plants.

\*There are strong indications from a number of experiments that so-called classical confinement of plasmas is being achieved. This means that plasmas can now be created to order, rather simply, instead of being subject to the unpredictability associated with the instabilities found in earlier work.

\*Impurity control, necessary due to the migration of elements other than hydrogen into the plasma, is rapidly approaching the level of definitive tests.

\*Theoretical work is progressing well in the area of plasma betas ("beta" is the ratio of the plasma gas pressure to the pressure exerted by the magnetic field). Power reactors need betas of at least 4 percent, although 10 percent would be required for really economical units. Present test reactors have betas of less than 1 percent.

As these achievements indicate, the time is definitely ripe to move on to the design and construction of precommercial test facilities, if we are to achieve commercial fusion power in the last decade of this century.

## The Soviet Offers

*The latest Soviet offer of cooperation in the pages of Pravda has a long history, punctuated by attempts by Schlesinger and the British to halt any collaboration between the two countries.*

#### *The Rudakov Affair*

Under a U.S.-Soviet protocol signed in 1973, several hundred Soviet and American fusion scientists exchange visits each year. During the week of July 4, 1976, one such Soviet scientist, Leonid Rudakov, head of the Soviet electron beam fusion research effort, visited several major U.S. laboratories involved in fusion research. On these visits, Rudakov detailed recent Soviet breakthroughs in the area of electron beam fusion. He also proposed that these new Soviet results be connected with the U.S. capability to rapidly fabricate electron beam sources to build, with Manhattan Project-style "brute force" methods, an electron fusion prototype plant by 1981.

The reaction of the U.S. energy bureaucracy was a panicked attempt to keep the whole affair secret. The information that Rudakov revealed might, they argued, be used for construction of atomic weapons by "nonweapons states"!

Under a little-known 1958 treaty between the U.S. and Britain, the British have access to top-level U.S. research, and can unilaterally force the imposition of

security classification, ostensibly to prevent the undermining of Britain's nuclear capability by the proliferation of "secrets" — particularly in the form of collaboration with the Soviets. U.S. Defense Secretary Harold Brown admitted the effects of this arrangement when he was asked by a NATO official why the Rudakov results had been classified, why the Soviet scientist's offer of collaboration had been turned down. Brown's reply was, "Because our British allies won't let us."

#### *The Velikov Offer*

In July 1977, another high-ranking Soviet fusion scientist, E. P. Velikhov, a vice-president of the Soviet Academy, visited the Los Alamos Scientific Laboratory. He made a proposal quite similar to Rudakov's in an area of fusion research which the Soviets have pioneered — imploding liners. The Soviet Union was at the time (and still is) several years ahead of the U.S. in this very promising line of research. Just prior to Velikhov's arrival, final notice had been given to Los Alamos concerning a funding cut off for another one of their experiments.

Why not couple the considerably advanced Soviet experimental and theoretical program in liners with the power source from the discontinued U.S. Linus experiment? Velikhov proposed. By the fall of 1977, a five-man U.S. delegation was visiting the Soviet Union to set up details for collaborative experiment, and proposals for U.S. funding had been submitted to the Department of Energy.

Late in 1977, the policy ruling came down from the Energy Department. The liner experiment would not be funded. This meant that the only way the experiment could continue would be through a large Soviet input.

#### *The Basov Visit*

The Soviets then escalated their push for collaboration by sending Nobel laureate Nikolai Basov, head of the Soviet fusion effort, to the U.S. in November 1977 with an unofficial plea for expanded U.S.-Soviet collaboration in laser fusion. Basov made a point of documenting his offer with two pieces of scientific information. First, the Soviets had achieved a new milestone — beyond energy breakeven — in their laser program. Second, they had done so on the basis of the results Rudakov had announced a year and a half earlier.

Schlesinger's official response to the Basov offer, during a press conference a number of weeks after it was made, was: "No, a flat no." The Energy Secretary then claimed that laser fusion is classified in the U.S.

#### *The Recent Soviet Initiatives*

Subsequently, in March Velikhov made a further private proposal to U.S. fusion research officials to develop a commercial fusion reactor jointly with the United States. He made this proposal formal in late May at the U.S.-USSR Joint Fusion Power Coordinating Committee in Moscow. The proposal calls for the United States and the Soviet Union to make major contributions to such a project, but that it must be officially conducted under the auspices of the United Nations International Atomic Energy Agency.

It is in the context of the above proposals and of the considered opinion of experts in the field that a major

push for commercial fusion development is now necessary that the *Pravda* article appeared.

### The U.S. Program: Progress or Perish?

The humanist intent of both the Soviet and Japanese proposals was summed up by Prime Minister Fukuda's remarks when he announced the Japanese offer:

"Science can provide impetus to new productive activities, and serve as a prime mover in the future expansion of the world economy, or can waste our resources and threaten our survival. Exactly because of this dual character of science and technology, I believe it is the duty of Japan, a nation dedicated to peace to participate vigorously in cooperative international efforts to utilize science and technology solely for improving the standard of living of the world's peoples."

Japanese Foreign Minister Sunao Sonoda announced in a press conference May 30 that the Fukuda proposal is under discussion at the cabinet level in the White House. And Undersecretary in the Energy Department John F. O'Leary announced May 17 that his staff was preparing responses to both the Soviet and Japanese offers. To date, however, there has been no U.S. response to either.

At the same time, both O'Leary and Schlesinger have been pushing for a transfer of Energy Department funds out of the fusion effort and into the solar energy boondoggle. This sabotage has been at least temporarily turned back through the efforts of the Fusion Energy Foundation, the U.S. Labor Party, and a spectrum of progrowth industrialists, scientists, and working people, as well as through the effect of the Japanese and Soviet proposals.

Earlier Schlesinger gave official Department support to the May 2 Sun Day celebration of technological regression and deindustrialization, and urged Congress to do the same. In addition, O'Leary's oft-expressed opinion is that nuclear energy in general is "fading from the horizon." He was recently heard to say in a press conference that he did not know if researchers could even use a \$1 billion fusion research budget. Furthermore, he has proposed wildly incompetent "cost-effectiveness" criteria as the basis for making fusion research funding decisions. On that basis, any large scale prototype reactor would a priori be ruled out as too expensive, since its immediate (as opposed to long-term) "economic return" would be "too small." Now, with both Japan and the Soviets offering to help foot the bill, whatever credibility this argument may have had for the misguided has been swept away.

Researchers have repeatedly expressed the conviction that the achievement of commercial fusion could be dramatically accelerated if greater funding were available. For example, the as yet unreleased report of the ad hoc experts group on fusion, the so-called Foster Committee, assessing the current U.S. fusion program has recommended a full-speed-ahead approach. The committee recommended an expansion in the number of reactor designs under investigation, as well as the continuation of existing programs. There are some indications in the May 25 issue of *Nucleonics Week*, however, that the committee has compromised its program in light of Administration efforts to gut the fusion budget.

Outrageously, the proposed Fiscal Year 1979 budget will, by the Energy Department's own estimates, postpone the commercial development of fusion indefinitely if it is pursued at the pace determined by the present level of funding. Compounding the cutbacks in this budget, O'Leary has requested from John Deutsch, Energy Department Research Director, an assessment of the effect of a cut of \$50 million to \$100 million in the magnetic confinement fusion budget for FY-1980 from the present level of \$334 million. Informed sources indicate that such a cutback would not be well received in Congress; both House and Senate committees have been adding sums to fusion research above Administration requests in the FY-1979 budget.

While Schlesingerians hack at the U.S. fusion funding, the Japanese and Soviets have been moving ahead. Prior to Fukuda's offer of a collaborative program, the Japanese government has been committing funds to fusion research at such a rate that they will surpass U.S. funding levels within two years. Their timetable is geared to producing a commercial demonstration plant in 1995.

Best estimates of the Soviet program indicate that they plan to have an experimental power reactor in the 1980s,

followed by a commercial demonstration plant some time in the 1990s.

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The Bonn-Moscow accord is part of a global shift both politically and economically, which could be the basis for an unprecedented period of growth for the whole world, including the rapid industrialization of the underdeveloped sector. The resulting potential for multilateral economic cooperation could provide the firm basis for world peace. Similarly, the opportunities opening up for fundamental scientific and technological cooperation among nations can accelerate the rates of economic development that can be achieved. In fact, rapid industrial growth, which necessarily depletes existing energy resources, must have the benefits offered by the early implementation of large-scale fusion power.

In sum, America has been made an offer it cannot — in the national or in the world's interest — refuse.

—John Schoonover

# OPEC Comes Of Age

*The oil cartel's global role in development and detente*

The Organization of Petroleum Exporting Countries' role in international politics has changed dramatically since 1973, when it decided to increase the price of oil fourfold. Powered by a massive inflow of petrodollars, the 13 OPEC nations have taken centerstage in world politics, with each of OPEC's semiannual pricesetting meetings receiving worldwide attention, given the recognized impact of even a small oil price rise on the troubled world economy.

OPEC's international influence cannot be explained with the 1973-vintage profile of the greedy, confrontationist "oil sheiks," however, even though that staple of the hack news analyst continues to dominate the U.S. media. OPEC has emerged as one of the most important allies of Western industry, and a key political defender of the beleaguered U.S. dollar.

Moreover, its member states are looking beyond today's oil revenues to lead the way for collaboration between industrial and Third World nations in providing advanced new energy sources — most especially, nuclear power. This development perspective points to the important role the OPEC nations have to play in the gathering political battle for global East-West detente.

## *The Essential Alliance*

At the core of the transformation of OPEC that has occurred since 1973 is the moderate alliance between Saudi Arabia, the cartel's largest producer, and Iran, whose output of crude is topped only by Saudi Arabia's. This alliance was formalized at the December 1977 ministerial meeting of the cartel, when for the first time Iran broke with its customary endorsement of yearly automatic oil price rises in favor of the Saudi position for a price freeze throughout 1978. Together the two countries make up a formidable moderating force within the cartel; their combined oil production constitutes nearly half of OPEC's roughly averaged 30 million barrels a day.

Underlying the current activities of both the Saudi royal family and the Shah of Iran are a number of political decisions, made in collaboration with leading industrial and political leaders of the advanced nations, to enact policies designed to rescue the world economy from its current crisis. Both the Saudis and the Iranians have countermanded any "radical" decisions on the part of OPEC that would hinder the world economy; such as a price rise or the replacement of the dollar with a basket of currencies as the basic oil pricing mechanism.

In real economic terms, the total price increase per barrel of oil since 1973's fourfold hike has not matched the net losses the OPEC nations have incurred in oil re-

ceipts due to the dramatic decline in the value of the dollar. As a result, several oil-producing nations that have adopted ambitious development programs since 1973 now find themselves requiring yet more oil revenues to meet their growing domestic needs. Particularly since the beginning of 1978, a number of producing nations have rallied around a short-term position of attempting to recoup losses from dollar-denominated oil receipts, through either a price increase, or dumping the dollar in favor of a basket of currencies linked to the International Monetary Fund's Special Drawing Rights "funny-money," or both. The problem for these countries has been compounded by the current oversupply of crude oil on the world markets, which has forced down the price of oil particularly of the light crude variety.

Saudi Arabia and Iran's efforts to hold the line is made more difficult by the fact that the antidollar tendency is backed by the faction in the world financial community, led by an oligarchy of merchant banks in the City of London, which is out to destroy the United States' global economic power. Since 1971, when President Nixon took the dollar off of the gold standard, City of London circles

	First 11 months of			
	Nov. 1977	1977	1976	% Change
Venezuela	2,069	2,259	2,281	-1.0
Algeria(1)	1,100	1,112	1,039	7.0
Libya	2,077	2,057	1,905	8.0
Nigeria	1,917	2,121	2,037	4.1
Iran	6,086	5,596	5,814	-3.7
Iraq(1)	2,400	2,198	2,081	5.6
Kuwait	1,700	1,685	1,815	-7.2
Saudi Arabia(2)	8,750	8,993	8,297	8.4
United Arab Emirates	1,944	2,013	1,934	4.1
Other Middle East(3)	1,481	1,445	1,622	-10.9
Indonesia	1,707	1,684	1,498	12.4
Total OPEC	30,994	30,914	30,040	2.9

(1) Includes estimates  
(2) 1977 figures estimated  
(3) Includes Neutral Zone

Source: *Platt's Oilgram News*, Jan. 18, 1978.

have been prodding OPEC to adopt the Special Drawing Right plan — a plan in fact authored in London. In recent months both Riyadh and Tehran have demonstrated much more responsibility toward the dollar than have either U.S. Treasury Secretary Blumenthal or Federal Reserve Chairman Miller, both of them players in the City of London's antidollar game.

#### *Why Support the Dollar?*

In the short term the OPEC nations, especially those with sizeable oil incomes, such as Iran and Saudi Arabia, cannot afford to break with the dollar.

Saudi Arabia has an estimated \$70 billion invested in Western institutions, much of it in the U.S., and the Saudis are increasing such investments at a current rate of \$1 billion a month. Similarly, outside of their large investments in banks and government paper both Iran, and Saudi Arabia have major investments in Western industry.

A move by OPEC to adopt an alternative to the dollar would be certain to trigger an international run on the U.S. currency, and thereby devalue the holdings of all the OPEC nations. A similar reaction could be triggered by a drastic price rise in crude. The resulting profound damage to the world economy would have even more disastrous effects on the long-term development possibilities for the OPEC (or any other) nations.

Both the Saudis and the Iranians have therefore undertaken diplomatic efforts to coordinate their strategies on both the dollar and the pricing question to forestall such a catastrophe, while simultaneously working closely with industrial forces in both the East and the West to restore the dollar to international health through expanded economic growth.

The continued improvement in relations between Iran and Saudi Arabia, the two big powers of the Persian Gulf, is a keystone on which the continued moderation of

OPEC and the future economic stability of the world decisively depend. Without this alliance doomsday scenarios such as that promoted by the bestseller *The Crash of '79* could very easily become reality. According to well-placed sources, that novel, authored by former Swiss banker Paul Erdman, was in fact written with the advice of a number of U.S.-based think tanks on the probable form of an international monetary collapse would take. Its story of all-out war between Saudi Arabia and Iran reflects the dreams of powerful forces on both sides of the Atlantic that want to destroy the Saudi-Iranian leadership of OPEC and what it represents for the future of international policy.

## OPEC And Global Detente

The summit meeting between Soviet president Leonid Brezhnev and West German Chancellor Helmut Schmidt in May is now clearly defined as part of international motion for a new era of detente and development. Key OPEC nations are beginning to play a major role in that effort.

European sources have revealed that during the Schmidt-Brezhnev summit the question of joint Soviet-West German investment in certain Persian Gulf oil-producing nations was discussed. The same topic was reportedly raised weeks before during a meeting between West German industrialists and Czechoslovakian Communist Party chief Husak. The oil-producing states have much to gain in terms of regional development if detente is accepted as the basis of foreign policy in Washington and throughout Europe and Japan. Their immense wealth, moreover, can be put to use in expediting the process of global economic recovery, through a commitment to the development of the least developed countries (the LDCs).

#### *Western Europe*

This is the perspective informing the plans for Saudi Crown Prince Fahd's June 20 visit to Bonn for talks with Chancellor Schmidt, in which Fahd will discuss with Schmidt the prospects for investing in the African nations. Then on June 26, Schmidt will make a tour of a number of African nations, beginning with Nigeria. According to a report in the Paris newspaper *Le Monde* last month, the Saudis proposed funding of a major development program for Africa's Sahel region through the African Development Bank.

In his April 19 address to the fourth session of the Arab Bank For Development in Africa, Crown Prince Fahd stressed that the meeting of the leading western industrialized nations in Bonn next July must arrive at "radical solutions to the principal problems facing the world." Significantly, he strongly argued that development for the LDCs was a priority for the advanced nations, declaring, "We also expect from them (the industrial nations) a real understanding of the fact that the problems of economic growth facing the industrialized countries have structural links with the economic growth problems facing the developing countries, regardless of

**U.S. Imports From OPEC**  
(includes estimated indirect imports)

	Jan.-July, 1977		Jan.-July, 1976	
	Imports*	% U.S. imports	Imports*	% U.S. imports
Saudi Arabia	1,609	17.8	1,283	18.7
Nigeria	1,328	14.7	1,038	15.1
Venezuela	932	10.3	846	12.3
Iran	868	9.6	588	8.1
Libya	856	9.5	479	7.0
Indonesia	655	7.3	554	8.1
Algeria	535	5.9	429	6.3
Total OPEC	7,602	84.3	5,613	81.9
Total Imports	9,020	100.0	6,857	100.0

\*in thousands of barrels per day.

Source: *Platt's Oilgram News*, March 7, 1978.



their conditions. Thus, it is necessary to take these into consideration when the expected reform plans are drawn up."

Iran, with much less surplus revenues than Saudi Arabia, is nonetheless offering the industrialized states a wide open field in terms of future investments in its quickly developing economy. At the beginning of this month, Iranian Finance Minister Yegeneh announced that his country would launch a \$600 billion development plan over the next 10 years to create an industrial infrastructure that will replace Iran's limited crude oil reserves upon which between 60 to 70 percent of the Iranian economy is still dependent.

"We have relations with both East and West. We are a loyal member of the United Nations. We also support detente. But you cannot have detente in one part of the world while another part of the world is subjected to disorder. Detente must be universal, otherwise it would be meaningless."

— The Shah of Iran to West German President Scheel during the latter's recent visit to Tehran.

In turn, the Shah of Iran has offered to invest in certain Western industries to aid them in expanding to meet the challenge of industrializing the LDCs. During Italian Foreign Minister Forlani and West German President Walter Scheel's recent visits to Tehran, the Shah repeated his offer to contribute to both Italian and German industrial expansion. The Shah informed the West German President at a press conference: "We shall take advantage of every opportunity for investment in your country, or for joint investment in third countries in partnership with you."

#### *Japan*

It is also significant that since the beginning of the year both Iran and Saudi Arabia have opened their doors to Japan, giving the petroleum-hungry Japanese contracts which have been pending since the 1973 war. Japanese Foreign Minister Sunao Sonoda's tour of Iran and Saudi Arabia in January of this year marked a turning point for the Japanese in the Mideast. The Japanese firm Mitsubishi received a sizeable contract for the construction of desalination plants in Saudi Arabia worth over \$1 billion. But underlying the awarding of the contract was a crucial political agreement between the two governments bringing the economically powerful Japanese into the international arena as a vocal advocate of a Mideast peace, including recognition of Palestinian rights and demands for Israeli withdrawal from the occupied Arab territories.

According to the final press conference given by Sonoda and his Saudi counterpart, Japan made a commitment to increase its economic cooperation with non-oil-producing underdeveloped countries, with Egypt specifically named. Japan in turn received its badly needed opening into the massive \$142 billion five-year Saudi development plan. Only last month Japanese Prime Minister Fukuda gave an unprecedented interview with the Beirut newspaper *An Nahar*, calling for a just peace in the Mideast.

Since the beginning of the year, Iran has signed the largest deal for desalination facilities in history with Japan. The facilities are designed to be powered by nuclear plants which have already been purchased from the West Germans. Japan, which depends upon both Saudi Arabia and Iran for the bulk of its imported oil, is a crucial player in efforts to revive international detente as a basis for a new economic era which the Brezhnev-Schmidt meeting portends.

#### *The Socialist Nations*

Last week's tour of Hungary and Bulgaria by the Shah of Iran is the Iranian monarch's second trip to Eastern Europe within the year. Earlier he visited Poland and Czechoslovakia. Despite the conservative domestic policies of the Tehran regime, Iran has systematically increased its trade relations with all the Comecon nations over the last 10 years, and in return has stepped up its export of crude oil to Eastern Europe. Both Iraq and, more recently, Kuwait have also contributed to OPEC crude oil exports to the Eastern European nations. This is helping to allow the Soviet Union to reduce its own oil exports to its Comecon partners, and expand oil exports to Western nations in exchange for urgently needed Western currencies.

While Saudi Arabia still does not have official diplomatic relations with Moscow, State Department sources say that the Saudis have opened up discreet networks of communication with the Soviets. In addition, in the last year King Khalid and Crown Prince Fahd have for the first time publicly signaled their recognition of the vital role the Soviet Union can play in aiding in achieving a lasting Mideast peace.

Another important indication of discreet Soviet-Saudi links is the amount of crude oil the Saudis sell to Finland. Although the Finns do not participate in the Comecon, they, like the Yugoslavs, have a healthy dependency on Soviet oil exports. According to a recent *Platt's Oilgram* report, Saudi Arabia provides 65 percent of the total OPEC oil imported by Finland, far ahead of either Iran or Soviet-allied Iraq.

Kuwait has aggressively engaged in a policy of joint agreements with governments both in the undeveloped sector and the advanced countries for the production of refining and petrochemical plants which receive a guaranteed amount of Kuwaiti crude. The pioneering agreement along these lines was signed with Romania for a \$1.5 billion Black Sea refining and petrochemical complex. Kuwait is also involved in talks with Yugoslavia for a 5 million-ton-a-year joint venture refinery.

# OPEC And The Energy Debate

Iran has taken the vanguard position in OPEC both in pioneering the installation of nuclear power generating technology domestically and in waging a bold political fight internationally to make both fission and fusion power the new mode of energy throughput replacing depleting oil reserves. But in recent months a number of other producers have begun to take a position on the question of which form of alternative energy source will replace oil.

Only this week, the Saudi Arabians for the first time broke with their traditional endorsement of solar energy as the most viable oil replacement by openly supporting nuclear: Saudi Prince Mohammed ben Faisal appeared on New York City television and put forth an enthusiastic endorsement of nuclear fusion power. The same week Saudi State radio also promoted research in the development of nuclear technology.

These events coincide with a proposal made by the Soviet Union at the disarmament conference at the United Nations linking disarmament to international cooperation for peaceful uses of nuclear energy in the spirit of former President Eisenhower's "Atoms for Peace" program. The new public pronuclear stance of the Saudis also intersects a far-reaching programmatic statement released in late May by West German Dresdener Bank director Hans Friderichs. Friderichs told the newspaper *Sueddeutsche Zeitung* that a major development program for the Mideast must be underwritten with nuclear energy for power generation. West Germany last week sent its Minister of Research and Technology, Volker Hauff, to tour the Mideast. There he reopened negotiations with Kuwait on the sale of a training reactor linked to desalination research that is to be used by all the Arab nations in the Persian Gulf region.

Late last year Saudi Arabian Oil Minister Yamani signed an agreement with France for joint research in nuclear energy as well as joint French-Saudi exploration for uranium on the Saudi Arabian peninsula. During King Khaled's visit to Paris last week the commitment to joint French-Saudi nuclear research was publicly reaffirmed. The Saudi turn on the nuclear energy question coincides with two significant policy recommendation reports from the Rockefeller Foundation this year, both of which urged international cooperation on promoting research and development of nuclear energy for worldwide use.

To date only Iran has engaged in an aggressive program of building the infrastructure for nuclear power generation. Last month the Shah announced that he is expanding his quota of reactors to be purchased by 1990 from 22 to between 24 and 26.

## *Oil's Future Role*

The OPEC nations, particularly Saudi Arabia, have made it clear that in the coming decades, as nuclear power generators come on stream, OPEC oil will be used as a feedstock for burgeoning petrochemical industries.

The OPEC countries have expressed their willingness to expand oil production for future needs, if there is a political commitment on the part of the industrialized countries to enact a vigorous research and development program leading towards new modes of energy generation. More than any other producer, Saudi Arabia — with known reserves of 150 billion barrels, 25 percent of the world's total — will be depended on in the 1980s to increase its output. Prince Fahd recently approved an \$11 billion project to increase Saudi ceiling capacity to 14 million barrels a day from the present ceiling of a little over 11 million barrels a day. Moreover, Iraq is expected to overtake Iran in the 1980s by producing up to 6 mbd. According to Venezuelan President Carlos Andres Peres, Venezuela is estimating its Orinoco reserves of heavy high-sulfur crude at 3 trillion barrels: the investment required to extract the crude is still considered to be prohibitive, however. Nonetheless, Japan has agreed to a \$25 million investment to develop the Orinoco region.

Both within and outside of OPEC there is a substantial amount of oil yet to be tapped, as is exemplified by the case of Mexico, whose reserves have been estimated at over 100 billion barrels, and a reported new massive find in the Sudan. But here as in the case of Saudi Arabia, the question of making sizeable investments to construct new producing capacity is tempered by predictions of future world demand. According to the chairman of the board of the Saudi servicing company, the Arabian

## U.S.-Iran Nuclear Deal Reported Near

The proposal the Shah of Iran first made to the U.S. in 1974 to purchase eight nuclear power generating plants is reaching the final stages of negotiations. If the deal is approved by the U.S. Administration, reported the *Christian Science Monitor* June 1, then it will serve as a precedent by which 26 other nations presently waiting to purchase U.S. nuclear reactors can finalize those long-overdue sales.

According to an Iranian diplomat, the Carter Administration and the government of Iran may announce the agreement as early as late July or August, at which time the sale would be submitted to Congress for approval. Congressional OK will be contingent on whether the terms of the sale conform to the "nuclear nonproliferation" guidelines dictated by the recently passed Percy-Glenn bill. The Iranian official noted that Congress will scrutinize the details of the agreement and that a fight within the Congress over U.S. policy on exporting nuclear technology will ensue.

However, the Iran deal will be fought out in the context of mounting pressure from the Soviet Union, Japan, West Germany, and France, as well as the U.S. nuclear industry and other domestic supporters of high-technology exports, to force Washington to adopt an energy policy that promotes America's advanced nuclear technology on a global scale.

American Oil Company (Aramco), despite Saudi Arabia's record production year in 1977, the country's reserves continue to climb, with a 2 percent increase last year in proven reserves. Given the relatively inexpensive and easy access to additional Saudi oil, there can be little doubt that Saudi Arabia will continue to dominate the advanced sector's oil markets.

#### *The Nationalization Question*

With this in mind, the Saudi Arabians are making final preparations to take over the remaining 40 percent of Aramco still owned by the four partners, Socal, Mobil, Texaco, and Exxon. Well-placed Washington sources indicate that the only remaining obstacles to be ironed out are some internal political differences among Saudi leaders over who will control a newly created Saudi oil company replacing the existing state-owned company, Petromin. The Saudi ruling family has been unhappy with the performance of the current director of Petromin, and there is reported to be an effort within Saudi ruling circles to delimit the activities of certain members of the Saudi elite close to the Petromin chief, such as Abdullah Abdul Aziz, who are known for their anti-American tilt on key policy questions.

Paralleling Saudi Arabia's efforts to gain greater

control over its oil, Iran has reopened talks with the consortium of oil companies led by British Petroleum which still produces and markets most of Iran's production of 5 to 6 mbd. The director of the National Iranian Oil Company, Hushang Ansari, is demanding that the Consortium of Oil Service Companies (OSCO) "stop dragging its feet" in turning the administration of Iran's oil business over to Iranian technicians. Ansari is calling on OSKO to ensure that by the mid-1980s the majority of technicians running Iran's oil operations be Iranian nationals. Tehran continues to put tremendous emphasis on its oil sector, as is evidenced by Iran's new budget for 1978 which increased its allocation for its petroleum industry from \$1.63 to \$2.5 billion.

Iran's neighbor Iraq continues to make significant improvements in its oil production capacity. Reports from Baghdad last month indicate that Iraq plans to develop its 2.4 million barrel a day capacity to about 3.5 mbd by 1980 and will increase the 1.16 mbd export capacity of its northern oilfields to 1.6 mbd. Last week the Iraqi government announced that a field being developed by the Brazilian state company Petrobras will produce up to 350,000 barrels a day by 1980.

—Judith Wyer

# A 'Humanist Revival' For Italian Education

*Italy's new Education Minister takes on the 'music mafia' and others*

Italy's new Minister of Education, Mario Pedini, has vowed to restore Italy to, in his words, its "humanist roots." As an initial consequence, over 25 leading figures in the notorious Italian "music mafia" have been placed under indictment over the past week, ranging from the director of the famous La Scala opera to underworld figures who jointly dominate Italian musical life.

## ITALY

This network has controlled the administering of teaching posts in the nation's conservatories, decisions of who will or not "win" performance and composition contests, and even which music will be allowed in the concert hall.

### *Combatting Terrorism*

Mario Pedini was shifted to the post of Education Minister from his former job as Minister of Science and Research during the last cabinet reshuffle over a month ago. This represents a move by Prime Minister Andreotti to place a known humanist figure — Erasmus scholar Pedini — in a position to combat the avowed aim of the massive terrorist and interlinked Maoist networks that have been deployed throughout and currently dominate the school system: the destruction of the population's humanist roots for the purpose of creating a malleable, anarchic mass of youth as a battering ram against the current pro-development government alliance of Communist Party (PCI) and Vatican circles.

As a result, Pedini has moved rapidly to dismantle the "music mafia" whose exclusive fostering of bestial atonal music and similar representations of immoral mental life is the "scholastic" compliment to terrorist activities and the punk rock which celebrates such bestiality. As announced by *Corriere della Sera*, about 28 of the most "respected" representatives of this network have been indicted under charges of illegally transferring money out of the country. To leave no doubts of the political intent of this action, the press pointed out that while other figures who have been indicted under similar charges had transferred huge sums running into the millions of dollars, the director of La Scala et al. have been charged with the transference of a mere couple of thousand dollars.

### *Think Like Beethoven*

Pedini's housecleaning comes at the same time that political factions around the Italian government have begun to publicly endorse the Humanist Academy founded by the European Labor Party. Two weeks ago,

the Communist Party newspaper *Unita* published an unprecedented article on a lecture delivered at the Academy by Anno Hellenbroich entitled "Think Like Beethoven." *Unita* counterposed the science of mind as represented by Beethoven's music to the wave of terrorism currently in Italy, making clear that it considered the Academy's scientific approach the most effective means of combatting mental degeneracy of terrorism which threatens the capacity for human creative thought processes within the population. Subsequently the Vatican newspaper *L'Osservatore Romano* publicized the same lecture in its pages.

## A Return To Humanist Values

*The remarks excerpted here were made during an interview by the new Italian Education Minister Mario Pedini to the Rome daily Il Tempo, June 2, 1978:*

*Q: What do you think may be the root cause of the current malaise in our schools?*

*A:* In a violent society, it is not surprising that the schools are disturbed and internally reflect the crisis of our time. That crisis is of a world which has grown affluent as never before, stimulated by greater conquests of scientific research and technology, but which does not find peace for lack of the moral and civilized values which man needs as well. A crisis where materialistic dissociation, to which we have always conceded in the past, is now being accentuated. . . .

Were the schools able to correct this degenerative tendency? Perhaps in other times, when the schools were fewer, in a defined, stable world. But certainly not in an epoch such as ours, where the schools have become mass schools, restructured, and whose transformation has been into schools that follow, not schools that lead.

*Q: Which values do you believe must be rediscovered to correct the situation?*

*A:* Spinoza wrote: "Only the young have a particular privilege: to know how to believe in life." Could Spinoza even write in those terms today? I would say not, if I look at the skepticism so widespread among today's youth; the delusion with which they evaluate our life, with which they assimilate so reluctantly a material well-being which does not satisfy them.

To rediscover values? Certainly. But what are the values? The moral rules, the established principles of natural law in which a society recognizes its identity and from which it derives its action and its law.

Historically contingent values? I do not believe so. In the past centuries, as well as in the evolution of nations, men have — to be able to live with one another — always

believed in the value of human life, in the dignity of the individual, in living with other men in peace and in liberty. In substance, such values that, exalted in a particular way by Christendom, lead back to natural law and therefore touch upon all mankind.

*Q: What do you believe the reform policy can do to resolve the problems of instruction?*

*A:* Are we talking about reform or are we talking about the recovery of the schools? I believe above all in "recovery" as the necessity to reaffirm the dignity of the school, the respect for the function of the "primacy of knowledge," as my friend Prini says, that has been lost and for which there is no substitute. It is urgent to reaffirm the primacy of critical and moral formation of mankind. This premises that reforms are indispensable, that scholastic institutions should be adapted to the new characteristics of society. But these are not enough by themselves. . . .

*Q: What policy do you believe must be pursued to teach respect for and development of the students as persons?*

*A:* The school should give to youth the conditions for the exercise of their critical capacities, the use of the syllogism, of knowing how to pose a hypothesis and derive the conclusions from it. And this is even more important in these times in which we live with a crisis which, in many aspects, resembles the crisis in the Greek cities at the time of the Sophists. Then, as today, good was identified with the useful, truth with what it appeared to be to an individual person. Is it not thus today for rhetoric or demagoguery? It is necessary to return to the concept of true objectivity, to the consciousness of a good which is imposed as such on all mankind. It is necessary to refute relativism, the end of philosophy. . . .

*Q: Which system for recruitment of teaching personnel do you believe must be pursued to guarantee criteria of competence?*

*A:* The preparatory courses, at least as they have been realized up to now, have not qualified teachers to teach in the new school. Today, it seems to me that the objective conditions do not exist to do it over. . . . This must be changed. . . .

*Q: Which obstacles do you think of removing to assure the good functioning of the university in its capacity to conduct research?*

*A:* This subject could carry us far and would merit an in-

terview by itself. Research is a problem of means, but research is also a problem of vocation, and as such, it is not in agreement with the current level of functioning, the lack of productivity. . . . Here again we come to the central question: to solicit the best to do what is required.

Scientific research has thus need of a vast area of international cooperation. For this, it requires an increasingly sophisticated university, open to the outside and toward European society. Our new university must be like this if the government and Parliament will offer their support to a modern philosophy. . . .

*Q: What indications can you give, on this occasion, to the teachers, students and parents involved in the schools?*

*A:* I would like to talk to them all, but I cannot. Thus, I try to be like the Indian who climbs a hill and lights a fire, with the hope that another fire will respond in a far-off valley. I believe that the pleasures of culture, the recovery of the schools must be widely reported by every citizen, who has the responsibility of that civil service.

But I would also like to say that everyone together, politicians, scholars, and above all youth — those youth of whom we think perhaps too infrequently when we carry out reforms — we must make the schools significant with our philosophy. Think about the university: in the past, the university under the Casati law had behind it the conception of a nation-state, unified, scarcely formed after the Risorgimento. Much later, the reform had behind it the conception of idealism, a philosophy which has carried us then where it carried us . . . but in every case, a philosophy.

To sum up: What do we have behind the schools today, what significance can we give them? Must it be only a diploma and degree factory, or must it not also be an answer, for modern man, to the problems of his time? And what ideals to recall, on the eve of the European Parliament elections, if not a united Europe in which Italy can recover, with other peoples, from such violence and barbarism, a more mature civilization, more peaceful, capable of allowing mankind to live more constructively?

A new humanism, a la Maritain? For those who believe in the supernatural, yes. But equally for those who do not: a return to the humanist values so alive in our history and culture, of which everyone has need. Values capable of carrying us to play an important role in the growth of the new world and in the society of the year 2000, toward which we are approaching.

# The 'Grand Design'

Dramatic proposals for regional and global economic development from leading political and economic networks on four continents over the past month and a half, highlighted by the May 6 signing of the 25-year trade and development treaty between the Soviet Union and West Germany, cumulatively add up to the necessary framework to usher in an era of peace and prosperity for the human race.

While not explicitly thought of as a global "Grand Design" by each of the individuals advancing these economic and technological development proposals, it is no exaggeration to use that term to describe what these various initiatives are, in fact, converging on.

In earlier periods of human history similar initiatives by, for example, Alexander the Great and Frederick II worked to bring into effect a global network of technologically focused cities, centers of scientific and related education of the populations to bring Europe and the Mediterranean region as a whole out of the wretched state of bestial feudalism and into the early stages of industrial capitalist growth.

The proposals outlined in the following text are motivated by the same intent: to expand the world's economic potential through industrializing backward sectors and quickly bring on line new technologies and new, *dense* sources of energy, most immediately, nuclear.

The following proposals have all now been made public. The urgent remaining question for the coming historical period is how soon these political coalitions will be put together and institutionalized internationally to bring the global "Grand Design" into reality. Will the political will be rallied for the Grand Design, or will the world be allowed to slide into depression and war?

The formulations presented here are varied in specific content. In some cases, they are outlines of the comprehensive transformation of the world economy. In others, the concentration is on bringing a key Third World region into the modern world through industrialization and progress. All are unified by the motivation of the necessity of progress and putting an end to conflict. In sum, this compilation is not a finished program, but a challenge which must be met — and soon.

## Europe From The Atlantic To The Urals

*The progressive industrial development of the entire European continent was a favored idea of former French President Charles de Gaulle and featured in last month's Schmidt-Brezhnev discussions. The bilateral joint communiqués and the respective individual statements of the two leaders, excerpted here, prompted an analysis on May 8 by Otto Wolff von Amerongen, head of the German Association of Industry and Chambers of Commerce.*

*The prominent West German industrialist announced that he expects the Soviet Union will soon finally give the go-ahead for making agreements with all-European industrial and financial consortia. This, he stressed, would provide greatly expanded markets for Soviet goods, thereby avoiding any danger of European markets becoming flooded because of so-called "compensation" deals.*

### The 25 Year Soviet-W. German Trade Treaty

*From the treaty:*

*...In the conviction that an expansion and intensification of their long-term cooperation in the areas of economic, industrial, and technological relations... in the conviction that... lies not only in their common*

*mutual interest... but rather constitutes an important contribution to long-term cooperation in all of Europe... Article One*

*The treaty partners set themselves the goal of promoting economic, industrial, and technological cooperation between both states as an important and necessary element for strengthening bilateral relations on a stable and long-term basis. With respect to the long-term nature of the present agreements between organizations and businesses, or those presently in preparation, and future projects, especially in the area of raw materials and energy, the treaty partners strive for a further intensification of cooperation on the basis of mutual advantage.*

*Article Two*

*The treaty partners will support the further development of cooperation, especially in the following areas: establishment, development, and modernization of industrial installations and plants; joint development and production of equipment and other products; mining and processing of raw materials, including sea mining; cooperation in the area of energy; technical cooperation between the respective factories and organizations; cooperation in banking and insurance matters, transportation, and other service facility areas; and cooperation with business and organizations of third countries.*

*The following industrial branches are taken into*

special consideration for cooperation: machine and vehicle construction, steel technology, chemicals, electrotechnics, including the electronics industry, and consumer goods industry.

*Helmut Schmidt on Soviet television, May 5:*

Bonn-Moscow relations are the center of overall détente developments. . . . This will be the issue of our discussions in Bonn: how to develop this center of policy.

*From the Brezhnev-Schmidt Communiqué, May 6:*

. . . The two sides set themselves the goal of furthering economic, industrial and technical cooperation. They view such cooperation as an important and necessary element in consolidating bilateral relations. This cooperation should be increasingly oriented towards a long-term perspective, in order that mutual interest in its constant expansion should increase. Thus, a solid material foundation for mutual relations is being created, which goes beyond the present century and benefits in both countries. . . .

*Leonid Brezhnev on West German television, May 6:*

. . . Our country is frequently compared with a giant construction site. And this is not a figurative expression, but a fact. We are building a lot. And we are not simply building: one could say we are transforming the very face of our country.

You have probably heard about, say the Baikal-Amur Mainline. This railroad is more than 3,000 kilometers long. It is being laid across permafrost, across untrodden virgin taiga, and tunneled through rocky cliffs. To build it does not just mean to shorten the route to the Pacific Ocean by a little, but to settle a territory equal to that of several major nations. And all this has to be accomplished in a practically desolate area.

Or take the development of the Tyumen oil deposits in Western Siberia. We began this grand task less than 15 years ago. And today, every second ton of Soviet oil is extracted there. There on the Ob River, we are developing a region of approximately a million square kilometers.

Or, finally, our plans for the genuine renaissance of our Russian non-black earth zone. This means the transformation of, so to speak, the heart of Russia. Imagine: we resolved to create — essentially from scratch — highly productive agriculture on an area approximately

equal to that of France. All the projects, including drainage and irrigation of arable land, will be finished only by 1990. But already in 1980 these lands are to produce one-sixth of all the agricultural products of the Soviet Union.

Our undertakings and plans are calculated for decades ahead. We are working on not one, not two, but dozens of projects, each of which surpasses in scale the plans of some nations. And each of them has the ultimate goal of raising the welfare of millions of people, our entire people. . . .

The Joint Declaration which Chancellor Helmut Schmidt and I signed expressed the resolve of both sides to develop political cooperation between the Federal Republic of Germany and the USSR on a firm, lasting basis. This applies both to bilateral matters and to major international questions, above all those of peaceful coexistence, détente and reining in the arms race. An agreement was also signed which provides for the broad development of economic ties for a very long-term period — to the end of our millennium. A solid material foundation is becoming created for the peaceful cooperation of our two countries. . . .

*Helmut Schmidt, at a breakfast with Brezhnev, May 6:*

Peaceful coexistence, in our opinion, must not mean fencing ourselves off from each other. . . . Shutting ourselves off would not only violate the continuity of European history which we created together — both bad and good—but it could also create a threat to peace. . . .

Over the past years the economies of various countries have become interwoven more than ever before. Under these conditions, the countries of Eastern Europe could not avoid the consequences of inflation and recession suffered by the Western countries. This element of joint risk, moreover, must arouse within the CMEA countries the consciousness that they are directly and immediately interested in making a contribution to the stabilization of the world economy. I am particularly thinking of joint efforts with the aim of not allowing any further widening of the gap between the developed industrial countries and the developing countries, between the rich and the poor; on the contrary, we must overcome the gap. . . .

Your country, industrially developed and rich in useful raw materials, and ours, poor in raw materials yet highly developed technologically, can complement each other for our mutual advantage.

## Atoms For Peace

*The peaceful uses of nuclear energy was the highpoint of U.S.-Soviet cooperation during World War II. "Atoms for Peace," became the basis for international cooperation, led by President Eisenhower and his scientific advisors in the 1950s, and continues to serve as the basis for programs of bringing the human race into a progressing twenty-first century.*

*The most exemplary of these recent atoms-for-peace proposals was the Soviet proposal to the United Nations Special Session on Disarmament, which appeared on the front page of Pravda May 31. Earlier, the Japanese*

*government proposed to the U.S. government international cooperation on fusion power development. The Yugoslav proposal, while less ambitious, represents a growing perspective among European and Third World countries that peaceful use of nuclear energy is an essential element in international cooperation.*

### The Soviet Proposal

*Excerpts from "On Practical Ways to End the Arms Race," Pravda May 31:*

Progress in peaceful uses of nuclear energy is undoubtedly one of the promising ways to resolve the energy problem and the Soviet Union favors broader inter-

national cooperation in this area provided, of course, it is carried out under conditions which rule out its use to increase possibilities for the development of nuclear weapons. At the same time . . . it can be said with confidence that nuclear (fission) energy, however important it is, does not provide the only key to solving the energy problem.

There emerge alternative approaches. . . . These are thermonuclear fusion, solar and geothermal energy, as well as a number of other sources. . . .

The Soviet Union is prepared to cooperate on a constructive basis with other states in research on new sources and types of energy. We have recently stated our readiness to participate together with the USA, European countries, Japan and other states on a "Tokamak" international project — a thermonuclear reactor designed to produce a controlled thermonuclear reaction with an energy yield higher than the energy input.

It will be recalled that the Soviet Union is already providing services to a number of countries in having their natural uranium enriched at Soviet enrichment facilities. To promote a broad use of the peaceful atom in solving energy problems the Soviet Union is prepared to continue rendering such services under appropriate international guarantees.

#### SALT

Serious difficulties are known to have arisen on several occasions at the talks on limiting strategic offensive arms. At present many of them have been overcome. . . . It is extremely important not to allow new obstacles, new problems to arise in the way of a successful completion of the talks. The agreement can and must be concluded in the very near future."

*Taking up a standing proposal to channel 10 percent of the arms budgets of the Permanent Members of the UN Security Council into a development fund, the Soviets last week proposed a revision which could mean more monies:*

Seeking to facilitate the solution of this question, the Soviet Union is now proposing that states with large economic and military potentials . . . agree on specific reductions of their own military budgets not in terms of percentage points but in absolute figures. Such agreement would cover, for instance, a period of three years. . . .

. . . The steps proposed are a bare minimum. Without their implementation the arms race will not be halted.

At the same time these would be substantial steps. Their implementation would actually mark a turning point in the entire course of international developments....

And all these steps are feasible. . . . On most of them talks are already in progress and some are nearing completion. With regard to other steps such talks could be started in the near future.

Willingness to move decisively ahead and political will are required to end the arms race. Today the responsibility of each state for the present and the future of the peoples is so great that a state failing to cooperate in

meeting this historic challenge would be committing a crime against humanity.

#### Japan's Offer

*During a recent trip to the U.S., Prime Minister Takeo Fukuda proposed a joint science and technology fund between the United States and Japan, particularly focussing on fusion power research. Several American research labs, including Brookhaven, Stanford, and KMS have proposed projects on which they hope to get Japanese cooperation.*

*Reprinted here are excerpts from Prime Minister Fukuda's proposal:*

Fusion involves harnessing almost unlimited energy from a man-made process which employs the same principle by which the sun creates its heat and light in nature. It is in effect the creation of a miniature sun on earth. . . .

Science can provide impetus to new productive activities and serve as a prime mover in the future expansion of the world economy, or can waste our resources and threaten our survival. Exactly because of this dual character of science and technology, I believe it is the duty of Japan, a nation dedicated to peace, to participate vigorously in cooperative international efforts to utilize science and technology solely for improving the standard of living of the world's peoples. . . .

*In mid-May, Norura Research, a prestigious private thinktank in Japan, produced a report on commission from the Japanese government's National Research Advancement Institute, in which they propose a \$20 billion fund for energy and steel development in the Pacific Rim involving North America, Southeast Asia, Japan, Australia and later the Soviet Union and China. The fund would later be expected to double and would be used to develop and stockpile uranium and oil, and build steel plants. This proposal is described in official Japanese circles as part of a broader plan for industrialization projects.*

#### Yugoslavia's Proposal

*Speaking at the Special Session of the General Assembly of the United Nations May 24, Veselin Djuranovic, President of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia made the following proposal:*

Disarmament measures should be conceived in such a way as to ensure respect for the principle that the achievements of technology and science constitute a common heritage of the whole of mankind and cannot be the privilege of one country or a group of countries only. Discrimination in the utilization of the positive results of science and technology and technological discoveries is in fact employed for maintaining inequitable relations between states. Yugoslavia considers that broad international co-operation is the best way to halt the further proliferation of nuclear weapons.



# Global Transfer Of Technology

*The most advanced official spokesman for the transfer of technology to the Third World — a necessary program for developing the backward countries and reinvigorating the advanced sector economies — have come from the Republic of Mexico. Mexican President Lopez Portillo and advisers have been addressing this question on several occasions since the Mexican government's April 28 proposal for using the International Monetary Fund as an agency for expediting capital transfers, not austerity conditions on member countries.*

*The Mexican government's ideas have been reflected in the statements by the West German and Soviet leaderships, included here.*

## Mexico

**April 28, 1978:** Mexican Finance Minister David Ibarra Munoz proposed a minimum \$15 billion development fund to spur production of capital goods in both the advanced sector and the Third World. He urges adoption of this Mexican government proposal, in a presentation to the Interim Committee of the International Monetary Fund in Mexico City, as a question of overriding self-interest of *both* sectors and required to bypass the Third World debt bottleneck. A new fund providing long-term credits is needed, he said, because the foreign currency inflows of Third World nations "are channeled to satisfy debt service payments, instead of financing purchases of capital goods."

At the same time, he explained, "the resources of this fund will give a push to the capital goods sectors of the industrialized countries... contribute to a better structuring of the assets and debts of the financial markets... and contribute to the reactivation of the world economy."

**May 12:** Mexican Tourist Minister Rossell de la Lama was sent by President Lopez Portillo to Tokyo to begin arrangements for Lopez Portillo's state visit to Japan in October. Emerging from a meeting with Japanese Prime Minister Fukuda, Rossell declared that Japan, with its "great technological advances," is destined to be "one of the best partners of the Third World." Mexico, he added, can be the "bridge" between Japan and all of Latin America.

**May 17-29:** Mexican President José Lopez Portillo journeyed to the Soviet Union and Bulgaria for extended bilateral and multilateral discussions, identified by the Soviet press as a continuation of the impulse of the Bonn-Moscow accords of May 6. He summed up the purpose of the trip in a May 18 television address to the Soviet nation: "To us of the developing countries, the important thing is not just reducing the risk of war, but of winning the peace. This is only achieved if we find the true path toward the new international economic order, which resolves problems of financing, transfer of technology, and basic trade."

Arrangements for bilateral transfer of technology include the areas of advanced oil and nuclear technology, but as Lopez Portillo stressed in a special address to the Comecon in Moscow, increased Mexico-socialist sector

trade will "give an example of the form in which world-level interdependence between all countries can be carried out."

To scientists in the Siberian industrial center of Novosibirsk May 22, the Mexican President insisted that "technology is the patrimony of humanity... The powerful countries which have achieved advanced levels of technology have the obligation, for the future of humanity, of honestly transferring their advances so that backwardness can end, so that tomorrow's humanity will not be as divided as it might otherwise be."

Final joint communiqués issued in both Moscow and Sofia emphasized the need to redirect armaments expenditures into a fund for Third World development. Lopez Portillo in Moscow specifically called for such a fund to facilitate energy supply and development in regions of the globe now deficient in energy.

While in Bulgaria, Portillo stressed that "universal welfare" can only be achieved if the advanced sector joins in the development of the "backward and developing nations... We need general solidarity without distinctions of economic systems."

At the end of the talks in Moscow, Soviet President Leonid Brezhnev accepted an invitation to visit Mexico. Throughout the visit the Soviet press has stressed Mexico's importance a spokesman for Latin America and the Third World as a whole.

**June 2:** The top Mexican ministers who accompanied Lopez Portillo to Moscow called a meeting in Mexico City to inform the nation of the results of the trip. They announced that a four-way oil "swap" deal is close to being concluded whereby the Soviet Union would replace Mexico as the supplier of certain Mexican oil contracts in Europe, particularly Spain, and Mexico would redirect the same amount of oil to Cuba.

## West Germany

**May 29:** Chancellor Schmidt, at the NATO summit in Washington, stated, "those of us are right who say that the tragedy of unemployment, for millions and millions who live in our countries, can only be cured if we can go back to normal growth rates of our economies. But let us not talk about growth only, gentlemen, let us talk about the question of how to bring about growth. And not only growth for a quarter of a year or for three quarters of a year, not only a brushfire, but a real warming fire to revitalize the economy and which can be maintained for quite some time in the future."

## Japan

**May 25:** Toshio Doko, head of the Japanese business federation Keidanren, called for free trade and restructuring of Japan's industry to be based on considerations of the process of "industrializing the Third World."

**May 30:** Japanese Foreign Minister Sunao Sonoda told the United Nations that Japan-U.S. relations should be modified to make them "more open to cooperation for peace and prosperity in Asia and eventually the whole world."

# Regional Development: Pieces Of The 'Grand Design'

*Initiators of international industrial progress and development have centered much of their thinking on regional Third World foci for cooperation.*

*The most comprehensive of these regional proposals have been the focus of international tension and yet offer immense opportunities for global development — the Middle East and Africa.*

## Africa

*In Africa, the Zaire affair has forced to the front the fundamental question facing the continent: stability through development. Despite the international red scare over "Cuban troops in Africa," this issue has been periodically addressed, with varying degrees of ambitiousness by government and non-government officials in France; by selected African leaders; and by the government of Cuba.*

*Cuban Vice-President Rodriguez, in an interview with Barbara Walters, broadcast on ABC television May 30:*

We would cooperate in Africa. . . . I invite the President of the United States to meditate about the possibility of cooperation for the development in Africa. There is room for cooperation. We have spoken with very important business people. I know you are aware that Oliver Friedman was in Cuba with some of the more important national leaders in the world . . . and we had long talks about the possibility of cooperation . . . but not through the private interest to take over the economies of these countries . . . but through a cooperation for progress . . . for development. That is what we would like to do. We have not the money, but we have the people that could help. But you have the money and the French have the money . . . and perhaps the Soviet Union is willing too. I cannot commit them but I am willing also to cooperate in this. Why not cooperate instead of fighting each other?

*"For A Global Development —  
The Experience of Men From the Sahel"*  
by Philippe de la Roche

Le Monde, May 16, 1978:

In 1972, under the proposal of General Georges-Picot, King Faisal decided that Saudi Arabia would participate in the financing of the Senegal River development plan . . . the International Foundation for Development to which Saudi Arabia gave her support. . . . The objective of the foundation is to assist the development of the Sahel countries. . . .

. . . In 1977 and 1978, the Foundation signed four conventions with the governments of Upper Volta, Chad and Senegal, each entrusting the Foundation with the task of defining and carrying through a global development plan for a geographical area of strategic importance for each country. . . .

By helping the recipient country devise "integrated" development plans for a given area, the Foundation is bent on not falling into the trap of having in one given

area scattered projects with little or no coordination between them. Development is global. . . .

Therefore the Foundation's new plans encompass all aspects of development: education, infrastructure, agropastoral development, industrialization of support and transformation. . . .

Moreover, since a development process cannot be conceived in the short- or medium-term, the planned investments are defined within a long-term period (20 years). . . .

Given their limited resources, the development of the Sahel countries is dependent on foreign aid — and for many more years to come. . . .

The multiplication of scattered plans . . . only leads to the collapse of the indispensable, global vision. . . . Therefore the success of any coordinated development plan depends upon the convergence of the concerned country's resources of technical means and of financial flows.

The composition of the Foundation's Council reflects this conception. Represented are: the Sahel countries concerned by its projects through their respective Economic Planning Minister; several industrialized countries and private institutions (banks); the Arab countries which provide the basic financing. . . .

*"Drawing Closer Europe and Africa"*

by Jacques Chirac, RPR Chairman

Le Monde, May 19:

Europe is the most natural partner of Africa. . . . It is for this reason that on January 27, 1977, I publicly called for . . . an "alliance" based upon a conjunction of interests between equal partners. . . .

(Let us define) first what this framework must not be: neither an international organization, nor a treaty, pact, military alliance; nor a framework limited to new forms of multilateral economic cooperation; nor a mechanism which would upset the existing African and European institutions.

. . . What should be established is a *conference of the Euro-African dialogue*, open to all African and European countries. . . . The linchpin of this conference would be a general statement to which would subscribe all the countries that wish to do so.

This statement would fall into four chapters:  
— the political principles recognized in common  
— strengthening security  
— economic and financial solidarity  
— cultural, human and technological exchanges

*The Political Principles Recognized in Common*

Condemnation of all interference; respect for the independence and sovereignty of the states; freedom of choice in terms of political and social regimes, respect of the existing boundaries; condemnation of Apartheid and of racial discrimination; right for the peoples to manage their own affairs.

*Strengthening Security*

. . . . improvement of the defensive capacities of the African states through incentives to the creation of

regional security pacts and the assistance of the European states to these pacts, if such is the wish of the African states concerned.

The technical assistance of the European states to the African states would be limited to helping the latter to build their security capability (the objective being the withdrawal of all foreign military personnel).

Maintaining the present state of non-nuclearization of Africa provided that all African countries, including South Africa, solemnly renounce to get nuclear weapons and that an African control proper is established. . . .

#### *Economic and Financial Solidarity*

The question is to renew the spirit of Yaoundé — i.e., the existence of economic links and of privileged mechanisms between Europe and Africa . . . to devise for the African countries, and for them only, a series of advantages, while vigorously opposing any attempt at internationalizing European aid. . . .

In this spirit I propose:

- to develop economic and financial cooperation, with special emphasis on the poorest countries;
- to define a framework through which private investments would massively orient themselves towards Africa;
- to adopt a genuine raw materials policy consisting in long-term agreements on prices and supply;
- to give the priority to food self-sufficiency, infrastructure and the fight against drought (Sahel). To that aim a Special Fund of the Euro-African dialogue would be set up and committees would be established to devise development projects for every sector. . . .

#### *Human, Cultural, and Technological Exchanges*

. . . Priority to scientific exchanges and transfers of technologies, including nuclear energy; . . .

The Euro-African dialogue will be opened to all the Western democracies, including the Scandinavians, as well as to all African democracies (i.e., excluded will be the countries where the dignity of the African man is trampled upon); but this dialogue must be strictly limited to the two continents. . . .

At stake are the independence of Europe and the independence of Africa. . . .

*French President Giscard d'Estaing to the summit conference of French-speaking African nations in Paris May 22:*

. . . Beyond the action it is pursuing with its industrial partners and in world organizations, France is directing its attention towards Africa and intends to continue to do so. The Franco-African dialogue is for France a privileged North-South dialogue, which must be ahead of the world dialogue and show the way. As you know, we want the Euro-African dialogue to be broadened into a greater one, because we see between the two continents a complementarity which prolongs and reinforces the affinities that we already have with your states. . . .

As much as I am convinced that in the political field Africa must remain to the Africans, I am convinced that in the economic field, the Africans would impoverish themselves by limiting their interest to their continent alone. . . . Our ambition, on the contrary, has always been to coordinate our policy with yours so that, together, we can defend our interests which are in great part linked.

## Latin America, Asia

*The Japanese government has been at the forefront of development and industrialization proposals for both of these key Third World areas. In the case of Latin America, the Japanese have been prodded to take an active development role by Mexico.*

## Middle East

*Since late April, a number of key world leaders both in and outside the Arab world, as well as prominent officials in the world banking community, have put forth several "Grand Design" proposals calling for the economic development of the Middle East and the introduction of nuclear energy to ensure such economic growth.*

*The proposals, the most significant of which are presented below in chronological order, bear a striking resemblance to parallel proposals put forth and discussed at the Conference on Middle East Peace and Economic Development sponsored by the Fusion Energy Foundation, held in New York in January of this year.*

#### *Egyptian Scientists Demand Nuclear Energy Development*

*The following are excerpts from an April 26 release by the Middle East News Agency in Cairo:*

In its recommendation today, the Conference on Applied Nuclear Science, which was organized by the Egyptian Nuclear Science Association in cooperation with the Atomic Energy Authority, called on the world's advanced states to work for the nonproliferation of all types of nuclear weapons. The conference also called on these states to prevent the production of the neutron bomb, which is a weapon for mass killing. The conference recommended that the Middle East should be free of nuclear weapons.

The conference recommended that the Arab states coordinate their plans and programs toward a unified strategy in the field of long-term utilization of energy, including nuclear energy, and direct the manpower and material resources in the Arab countries to serve these programs.

The conference, which was attended by 500 scientists and researchers from various scientific research organizations and centers in Egypt, supported the state's plan to establish nuclear power stations as being more economical and better preservers of the environment than other, traditional methods, which failed to meet the country's energy needs.

#### *Trade and Development: Way to Mideast Peace*

*A. Robert Abboud, Chairman of the First National Bank of Chicago, spoke at a meeting of the American-Israeli Chamber of Commerce and Industry on May 10. Appearing here, are excerpts from his speech, "The Key to Middle East Peace Is Economic Development":*

Since the beginning of history, the Middle East has been a crossroads — a crossroads for different civilizations, a crossroads for trade, and, unfortunately, a

battleground for the peoples from three continents. Recent history has been more of the same. . . .

Diplomacy, even in its most refined state, will . . . not produce peace. Diplomacy can establish channels of communication, but it is no substitute for substance. Diplomacy is only useful to settle grievances where the relationship of substance already exists.

The only possible solution for a meaningful peace in the Middle East is economics. Trade and investment must be made to flow freely throughout the region, creating interdependencies which transcend the cultural differences among the various peoples. A common currency, a common market, and free investment flows on a regional basis are the only possible catalysts for peace. The great value of such an economic initiative is that peoples doing business together begin to understand each other, because no business will long endure if people do not know each other's history, or have an appreciation for each other's culture, and a respect for each other's traditions.

I know this sounds like a daydream. I also understand the formidable obstacles which make such a dream difficult to realize. On the other hand, there appears to be no other viable alternative other than the continuation of armed conflict, interrupted by armed truce, with economic devastation at best and the remote possibility of worldwide conflict at worst.

For a common market to be successful, the minimal area must include Lebanon, Syria, Jordan, Israel, Saudi Arabia, the Emirate States, Kuwait, Egypt, Sudan, Yemen, Aden and Oman. Then if the market were to be broadened to include Greece, Turkey, Iran, Iraq, and other nations in Asia or Africa, so much the better. But, in the beginning, the nations immediately abutting Israel appear to be the core nucleus with the Arabian peninsula and Sudan required for financial and economic viability.

This market, so defined, would embrace an area of 2,657,000 square miles, about the size of the U.S. excluding Alaska, Texas, and California, and 1.75 times the size of non-communist Europe. It would include a population of 90 million, which represents approximately 43 percent of the U.S. population. And it would include a wide variety of climate, access to three continents by land, sea, and air, agricultural land in abundance, mineral resources, and more energy and potential financial resources than almost anywhere else in the world. Lacking, of course, would be organization, infrastructure, communication, transportation, technology. But, these ingredients are available elsewhere in the world, and over time, could be the most modern and efficient anywhere. Moreover, as our energy needs move from hydrocarbons, through nuclear, to solar, where else in the world is there a greater abundance of concentrated solar density?

Let's review the feasibility of some of these projects. First, for any market to be operative, there must be a common currency or, at the very least, free interchangeability of currencies. Such an accord is not as difficult as one might imagine. Many of the currencies within the region are already freely convertible. The most difficult challenge would be for Egypt, but in a comprehensive accord, these difficulties could probably be resolved.

Secondly, there must be the free movements of goods.

Once again, however, the official barriers appear more formidable than the actual course of conduct. The movement of goods through the invisible markets, including the movement of goods to and from Israel, is already formidable. A customs union could be negotiated, much along the lines of other customs unions throughout the globe.

Probably the most difficult, yet the most necessary, objective would be the establishment of free and easy investment with a guarantee of capital protection and repatriation. We all know the abundant liquidity represented in the oil producing states. The capital requires an investment outlet, preferably denominated in a local currency unit, which would not only serve to develop the region but also to create ever increasing streams of income for future generations.

To achieve such an objective would require a common central bank for the entire region which would issue its own notes as the universal currency. Obviously, the involvement of the Saudis would be imperative . . . . But, after all, they have the money, and their reserves would be essential to give the new central bank solvency and liquidity.

In addition, there would have to be a system of commercial tribunals or courts which would resolve commercial disputes. The adjudications of these tribunals would have to be overriding and enforceable throughout the region and despite any contrary pronouncements by local courts or local bureaucracies. Such could be accomplished through acceptance of a common treaty which would vest such authority in these commercial courts to be established.

It is not difficult to envision some of the benefits. Consider, for example, the advanced medical capabilities of the Israelis, which could be spread throughout the entire region. There would be no need for any inhabitant of the area to go beyond the union for the latest in medical knowledge and advancements. Some of the world's finest hospitals are located in Israel. . . .

The opportunities in agriculture defy measurement. Areas of Lebanon, northern Syria, and Sudan compare with the finest agricultural lands anywhere in the world. The agricultural innovation in Israel, where the desert has been turned into productive territory, is the most advanced anywhere. Then there is the Nile Valley, and the selected regions of Jordan and the Arabian Peninsula. All in all, the territory could produce more than enough food, not only to feed its own people, but also to export

#### *Midwest Bankers Push Mideast Development*

At a June 7 conference in Chicago on Middle East peace prospects and economic development, attended by a group of Chicago corporations and bankers, including First National Bank of Chicago, Chairman Robert Abboud, the National Chairman of Israel's Bank Hapoalim, and Ephraim Reinen, issued an urgent call for a Middle East peace settlement based on regional economic development and on economic cooperation between the Arab and Israeli sectors. Numerous features of Reinen's historic call echoed similar proposals for regional growth and cooperation put forth in May by Robert Abboud, excerpted above.

westward into Europe and eastward into the teeming population areas of Pakistan, India, and Southern Asia.

*Fukuda: Japan Ready To Give  
Economic Aid To Mideast  
To Ensure Peace*

Japanese Prime Minister Takeo Fukuda, in an interview with the Lebanese daily *Al Hawadess* May 10, stressed that Japan is "prepared to extend unlimited economic aid to developing countries of the Middle East, with a view to developing chances of an Arab-Israeli peace accord."

Japan, said Fukuda, is "concerned over the eventuality of an outbreak of hostilities in the Middle East, which could exercise adverse repercussions on the oil-importing Japanese industries." Therefore, Japan is "keen on upgrading economic cooperation with the Arab oil countries." This will include "exploring areas of possible investment in North Africa and the Persian Gulf regions. . . . Peace in the Middle East is a primary basis for world peace," the Prime Minister concluded.

Expanding this "Grand Design" outlook, Japanese Foreign Minister Sunao Sonoda told an Arab journal that "our relations with the Middle East will transcend our need for oil and develop into positive participation to achieve peace in the region." Sonoda emphasized that if the U.S. does not adopt this approach "the world could be exposed to a catastrophe."

*W. German Banker Calls For Euro-Arab  
Cooperation In Nuclear Development*

*In an effort to counter the "prejudices built up around the issue of European-Arab relations," Hans Friderichs,*

*head of the West Germany's influential Dresdner Bank, issued a strong call last month for East-West global cooperation to industrialize the Middle East. Interviewed in the May 24 West German daily Süddeutsche Zeitung, Friderichs outlined an elaborate proposal for Euro-Arab cooperation based on the transfer of nuclear energy facilities to the Middle East.*

*Friderich's formulation is modeled directly on the Grand Design conceptions for world economic recovery championed by his Dresdner Bank predecessor, Jürgen Ponto, who was brutally murdered in July 1977 by British intelligence-controlled Baader Meinhof terrorists.*

"Long-term energy cooperation with the Arab world will prominently involve the development of nuclear energy," Friderichs stressed. Nuclear energy exports from the U.S. and Europe "coincide with Arab interest" to develop Arab petrochemical capacity, industry, and infrastructure, and would "open up perspectives so far not expected." This "era of large-scale cooperation with the Arab world" and the development of a "productive Arab economic region" will clear the way for massive "bloc-to-bloc deals, large scale deals, involving energy and scientific cooperation, marketing, and investment."

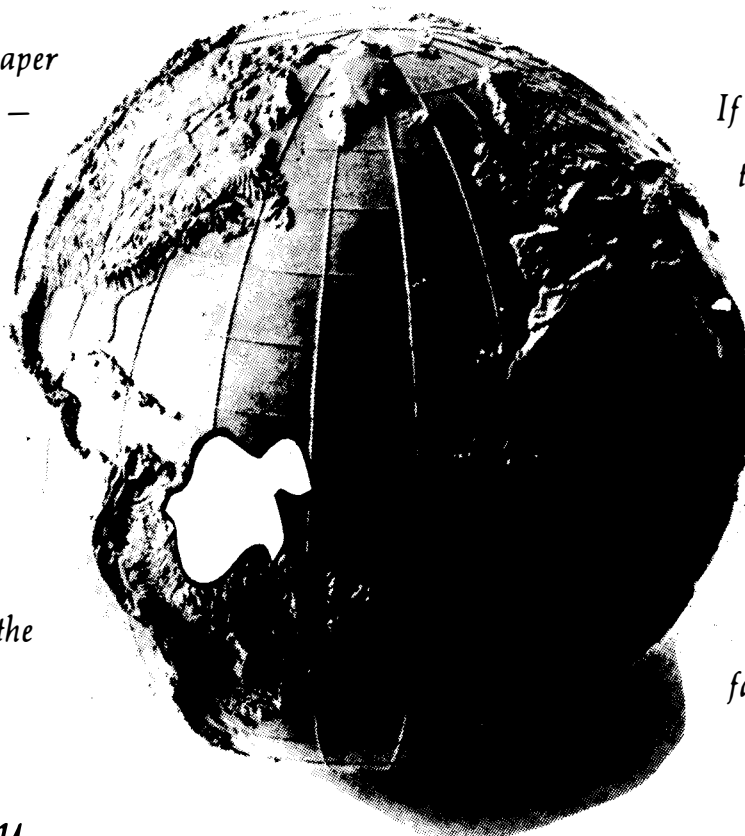
Friderichs insisted that these deals will bolster the dollar as the only viable instrument of financing world trade and technology transfers. "I want to let the Arab states know that no European country has any intention of having its currency replace the dollar. . . . Also, an artificial currency basket . . . will not meet any sympathies here in Europe. What we want is a recovery of the dollar, for which we see good chances."

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